SBC COMMUNICATIONS INC

FORM 10-K
(Annual Report)

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FORM 10-K

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

(Mark One)

|X| **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For fiscal year ended December 31, 2002

OR

|_| **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from_____to

Commission File Number: 1-8610

SBC COMMUNICATIONS INC.

Incorporated under the laws of the State of Delaware
I.R.S. Employer Identification Number 43-1301883

175 E. Houston, San Antonio, Texas 78205-2233
Telephone Number 210-821-4105

Securities registered pursuant to Section 12(b) of the Act: (See attached Schedule A)

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes _X_ No ___

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ( )

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2).
Yes _X_ No ___

Based on the closing price of $30.50 per share on June 28, 2002, the aggregate market value of our voting and non-voting common stock held by non-affiliates was $101.4 billion.

As of February 28, 2003, 3,320,400,321 shares of Common Stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

(1) Portions of SBC Communications Inc.'s Annual Report to Shareowners for the fiscal year ended December 31, 2002 (Parts I and II).

(2) Portions of SBC Communications Inc.'s Notice of 2003 Annual Meeting and Proxy Statement dated on or about March 14, 2003 (Parts III and IV).

SCHEDULE A

Securities Registered Pursuant To Section 12(b) Of The Act:

Title of each class	**Name of each exchange on which registered**
Common Shares (Par Value $1.00 Per Share)	New York, Chicago and Pacific Stock Exchanges
6.875% Fifty Year Southwestern Bell Telephone Company Debentures, Due March 31, 2048	New York Stock Exchange
7.00% Forty Year SBC Communications Inc. Notes, Due June 1, 2041	New York Stock Exchange

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PART I

ITEM 1. BUSINESS

GENERAL

SBC Communications Inc. (SBC) is a holding company incorporated under the laws of the State of Delaware in 1983 and has its principal executive offices at 175 E. Houston, San Antonio, Texas 78205-2233 (telephone number 210-821-4105). SBC maintains an internet site at http://www.sbc.com. (This web site address is for information only and is not intended to be an active link or to incorporate any web site information into this document.) We make available, free of charge, on our website our annual report on Form 10-K, our quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports as soon as reasonably practicable after such reports are electronically filed with the SEC.

Throughout this document SBC is referred to as "we" or "SBC".

History

SBC was formed as one of several regional holding companies created to hold AT&T Corp.'s (AT&T) local telephone companies. On January 1, 1984, SBC was spun-off from AT&T pursuant to an anti-trust consent decree, becoming an independent publicly traded telecommunications services provider. At formation, we primarily operated in five southwestern states. SBC subsidiaries merged with Pacific Telesis Group (PAC) in 1997, Southern New England Telecommunications Corporation (SNET) in 1998 and Ameritech Corporation (Ameritech) in 1999, thereby expanding our wireline operations as the incumbent local exchange carrier into a total of 13 states. Our services and products have been marketed under several brands including SBC Ameritech, SBC Nevada Bell, SBC Pacific Bell, SBC SNET, SBC Southwestern Bell, and, through our joint venture with BellSouth Corporation (BellSouth), Cingular Wireless (Cingular). In December 2002, in order to further establish the public's awareness of SBC as a national telecommunications provider, we moved our regional SBC brands to a single brand, SBC, for all states except Connecticut.

Scope

We rank among the largest providers of telecommunications services in the United States and the world. Through our subsidiaries, we provide communications services and products in the United States and have investments in more than 25 countries. We offer our services and products to businesses and consumers, as well as other providers of telecommunications services.

The services and products that we offer vary by market, and include: local exchange services, wireless communications, long-distance services, internet services, telecommunications equipment, and directory advertising and publishing. We group our operating subsidiaries as follows, corresponding to our operating segments for financial reporting purposes:

- wireline subsidiaries provide primarily land and wire based services,
- wireless subsidiaries hold our investment in Cingular, which provides primarily radio wave based services,
- directory subsidiaries provide services related to directory advertising and publishing,
- international subsidiaries hold investments in primarily foreign entities outside of the United States, and
- other subsidiaries provide corporate operations, and prior to 2001, primarily provided security monitoring and cable television services.

Our principal wireline subsidiaries provide telecommunications services in thirteen states: California, Texas, Illinois, Michigan, Ohio, Missouri, Connecticut, Indiana, Wisconsin, Oklahoma, Kansas, Arkansas and Nevada (13-state area). Wireline local exchange services offered in the 13-state area are provided through regulated subsidiaries which operate within authorized regions (in-region) subject to regulation by each state in which they operate and by the Federal Communications Commission (FCC). Additional information relating to regulation is contained under the heading "Government Regulation" below and in the 2002 SBC Annual Report to Shareowners under the heading "Operating Environment and Trends of the Business", and is incorporated herein by reference pursuant to General Instruction G(2).

InterLATA Long-distance

We offer landline interLATA (traditional) long-distance services to customers in selected areas outside our wireline subsidiaries' operating areas. Further, we offer interLATA wireline long-distance services to customers in Texas, Kansas, Oklahoma, Arkansas, Missouri, California and Connecticut. In December 2002, the Public Utilities Commission of Nevada approved our Nevada wireline subsidiary's application to enter the interLATA long-distance market in Nevada and we filed for approval from the FCC on January 14, 2003. In January 2003, the Michigan Public Service Commission approved our Michigan wireline subsidiary's application to enter the interLATA long-distance market in Michigan and we filed for approval from the FCC on January 16, 2003. The FCC must issue its decision within 90 days of our filings, if it deems our filings complete. Finally, we continue to seek long-distance approval in our other remaining in-region states and have filed applications with state commissions in Illinois, Indiana, Ohio and Wisconsin.

Broadband Initiative

In October 1999, we announced plans to upgrade our network to make broadband services available to approximately 80% of our U.S. wireline customers over the four years through 2003 (Project Pronto). Due to the weakening U.S. economy and an adverse regulatory environment, in October 2001 we announced a scale-back in our broadband deployment plans. Specifically, burdensome FCC and state commission regulations regarding our DSL network have added significantly to our costs and delayed our ability to earn a profit on DSL service. Our cable modem competitors are not subject to these regulations. This adverse regulatory environment was the primary reason we decided to slow the build-out of our broadband network. We expect to spend significantly less on capital expenditures due to this scale-back. Despite this scale-back, our DSL lines continue to grow and were approximately 2,199,000 at December 31, 2002 compared to 1,333,000 at the end of 2001 and we expect DSL to achieve profitability in early 2004. Our addressable broadband market included 66% of our consumer and small business locations at December 31, 2002.

The FCC began its review of the rules for the provision of domestic broadband services by incumbent local carriers or their affiliates in December 2001. The FCC is reviewing broadband services offered over cable, satellite and wireless platforms in addition to traditional wireline offerings. In February 2002, the FCC issued a notice of proposed rulemaking tentatively concluding that wireline broadband access services are information services rather than telecommunications services, which would result in less regulation. The FCC also is considering eliminating the requirement that wireline telephone companies provide the transmission component of broadband internet access services as stand-alone telecommunications services and whether it should adopt an alternative broadband access requirement for internet service providers. Cable operators have no obligation to provide third-party internet service providers access to their broadband networks at this time, although the FCC has initiated a proceeding to consider the issue.

In December 2002, the FCC ruled that advanced services, such as DSL, provided through one of our advanced services subsidiaries, are not subject to tariff regulations and cost study requirements. However, we are still required to retain cost data and offer our retail advanced services for resale at a discount. This ruling should allow us to respond more quickly to offerings by unregulated competitors. The FCC is expected to complete its broadband review in mid-2003 and the effect of the review on our results of operations and financial position cannot be determined at this time. In a separate proceeding, the FCC addressed other broadband issues; see "FCC Triennial Review" in "Recent Developments" below.

Wireless

Cingular, our wireless joint venture with BellSouth, began operations in October 2000. Cingular serves approximately 22 million wireless cellular and PCS subscribers and is the second-largest provider of mobile wireless voice and data communications services in the United States, based on the number of wireless subscribers. Cingular has access to licenses to provide cellular or PCS wireless communications services covering an aggregate population of potential subscribers, referred to as "POPs", of approximately 231 million, or approximately 81% of the U.S. population, including 45 of the 50 largest U.S. metropolitan areas.

