

Edgar Filing: SBC COMMUNICATIONS INC - Form 11-K

SBC COMMUNICATIONS INC  
Form 11-K  
June 24, 2004

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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FORM 11-K

ANNUAL REPORT  
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Pursuant to Section 15(d) of the  
Securities Exchange Act of 1934

For the fiscal year ended December 31, 2003

Commission File Number 1-8610

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SBC SAVINGS AND SECURITY PLAN  
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SBC COMMUNICATIONS INC.

175 E. Houston, San Antonio, Texas 78205

Financial Statements, Supplemental Schedules and Exhibit

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

SBC Communications Inc., Plan Administrator  
for SBC Savings and Security Plan

We have audited the accompanying statements of net assets available for benefits of SBC Savings and Security Plan for the years ended December 31, 2003 and 2002, and the related statement of changes in net assets available for benefits for the year ended December 31, 2003. The preparation of the financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (PCAOB). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits at December 31, 2003 and 2002, and the changes in its net assets available for benefits for the year ended December 31, 2003, in conformity with U.S. generally accepted accounting principles.

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Our audits were performed for the purpose of forming an opinion on the financial statements taken supplemental schedules of assets (held at end of year) as of December 31, 2003, delinquent partic transactions for the year then ended are presented for purposes of additional analysis and are no statements but are supplementary information required by the Department of Labor's Rules and Regu under the Employee Retirement Income Security Act of 1974. These supplemental schedules are the management. The supplemental schedules have been subjected to auditing procedures applied in our and in our opinion, are fairly stated in all material respects in relation to the financial state

/s/ ERNST & YOUNG

San Antonio, Texas  
June 21, 2004

SBC SAVINGS AND SECURITY PLAN  
STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS  
(Dollars in Thousands)

	December 31,	
	2003	2002
<b>ASSETS</b>		
Investments (See Note 3)	\$ 4,732,060	\$ 4,471
Dividends and interest receivable	31	
Receivable for investments sold	603	
Contributions receivable	-	
	-----	-----
Total Assets	4,732,694	4,471
	-----	-----
<b>LIABILITIES</b>		
Administrative expenses payable	2,025	
Payable for investments purchased	3,305	3
Excess Contribution	29	
	-----	-----
Total Liabilities	5,359	3
	-----	-----
Net Assets Available for Benefits	\$ 4,727,335	\$ 4,468
	=====	=====

See Notes to Financial Statements.

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SBC SAVINGS AND SECURITY PLAN  
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS  
FOR THE YEAR ENDED DECEMBER 31, 2003  
(Dollars in Thousands)

Net Assets Available for Benefits, December 31, 2002	\$	4,468,213
Additions to Net Assets:		
Contributions:		
Participant contributions		287,614
Employer contributions		155,455
		-----
		443,069
Investment Income:		
Net appreciation in value of investments		95,766
Dividends on SBC common shares		132,958
Interest		51,914
		-----
		280,638
		-----
Total Net Additions		723,707
		-----
Deductions from Net Assets:		
Administrative expenses		8,246
Distributions		456,337
Transfer to other plan (See Note 1)		2
		-----
Total Deductions		464,585
		-----
Net Assets Available for Benefits, December 31, 2003	\$	4,727,335
		=====

See Notes to Financial Statements.

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SBC SAVINGS AND SECURITY PLAN  
 NOTES TO FINANCIAL STATEMENTS  
 (Dollars in Thousands)

1. Plan Description - The SBC Savings and Security Plan (Plan) was established by SBC Communications to provide a convenient way for eligible employees to save for retirement on a regular and long-term basis. All eligible employees are represented by the Communications Workers of America. The following information provides general information. The Plan has detailed provisions covering participant eligibility, participant withdrawals, participant loans, employer contributions and related vesting of contributions. The Plan text and prospectus include complete descriptions of these and other Plan provisions. The Plan is subject to the Employee Retirement Income Security Act of 1974 (ERISA).

