

SBC COMMUNICATIONS INC  
Form 11-K  
June 23, 2005

File No. 1-8610

**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, 2004

Commission File Number 1-8610

**SBC SAVINGS AND SECURITY PLAN**

**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 as of December 31, 2004 and 2003, and the related statement of changes in net assets available for benefits for the year ended December 31, 2004. 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. We were not engaged to perform an audit of the Plan's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and 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, 2004 and 2003, and the changes in its net assets available for benefits for the year ended December 31, 2004, 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, 2004, and reportable transactions for the year then ended are presented for purposes of additional analysis and are not a required part of the financial statements but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. These supplemental schedules are the responsibility of the Plan's management. The 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 14, 2005



**SBC SAVINGS AND SECURITY PLAN**

**STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS**

**(Dollars in Thousands)**

	December 31, <b>2004</b>	2003
<b>ASSETS</b>		
Investments (See Note 3)	\$ <b>4,956,665</b>	\$ 4,732,060
Dividends and interest receivable	<b>54</b>	31
Receivable for investments sold	<b>423</b>	603
Other	<b>1</b>	-
Total Assets	<b>4,957,143</b>	4,732,694
<b>LIABILITIES</b>		
Administrative expenses payable	<b>3,163</b>	2,025
Payable for investments purchased	-	3,305
Excess Contribution	-	29
Total Liabilities	<b>3,163</b>	5,359
Net Assets Available for Benefits	<b>\$ 4,953,980</b>	\$ 4,727,335

See Notes to Financial Statements.

**SBC SAVINGS AND SECURITY PLAN**

**STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS**

**FOR THE YEAR ENDED DECEMBER 31, 2004**

**(Dollars in Thousands)**

Net Assets Available for Benefits, December 31, 2003	\$ 4,727,335
Additions to Net Assets:	
Contributions:	
Participant contributions	296,574
Employer contributions	155,559
	452,133
Investment Income:	
Net appreciation in value of investments	109,655
Dividends on SBC common shares	119,984
Interest	47,096
Transfer from SBC Savings Plan	143
	276,878
Total Net Additions	729,011
Deductions from Net Assets:	
Administrative expenses	7,541
Distributions	494,825
Total Deductions	502,366
Net Assets Available for Benefits, December 31, 2004	\$ 4,953,980

See Notes to Financial Statements.

**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 Inc. (SBC or the Company) to provide a convenient way for eligible employees to save for retirement on a regular and long-term basis. The majority of eligible employees are represented by the Communications Workers of America or the International Brotherhood of Electrical Workers. The following description of the Plan provides only general information. The Plan has detailed provisions covering participant eligibility, participant allotments from pay, participant withdrawals, participant loans, employer contributions and related vesting of contributions and Plan expenses. The Plan 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).

Participants can invest their contributions in one or more of the following funds in five dollar or 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 an 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. At the end of the year, dividends held in the DFA are paid out to the participant. Interest earned on dividends held in the DFA will be paid into the SBC Shares Fund. During 2004, Plan participants elected to receive \$23,395 in dividend distributions. This amount is 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 its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event that 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 on the basis of the closing price as reported on the New York Stock Exchange; contracts with insurance companies and other financial institutions at principal plus reinvested interest which approximates fair value; common collective 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 U.S. generally accepted accounting principles, 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.





## SBC SAVINGS AND SECURITY PLAN

## NOTES TO FINANCIAL STATEMENTS (continued)

(Dollars in Thousands)

3. Investments - Investments representing 5% or more of Plan net assets at either December 31, 2004 or 2003 were:

	2004	2003
<u>Employee Stock Ownership Plan *</u>		
SBC common shares	\$ 1,077,580	\$ 1,034,075
<u>SBC Shares Fund</u>		
SBC common shares	\$ 1,399,224	\$ 1,507,927
<u>Large Cap Stock Fund</u>		
Barclays Global Investors Equity Index Fund F	\$ 597,678	\$ 528,101
<u>Asset Allocation Fund</u>		
Barclays Global Investors U.S. Tactical	\$ 253,375	\$ 228,188

\* Nonparticipant-directed

During 2004, the Plan's investments (including gains and losses on investments bought and sold, as well as held during the year) appreciated (depreciated) in value as follows:

Common Stock	\$ (30,071)
Common Collective Trusts	139,726
Total	\$ 109,655

The Interest Income Fund consists of contracts with various financial institutions and insurance companies that promise to repay principal plus accrued income at contract maturity, subject to the creditworthiness of the issuer. Interest crediting rates are generally established when the contract is purchased and are periodically reset. For the years ended December 31, 2004 and 2003, the average interest rates earned on these contracts were 4.07% and 4.44%. At December 31, 2004, the fixed crediting interest rates on these contracts ranged from 1.66% to 7.62%. At December 31, 2003, the fixed crediting interest rates on these contracts ranged from 3.24% to 7.97%. No valuation reserves were recorded to adjust contract amounts as of December 31, 2004 or 2003.