Cingular's priorities for 2003 include promotion of the Cingular brand to expand its customer base profitably; continued realization of revenue and cost synergies offered by its formation; increasing the capacity, speed and functionality of its network through the continued rollout of wireless data services by overlaying Global System for Mobile Communications (GSM) voice, which is the standard digital cellular phone technology used in Europe and other countries around the world, and General Packet Radio Service (GPRS) high-speed data technology over its existing networks; development and promotion of advanced wireless data applications over multiple communications devices; and continued expansion of its existing footprint and network capacity by obtaining access to additional spectrum, primarily through spectrum exchanges, purchases, mergers or acquisitions.

BUSINESS OPERATIONS

Operating Segments

Our segments are strategic business units that offer different products and services and are managed accordingly. As required by U.S. generally accepted accounting principles (GAAP), our operating segment results follow our internal management reporting. We evaluate performance based on income before income taxes adjusted for special items. We have five reportable segments that reflect the current management of our business: (1) wireline; (2) wireless; (3) directory; (4) international; and (5) other.

Additional information about our segments, including financial information and special items, is included under the heading “Segment Results” on pages 9 through 17 and in Note 4 of the 2002 SBC Annual Report to Shareowners and is incorporated herein by reference pursuant to General Instruction G(2).

Wireline

Wireline is our largest operating segment, providing approximately 74% of 2002 revenues from all our segments. Our wireline segment operates as both a retail and wholesale seller of communication services. We provide landline telecommunications services, including local, network access, data, long-distance services, internet services, and customer premises and private branch exchange (PBX) equipment. Our landline telecommunications subsidiaries serve approximately 31.4 million retail consumer, 19.5 million retail business, 5.7 million wholesale and 0.5 million other access lines, for a total of 57.1 million access lines in our 13-state area.

Services and Products

We divide our wireline services into four product-based categories – voice, data, long-distance and other.

Voice - Voice includes traditional local service provided to retail customers and wholesale access to our network and individual network elements provided to competitors. Voice also includes vertical services (described below), fees to maintain wire located inside customer premises, pay telephones, and other miscellaneous voice products.

Vertical services are enhanced telephone services available to retail customers such as Caller ID, Call Waiting, and voice mail. Customers that subscribe to these services can have the number and/or name of callers displayed on their phone, be signaled that additional calls are incoming, and send and receive voice messages. These services are not regulated by the FCC and are generally more profitable than basic local phone service.

Data - Data includes traditional products, such as switched and dedicated transport, internet access and network integration, and data equipment sales.

Switched Transport services transmit data using switching equipment to transfer the data between multiple lines before reaching its destination. Dedicated Transport services use a single direct line to transmit data between destinations. Integrated Services Digital Network (ISDN), Dedicated Frame Relay, DSL, Digital Services and Synchronous Optical Network (SONET) are examples of Dedicated Transport services. ISDN transmits voice, video, and data over a single line in support of a wide range of applications, including internet access. Frame Relay is a routing technology that breaks a data signal into individual pieces of data to travel at high speeds and then recombines the data prior to arriving at its destination. DSL is a digital modem technology that converts existing twisted-pair telephone lines into access paths for multimedia and high-speed data communications to the Internet or private networks. DSL allows customers to simultaneously make a phone call and access information via the Internet or an office local area network. Digital Services use dedicated digital circuits to transmit digital data at various high rates of speed. SONET provides customer access to our backbone network at various high speeds.

Network integration services include installation of business data systems, local area networking, and other data networking offerings. Internet access services include a wide range of products for residences and businesses, varying by market. Internet services offered include basic dial-up access service, dedicated access, web hosting, e-mail, and high-speed access services.

Prodigy Acquisition

During 2000, we formed a relationship with Prodigy Communications Corporation (Prodigy) that combined our residential and small business internet operations. In the fourth quarter of 2001, we acquired Prodigy. Additional financial information on the Prodigy acquisition is contained in Note 2 of the 2002 SBC Annual Report to Shareowners and is incorporated herein by reference pursuant to General Instruction G(2).

Yahoo! Alliance

In November 2001, we formed a strategic alliance with Yahoo! to provide co-branded broadband and dial-up service to residential customers nationwide. SBC and Yahoo! expanded the alliance in April 2002 to include co-branded broadband and dial-up services designed for small businesses. During the second quarter of 2002, the companies launched SBC Yahoo! Dial - a national dial-up internet service for residential users. During the third quarter, the companies launched SBC Yahoo! DSL for residential customers in SBC's 13-state region. SBC and Yahoo! plan to launch co-branded services for small businesses in 2003.

Cisco Agreement

In December 2002, we formed a strategic marketing and sales agreement with Cisco Systems Inc. (Cisco) to provide business services that will combine Cisco's equipment and our transport and integration services. We also intend to use select Cisco technology in our network infrastructure to deliver new services. Customers will be able to cost-effectively outsource these business services and SBC service centers will serve as a single point of contact.

Long-distance voice - Long-distance voice consists of all interLATA (traditional long-distance) and intraLATA (local toll) wireline revenues, including calling card and 1-800 services. Federal regulation prohibits us from providing interLATA wireline long-distance services in six of our 13 in-region states. We provide interLATA wireline long-distance to our customers in Texas, Kansas, Oklahoma, Arkansas, Missouri, California and Connecticut. In addition, since 1996, we have offered interLATA wireline long-distance services to customers in selected areas outside our 13-state region.

Other - Customer premises equipment and other equipment sales range from single-line and cordless telephones to sophisticated digital PBX systems. PBX is a private telephone switching system, typically used by businesses and usually located on a customer's premises, which provides intra-premise telephone services as well as access to our network.

Wireless

Our wireless segment provides domestic wireless telecommunications services, including local, long-distance and roaming services. Wireless services and products offered also include certain enhanced services, paging services and wireless equipment. Due to the contribution of substantially all of our domestic wireless operations to Cingular (discussed below), reported operating revenues and expenses do not include revenues or expenses from Cingular; instead we reflect our 60% share of its net income as equity in net income of affiliates. Consequently, on a reported basis, our Wireless segment had no operating revenues.

While our reported operating revenues do not include Cingular's results, we do include 60% of Cingular's revenues and expenses (which equals our economic ownership percentage) when we analyze our operating segment results. On that segment basis, the wireless segment provided approximately 17% of 2002 revenues from all our segments.

Cingular Wireless Joint Venture

In April 2000, we formed a joint venture with BellSouth to provide domestic wireless services nationally. In October 2000, most of our and BellSouth's wireless operations were contributed to Cingular, which then began operations. Economic ownership in Cingular is held 60% by us and 40% by BellSouth. We have equal voting rights and representation on the board of directors that controls Cingular. Because we share control equally, we use the equity method of accounting to account for our interest.

Cingular faces substantial competition in all aspects of its business as competition continues to increase in the wireless communications industry. Under current FCC rules, six or more PCS licensees, two cellular licensees and one or more enhanced specialized mobile radio licensees may operate in each of Cingular's markets. On average, Cingular has four to five other wireless competitors in each of its markets and competes for customers based principally on price, service offerings, call quality, coverage area and customer service.

Cingular's competitors are principally five national (Verizon Wireless, AT&T Wireless, Sprint PCS, Nextel Communications and T-Mobile) and a larger number of regional providers of cellular, PCS and other wireless communications services. Cingular also competes with resellers and wireline service providers. Moreover, Cingular may experience significant competition from companies that provide similar services using other communications technologies and services. While some of these technologies and services are now operational, others are being developed or may be developed in the future.

Additional information on Cingular is contained in the 2002 SBC Annual Report to Shareowners under the heading "Expected Growth Areas - Wireless" beginning on page 19 and is incorporated herein by reference pursuant to General Instruction G(2).

Directory

Our directory segment includes advertising, Yellow and White Pages directories and electronic publishing. The directory segment provided approximately 9% of 2002 revenues from all our segments. Our directory subsidiaries operate primarily in our 13-state region.

International

Our international segment includes all of our investments with primarily international operations. We have direct or indirect interests in businesses located in more than 25 countries and as of December 31, 2002, have international investments with a carrying value of approximately $7 billion (including approximately $700 million for our interest in Cegetel, which we sold in January 2003 for approximately $2.3 billion, and approximately $300 million in marketable equity securities of BCE, Inc.(BCE).) Our international investments include local and long-distance telephone services, wireless communications, voice messaging, data services, video services, internet access, telecommunications equipment, and directory publishing. We report earnings from this segment as equity in net income of affiliates rather than as operating revenue because this segment consists almost exclusively of equity investments rather than direct operations. Revenues from our international segment are less than 1% of 2002 revenues from all our segments.

