

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 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 Plan

We have audited the accompanying statements of net assets available for benefits of SBC Savings Plan as of December 31, 2003 and 2002, and the related statement of changes in net assets available for benefits for the year ended December 31, 2003. These 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 (United States). 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, 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.

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental schedules of assets (held at end of year) as of December 31, 2003, delinquent contributions and reportable transactions for the year then ended are presented for purposes of a 401(k) plan and are not a required part of the financial statements but are supplementary information required by the plan document.

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Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Security Act of 1974. These supplemental schedules are the responsibility of the Plan's management. These supplemental schedules have been subjected to auditing procedures applied in our audits of the financial statements, and in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.

/s/ ERNST & YOUNG LLP

San Antonio, Texas  
June 21, 2004

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

	December 31,	
	2003	2002
<b>ASSETS</b>		
Investments (See Note 3)	\$ 5,990,832	\$ 5,390,9
Contributions receivable	-	
Dividends and interest receivable	40	
Receivable for investments sold	179	4
Other receivables	1	3
	-----	-----
Total Assets	5,991,052	5,391,9
	-----	-----
<b>LIABILITIES</b>		
Payable for investments purchased	5,489	3,6
Administrative expenses payable	1,203	4
Other	24	
	-----	-----
Total Liabilities	6,716	4,1
	-----	-----
Net Assets Available for Benefits	\$ 5,984,336	\$ 5,387,8
	=====	=====

See Notes to Financial Statements.

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SBC SAVINGS 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	\$	5,387,812
Additions to Net Assets:		
Contributions:		
Participant contributions		283,951
Employer contributions		143,523
Transfers from other plan (See Note 1)		28,682
		-----
		456,156
		-----
Investment Income:		
Dividends on SBC common shares		114,187
Net appreciation in value of investments		386,253
Interest		64,477
		-----
		564,917
		-----
Total Net Additions		1,021,073
		-----
Deductions from Net Assets:		
Administrative expenses		6,007
Distributions		418,488
Transfer to other plan (See Note 1)		54
		-----
Total Deductions		424,549
		-----
Net Assets Available for Benefits, December 31, 2003	\$	5,984,336
		=====

See Notes to Financial Statements.

SBC SAVINGS PLAN

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## NOTES TO FINANCIAL STATEMENTS (Dollars in Thousands)

1. Plan Description - The SBC Savings Plan (Plan) was established by SBC Communications Inc. (Company) to provide a convenient way for eligible employees to save for retirement on a regular basis. The following description of the Plan provides only general information. The Plan has provisions covering participant eligibility, participant allotments from pay, participant withdrawal, participant loans, employer contributions and related vesting of contributions and Plan expenses. The Plan's text and prospectus include complete descriptions of these and other Plan provisions. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

As a result of the November 2001 merger of SBC and Prodigy Communications Corporation (Prodigy), the Prodigy Savings Plan for Salaried Employees (Prodigy Plan) merged into the Plan effective April 2003. With the merger, all assets of the Prodigy Plan, approximately \$28,682 were either transferred to the Plan through in-kind securities transfers or sold and the cash transferred to the Plan.

In 2000, SBC entered into the Cingular Wireless (Cingular) joint venture agreement with BellSouth. As a result of this agreement, certain SBC employees were leased to Cingular. In December 2002, these employees became Cingular employees. During 2003 the Plan transferred approximately \$54 to State Street Bank related to those former employees who became employees of Cingular.

Participants can invest their contributions in one or more of the following funds in 1% increments: the SBC Shares Fund, the Bond Fund, the Large Cap Stock Fund, the Interest Income Fund, the Asset Allocation Fund, the Global Equity 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 on a quarterly basis, or paid into a separate fund known as a Dividend Fund Account (DFA) for distribution at the end of the year. Interest earned on dividends held in the DFA will be paid into the SBC Shares Fund. In 2003, Plan participants elected to receive \$29,133 in dividend distributions. This amount is reflected in the 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 at any time and to terminate the Plan subject to the provisions of ERISA. In the event the Plan is terminated, subject to 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 at the closing price as reported on the New York Stock Exchange; contracts with insurance companies and financial institutions at principal plus reinvested interest which approximates fair value; trust funds at values obtained from fund managers; and temporary cash investments at cost which approximates fair value. Purchases and sales of securities are reflected as of the trade date. Dividend income is recognized on the ex-dividend date. Interest earned on investments is recognized on the 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 accompanying notes. Actual results could differ from those estimates.

