

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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A. Full title of the plan and the address of the plan,  
if different from that of the issuer named below:

SBC PAYSOP  
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B. Name of issuer of the securities held pursuant to t  
plan and the address of its principal executive office:

SBC COMMUNICATIONS INC.

175 E. Houston, San Antonio, Texas 78205

SBC PAYSOP

Financial Statements, Supplemental Schedules and Exhibit

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Report of Independent Registered Public Accounting Firm

SBC Communications Inc.,  
Plan Administrator for SBC PAYSOP

We have audited the accompanying statements of net assets available for benefits of SBC PAYSOP 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. The preparation of these statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (PCAOB), which are based on standards generally accepted in the United States of America. Those standards require that we plan to obtain reasonable assurance about whether the financial statements are free of material misstatement. A reasonable level of assurance is achieved through a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit involves applying accounting principles used and significant estimates made by management, as well as evaluating the overall 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 of the Plan 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 supplemental schedules of assets (held at end of year) as of December 31, 2003, and reportable transactions are presented for purposes of additional analysis and are not a required part of the financial statements. This information is required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Income Security Act of 1974. These supplemental schedules are the responsibility of the Plan's management. These supplemental schedules have been subjected to the 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.

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San Antonio, Texas  
June 21, 2004

/s/ ERNST & YOUNG LLP

SBC PAYSOP

Statements of Net Assets Available for Benefits  
(Dollars in Thousands)

	December 31	
	2003	2002
<hr/>		
<b>Assets</b>		
Investment in common stock of SBC Communications Inc., at fair value	\$ 82,415	\$
Cash equivalents	15	
Interest receivable	1	
<hr/>		
Net assets available for benefits	\$ 82,431	\$
<hr/>		

See accompanying notes.

SBC PAYSOP

Statement of Changes in Net Assets Available for Benefits

Year Ended December 31, 2003  
(Dollars in Thousands)

<b>Additions:</b>		
Dividend income		\$
Interest income		
<hr/>		
Total additions		
<hr/>		

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Deductions:

Net depreciation of SBC Communications Inc. common shares  
Distributions to participants  
Administrative expenses

Total deductions

Net decrease

Net assets available for benefits, beginning of year

Net assets available for benefits, end of year

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-----  
-----  
-----  
\$  
=====

See accompanying notes.

SBC PAYSOP

Notes to Financial Statements  
December 31, 2003 and 2002  
(Dollars in Thousands)

1. Plan Description

The SBC PAYSOP (the Plan) was established by SBC Communications Inc. (SBC) during 1983 as a result of the System Employee Stock Ownership Plan. The Plan was established to provide shares of SBC common stock to participating SBC companies.

The following description of the Plan provides only general information. The Plan text and prospectus contain the full text of Plan provisions. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974.

Contributions for years prior to the 1987 plan year were in amounts equal to the credit claimed on the participant's income tax return pursuant to Section 41 of the Internal Revenue Code of 1954 (IRC). This credit was limited to the compensation paid or accrued for all participants during the plan year up to a maximum of \$100 per participant.

The Tax Reform Act of 1986 repealed the income tax credit on employee stock ownership plan contributions accrued after December 31, 1986. No contributions were made to the Plan beginning with the 1987 plan year. Participants in the Plan on December 31, 1986 are eligible for participation in the Plan and continue to maintain their balances in the Plan. Employees who did not have a balance in the Plan at that time are not eligible to participate.

Although it has not expressed any intent to do so, SBC has the right under the Plan to terminate the Plan at any time. In the event that the Plan is terminated, subject to the conditions set forth in the Plan, the net assets will be distributed to participants in amounts equal to their respective interests in the Plan.

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2. Summary of Significant Accounting Policies

The fair value of SBC common stock is determined on the basis of the closing price per share on the official close of the New York Stock Exchange. Temporary cash investments are valued at cost, which includes purchases and sales of securities are reflected as of the trade date. Dividend income is recognized on the accrual basis. Interest earned on investments is recognized on the accrual basis.

The Plan provides for investments in investment securities, which in general, are exposed to various market risks, including credit, and overall market volatility risks. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of investment securities will occur in the near term that may materially affect the amounts reported in the statements of net assets available for benefits and expenses.

Expenses incurred to administer the Plan are paid by SBC. A portion of these expenses, up to \$100,000 per year, is paid by the Plan to SBC.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates that affect the amounts reported in the financial statements and actual results could differ from those estimates.

3. Allocations and Distributions to Participants

The Plan maintains an account for each participant. Distribution of the shares allocated to a participant is made to a participant after termination of employment but no later than April of the plan year following the participant's termination. If a participant attains age 70 1/2, or to a beneficiary as soon as practicable after the participant's death, or if an active employee beyond the year the participant turns age 70 1/2, the participant's account will be distributed no later than April of the following year. For each distribution, the participant or beneficiary receives the fair market value of the shares.

All quarterly dividends for a year earned on shares in participants' accounts are held in an interest-bearing account for participants on an annual basis in November of each year. Effective January 1, 2002, the Plan was amended to give participants the option to reinvest dividends on SBC common stock held in their accounts. Reinvested dividends are used to purchase additional shares of SBC common stock. Earnings attributable to dividends pending distribution which exceed administrative expenses are used to purchase additional shares of SBC common stock. These shares are proportionately allocated to each participant's account.

4. Tax Status

The Internal Revenue Service (IRS) issued a determination letter on March 26, 2004, stating that the Plan is a qualified plan designed in accordance with applicable sections of the IRC. The Plan has been amended since the determination letter. The Plan Administrator believes that the Plan is currently designed and is operating in compliance with the requirements of the IRC.

5. 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	\$ 82,431	\$
Less: Distributions payable to participants	(780)	
	-----	
Net assets available for benefits per the Form 5500	\$ 81,651	\$
	=====	

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

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

SBC PAYSOP

Schedule H, Line 4i - Schedule of Assets (Held at End of Year)  
EIN: 43-1301883 Plan No.: 003

December 31, 2003  
(Dollars in Thousands)

Name of Issue, Borrower, Lessor or Similar Party	Description of Investment	Cost	Curr Val
* SBC Communications Inc. Common Stock	3,161,282 shares	\$ 21,057	\$
* Mellon Trust of New England, National Association Pooled Employee Funds Daily Liquidity Fund	Temporary cash investment	15	
		-----	
		\$ 21,072	\$
		=====	

\*Party-in-Interest.

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Schedule H, Line 4j - Schedule of Reportable Transactions  
 EIN: 43-1301883 Plan No.: 003

Year Ended December 31, 2003  
 (Dollars in Thousands)

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	\$ 10,143	\$ -	\$ 10,143
* Mellon Trust of New England, National Association	Pooled Employee Funds Daily Liquidity Fund	-	10,146	10,146

\* 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 PAYSOP

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

By /s/ Karen E. Jennings

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 Karen E. Jennings

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Senior Executive Vice President -  
Human Resources and Communications

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

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Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-9935 report dated June 21, 2004, with respect to the financial statements and supplemental schedules of Report (Form 11-K) for the year ended December 31, 2003.

/s/ ERNST & YOUNG LLP

San Antonio, Texas  
June 21, 2004