We describe below our foreign equity investments and significant transactions relating to these investments. Financial information about this segment is included in Note 6 of the 2002 SBC Annual Report to Shareowners and is incorporated herein by reference pursuant to General Instruction G(2).

Europe

We hold a 41.6% stake in TDC A/S (TDC), Denmark's primary full-service communications operator. TDC has investments in full service communications providers in Switzerland with a 78.5% investment in Sunrise, and in Belgium with a 16.5% investment in Belgacom S.A. (Belgacom). TDC has investments in wireless services in the Ukraine, Lithuania, Poland, Austria and Germany. TDC also has investments in communications providers in the Czech Republic, Hungary, Finland, Norway and Sweden. We have the right to elect six of twelve members of the TDC Board of Directors, including the Chairman, who would cast any tie-breaking vote.

In January 2001, TDC acquired a majority interest in diAx A.G (diAx), a wireless and long-distance provider in Switzerland owned by SBC International and diAx Holdings. In the first quarter of 2003, TDC acquired the remaining shares from diAx Holdings, pursuant to an agreement negotiated at the time of the original transaction.

In Belgium, we hold a 17.5% stake in Belgacom, that country's primary full-service telecommunications operator, and effectively own 24.4% of Belgacom when our direct stake is combined with the stake we hold indirectly through TDC. With approximately 4.7 million access lines and more than 3.5 million cellular customers, Belgacom provides local, long-distance, cellular and other communications services and offers directories and security services. During 2001, Belgacom entered into an agreement with an unaffiliated special purpose entity (SPE) that allowed Belgacom, at its discretion, the option to sell portions of its Netherlands wireless operations to the SPE in unspecified amounts until the end of 2002. The SPE had the right to put the investment to a subsidiary of Deutsche Telekom. During 2002, Deutsche Telekom issued an irrevocable call option notice calling all shares of the Netherlands wireless operations that were held by Belgacom and TDC. The transaction closed in September 2002.

In 2002, we agreed to sell to Vodafone Group PLC (Vodafone) our 15% equity interest in Cegetel S.A. (Cegetel), a joint venture that owns 80% of the second-largest wireless provider in France. The transaction closed in January 2003. Additional information on this transaction is contained in Note 2 of the 2002 SBC Annual Report to Shareowners and is incorporated herein by reference pursuant to General Instruction G (2).

North America

In the second quarter of 2002, we entered into two agreements with Bell Canada Holdings Inc. (Bell Canada): (1) to redeem a portion of our ownership in Bell Canada, representing approximately 4% of the company and (2) an agreement that gave BCE the right to purchase our remaining interest in Bell Canada, representing approximately 16% of the company, during the fourth quarter of 2002. Bell Canada redeemed our 4% interest in the second quarter of 2002. BCE exercised its right to purchase our remaining 16% interest in Bell Canada during the fourth quarter of 2002. Additional information on these transactions is contained in Note 2 of the 2002 SBC Annual Report to Shareowners and is incorporated herein by reference pursuant to General Instruction G(2).

We own a 7.6% equity share in Teléfonos de México, S.A. de C.V. (Telmex), Mexico's largest national telecommunications provider of wireline services. Telmex operates approximately 14.5 million access lines. Through our relationship, we have worked with Telmex to develop an advanced network, and have helped Telmex achieve its goal of providing enhanced telephone service throughout Mexico.

We are a member of a consortium that holds all of the class AA shares of Telmex stock, representing voting control of the company. Another member of the consortium, Carso Global Telecom, S.A. de C.V. (Carso), has the right to appoint a majority of the directors of Telmex.

In February 2002, U.S. trade officials announced that they would formally ask for a World Trade Organization (WTO) panel to investigate the allegation that Mexico has unfairly kept U.S. companies from competing in its $12 billion telecommunications market. U.S. trade officials requested the WTO create a Dispute Settlement Board in April 2002 and the WTO completed the panel selection in July 2002. Telmex expects that the panel findings will be made final and published in July 2003.

As of December 31, 2002, Telmex had approximately 70% of the long-distance market in Mexico. Telmex's share of international long-distance traffic may decline significantly when the proportional return mechanism expires. This mechanism guarantees Telmex the same percentage of incoming traffic as outgoing traffic. In 2002, Telmex and its competitors agreed to eliminate the proportional return mechanism and agreed on new settlement rates based on the point of destination or origination of the call. These rates will be in effect until January 2004, when the proportional return mechanism expires.

In 2000, Telmex spun-off its wireless and certain other operations to its shareowners as a separate business, América Móvil S.A. de C.V. (América Móvil), which serves more than 30 million wireless customers. We own a 7.6% interest in América Móvil.

We are a member of a consortium that holds all of the class AA shares of América Móvil stock, representing voting control of the company. Another member of the consortium, Carso, had the right to appoint a majority of the directors of América Móvil. In January 2002, Carso transferred its ownership interest in América Móvil to Americas Telecom S.A. de C.V., and with that the right to appoint a majority of the directors of América Móvil.

South America

In January 2002, we purchased from América Móvil its approximately 50% of Cellular Communications of Puerto Rico (CCPR) for cash and a note redeemable for our investment in Telecom Americas. We retained the right to settle the note by delivering Telecom Americas shares. This represented a forward sale of our interest in Telecom Americas. In connection with this transaction, we reviewed the values at which we would carry CCPR and our interest in Telecom Americas and recognized a charge of $390 million ($262 million net of tax) for the reduction of our direct and indirect book values to the value indicated by the transaction. We based this valuation on a contemporaneous transaction involving CCPR and an independent third party. The charges were recorded in both other income (expense) – net $(341) million and equity in net income of affiliates $(49) million. América Móvil exercised its option to acquire our shares of Telecom Americas in July 2002.

Africa/Middle East

We hold an 18% indirect ownership stake in Telkom S.A. Limited (Telkom), South Africa's largest local exchange and long-distance company. Currently, Telkom serves nearly 5.0 million access lines in South Africa, and also owns 50% of a second national wireless network serving more than 7.3 million wireless customers through Telkom's wireless subsidiary, Vodacom.

We own a 9% stake in Amdocs Limited (Amdocs), a major supplier of billing and customer service software used by telecommunications companies worldwide. Amdocs, a Guernsey Island corporation, has operations throughout the world with many of its programming support services located in Israel.

MAJOR CLASSES OF SERVICE

The following table sets forth the percentage of consolidated total reported operating revenues by any class of service that accounted for 10% or more of our consolidated total operating revenues in any of the last three fiscal years.

	Percentage of Consolidated Total Reported Operating Revenues		
	2002	2001	2000
Wireline Segment			
Voice	**57%**	58%	52%
Data	**22%**	21%	16%
Wireless Segment			
Wireless subscriber	**-%**	-%	10%
Directory Segment			
Directory advertising [1]	**10%**	10%	9%

1 Approximately 96%, 96% and 95% of directory advertising revenues were recorded in the Directory segment for 2002, 2001 and 2000. The remaining directory advertising revenues were recorded in the Wireline segment.

Voice and Data are included in the Wireline segment and each also exceeds 10% of the wireline segment's total operating revenues. Beginning in 2001, all of our wireless segment revenues are reported in equity in net income of affiliates in our consolidated financial statements because they are generated by Cingular. Directory advertising revenues are included in our directory segment's results of operations and are approximately 97% of directory's total operating revenues.

We analyze our wireless segment's results by including 60% of Cingular's revenues and expenses, an amount that equals our economic ownership percentage. The below table shows the effect on our other classes of services (shown in the above table) if 60% of Cingular's revenues are added to our total operating revenues.

	Percentage of Consolidated Total Segment Operating Revenues (including Cingular)		
	2002	2001	2000
Wireline Segment			
Voice	**48%**	49%	50%
Data	**19%**	18%	15%
Wireless Segment			
Wireless subscriber	**15%**	13%	12%

GOVERNMENT REGULATION

In our 13-state area, our wireline subsidiaries are subject to regulation by state commissions which have the power to regulate intrastate rates and services, including local, long-distance and network access services. Our wireline subsidiaries are also subject to the jurisdiction of the FCC with respect to interstate and international rates and services, including interstate access charges. Access charges are designed to compensate our wireline subsidiaries for the use of their network by other carriers.

Additional information relating to federal and state regulation of our wireline subsidiaries is contained in the 2002 SBC Annual Report to Shareowners under the heading “Regulatory Developments” beginning on page 20, and is incorporated herein by reference pursuant to General Instruction G(2).