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

	2003		
	-----		-----
Employee Stock Ownership Plan*			
SBC common shares	\$	1,069,341	\$
SBC Shares Fund			
SBC common shares	\$	1,123,962	\$

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Large Cap Stock Fund		
Barclays Global Investors Equity Index Fund F	\$	1,285,355
		\$
Bond Fund		
Barclays Global Investors Intermediate Government/Credit Bond Index Fund F	\$	275,191
		\$
Asset Allocation Fund		
Barclays Global Investors U.S. Tactical Asset Allocation Fund F	\$	410,280
		\$

\*Nonparticipant-directed

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

Common Stock	\$	(75,411)
Common Collective Trusts		461,664
		-----
Total	\$	386,253
		=====

The Interest Income Fund consists of contracts with various financial institutions and insurers that promise to repay principal plus accrued income at contract maturity, subject to the credit risk of the issuer. Interest crediting rates are generally established when the contract is purchased and are periodically reset. For the years ended December 31, 2003 and 2002, the average interest rate on these contracts were 4.71% and 5.59%. At December 31, 2003, the fixed crediting interest rate on these contracts ranged from 3.51% to 7.97%. At December 31, 2002, the fixed crediting interest rate on these contracts ranged from 2.83% to 7.65%. No valuation reserves were recorded to adjust contract value at December 31, 2003 or 2002.

The Interest Income Fund invests in both guaranteed investment contracts (GICs) and synthetic guaranteed investment contracts (SICs). SICs differ from GICs in that the assets supporting the SICs are owned by the issuer or insurance company issues a wrapper contract that allows participant directed transactions to be based on contract value. Wrapper contracts are valued as the difference between the fair value of the underlying assets and the contract value. The assets supporting the GICs and SICs generally consist of high quality fixed income securities with a fair value of \$1,178,302 at December 31, 2003 and \$1,169,543 at December 31, 2002.

The Plan provides for investments in various investment securities, which in general, are exposed to various risks, such as interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of these securities will occur in the near term and that such change could materially affect the amount of net assets available for benefits and participant 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

	2003	2002
	-----	-----
Assets		
SBC common shares	\$ 1,069,341	\$ 1,032,358
Temporary cash investments	6,502	4,538
Dividends and interest receivable	2	
Receivable for investments sold	179	48
Other receivables	1	
	-----	-----
Total Assets	1,076,025	1,037,388
	-----	-----
Liabilities		
Payable for investments purchased	5,489	3,608
Administrative expenses payable	195	1

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	-----	-----
Total Liabilities	5,684	3,62
	-----	-----
Net Assets Available for Benefits	\$ 1,070,341	\$ 1,033,75
	=====	=====
		2003
		-----
Net Assets Available for Benefits, December 31, 2002		\$ 1,033,7
Employer contributions		140,4
Interest income		
Dividends		
Net depreciation in fair value of investments		(29,9
Administrative expenses		(8
Distributions		(53,8
Transfers to other fund(s)		(19,1
		-----
		36,5
		-----
Net Assets Available for Benefits, December 31, 2003		\$ 1,070,3
		=====

5. Tax Status - The Plan has received a determination letter from the Internal Revenue Service March 18, 2004, stating that the Plan is qualified under Section 401(a) of the Internal Revenue Code and, therefore, the related trust is exempt from taxation. Once qualified, the Plan is required to conform with the IRC to maintain its qualification. The plan sponsor has indicated that it will take necessary steps, if any, to maintain the Plan's qualified status.

