

SBC COMMUNICATIONS INC
Form 11-K
June 20, 2003

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 11-K

ANNUAL REPORT

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

For the fiscal year ended December 31, 2002

Commission File Number 1-8610

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

SBC PAYSOP

B. Name of the issuer of the securities held pursuant to the
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 Exhibits

Table of Contents

Report of Independent Auditors Ernst & Young LLP.....

Financial Statements:

Statements of Net Assets Available for Benefits as of December 31, 2002 and 2001
Statement of Changes in Net Assets Available for Benefits for the
Year Ended December 31, 2002
Notes to Financial Statements

Supplemental Schedules:

Schedule H, Line 4i - Schedule of Assets (Held at End of Year)
Schedule H, Line 4j - Schedule of Reportable Transactions

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Exhibits:

- 23 - Consent of Ernst & Young LLP
- 99 - Certification of Periodic Financial Reports

Report of Independent Auditors

SBC Communications Inc.,
Plan Administrator for SBC PAYSOP

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

We conducted our audits in accordance with auditing standards generally accepted in the United States. 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 statements. An audit also includes assessing the accounting principles used and significant estimates made by management. 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 of the Plan at December 31, 2002 and 2001, and the changes in its net assets available for benefits for the year ended December 31, 2002, in conformity with accounting principles generally accepted in the United States.

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, 2002, 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.

June 16, 2003

/s/ ERNST & YOUNG LLP

SBC PAYSOP

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

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| | December 31 | |
|--|-------------|------------|
| | 2002 | 2001 |
| <hr/> | | |
| Assets | | |
| Investment in common stock of SBC Communications Inc., at fair value | \$ 94,770 | \$ 156,718 |
| Cash equivalents | 18 | |
| <hr/> | | |
| Net assets available for benefits | \$ 94,788 | \$ 156,718 |
| <hr/> <hr/> | | |

See accompanying notes.

SBC PAYSOP

Statement of Changes in Net Assets Available for Benefits

Year Ended December 31, 2002
(Dollars in Thousands)

| | | |
|---|--|----------------|
| Additions: | | |
| Dividend income | | \$ |
| Interest income | | |
| Total additions | | <hr/> |
| Deductions: | | |
| Net depreciation of SBC Communications Inc. common shares | | |
| Distributions to participants | | |
| Administrative expenses | | |
| Total deductions | | <hr/> |
| Net decrease | | (|
| Net assets available for benefits, beginning of year | | 1 |
| Net assets available for benefits, end of year | | <hr/> <hr/> \$ |

See accompanying notes.

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SBC PAYSOP

Notes to Financial Statements

December 31, 2002 and 2001
(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 (ERISA).

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 applied 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 accounts. 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 of the Plan will be distributed to participants in amounts equal to their respective interests in the Plan.

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 New York Stock Exchange as of the official close of the New York Stock Exchange. Temporary cash investments are valued at cost, which is generally equal to the fair value. 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.

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

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4. Tax Status

The Internal Revenue Service (IRS) issued a determination letter on November 4, 1996, stating that the Plan is 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.

On February 28, 2002, the Plan filed for a new determination letter, but has not yet received, a new tax determination letter. The Plan Administrator believes that the Plan is currently designed and is operating in compliance with the requirements of the IRC. Required changes and other changes made to the Plan since the previous determination letter were made.

5. Reconciliation of Financial Statements to Form 5500

The following is a reconciliation of net assets available for benefits per the financial statements and Form 5500 as of December 31, 2002:

| | 2002 | |
|--|-----------|------|
| | ----- | |
| Net assets available for benefits per the financial statements | \$ 94,788 | \$ |
| Less: Distributions payable to participants | (989) | |
| | ----- | |
| Net assets available for benefits per the Form 5500 | \$ 93,799 | \$ 1 |
| | ===== | |

The following is a reconciliation of benefits paid to participants per the financial statements and Form 5500 as of December 31, 2002:

| | |
|--|-------|
| Distributions to participants per the financial statements | \$ |
| Add: distributions payable to participants at December 31, 2002 | |
| Less: distributions payable to participants at December 31, 2001 | () |
| | ----- |
| Distributions to participants per the Form 5500 | \$ |
| | ===== |

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

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Supplemental Schedules

SBC PAYSOP

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

December 31, 2002
(Dollars in Thousands)

| Name of Issue, Borrower, Lessor or Similar Party | Description of Investment | Cost | Current Value |
|--|---------------------------|-----------|---------------|
| * SBC Communications Inc. Common Stock | 3,495,747 shares | \$ 23,111 | \$ 94,7 |
| * Boston Safe Deposit and Trust Company Pooled Employee Funds Daily Liquidity Fund | Temporary cash investment | 18 | |
| | | \$ 23,129 | \$ 94, |

*Party-in-Interest.

SBC PAYSOP

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

Year Ended December 31, 2002
(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 | | | | |
| *Boston Safe Deposit and Trust Company | Pooled Employee Funds Daily Liquidity Fund | \$ 8,176 | \$ - | \$ 8,176 |

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| | | | | |
|--|---|---|-------|-------|
| *Boston Safe Deposit and Trust Company | Pooled Employee Funds Daily Liquidity Fund | - | 8,201 | 8,201 |
|--|---|---|-------|-------|

* 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

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

Date: June 20, 2003

EXHIBIT INDEX

Exhibits identified below, Exhibit 23 is filed herein as an exhibit hereto and Exhibit 99 is filed as an exhibit to the Annual Report on Form 10-K for the year ended December 31, 2003.

Exhibit
Number

| | |
|----|---|
| 23 | Consent of Independent Auditors Ernst & Young LLP |
| 99 | Certification of Periodic Financial Reports |