IMPORTANCE, DURATION AND EFFECT OF LICENSES

Certain of our subsidiaries own or have licenses to various patents, copyrights, trademarks and other intellectual property necessary to conduct business. We also license other companies to use this intellectual property. We do not believe that the expiration of any of our intellectual property rights, or the nonrenewal of those rights, would have a material adverse affect on our results of operations.

MAJOR CUSTOMER

No customer accounted for more than 10% of our consolidated revenues in 2002, 2001 or 2000.

COMPETITION

Information relating to competition in each of our operating segments is contained in the 2002 SBC Annual Report to Shareowners under the heading “Competition” beginning on page 23, and is incorporated herein by reference pursuant to General Instruction G (2).

RESEARCH AND DEVELOPMENT

The majority of our research and development activities are related to our wireline segment. Applied research, technology planning and evaluation services are conducted at our subsidiary, SBC Technology Resources, Inc. We also have a research agreement with Telcordia Technologies, formerly Bell Communications Research, Inc. Research and development expenses were not material in 2002, 2001 or 2000.

EMPLOYEES

As of January 31, 2003, we employed approximately 175,400 persons. Approximately two-thirds of our employees are represented by the Communications Workers of America (CWA) and the International Brotherhood of Electrical Workers (IBEW).

RECENT DEVELOPMENTS

FCC Triennial Review On February 20, 2003, the FCC, in its Triennial Review proceeding, issued a press release describing general rules it approved concerning the obligations of incumbent local exchange carriers, such as our wireline subsidiaries, to make available network elements on an unbundled and subsidized basis. These rules will replace the FCC's previous unbundling rules, which have been vacated by the United States Court of Appeals for the District of Columbia (D.C. Court of Appeals). The FCC did not release a text of its decision prior to the filing of this Form 10-K and public information about the FCC's ruling is somewhat limited. Additional information about the order and its implications for SBC will be known once the text of the decision is released. Set forth below is a summary of what we now know about the decision.

The Triennial Review decision, rather than establishing a uniform national structure for unbundled network elements (UNEs) as mandated by the D.C. Court of Appeals in May 2002, largely defers decisions on UNEs to the states, including rules for below-cost unbundled network element-platform (UNE-P). The FCC is also revising rules regarding combinations of unbundled loop and dedicated transport elements. ("Impairment", when used below, has been defined by the FCC to mean an economic or operational barrier(s) to providing service; this term should not be confused with the GAAP term "impairment" used in a financial context in certain sections of our Annual Report.)

- **UNE-P** UNE-P is a combination of all of the network elements necessary to provide complete local service to a customer. To the extent that any one of those network elements is not required, the UNE-P itself cannot be required. From a practical perspective, the network element most relevant to the UNE-P is "switching", i.e., the routing of telephone calls or data. In its decision, the FCC declined to reach any definitive conclusions with regard to the switching element, instead leaving to each state to determine the extent, if any, to which unbundled switching must be provided. The FCC did, however, establish certain presumptions in this regard. Specifically, it presumed that competitors are not "impaired" in their ability to serve larger business customers (those using a high capacity loop facility) without access to unbundled switching. It presumed that competitors are "impaired" in their ability to serve other customers. The decision purportedly will set forth specific criteria that each state commission may apply to determine, on a "granular" basis, whether impairment actually exists in a particular market. The state commissions will have three months to overcome the presumption of a lack of impairment for larger business customers. They are given nine months to complete the "granular" analysis for other customers. If the analysis concludes that impairment does not exist, there will be a three-year transition period off below-cost UNE-P, but the FCC did not offer any further details about that transition.

- **Dedicated Transport** The FCC redefines dedicated transport to include only those transmission facilities connecting incumbents' switches or central offices, thus eliminating unbundling of entrance facilities (connections between the incumbent and competitor networks). The FCC concludes that competitive local exchange carriers are considered impaired if they do not have access to dark fiber (unused fiber that must be equipped with electronics before it can transmit a communications signal) and DS3 and DS1 capacity transport, except where alternative wholesale facilities are available. State commissions are to perform route-specific, "granular" analysis to determine if such alternative wholesale facilities exist for each of these services. Dark fiber and DS3 transport are also each subject to review by the state commissions to identify whether competing carriers are able to provide their own facilities. If state analysis determines that there is no impairment, incumbents will not be required to provide below-cost data transport services. (Data transport services, also referred to as "special access" services are a component of our wireline revenues.)

- **Enhanced Extended Links (EELs)** Incumbent local exchange carriers, such as our wireline subsidiaries, are currently required to provide combinations of unbundled loop and transport elements, i.e., EELs, to carriers that are using such combinations to provide a significant amount of local service. The Triennial Review decision apparently revises the test for determining when the "significant local service" test has been met. While the details of the new test have not been released, we do know that the decision eliminates the existing restriction on "commingling" UNEs with access services. The ability to order new combinations means that competitors, in some cases, can order unbundled loop and transport combinations without having first ordered them as special access services and then converting them to UNEs.

- **Broadband** The Triennial Review decision, as described in the FCC's press release, eliminates unbundling of certain telecommunications technology that is primarily used for transmitting data and high-speed internet access across telephone lines. For example, it eliminates unbundling of the packet-switching capabilities (a highly efficient method of transmitting data) of incumbents' local loops and eliminates unbundling of certain fiber-to-the-home (FTTH) loops. FTTH loops are fiber-optic loops that connect directly from carriers' networks to customers' premises. Traditional telephone lines are copper; fiber-optic lines are made of glass and can carry more information over far longer distances than copper. Under the new FCC rules, packet-switching and FTTH loops are not considered UNEs; therefore, our wireline subsidiaries will not be required to sell them to competitors at below-cost UNE prices. However, incumbents must continue to provide unbundled access to copper-loop and sub-loop lines and in areas where unregulated fiber-optic lines are installed in place of copper-loop lines, incumbents will be required to provide "narrowband service" (to be clarified in the decision text) unbundled access over the fiber-optic lines. Additionally, incumbents may face constraints on retiring copper-loop or sub-loop lines without prior state regulatory approval. Although our evaluation of this requirement depends on the scope and implementation standards included in the text of the FCC's decision, continued operation of copper lines that we would otherwise have retired may increase our future expenses and require us to reduce our future capital expenditure budget.

  Under the FCC's Line Sharing Order, incumbents, such as our wireline subsidiaries, were required to share, on an unbundled basis, the high-frequency portion of the local telephone lines with competitors so that competitors could offer DSL services on a national basis. As set forth in the FCC's press release, under the Triennial Review decision, this high-frequency portion of the telephone line is no longer considered a UNE. During a three-year period, competitive carriers will be required to pay an increasing amount for the services and transition existing customers to new arrangements.

- **UNE Pricing Rules** The decision apparently clarifies two components of the FCC UNE-pricing rules that govern the rates incumbents, such as our wireline subsidiaries, charge competitors for interconnection and leasing portions of the incumbents' telephone networks. First, it recommends that the cost of capital used in calculating UNE prices should reflect the risks associated with a competitive market; and second, it states that that the use of accelerated depreciation may present a more accurate measure of calculating economic depreciation. It appears that much of this portion of the decision consists of suggestions rather than mandates and it is not clear the extent to which the states will adhere to these guidelines; therefore, the effects of this portion of the decision on our financial position and results of operations are uncertain at this time.

- **Further Notice of Proposed Rulemaking (FNPR)** The Triennial Review decision opens a FNPR to seek comment on whether the FCC should modify its "pick-and-choose" rule that permits requesting competitive carriers to opt into individual portions of interconnection agreements without accepting all the terms and conditions of the agreements.

Due to the lack of detailed information about the new rules in the FCC's press release, we cannot analyze or quantify the effects of this decision until we review the text of the decision; however, the new unbundling rules will most likely create an even more uncertain and more complex regulatory environment for our wireline subsidiaries, possibly resulting in further reductions in capital expenditures and employment levels. As the new rules give each state commission the authority to determine which network elements are to be unbundled and to set UNE-P rules, the rules will likely vary by state as well as be subject to implementation and federal appeal on a state-by-state basis rather than uniform implementation and review at the federal level. Furthermore, several of the new rules, including the FCC's finding of presumed impairment for switching, or UNE-P, appear legally suspect. The D.C. Court of Appeals, in vacating the FCC's UNE Remand Order, mandated that the FCC apply a meaningful impairment standard when evaluating UNEs. However, in the Triennial Review decision, the FCC has provided rules that force incumbents to provide core facilities (i.e., switching and UNE-P) to competitors for at least another four years without any finding that competitors would be impaired without such facilities. Although some relief appears to have been provided by the broadband provisions of the FCC's Triennial Review decision, the decision may create increased uncertainty and we expect that the decision may have an overall unfavorable effect on our results of operations and financial position. We will provide further information, as it becomes available, in our 2003 Forms 10-Q. The Triennial Review decision is expected to be effective 30 days after official publication and likely will be appealed by various parties.