In 2000, SBC entered into the Cingular Wireless (Cingular) joint venture agreement with BellSouth. Pursuant to this agreement, certain SBC employees were leased to Cingular. In December 2001 these employees were transferred to Cingular. During 2003 the Plan transferred approximately \$2 to State Street Bank and Trust related to the accounts of employees of Cingular.

Participants can invest their contributions in one or more of the following funds in five dollar increments: the SBC Shares Fund, the Bond Fund, the Large Cap Stock Fund, the Interest Income Fund, the Asset Allocation Fund, the Mid and Small Cap Stock Fund and the International Stock Fund.

Company matching contributions are made solely in the form of shares of SBC's common stock held in the Employee Stock Ownership Plan (ESOP) which is a separate investment account of this Plan.

Dividends on shares in the SBC Shares Fund and the ESOP can either be reinvested in the SBC Shares Fund or paid into a separate fund known as a Dividend Fund Account (DFA) for distribution at the end of the year, dividends held in the DFA are paid out to the participant. Interest earned on dividends is reinvested in the SBC Shares Fund. During 2003, Plan participants elected to receive \$25,525 in dividends which were included in distributions on the statement of changes in net assets.

Although it has not expressed any intent to do so, SBC has the right under the Plan to discontinue contributions and to terminate the Plan subject to the provisions of ERISA. In the event that the conditions set forth by ERISA, the account balances of all participants shall be 100% vested.

2. Accounting Policies - The values of investments are determined as follows: SBC common shares reported on the New York Stock Exchange; contracts with insurance companies and other financial institutions at their carrying value; reinvested interest which approximates fair value; common collective trust funds at values of their underlying assets; temporary cash investments at cost, which approximates fair value. Purchases and sales of investments are recorded on their trade date. Dividend income is recognized on the ex-dividend date. Interest earned on investments is recognized on an accrual basis.

The accompanying financial statements were prepared in conformity with accounting principles generally accepted in the United States, which require management to make estimates that affect the amounts reported in the financial statements and notes. Actual results could differ from those estimates.

3. Investments - Investments representing 5% or more of Plan net assets at either December 31,

	2003	2002
	-----	-----
Employee Stock Ownership Plan *		
SBC common shares	\$ 1,034,075	\$ 1,012,000
SBC Shares Fund		

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SBC common shares	\$	1,507,927	\$	1,581
Large Cap Stock Fund				
Barclays Global Investors Equity Index Fund F	\$	528,101	\$	399

\* Nonparticipant-directed

During 2003, the Plan's investments (including gains and losses on investments bought and sold) appreciated (depreciated) in value as follows:

Common Stock	\$	(93,288)
Common Collective Trusts		189,054
		-----
Total	\$	95,766
		=====

The Interest Income Fund consists of contracts with various financial institutions and insurance companies. The contracts are valued at principal plus accrued income at contract maturity, subject to the creditworthiness of the issuer. The interest rates are generally established when the contract is purchased and are periodically reset. For the year ended December 31, 2003, the average interest rates earned on these contracts were 4.44% and 5.39%. At December 31, 2002, the average interest rates on these contracts ranged from 3.24% to 7.97%. At December 31, 2002, the fixed credit rates on these contracts ranged from 2.83% to 8.00%. No valuation reserves were recorded to adjust contract amounts.

The Interest Income Fund invests in both guaranteed investment contracts (GICs) and synthetic GICs. Synthetic GICs differ from GICs in that the assets supporting the SICs are owned by the Plan. A bank or insurance company issues a contract that allows participant directed transactions to be made at contract value. The difference between the fair value of the supporting assets and the contract value. The assets supporting the contract generally consist of high quality fixed income securities with a fair value of \$778,091 and \$778,091 as of December 31, 2002.

The Plan provides for investments in various investment securities, which in general, are exposed to interest rate, credit, and overall market volatility risks. Due to the level of risk associated with these securities, it is reasonably possible that changes in the values of investment securities will occur. Such change could materially affect the amounts reported in the statements of net assets available for benefits account balances.