6. Reconciliation of Financial Statements to Form 5500 - The following is a reconciliation of Net Assets Available for Benefits per the financial statements to the Form 5500 as of December 31:

		2003	
		-----	-----
Net Assets Available for Benefits per the financial statements	\$	5,984,336	\$
Less: Distribution payable to participants		(4,909)	
		-----	-----
Net Assets Available for Benefits per the Form 5500	\$	5,979,427	\$
		=====	=====

The following is a reconciliation of benefits paid to participants per the financial statements to the Form 5500 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	

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Distributions to participants per the Form 5500

Distributions payable to participants are recorded on the Form 5500 for benefit claims that processed and approved for payment prior to December 31, but not yet paid as of that date.

SBC SAVINGS PLAN  
EIN 43-1301883, PLAN NO. 002

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 Pr Transactions
\$ 43	\$ 43

SBC SAVINGS PLAN  
EIN 43-1301883, PLAN NO. 002

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

Identity of Issue	Description of Investment	Cos
-----	-----	-----
Employee Stock Ownership Plan		
* SBC common shares	41,018,059 shares	\$ 676
* Mellon Trust of New England, National Association	Temporary cash investment	6
		-----
Total Employee Stock Ownership Plan		682
		-----



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SBC Shares Fund

*	SBC common shares	43,113,221 shares
*	Mellon Trust of New England, National Association	Temporary cash investment
	Total SBC Shares Fund	

Bond Fund

*	Barclays Global Investors Intermediate Government/Credit Bond Index Fund F	16,976,618 units
---	--	------------------

Large Cap Stock Fund

*	Barclays Global Investors Equity Index Fund F	83,681,952 units
---	---	------------------

Interest Income Fund

Allstate Life Insurance Company	7.06%
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11/22/04

Bank of America National Association

Amex. Optima CC MT  
 CIT Equipment Collateral  
 Capital Auto Rec. Asset Trust  
 Capital Auto Rec. Asset Trust  
 COAFT  
 Credit Suisse First Boston  
 Daimler Chrysler  
 Delta Funding HEL Trust  
 Federal Home Loan Mortgage Company  
 Federal National Mtg. Assn.  
 Federal National Mtg. Assn. Grantor Trust  
 Federal National Mtg. Assn. Grantor Trust  
 Federal National Mtg. Assn. Whole Loan  
 Federal Home Loan Mtg. Corp Rec.  
 Fleet Credit Card MT  
 MBNA Master Trust  
 Nordstrom Pvt. Lbl. CC MT  
 Saxon Asset Securities Trust

Synthetic contract wrapper  
 #99-058, 4.10%, \*\*\*  
 Monoline Credit Card  
 Small Equipment Lease  
 Prime Auto  
 Prime Auto  
 Sub Prime Auto  
 Conduit  
 Prime Auto  
 Home Equity Monoline  
 Agency Debenture  
 Agency MF BLN  
 Agency MF FIX  
 Home Equity Agency  
 Home Equity Agency  
 Agency PAC  
 Bank Credit Card  
 Monoline Credit Card  
 Retail Credit Card  
 Home Equity Senior Sub

TIAA Retail Commercial Trust  
 United States Treasury  
 United States Treasury  
 WFS Financial Owners Trust  
 WFS Financial Owners Trust