CAUTIONARY LANGUAGE CONCERNING FORWARD-LOOKING STATEMENTS

Information set forth in this report contains forward-looking statements that are subject to risks and uncertainties. We claim the protection of the safe harbor for forward-looking statements provided by the Private Securities Litigation Reform Act of 1995.

The following factors could cause our future results to differ materially from those expressed in the forward-looking statements:

- Adverse economic changes in the markets served by SBC or in countries in which SBC has significant investments.
- Changes in available technology and the effects of such changes including product substitutions and deployment costs.
- Continued weakness in the U.S. securities market and adverse medical cost trends.
- The final outcome of Federal Communications Commission proceedings, including the Triennial Review and other rulemakings, and judicial review, if any, of such proceedings, including issues relating to jurisdiction, unbundled network elements and platforms (UNE-Ps) and unbundled loop and transport elements (EELs).
- The final outcome of state regulatory proceedings in SBC's 13-state area, and judicial review, if any, of such proceedings, including proceedings relating to interconnection terms, access charges, universal service, UNE-Ps and resale rates, SBC's broadband initiative known as Project Pronto, service standards and reciprocal compensation.
- Enactment of additional state, federal and/or foreign regulatory laws and regulations pertaining to our subsidiaries and foreign investments.
- Our ability to absorb revenue losses caused by UNE-P requirements and maintain capital expenditures.
- The timing of entry and the extent of competition in the local and intraLATA toll markets in SBC's 13-state area and the resulting pressure on access line totals and operating margins.
- Our ability to develop attractive and profitable product/service offerings to offset increasing competition in our wireline and wireless markets.
- The ability of our competitors to offer product/service offerings at lower prices due to adverse regulatory decisions, including state regulatory proceedings relating to UNE-Ps.
- Additional delays in our entry into the in-region long-distance market.
- The issuance by the Financial Accounting Standards Board or other accounting oversight bodies of new accounting standards or changes to existing standards.
- The impact of the Ameritech transaction, including performance with respect to regulatory requirements, and merger integration efforts.
- The timing, extent and cost of deployment of Project Pronto, its effect on the carrying value of the existing wireline network and the level of consumer demand for offered services.
- The impact of the wireless joint venture with BellSouth, known as Cingular, including marketing and product-development efforts, access to additional spectrum, technological advancements and financial capacity.
- Decisions by federal and state regulators and courts relating to bankruptcies of industry participants.

Readers are cautioned that other factors discussed in this report, although not enumerated here, also could materially impact our future earnings.

ITEM 2. PROPERTIES

Our properties do not lend themselves to description by character and location of principal units. At December 31, 2002, approximately 99% of our property, plant and equipment was owned by our wireline subsidiaries. Network access lines represented approximately 39% of the wireline subsidiaries' investment in telephone plant; central office equipment represented approximately 42%; land and buildings represented approximately 9%; other equipment, comprised principally of furniture and office equipment and vehicles and other work equipment, represented approximately 7%; and other miscellaneous property represented approximately 3%.

Substantially all of the installations of central office equipment are located in buildings and on land that we own. Many garages, administrative and business offices and telephone centers are in leased quarters.

ITEM 3. LEGAL PROCEEDINGS

We are a party to numerous lawsuits, regulatory proceedings and other matters arising in the ordinary course of business. In our opinion, although the outcomes of these proceedings are uncertain, they should not have a material adverse effect on the company's financial position, results of operations or cash flows. As of the date of this report, we do not believe that any pending legal proceedings to which we or our subsidiaries are subject are required to be disclosed as material legal proceedings pursuant to this item.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of shareowners in the fourth quarter of the fiscal year covered by this report.

EXECUTIVE OFFICERS OF THE REGISTRANT
(As of March 14, 2003)

Name	Age	Position	Held Since
Edward E. Whitacre Jr.	61	Chairman and Chief Executive Officer	1/1990
John H. Atterbury III	54	Group President-Operations	11/2002
James W. Callaway	56	Group President	11/1999
William M. Daley	54	President	12/2001
James D. Ellis	59	Senior Executive Vice President and General Counsel	3/1989
Karen E. Jennings	52	Senior Executive Vice President - Human Resources and Communications	10/1998
James S. Kahan	55	Senior Executive Vice President - Corporate Development	7/1993
Forrest E. Miller	50	Group President - Corporate Planning	10/2002
Randall L. Stephenson	42	Senior Executive Vice President and Chief Financial Officer	8/2001
Rayford Wilkins, Jr.	51	Group President	6/2002

All of the above executive officers have held high-level managerial positions with SBC or its subsidiaries for more than the past five years, except for Mr. Daley. Mr. Daley was Vice Chairman and Senior Managing Director of Evercore Partners Inc. from May 2001 to December 2001. He was Chairman of the Gore/Lieberman Campaign from July 2000 to December 2000, and he was Secretary of Commerce from January 1997 to July 2000. Prior to that, he was a partner in the law firm of Mayer, Brown & Platt from 1993 to 1997. Executive officers are not appointed to a fixed term of office.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock is listed on the New York, Chicago and Pacific stock exchanges as well as the Swiss Exchange. Our stock is traded on the London Stock Exchange through the SEAQ International Markets facility. The number of shareowners of record as of December 31, 2002 and 2001 were 1,027,716 and 1,086,775. We paid dividends, on a quarterly basis, totaling $1.08 per share in 2002 and $1.025 per share in 2001. During 2002, non-employee directors acquired from SBC shares of common stock pursuant to the Non-Employee Director Stock and Deferral Plan. Under the plan, a director may make an annual election to receive all or part of his or her annual retainer or fees in the form of SBC shares or deferred stock units (DSUs) that are convertible into SBC shares. Each director also receives an annual grant of DSUs. During 2002 an aggregate of 93,113 SBC shares and DSUs were acquired by non-employee directors at prices ranging from $20.15 to $38.50, in each case the fair market value of the shares on the date of acquisition. The issuances of shares and DSUs were exempt from registration pursuant to Section 4(2) of the Securities Act.

Other information required by this Item is included in the 2002 SBC Annual Report to Shareowners under the headings "Quarterly Financial Information" on page 59, "Selected Financial and Operating Data" on page 4, and "Stock Trading Information" on the back cover, which are incorporated herein by reference pursuant to General Instruction G(2).

ITEM 6. SELECTED FINANCIAL AND OPERATING DATA

Information required by this Item is included in the 2002 SBC Annual Report to Shareowners under the heading "Selected Financial and Operating Data" on page 4 which is incorporated herein by reference pursuant to General Instruction G(2).

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

Information required by this Item is included in the 2002 SBC Annual Report to Shareowners on page 5 through page 30, which is incorporated herein by reference pursuant to General Instruction G(2).

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information required by this Item is included in the 2002 SBC Annual Report to Shareowners under the heading "Market Risk" on page 29, which is incorporated herein by reference pursuant to General Instruction G(2).

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Information required by this Item is included in the 2002 SBC Annual Report to Shareowners on page 31 through page 60, which is incorporated herein by reference pursuant to General Instruction G(2).

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

No changes in or disagreements with accountants have occurred on any accounting or financial disclosure matters during the period covered by this report.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information regarding executive officers required by Item 401 of Regulation S-K is furnished in a separate disclosure at the end of Part I of this report since the registrant did not furnish such information in its definitive proxy statement prepared in accordance with Schedule 14A. Other information required by this Item 10 is included in the registrant's definitive proxy statement, dated on or about March 14, 2003, under the heading "Board of Directors" beginning on page 10 which is incorporated herein by reference pursuant to General Instruction G(3).

ITEM 11. EXECUTIVE COMPENSATION

Information required by this Item is included in the registrant's definitive proxy statement, dated on or about March 14, 2003, under the headings "Compensation of Directors" from page 13 through page 14, and "Compensation Committee Interlocks and Insider Participation", "Executive Compensation" but not including the Report of the Human Resources Committee on Executive Compensation, "Pension Plans", and "Contracts with Management" from page 25 through page 40, which are incorporated herein by reference pursuant to General Instruction G(3).