4. Nonparticipant-Directed Investments - Information about the net assets and the significant changes in net assets relating to the nonparticipant-directed investments as of December 31 is as follows:

	2003	2002
	-----	-----
<u>Assets</u>		
SBC common shares	\$ 1,034,075	\$ 1,012,278
Temporary cash investments	4,069	4,366
Dividends and interest receivable	2	3
Receivable for investments sold	603	55
	-----	-----
Total Assets	1,038,749	1,016,702
	-----	-----
<u>Liabilities</u>		
Administrative expenses payable	430	55
Payable for investments purchased	3,305	3,241
	-----	-----
Total Liabilities	3,735	3,296
	-----	-----
Net Assets Available for Benefits	\$ 1,035,014	\$ 1,013,406
	=====	=====

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	2003
	-----
Net Assets Available for Benefits, December 31, 2002	\$ 1,013,406
Employer contributions	155,455
Interest income	26
Dividends	3
Transfers from other fund(s)	9
Net depreciation in fair value of investments	(31,938)
Administrative expenses	(1,840)
Distributions	(82,109)
Transfers to other fund(s)	(17,998)
	-----
	21,608
	-----
Net Assets Available for Benefits, December 31, 2003	\$ 1,035,014
	=====

5. Tax Status - The Plan has received a determination letter from the Internal Revenue Service March 25, 2004, stating that the Plan is qualified under Section 401(a) of the Internal Revenue Code. The related trust is exempt from taxation. Once qualified, the Plan is required to operate in compliance with its qualification. The plan sponsor has indicated that it will take the necessary steps, if required, to maintain its qualified status.
6. Reconciliation of Financial Statements to Form 5500 - The following is a reconciliation of the financial statements to the Form 5500 as of December 31:

	2003
	-----
Net Assets Available for Benefits per the financial statements	\$ 4,727,335
Less: Distribution payable to participants	(5,022)
	-----
Net Assets Available for Benefits per the Form 5500	\$ 4,722,313
	=====

The following is a reconciliation of benefits paid to participants per the financial statements for the year ended December 31, 2003:

Distributions to participants per the financial statements	\$
Add: Distributions payable to participants at December 31, 2003	
Less: Distributions payable to participants at December 31, 2002	
Distributions to participants per the Form 5500	\$
	=

Distributions payable to participants are recorded on the Form 5500 for benefit claims that

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payment prior to December 31, but not yet paid as of that date.

SBC SAVINGS AND SECURITY PLAN  
EIN 43-1301883, PLAN NO. 004

2003 Form 5500 Line 4a - Schedule of Delinquent Participant Contributions  
(Dollars in Thousands)

December 31, 2003 Participant Contributions Transferred Late to Plan	Total that Constitute Nonexempt Prohibited Transactions
\$ 3	\$ 3

SBC SAVINGS AND SECURITY PLAN  
EIN 43-1301883, PLAN NO. 004

SCHEDULE H, LINE 4i - SCHEDULE OF ASSETS (HELD AT END OF YEAR)  
December 31, 2003  
(Dollars in Thousands)

Identity of Issue	Description of Investment	Cost
-----	-----	-----
<u>Employee Stock Ownership Plan</u>		
* SBC common shares	39,665,345 shares	\$ 8
* Mellon Trust of New England, N.A.	Temporary cash investment	8
Total Employee Stock Ownership Plan		8
<u>SBC Shares Fund</u>		
* SBC common shares	57,841,475 shares	



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\* Mellon Trust of New England, N. A. Temporary cash investment  
 Total SBC Shares Fund

Bond Fund

\* Barclays Global Investors Intermediate  
 Government/Credit Bond Index Fund F 9,400,728 units