The Interest Income Fund invests in both guaranteed investment contracts (GICs) and synthetic investment contracts (SICs). SICs differ from GICs in that the assets supporting the SICs are owned by the Plan. A bank or insurance company issues a wrapper contract that allows participant directed transactions to be made at contract value. Wrapper contracts are valued as the difference between the fair value of the supporting 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 \$776,475 and \$778,091 at December 31, 2004 and 2003.

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 investment securities will occur in the near term and that such change could materially affect the amounts reported in the statements of net assets available for benefits and participant account balances.

## SBC SAVINGS AND SECURITY PLAN

## NOTES TO FINANCIAL STATEMENTS (continued)

(Dollars in Thousands)

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

	2004	2003
<u>Assets</u>		
SBC common shares	\$ 1,077,580	\$ 1,034,075
Temporary cash investments	1,223	4,069
Dividends and interest receivable	4	2
Receivable for investments sold	423	603
Total Assets	1,079,230	1,038,749
<u>Liabilities</u>		
Administrative expenses payable	695	430
Payable for investments purchased	-	3,305
Total Liabilities	695	3,735
Net Assets Available for Benefits	\$ 1,078,535	\$ 1,035,014

	2004
Net Assets Available for Benefits, December 31, 2003	\$ 1,035,014
Employer contributions <sup>1</sup>	156,440
Interest income	26
Transfers from SBC Savings Plan	46
Net depreciation in fair value of investments	(10,586)
Administrative expenses	(1,641)
Distributions	(84,191)
Transfers to other fund(s)	(16,573)
	43,521
Net Assets Available for Benefits, December 31, 2004	\$ 1,078,535

<sup>1</sup> Employer contributions includes forfeitures allocated from the SBC Shares Fund.



**SBC SAVINGS AND SECURITY PLAN**

**NOTES TO FINANCIAL STATEMENTS (continued)**

**(Dollars in Thousands)**

5. Tax Status - The Plan has received a determination letter from the Internal Revenue Service dated March 25, 2004, stating that the Plan is qualified under Section 401(a) of the Internal Revenue Code (IRC) and, therefore, the related trust is exempt from taxation. Once qualified, the Plan is required to operate in conformity with the IRC to maintain its qualification. The Company has indicated that it will take the 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:

	<b>2004</b>	2003
Net Assets Available for Benefits per the financial statements	<b>\$4,953,980</b>	\$4,727,335
Less: Distribution payable to participants	<b>(2,672)</b>	(5,022)
Net Assets Available for Benefits per the Form 5500	<b>\$4,951,308</b>	\$4,722,313

The following is a reconciliation of benefits paid to participants per the financial statements to the Form 5500 for the year ended December 31, 2004:

Distributions to participants per the financial statements	<b>\$494,825</b>
Add: Distributions payable to participants at December 31, 2004	<b>2,672</b>
Less: Distributions payable to participants at December 31, 2003	<b>(5,022)</b>
Distributions to participants per the Form 5500	<b>\$492,475</b>

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

**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, 2004

(Dollars in Thousands)

<b>Identity of Issue</b>	<b>Description of Investment</b>	<b>Cost</b>	<b>Current Value</b>
<b><u>Employee Stock Ownership Plan</u></b>			
* SBC common shares	41,815,304 shares	\$ 940,997	\$ 1,077,580
* Mellon Trust of New England, National Association	Temporary cash investment	1,222	1,223
Total Employee Stock Ownership Plan		942,219	<b>1,078,803</b>
<b><u>SBC Shares Fund</u></b>			
* SBC common shares	54,296,603 shares		1,399,224
* Mellon Trust of New England, National Association	Temporary cash investment		21,755
Total SBC Shares Fund		**	<b>1,420,979</b>
<b><u>Bond Fund</u></b>			
* Barclays Global Investors Intermediate Government/Credit Bond Index Fund F	7,714,746 units	**	<b>130,302</b>
<b><u>Large Cap Stock Fund</u></b>			
* Barclays Global Investors Equity Index Fund F	35,095,625 units	**	<b>597,678</b>
<b><u>Interest Income Fund</u></b>			
Bank of America Wrapper	Synthetic GIC #99-086, 4.04%, ***		(1,364)
Capital Fin Asset Trust	Large Equipment Loan		2,024
Chase Manhattan Auto Owner Trust	Prime Auto		2,897
Commercial Mortgage Asset Trust	Conduit		2,455
Credit Suisse First Boston	Conduit		5,128
Credit Suisse First Boston	Collateralized Mtg Obligation		
	Commercial/Corporate		8,122
Fleet Credit Card MT	Bank Credit Card		1,987
Federal Home Loan Mortgage Company	Agency Debenture		4,421
Federal Home Loan Mortgage Multiclass	Agency PAC		3,572
Federal National Mtg Assn. - Adj Rate Mtg.	Agency Hybrid		6,159
Federal National Mtg Assn. - GTD REMIC.	FNMA Remic		6,794