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information required by this Item is included in the registrant's definitive proxy statement, dated on or about March 14, 2003, under the heading "Common Stock Ownership of Directors and Officers" on page 15, which is incorporated herein by reference pursuant to General Instruction G(3).

Equity Compensation Plan Information

The following table provides information as of December 31, 2002, concerning shares of SBC common stock authorized for issuance under SBC's existing equity compensation plans.

Equity Compensation Plan Information (1)

Plan Category	Number of securities to be issued upon exercisee of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	74,758,152	$37.11	65,103,556 (2)
Equity compensation plans not approved by security holders	118,869,021	$40.20	33,823,778 (3)
Total	**193,627,173**	**$39.00**	**98,957,334**

(1) In addition to the shares shown in the above table, certain stock options issued by companies acquired by SBC were converted into options to acquire SBC stock. As of December 31, 2002, there were 35,845,941 shares of SBC common stock subject to the converted options, having a weighted-average exercise price of $28.28. No further grants may be issued under the assumed plans.

(2) Included in the total are up to 5,959,100 shares that may be issued as restricted stock and 18,000,000 shares that may be issued pursuant to performance shares under the 2001 Incentive Plan.

Also included are up to 7,383,167 shares that may be purchased under the Stock Savings Plan (a deferred compensation and stock option plan) by mid-level and above managers through payroll deductions, together with limited matching shares for managers who do not receive matching contributions in the 401(k) plan and shares issuable upon reinvestment of dividend equivalents. The shares purchased are not delivered to the employee until after retirement, subject to certain accelerated delivery provisions. Shares relating to restricted stock and performance shares from the 2001 Incentive Plan may also be deferred under the Stock Savings Plan (but without matching shares and stock options). Pending delivery of the deferred shares, the managers earn dividend equivalents that are reinvested in additional Shares. The Stock Savings Plan also has a stock option component, for which 13,278,154 shares are included in the table for future issuance. For each share purchased with payroll deductions, the manager receives approximately two such stock options, each having a term of ten years, which may be limited upon termination of employment. The Stock Savings Plan was approved by shareowners in 1994. The plan was amended in 2000 to increase the number of shares available for purchase under the plan (including shares from the company match and reinvested dividend equivalents) and shares subject to options by 8,000,000 and 13,000,000, respectively. The amounts shown for approved plans in columns (a) and (c) include these additional shares. Shareowner approval was not required or obtained for the amendment.

(3) Plans that have not been approved by shareowners include the 1995 Management Stock Option Plan (1995 Plan), 2001 Stock Option Grant to Bargained-for and Certain Other Employees (Bargained-For Plan), and the Non-Employee Director Stock and Deferral Plan (Non-Employee Director Plan). The 1995 Plan and the Bargained-For Plan provide for grants of stock options to management employees (10 year terms) and Bargained-For employees (5 year terms), respectively, subject in each case to vesting requirements and shortened exercise terms upon termination of employment. Under the Non-Employee Director Plan, participants may elect to receive stock units in lieu of retainers and fees. In addition, each non-employee director receives an annual award of stock units equal in value to one and one-half times the annual retainer. Directors who become board members after November 21, 1997, also receive up to 10 annual grants of stock units equal to $13,000 each. The stock units are paid out in the form of SBC stock only after the termination of the employment of a director. Under the plan, 672,080 shares remain available under the plan and are included in the table.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information required by this Item is included in the registrant's definitive proxy statement, dated on or about March 14, 2003, under the heading "Compensation of Directors" from page 13 through page 14 and "Contracts with Management" from page 37 through page 40, which are incorporated herein by reference pursuant to General Instruction G(3).

ITEM 14. CONTROLS AND PROCEDURES

The company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed by the Company is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. The Chief Executive Officer and Chief Financial Officer have performed an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of March 14, 2003. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of March 14, 2003. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to March 14, 2003.

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) Documents filed as a part of the report:

	Page
(1) Report of Independent Auditors	*
Financial Statements covered by Report of Independent Auditors:	
Consolidated Statements of Income	*
Consolidated Balance Sheets	*
Consolidated Statements of Cash Flows	*
Consolidated Statements of Shareowners' Equity	*
Notes to Consolidated Financial Statements	*

* Incorporated herein by reference to the appropriate portions of the registrant's annual report to shareowners for the fiscal year ended December 31, 2002. (See Part II.)

	Page
(2) Financial Statement Schedules:	
II - Valuation and Qualifying Accounts	21

Financial statement schedules other than those listed above have been omitted because the required information is contained in the financial statements and notes thereto, or because such schedules are not required or applicable.

(3) Exhibits:

Exhibits identified in parentheses below, on file with the Securities and Exchange Commission (SEC), are incorporated herein by reference as exhibits hereto. Unless otherwise indicated, all exhibits so incorporated are from File No. 1-8610.

Exhibit Number	
3-a	Restated Certificate of Incorporation, filed with the Secretary of State of Delaware on June 30, 2000. (Exhibit 3-a to Form 10-K for 2000.)
3-b	Bylaws amended June 30, 2000. (Exhibit 3 to Form 8-K dated June 30, 2000.)
4-a	Pursuant to Regulation S-K, Item 601(b)(4)(iii)(A), no instrument which defines the rights of holders of long-term debt of the registrant or any of its consolidated subsidiaries is filed herewith. Pursuant to this regulation, the registrant hereby agrees to furnish a copy of any such instrument to the SEC upon request.
4-b	Guaranty of certain obligations of Pacific Bell Telephone Co. and Southwestern Bell Telephone Co. (Exhibit 4-d to Form 10-K for 1999.)
4-c	Guaranty of certain obligations of Ameritech Capital Funding Corp., Illinois Bell Telephone Co., Indiana Bell Telephone Co. Inc., Michigan Bell Telephone Co., The Ohio Bell Telephone Co., Pacific Bell Telephone Co., Southern New England Telecommunications Corp., The Southern New England Telephone Co., Southwestern Bell Telephone Co., Wisconsin Bell, Inc. (Exhibit 4-e to Form 10-K for 1999.)

10-a Short Term Incentive Plan.

10-b Supplemental Life Insurance Plan.

10-c Supplemental Retirement Income Plan.

10-d Senior Management Deferred Compensation Plan (effective for Units of Participation Having a Unit Start Date Prior to January 1, 1988).

10-e Senior Management Deferred Compensation Program of 1988 (effective for Units of Participation Having a Unit Start Date of January 1, 1988 or later).

10-f Senior Management Long Term Disability Plan. (Exhibit 10-f to Form 10-K for 1986.)

10-g Salary and Incentive Award Deferral Plan.

10-h Executive Health Plan, formerly the Supplemental Health Plan.

10-i Retirement Plan for Non-Employee Directors. (Exhibit 10-k to Form 10-K for 1997.)

10-j Form of Indemnity Agreement, effective July 1, 1986, between SBC and its directors and officers. (Appendix 1 to Definitive Proxy Statement dated March 18, 1987.)

10-k Forms of Change of Control Severance Agreements for officers of SBC and certain officers of SBC's subsidiaries (Approved November 21, 1997). (Exhibit 10-n to Form 10-K for 1997.)

10-l Stock Savings Plan.

10-m 1992 Stock Option Plan. (Exhibit 10-n to Form 10-K for 2001.)

10-n Officer Retirement Savings Plan. (Exhibit 10-q to Form 10-K for 1997.)

10-o 1996 Stock and Incentive Plan.

10-p Non-Employee Director Stock and Deferral Plan.

10-q Pacific Telesis Group Deferred Compensation Plan for Nonemployee Directors. (Exhibit 10gg to Form 10-K for 1996 of Pacific Telesis Group (Reg. 1-8609).)

10-q(i) Resolutions amending the Plan, effective November 21, 1997. (Exhibit 10-v(i) to Form 10-K for 1997.)

10-r Pacific Telesis Group Outside Directors' Deferred Stock Unit Plan. (Exhibit 10oo to Form 10-K for 1995 of Pacific Telesis Group (Reg. 1-8609).)

10-s Pacific Telesis Group 1996 Directors' Deferred Compensation Plan. (Exhibit 10qq to Form 10-K for 1996 of Pacific Telesis Group (Reg. 1-8609).)

10-s(i) Resolutions amending the Plan, effective November 21, 1997. (Exhibit 10-v(i) to Form 10-K for 1997.)