Large Cap Stock Fund

\* Barclays Global Investors Equity Index Fund F 34,381,599 units

Interest Income Fund

Bank of America National Association	Synthetic contract wrapper #99-086, 4.04%
Capital Auto Rec Asset Trust	Prime Auto
Capital Auto Rec Asset Trust	Prime Auto
Capital Auto Rec Asset Trust	Prime Auto
Capital Fin Asset Trust	Large Equipment Loan
Chase Manhattan Auto Owner Trust	Prime Auto
Commercial Mortgage Asset Trust	Conduit
Credit Suisse First Boston	Conduit
Federal Home Loan Banks	Agency Debenture
Federal Home Loan Mortgage Company	Agency Debenture
Federal Home Loan Mortgage Company	Agency Debenture
Federal National Mtge Assn	Agency Hybrid
Federal National Mtge Assn	Agency CMO
Federal National Mtge Assn	Home Equity Agency
Federal National Mtge Assn	MBS Agency Hybrid
Fleet Credit Card MT	Bank Credit Card
Household Private lab MT2	Retail Credit Card
MBNA Master Credit Card Trust	Monoline Credit Card
Nordstrom Pvt Lbl CC MT	Retail Credit Card
Prime Credit Card MT	Retail Credit Card
Residential Funding Mtg Sec	Conduit
TIAA Cref	Conduit
Union Acceptance Corp	Sub-Prime Auto
United States Treasury	Treasury Note
United States Treasury	Treasury Note
WFS Financial Owners Trust	Sub-Prime Auto
Bank of America National Association	Cash on Hand

CDC Financial Products Inc. 7.00% - 7.01%,  
 8/29/05 - 10/17/05

GE Life and Annuity 7.45%  
 7/7/2004

JP Morgan Chase Bank Synthetic contract wrapper  
 #426424-T, 3.83%

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Amex Optima CC MT	Monoline Credit Card
CIT Equipment Collateral	Small Equipment Lease
Capital One Master Trust	Monoline Credit Card
Catipillar Fin Asset Trust	Large Equipment Loan
Chase Credit Card MT	Bank Credit Card
Citibank Credit Card IT	Bank Credit Card
Citibank Credit Card IT	Bank Credit Card
Credit Suisse First Boston	Conduit
Daimler Chrysler NA Hldg	Prime Auto
John Deere Owner Trust	Large Equipment Loan
Federal National Mtge Assn	Agency Debenture
Federal National Mtge Assn Whole Loan	Agency CMO
Federal National Mtge Assn	Agency PAC
Federal Home Loan Mtge Corp	Agency PAC
Federal National Mtge Assn	Agency Hybrid
Ford Auto Owners Trust	Prime Auto
Ford Auto Owners Trust	Prime Auto
Honda Auto Receivables	Prime Auto
Household Private lbl. CC	Retail Credit Card
Lehman Brothers Comm Conduit Mtg	Conduit
National City Auto Rec Trust	Prime Auto
USAA Auto Owner Trust	Prime Auto
United States Treasury	Treasury Note
WFS Financial Owners Trust	Sub-Prime Auto
JP Morgan Chase	Cash on hand
Metropolitan Life	Synthetic contract wrapper
	#28434, 3.5%
Capital Auto Rec Asset Trust	Prime Auto
Carmax Auto Owner Trust	Non Prime Auto
Citibank Credit Card IT	Bank Credit Card
Chase Manhattan Auto Owns Trust	Conduit
Federal Home Loan Mortgage Co	Agency Debenture
Federal National Mtge Assn	Agency Debenture
Federal National Mtge Assn	Agency Mortgage PoolIntex
Federal National Mtge Assn - ACES	Agency CMBS
Federal National Mtge Assn Whole Loan	Agency CMO
Honda Auto Receivables	Prime Auto
Household Auto Trust	Subprime Auto
MBNA Master Credit Card Trust	Monoline Credit Card
Nissan Auto Owners Trust	Prime Auto
Nomura Asset Securities Corporation	Conduit
Toyota Auto Owners Trust	Prime Auto
Union Acceptance Corp	Sub Prime Auto
United States Treasury	Treasury Note
WFS Financial Owners Trust	Sub-Prime Auto
Metropolitan Life	Cash on hand
Monumental	7.17%
	7/25/2005
Monumental	Synthetic Wrapper Contract
	MDA00292TR, 4.82%
Amex Optima CC MT	Monoline Credit Card
Ameriquest Mtg Securities Inc	Home Equity Senior Sub
Asset Backed Funding Certificates	Home Equity Senior Sub
Bank One Issuance Trust	Bank Credit Card