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Federal National Mtg Assn. - GTD REMIC.	Home Equity Agency	1,897
Federal National Mtg Assn. - GTD REMIC.	Agency PAC	1,727
Household Private Lab MT2	Retail Credit Card	5,213
MBNA Master Credit Card Trust	Monoline Credit Card	1,685



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SBC SAVINGS AND SECURITY PLAN

EIN 43-1301883, PLAN NO. 004

SCHEDULE H, LINE 4i - SCHEDULE OF ASSETS (HELD AT END OF YEAR) (continued)

December 31, 2004

(Dollars in Thousands)

Identity of Issue	Description of Investment	Cost	Current Value
Marriot Vacation Club Owner	Collateralized Mtg Obligation Commercial/Corporate		2,011
Nordstrom Pvt Lbl CC MT	Retail Credit Card		5,129
Prime Credit Card MT	Retail Credit Card		5,167
Residential Funding Mtg Sec	Home Equity 2nd Monoline		5,938
United States Treasury	Treasury Note		4,905
United States Treasury	Treasury Note		20,393
Cash on Hand	Cash		1,291
			97,551
IXIS Financial	Non-Participating Synthetic #436-01, 7.00%, ***		4,026
IXIS Financial	Non-Participating Synthetic #436-02, 7.01%, ***		4,057
JP Morgan Chase Wrapper	Synthetic GIC #426424-T, 4.16%, ***		(1,901)
Amex Optima CC MT	Monoline Credit Card		3,087
Citibank Credit Card IT	Bank Credit Card		5,060
Chase Credit Card MT	Bank Credit Card		3,725
Capital One Master Trust	Monoline Credit Card		1,034
Credit Suisse First Boston	Conduit		2,976
Daimler Chrysler NA hldg	Prime Auto		1,494
Daimler Chrysler NA hldg	Prime Auto		8,040
Federal Home Loan Mortgage Multiclass	Agency NAS		5,816
Federal National Mtg Assn. - Adj Rate Mtg.	Agency Hybrid		5,116
Federal National Mtge Assn	MBS AGY FIX		8,089
Federal National Mtge Assn	Agency Debenture		20,449
Federal National Mtge Assn GTD Remic	Agency PAC		3,208
Federal National Mtge Assn Whole Loan	Agency RP ARM		3,556
Household Private lbl. CC	Retail Credit Card		4,170
John Deere Owner Trust	Large Equipment Loan		6,874
Lehman Brothers Comm Conduit Mtg.	Conduit		1,040
Navistar Financial	NonPrime Auto		6,831
USAA Auto Owner Trust	Prime Auto		7,866
United States Treasury	Treasury Note		1,999
WFS Financial Owner Trust	SubPrime Auto		3,756
Cash on Hand	Cash		1,305
			103,590
Metropolitan Life Wrapper	Synthetic GIC #28434, 4.11%, ***		(378)
Amex Optima CC MT	Monoline Credit Card		5,601



## SBC SAVINGS AND SECURITY PLAN

EIN 43-1301883, PLAN NO. 004

## SCHEDULE H, LINE 4i - SCHEDULE OF ASSETS (HELD AT END OF YEAR) (continued)

December 31, 2004

(Dollars in Thousands)

Identity of Issue	Description of Investment	Cost	Current Value
Citibank Credit Card IT	Bank Credit Card		4,032
Chase Manhattan Auto Owns Trust	Conduit		2,455
Federal Home Loan Mtg Multiclass	Agency NAS		8,585
Federal National Mtg. Assn.	Agency MF BLN		5,373
Federal National Mtg. Assn. - ACES	Agency MF FIX		4,744
Federal National Mtg Assn GTD Remic	Home Equity Agency		4,151
Federal National Mtg Assn Whole Loan	Agency ARM AA		1,711
Honda Auto Receivables	Prime Auto		8,455
Household Auto Trust	SubPrime Auto		306
Household Auto Trust	SubPrime Auto		6,232
MBNA Master Credit Card Trust	Monoline Credit Card		1,541
Nissan Auto Owners Trust	Prime Auto		7,945
Nomura Asset Securities Corporation	Conduit		8,145
Toyota Auto Owners Trust	Prime Auto		1,910
Union Acceptance Corp	SubPrime Auto		2,784
United States Treasury	Treasury Note		6,867
WFS Financial Owner Trust	SubPrime Auto		3,756
Cash on Hand	Cash		2,252
			86,652
Monumental	Insurance Company General Account MDA00217FR, 7.17%, ***		5,997
Monumental Wrapper	Synthetic GIC #MDA00292TR, 4.53%, ***		(1,608)
Asset Backed Funding Certificates	Home Equity Senior Sub		2,062
Ameritrust Mtg Securities Inc	Home Equity Senior Sub		2,942
Carmax Auto Owner Trust	Nonprime Auto		464
Caterpillar Financial Asset	Large Equipment Loan		5,477
Capital One Auto	Subprime Auto		