10-t Pacific Telesis Group 1994 Stock Incentive Plan. (Attachment A to Pacific Telesis Group's 1994 Proxy Statement filed March 11, 1994, and amended March 14 and March 25, 1994.)

10-t(i) Resolutions amending the Plan, effective January 1, 1995. (Attachment A to Pacific Telesis Group's 1995 Proxy Statement, filed March 13, 1995.)

10-u 2001 Incentive Plan.

10-v Employment Agreement between SBC and William M. Daley. (Exhibit 10-x to Form 10-K for 2001.)

10-w Employment Agreement between SBC and Edward E. Whitacre Jr. (Exhibit 10-y to Form 10-K for 2001.)

10-x 2001 Stock Option Grant to Bargained-for and Certain Other Employees.

10-y 1995 Management Stock Option Plan.

12 Computation of Ratios of Earnings to Fixed Charges.

13 Portions of SBC's Annual Report to shareowners for the fiscal year ended December 31, 2002. Only the information incorporated by reference into this Form 10-K is included in the exhibit.

21 Subsidiaries of SBC.

23 Consent of Ernst & Young LLP.

24 Powers of Attorney.

99-a Annual Report on Form 11-K for the SBC Savings Plan for the year 2002 to be filed under Form 10-K/A.

99-b Annual Report on Form 11-K for the SBC Savings and Security Plan for the year 2002 to be filed under Form 10-K/A.

We will furnish to shareowners upon request, and without charge, a copy of the annual report to shareowners and the proxy statement, portions of which are incorporated by reference in the Form 10-K. We will furnish any other exhibit at cost.

(b) Reports on Form 8-K:

On October 16, 2002, we filed a Form 8-K, reporting on Item 5., Other Events, our agreement to sell our interest in Cegetel S.A. to Vodafone Group PLC.

No other reports on Form 8-K were filed during the fourth quarter of 2002.

SBC COMMUNICATIONS INC.
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
Allowance for Uncollectibles
Dollars in Millions

COL. A	COL. B	COL. C		COL. D	COL. E
		Additions			
Description	Balance at Beginning of Period	(1) Charged to Costs and Expenses - Note (a)	(2) Charged to Other Accounts - Note (b)	Deductions - Note (c)	Balance at End of Period
Year 2002	**$1,254**	**1,407**	**620**	**1,854**	**$1,427**
Year 2001 (f)	$ 1,016	1,384	293	1,439(d)	$ 1,254
Year 2000	$ 1,389	885	264	1,522(e)	$ 1,016

(a) Excludes direct charges and credits to expense on the statements of income and reinvested earnings related to interexchange carrier receivables.
(b) Includes amounts previously written off which were credited directly to this account when recovered and amounts related to long-distance carrier receivables which are being billed by SBC.
(c) Amounts written off as uncollectible.
(d) Includes $50 from the sale of SecurityLink.
(e) Includes $81 transferred to Cingular.

SBC COMMUNICATIONS INC.
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
Accumulated Amortization of Intangibles
Dollars in Millions

COL. A	COL. B	COL. C		COL. D	COL. E
		Additions			
Description	Balance at Beginning of Period	(1) Charged to Expense	(2) Charged to Other Accounts	Deductions	Balance at End of Period
Year 2002	**$ 771**	**199**	**-**	**477**(a)	**$ 493**
Year 2001	$ 746	481	1	457(b)	$ 771
Year 2000	$ 1,325	1,268(c)	(262)(d)	1,585(e)	$ 746

(a) Includes $364 related to goodwill which is no longer amortized under Statement of Financial Accounting Standards No. 142, “Goodwill and Other Intangible Assets.”
(b) Includes $277 from the sale of SecurityLink and $101 transfer to Cingular.
(c) Includes impairment of underlying assets at SecurityLink.
(d) Primarily related to the transfer to Cingular.
(e) Includes $962 transfer to Cingular and $670 related to impairment at SecurityLink.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 14th day of March, 2003.

SBC COMMUNICATIONS INC.

By /s/ Randall Stephenson
(Randall Stephenson
Senior Executive Vice President and
Chief Financial Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Principal Executive Officer:
Edward E. Whitacre Jr.*
Chairman and
Chief Executive Officer

Principal Financial and
Accounting Officer:
Randall Stephenson
Senior Executive Vice President and
Chief Financial Officer

/s/ Randall Stephenson
(Randall Stephenson, as attorney-in-fact
and on his own behalf as Principal
Financial Officer and Principal Accounting Officer)

March 14, 2003

Directors:

Edward E. Whitacre Jr.*	Charles F. Knight*
Gilbert F. Amelio*	Lynn M. Martin*
Clarence C. Barksdale*	John B. McCoy*
James E. Barnes*	Mary S. Metz*
August A. Busch III*	Toni Rembe*
William P. Clark*	S. Donley Ritchey*
Martin K. Eby, Jr.*	Joyce M. Roché*
Herman E. Gallegos*	Carlos Slim Helú*
Jess T. Hay*	Laura D'Andrea Tyson*
James A. Henderson*	Patricia P. Upton*
Bobby R. Inman*	

* by power of attorney

CERTIFICATIONS

I, Edward E. Whitacre Jr., certify that:

1. I have reviewed this annual report on Form 10-K of SBC Communications Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
   c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 14, 2003

/s/ Edward E. Whitacre Jr.

Edward E. Whitacre Jr.
Chairman and Chief Executive Officer

I, Randall Stephenson, certify that:

1. I have reviewed this annual report on Form 10-K of SBC Communications Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
   c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 14, 2003

/s/ Randall Stephenson

Randall Stephenson
Senior Executive Vice President
and Chief Financial Officer

SBC Communications Inc.

SHORT TERM INCENTIVE PLAN

Plan Effective: January 1, 1984
Revisions Effective: January 1, 2002

SHORT TERM INCENTIVE PLAN

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SHORT TERM INCENTIVE PLAN

1. Purpose . The purpose of the Short Term Incentive Plan (the "Plan") is to provide Eligible Employees with incentive compensation based upon the achievement of financial, service, and operating performance levels and management effectiveness.

2. Definitions . For purposes of this Plan, the following words and phrases shall have the meanings indicated, unless the context clearly indicates otherwise:

Award Year . "Award Year" shall mean the calendar year for which performance is used to determine one's award under the Plan.

Chairman . "Chairman" shall mean the Chairman of the Board of SBC Communications Inc.

Committee . "Committee" shall mean the Human Resources Committee of the Board of SBC Communications Inc.

Eligible Employee . "Eligible Employee" shall mean an Officer or a non-Officer employee of any SBC company who is designated by the Chairman as eligible to participate in the Plan.

Officer . "Officer" shall mean an individual who is designated as an officer of SBC or of any SBC subsidiary for compensation purposes on SBC's records.

Retirement . "Retirement" shall mean the termination of an Eligible Employee's employment with SBC or any of its subsidiaries, for reasons other than death, on or after the earlier of the following dates: (1) the date a participant has attained age 55, . and, for an individual who becomes a participant on or after January 1, 2002, has five (5) years of service, or (2) the date the Eligible Employee has attained one of the following combinations of age and service at termination of employment on or after April 1, 1997, except as otherwise indicated below:

Net Credited Service	Age
10 Years or more	65 or older
20 Years or more	55 or older
25 Years or more	50 or older
30 Years or more	Any age

With respect to an Eligible Employee who is granted an EMP Service Pension under and pursuant to the provisions of the SBC Pension Benefit Plan - Nonbargained Program ("SBCPBP") upon termination of Employment, the term "Retirement" shall include such Eligible Employee's termination of employment.

Termination Under EPR . In determining whether an Eligible Employee's termination of employment under the Enhanced Pension and Retirement Program ("EPR") is a Retirement for purposes of this Plan, five years shall be added to each of age and net credited service ("NCS"). If with such additional age and years of service, (1) an Eligible Employee upon such termination of employment under EPR is Retirement Eligible according to the SBC Supplemental Retirement Income Plan ("SRIP") or (2) the Eligible Employee upon such termination of employment under EPR has attained one of the following combinations of age and service,

Actual NCS + 5 Years	Actual Age + 5 Years
10 Years or more	65 or older
20 Years or more	55 or older
25 Years or more	50 or older
30 Years or more	Any age

then such termination of employment shall be a Retirement for all purposes under this Plan and the Eligible Employee shall be entitled to the treatment under this Plan afforded in the case of a termination of employment which is a Retirement.

SBC . "SBC" shall mean SBC Communications Inc.