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CIT Equipment Collateral	Small Equipment Lease
Capital Auto Recovery Asset Trust	Prime Auto
Capital One Auto	Sub Prime Auto
Carmax Auto Owner Trust	Nonprime Auto
Discover Card Master Trust	Bank Credit Card
Federal National Mtge Assn	Agency CMBS
Federal National Mtge Assn Grantor Trust	Home Equity Agency
Federal National Mtge Assn MBS	Home Equity Agency
Federal Home Loan Mtge Corp	Home Equity Agency
Federal National Mtge Assn Whole Loan	Home Equity Agency
Federal National Mtge Assn Whole Loan	Home Equity Agency
Ford Auto Owners Trust	Prime Auto
Home Ownership Funding	Step Down
Home Ownership Funding	Step Down
Honda Auto Receivables	Prime Auto
Honda Auto Receivables	Prime Auto
Household Auto Trust	Subprime Auto
MBNA Master Trust	Monoline Credit Card
Pinnacle CBO Ltd	Asset Backed
KEYCORP	Conduit
Res Asset Mtg Products	Home Equity Agency
Residential Asset Sec	Home Equity Monoline
Sears Credit Account Trust	Retail Credit Card
United States Treasury	Treasury Note
Vanderbilt Mortgage Finance	Mfg HsgSrSub
WFS Financial Owners Trust	Sub Prime Auto
Monumental	Cash on hand
New York Life Insurance Company	5.28%
	2/2/2004
Prudential Insurance Company	6.02%-7.48%
	9/7/04-11/30/05
Rabobank Nederland	Synthetic contract wrapper
	SBC-060201, 3.24%
Chase Manhattan Auto Owner Trust	Prime Auto
Federal Home Loan Mtge Corp	Agency Hybrid
Federal Home Loan Mtge Company	Agency Debenture
Federal National Mtge Assn Whole Loan	Home Equity Agency
Federal National Mtge Assn Whole Loan	Home Equity Agency
Federal National Mtge Assn	Agency Hybrid
GMACC Commercial Mtg Securities	Conduit
Saxon Asset Securities Trust	Home Equity Senior Sub
United States Treasury	Treasury Note
United States Treasury	Treasury Note
Rabobank Nederland	Cash on hand
Security Life of Denver	7.39%
	10/4/2004
State Street Bank	Synthetic Contract Wrapper
	99039, 4.93%
Amex. Optima CC MT	Monoline Credit Card
Amex. Optima CC MT	Monoline Credit Card
Bank One Issuance Trust	Bank Credit Card
Capital One Master Trust	Monoline Credit Card
Capital One Auto	Subprime Auto

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Chase Manhattan Auto Owns Trust	Prime Auto
Citibank Credit Card MT	Bank Credit Card
Commercial Mtg Acceptance Corp	Conduit
Delta Funding HEL Trust	Home Equity Monoline
Federal Home Loan Mtge Corp	Agency Hybrid
Federal Home Loan Mtge Corp	Agency Debenture
Federal National Mtg Assn	Home Equity Agency
Federal Home Loan Mtge Corp	Home Equity Agency
Federal National Mtge Assn Whole Loan	Agency CMO
Federal National Mtge Assn Whole Loan	Home Equity Agency
Federal Home Loan Mtge Corp	Agency PAC
Federal Home Loan Mtge Corp	Agency PAC
Federal National Mtge Assn	Agency Hybrid
Honda Auto Receivables	Prime Auto
MBNA Master Trust	Monoline Credit Card
MBNA Master Trust	Monoline Credit Card
MBNA Master Trust	Monoline Credit Card
Nissan Auto Owners Trust	Prime Auto
KEYCORP	Conduit
Sears Credit Account Trust	Retail Credit Card
United States Treasury	Treasury Note
State Street Bank	Cash on Hand