Conduit  
 Treasury Note  
 Treasury Note  
 Sub Prime Auto  
 Sub Prime Auto

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Cash on Hand	Cash
Business Men's Assurance Company of America	7.41%
	7/15/04
CDC Financial Products Inc.	6.99% - 7.01%
	5/23/05 - 10/17/05
JP Morgan Chase Bank	Synthetic contract wrapper
Asset Backed Funding Certificates	#426423, 4.5%, ***
Caterpillar Fin Asset Trust	Home Equity Senior Sub
Citibank Credit Card	Large Equipment Loan
Discover Card Trust	Bank Credit Card
FED Home Loan Bank	Bank Credit Card
FED Home Loan Bank	Agency Debenture
Federal National Mtg. Assn. Whole Loan	Agency Debenture
Federal National Mtg. Assn. Whole Loan	Home Equity Agency
Federal National Mtg. Assn. Whole Loan	Home Equity Agency
Federal National Mtg. Assn. Whole Loan	Home Equity Agency
Federal National Mtg. Assn. - Adj. Rate Mtg.	Agency RP ARM
Ford Auto Owners Trust	Agency HYB PP
GMACC Commercial MTG Securities	Prime Auto
Harley-Davidson Eagleman	Conduit
HBNA Master Trust	Prime Auto
Prime Credit Card MT	Monoline Credit Card
Residential Asset Security	Retail Credit Card
United States Treasury	Home Equity Monoline
Cash on Hand	Treasury Note
	Cash
Jackson National Life Insurance Company	7.42%,
	8/18/04
Metropolitan Life Insurance Company	Synthetic contract wrapper
Ameriquest Marketing Securities	#28456, 4.31%, ***
BOIT	Home Equity Senior Sub
Capital Auto Rec. Asset Trust	Bank Credit Card
Carmax Auto Owner	Prime Auto
Chase Manhattan Auto Owns	Non Prime Auto
Citibank Credit Card	Prime Auto
Commercial Mtg Ast Trust	Bank Credit Card
	Conduit
FED Home Loan Bank	Agency Debenture
Federal Home Loan Mtg. Corp - Adj. Rate. Mtg.	Agency Hybrid
Federal National Mtg. Assn. - Aces	Agency MF FIX
FSPC	Home Equity Agency

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Federal National Mtg. Assn. Whole Loan	Agency ARM AA
Federal National Mtg. Assn. Whole Loan	Home Equity Agency
Federal Credit Card MT	Bank Credit Card
Prime Credit Card MT	Retail Credit Card
Honda Auto Receivables	Prime Auto
Honda Auto Receivables	Prime Auto
Honda Auto Receivables	Prime Auto
Resid Asset Management Production Inc.	Home Equity Agency
Toyota Auto Owners Trust	Prime Auto
Union Acceptance Corp	Sub Prime Auto
United States Treasury	Treasury Note
United States Treasury	Treasury Note
Cash on Hand	Cash

Monumental Life Insurance Company	Synthetic contract wrapper
	#75TR, 4.25%, ***
Amex. Optima CC MT	Monoline Credit Card
Capital One Master Trust	Monoline Credit Card
Carmax Auto Owner	NonPrime Auto
Chase Credit Card MT	Bank Credit Card
Citibank Credit Card IT	Bank Credit Card
Credit Suisse First Boston	Conduit
Credit Suisse First Boston	Conduit
Federal Home Loan Mortgage Company	Agency Debenture
Federal Home Loan Mortgage Company	Agency Debenture
Federal National Mortgage Association	Agency Debenture
Federal National Mortgage - Aces	Agency MF FIX
Federal National Mtg. Assn.	Agency MF BLN
Federal National Mtg. Assn. Whole Loan	Home Equity Agency
Federal National Mtg. Assn. Whole Loan	Home Equity Agency
Federal National Mtg. Assn. Rec.	Agency PAC
Federal National Mtg. Assn. - Adj. Rate Mtg.	Agency Hybrid
Federal National Mtg. Assn. - Adj. Rate Mtg.	Agency Hybrid PP
Ford Auto Owners Trust	Prime Auto
Home Ownership Fund C	Step Down Preferred
Home Ownership Fund C	Step Down Preferred
Pinnacle CBO FSA Ins.	Cash Flow CBO
Residential Funding Mtg. Securities	Home Equity 2nd Monoline
Toyota Auto Owners Trust	Prime Auto
Vanderbilt Mortgage Finance	Mfg Hsg Senior Sub
Cash on hand	Cash

Prudential Insurance Company	6.99%-7.48%
------------------------------	-------------

10/25/04 - 11/30/05

State Street Bank and Trust Company	Synthetic contract wrapper
	#99038, 4.19%, ***
Amex. Optima CC MT	Monoline Credit Card