SunAmerica Life Insurance Company	7.14%-7.97%
	1/2/04-9/22/05

UBS AG	Synthetic Contract Wrapper
	5029, 3.24%
Americredit Auto Rec	Subprime Auto
Capital One Auto	Subprime Auto
Chase Credit Card MT	Bank Credit Card
Chase Funding Mtg Loan Asset-Back	Home Equity Senior Sub
Commercial Mtg Pass-Thru Cert	Conduit
Federal Home Loan Mortgage Corporation	Agency Hybrid
Federal Home Loan Banks	Agency Debenture
Federal National Mtge Assn	Home Equity Agency
Federal National Mtge Assn	Home Equity Agency
Federal National Mtge Assn Whole Loan	Home Equity Agency
Federal National Mtge Assn Whole Loan	Home Equity Agency
Federal Home Loan Mtge Corp	Agency PAC
Morgan Stanley Capital I	Conduit
Res Asset Mtg Products	Home Equity Agency
TIAA Real Estate CDO Ltd	Conduit
United States Treasury	Treasury Note
United States Treasury	Treasury Note
USB AG	Cash on hand

* Mellon Trust of New England, N.A.	Temporary cash investment
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Total Interest Income Fund

Asset Allocation Fund

\* Barclays Global Investors U.S. Tactical Asset

Fund F	13,688,570 units
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Global Equity Fund

* Barclays Global Investors U.S. Equity Market Fund F	2,012,571 units	
* Barclays Global Investors EAFE Equity Index Fund F	974,589 units	
Total Global Equity Fund		**

Mid and Small Cap Stock Fund

Extended Equity Market Fund F	6,019,806 units	**
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International Fund

* Barclays Global Investors U.S. Equity Market Fund F	1,013,473 units	**
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Loan Fund

* Loans to Plan Participants	5.00% - 5.25%	**
------------------------------	---------------	----

TOTAL

\* Party-in-Interest.

\*\* Participant-directed investment, cost not required.

\*\*\* Synthetic Insurance Contracts, no stated maturity.

SBC SAVINGS AND SECURITY PLAN  
EIN 43-1301883, PLAN NO. 004

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SCHEDULE H, LINE 4j - SCHEDULE OF REPORTABLE TRANSACTIONS  
 December 31, 2003  
 (Dollars in Thousands)

Identity of Party Involved	Description of Asset	Purchase Price	Selling Price
Category (iii) - Series of Transactions in Excess of 5 Percent of Plan Assets			
*SBC Communications Inc.	SBC Communications Inc. common stock	\$ 150,482	\$
*SBC Communications Inc.	SBC Communications Inc. common stock	-	82,
*Mellon Trust of New England, N. A.	Pooled Employee Funds Daily Liquidity Fund	194,222	
*Mellon Trust of New England, N. A.	Pooled Employee Funds Daily Liquidity Fund	-	194,

\* All transactions were purchased and sold on the market.

There were no Category (i), (ii) or (iv) reportable transactions during the year ended December 31, 2003.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Plan Administrator for the Plan has caused this report to be signed by the undersigned thereunto duly authorized.

SBC SAVINGS AND SECURITY PLAN

By SBC Communications Inc., Plan Administrator  
 for the Foregoing Plan

By /s/ Karen E. Jennings

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Karen E. Jennings  
Senior Executive Vice President  
Human Resources and Compensation

Date: June 23, 2004

EXHIBIT INDEX

Exhibit identified below, Exhibit 23 is filed herein as an exhibit hereto.

Exhibit  
Number

23            Consent of Independent Registered Public Accounting Firm

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statement (Form S-8, No Savings and Security Plan of our report dated June 21, 2004, with respect to the financial schedules of SBC Savings and Security Plan included in this Annual Report (Form 11-K) for

/s/ ERNST & YOUNG LLP

San Antonio, Texas  
June 21, 2004