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Chase Manhattan Auto Owns	Prime Auto
Commercial Mtg Ast Trust	Conduit
Commercial Mtg Ast Trust	Conduit
John Deer Owners Trust	Large Equipment Loan
Federal National Mtg. Assn.	Agency Debenture
Federal National Mtg. Assn. Whole Loan	Agency ALT-A
Federal National Mtg. Assn. Whole Loan	Home Equity Agency
Federal Home Loan Mtg. Corp Rec.	Agency PAC
Federal National Mtg. Assn. - Adj. Rate Mtg.	Agency Hybrid
Honda Auto Trust	Sub Prime Auto
LB Commer Conduit Mtg.	Conduit
MBNA Master Trust	Monoline Credit Card
MBNA Master Trust	Monoline Credit Card
Nomura Asset Securities Corporation	Conduit
Keycorp	Conduit
United States Treasury	Treasury Note
United States Treasury	Treasury Note
Cash on Hand	Cash

Sun America Life Insurance Company

7.02% - 7.97%,

1/2/04 - 11/4/05

Union Bank of Switzerland AG	Synthetic contract wrapper
Americredit Auto. Rec.	#5030, 3.51%, ***
BOIT	Sub Prime Auto
COAFT	Bank Credit Card
Caterpillar Fin Asset Tr.	Sub Prime Auto
Chase Funding Mort Loan - Asset Backed	Large Equipment Loan
Chase Manhattan Auto Owns	Home Equity Senior Sub
Chase Funding Mort Ln.	Prime Auto
Federal Home Loan Mtg. Corp	Conduit
Federal National Mtg. Assn. Rec.	Agency Hybrid
Federal National Mortgage Assn.	Agency PAC
Federal National Mortgage Assn.	Agency Debenture
FSPC	Agency Debenture
Federal National Mtg. Assn. Whole Loan	Home Equity Agency
Federal National Mtg. Assn. Whole Loan	Home Equity Agency
Household Private Lab MT2	Home Equity Agency
Morgan Stanley Capital	Retail Credit Card
Nissan Auto Owners Trust	Conduit
Salomon Brothers Mortgage Securities VII	Prime Auto
USAA Auto Owners Trust	Conduit
United States Treasury	Prime Auto
Cash on Hand	Treasury Notes
	Cash

\* Mellon Trust of New England, National Association

Temporary cash investment

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Total Interest Income Fund

Asset Allocation Fund

\* Barclays Global Investors U.S. Tactical Asset  
Allocation Fund F 24,611,881 units

Global Equity Fund

\* Barclays Global Investors U.S. Equity  
Market Fund F 3,566,992 units  
\* Barclays Global Investors EAFE Equity Index  
Fund F 1,749,192 units  
Total Global Equity Fund

Mid and Small Cap Stock Fund

Extended Equity Market Fund F 16,552,930 units

International Stock Fund

International Stock 3,399,065 units

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 PLAN  
EIN 43-1301883, PLAN NO. 002

SCHEDULE H, LINE 4j - SCHEDULE OF REPORTABLE TRANSACTIONS

Year Ended December 31, 2003  
(Dollars in Thousands)

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Identity of Party Involved	Description of Asset	Purchase Price	Selling Price	Cost of Asset
-----				
Category (iii) - Series of Transactions in Excess of 5 Percent of Plan Assets				
* Mellon Trust of New England, National Association	Pooled Employee Funds Daily Liquidity Fund	\$ 179,481	\$ -	\$ 179,481
* Mellon Trust of New England, National Association	Pooled Employee Funds Daily Liquidity Fund	-	177,486	177,486

\* 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, 2013.

SIGNATURE

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

SBC SAVINGS PLAN

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

By /s/ Karen E. Jennings

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

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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. 333-100000) pertaining to SBC Savings Plan of our report dated June 21, 2004, with respect to the financial statements and supplemental schedules of SBC Savings Plan included in this Annual Report for the year ended December 31, 2003.

/s/ ERNST & YOUNG LLP

San Antonio, Texas  
June 21, 2004