3. Eligibility . Each Eligible Employee who during an Award Year was in active service may be eligible for an award under the Plan, as provided under Section 4 below. Employees are not rendered ineligible by reason of being a member of the Board.

4. Awards . The Committee with respect to Officers, or the Chairman with respect to non-Officer Eligible Employees, shall approve a Target Award for each employee eligible for an award under the Plan for each Award Year that the Committee or the Chairman, as applicable, intends to make awards.

The Target Award applicable to an employee otherwise eligible for an award under the Plan for an Award Year shall be prorated over the Award Year or the employee shall be ineligible for an award, as follows:

(1)	become eligible or ineligible for an award under Plan or change from one eligible position to another after the beginning of the Award Year	prorate according to time of active service in each eligible position to the nearest half month
(2)	inter-company transfers	prorate for each respective entities' performance according to time of active service at each entity to the nearest half month
(3)	receipt of Disability Benefits for more than three months in an Award Year	prorate to the day based on service while not receiving Disability Benefits
(4)	receipt of Disability Benefits for three months or less in an Award Year	no reduction is applicable Target Award
(5)	Retirement	prorate to date of Retirement
(6)	leave of absence	prorate to date leave commences and from date leave ceases unless otherwise provided by the Committee or the Chairman, as applicable
(7)	death during an Award Year	prorate to date of death
(8)	dismissal for cause during or after an Award Year	no award
(9)	termination with severance payment	prorate to date of termination
(10)	resignation with no severance payment	no award
(11)	mandatory termination at age 65	Prorate to date of termination

A percentage of the Target Award for each Award Year to be distributed to the award recipient will be determined by the Committee, or Chairman, for Officers and non-Officer Eligible Employees, respectively, based upon achievement of performance levels during such Award Year of criteria established by the Committee, or the Chairman, respectively.

The criteria established by the Committee for Officers, or the Chairman with respect to non-Officer Eligible Employees, upon which the percentages of the Target Awards referred to above are determined shall give due regard, as the Committee, or the Chairman, as applicable, deems appropriate, to one or more of the following for the Award Year:

(a) Financial performance of SBC, individual operating entities thereof and/or SBC and its consolidated subsidiaries.

(b) Service performance of SBC and of individual operating entities; or other appropriate operating performance criteria for entities where service performance is not relevant.

(c) Other criteria in lieu of or in addition to the above as determined by the Committee or the Chairman, as applicable.

The Committee then with respect to Officers, or the Chairman with respect to non-Officer Eligible Employees, shall determine the payout of Awards in such amounts and to such of the Eligible Employees as each may determine in its sole discretion. Awards shall be paid in cash in the calendar year the awards are determined, except to the extent that an Eligible Employee has made an election to defer the receipt of such award pursuant to the SBC Salary and Incentive Award Deferral Plan or other SBC deferred compensation plan.

The award to be distributed to an individual may be more or less in the Committee’s or the Chairman’s discretion, as applicable, including no award, than the percentage of the Target Award determined for such individual; for example, the Committee or the Chairman, as applicable, may approve an award greater than the Target Award, adjusted for performance, based on individual performance.

5. Adjustments .

(a) In order to assure the incentive features of the Plan and to avoid distortion in the operation of the Plan, the Committee or the Chairman, as applicable, may make adjustments in the criteria established for any Award Year, whether before or after the end of the Award Year, to the extent the Committee or the Chairman, as applicable, deems appropriate, to compensate for or reflect any extraordinary changes which may have occurred during the Award Year which significantly alter the basis upon which performance levels were determined. Such changes may include, without limitation, changes in accounting practices, tax laws, or other laws or regulations, or economic changes not in the ordinary course of business cycles.

(b) In the event of any change in outstanding shares of SBC by reason of any stock dividend or split, recapitalization, merger,

consolidation, combination or exchange of shares or other similar corporate change, the Committee or the Chairman, as applicable, shall make such adjustments, if any, that the Committee or the Chairman, as applicable, deems appropriate in the performance levels established for any Award Year.

(c) The Senior Executive Vice President-Human Resources (or his or her successor) may approve a new Target Award for any Eligible Employee whose position is modified by changes in job responsibilities, reorganization, or otherwise; provided, however, such authority may not be exercised for positions with a total compensation market rate exceeding $2.0 million (in such a case the new Target Award shall be approved by the Committee).

6. Other Conditions .

(a) No person shall have any claim to be granted an award under the Plan and there is no obligation for uniformity of treatment of Eligible Employees under the Plan. Awards under the Plan may not be assigned or alienated.

(b) Neither the Plan nor any action taken hereunder shall be construed as giving to any employee the right to be retained in the employ of SBC or any subsidiary thereof.

(c) SBC or subsidiary thereof, as applicable, shall have the right to deduct from any award to be paid under the Plan any federal, state or local taxes required by law to be withheld with respect to such payment.

(d) Unless otherwise provided by the Committee, awards under the Plan shall be excluded in determining benefits under any pension, retirement, savings, disability, death, or other benefit plans of SBC except where required by law.

7. Designation of Beneficiaries . An Eligible Employee may designate pursuant to SBC's Rules for Employee Beneficiary Designations as may hereafter be amended from time-to-time ("Rules"), which Rules shall apply hereunder and are incorporated herein by this reference, a beneficiary or beneficiaries to receive in case of the employee's death all or part of the awards which may be made to the employee under the Plan. A designation of beneficiary may be replaced by a new designation or may be revoked by the employee at any time. A designation or revocation shall be on a form to be provided for the purpose and shall become effective only when filed with SBC during the employee's lifetime with written acknowledgement of receipt from SBC. In case of the employee's death, an award made under the Plan with respect to which a designation of beneficiary has been made (to the extent it is valid and enforceable under applicable law) shall be paid to the designated beneficiary or beneficiaries. Any award made to an employee who is deceased and not subject to such a designation shall be distributed in accordance with the Rules.

8. Plan Administration .

(a) The Committee or the Chairman, as applicable, shall have full power to administer and interpret the Plan and to establish rules for its administration. Awards under the Plan shall be conclusively determined by the Committee or the Chairman, as applicable. Any determinations or actions required or permitted to be made by the Committee or the Chairman, as applicable, may be delegated by the Committee or the Chairman in its sole discretion. The Committee or the Chairman, as applicable, or any delegate thereof, in making any determinations under or referred to in the Plan shall be entitled to rely on opinions, reports or statements of officers or employees of SBC and/or of any subsidiary thereof and of counsel, public accountants and other professional or expert persons.

(b) The Plan shall be governed by the laws of the State of Texas and applicable Federal law.

9. Modification or Termination of Plan . This Plan may be modified or terminated at any time in accordance with the provisions of SBC's Schedule of Authorizations. A modification may affect present and future Eligible Employees.

SHORT TERM INCENTIVE PLAN
ADMINISTRATIVE GUIDELINES

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SHORT TERM INCENTIVE PLAN
ADMINISTRATIVE GUIDELINES

1. Purpose . The purpose of these Guidelines is to outline the procedures to be followed in administering SBC's Short Term Incentive Plan (the "Plan").

2. Award Process . The Committee shall approve a Target Award for each eligible Officer. The Chairman shall approve a Target Award for each non-Officer Eligible Employee. These Target Awards are based on market-based rates established for each Eligible Employee and shall generally be established in January of the Award Year.

   Annual financial and/or other performance objectives for Officers for an Award Year shall be approved by the Committee each year, generally in January of the Award Year. Objectives for non-Officer Eligible Employees shall be approved by the Chairman. Annual financial and/or other performance results (upon which the payment of Awards for Officers shall be based), maximum funding levels, and payout recommendations requiring Committee approval, will be submitted to and approved by the Committee after the Award Year is completed. Results for non-Officer Eligible Employees shall be approved by the Chairman.

   An individual's Target Award will be prorated over the Award Year, if applicable, according to Section 4 of the Plan.

   Target Awards will be adjusted for distribution based upon achievement during the Award Year, of the financial and/or other performance criteria established by the Committee or the Chairman, as applicable. Discretionary awards may also be granted as described in Section 5, to be paid out of funds from the Discretionary Pools.

3. Performance Criteria . The performance criteria established by the Committee or the Chairman, as applicable, may be one or more of the following:

   - Financial Performance Criteria

   Achievement of Value Added objectives or other financial objectives (e.g., gross contributions, revenues, net income, operating contribution, etc.) will be used as financial performance criteria for all entities.

   Value Added shall be a measure of earnings above a return required by investors (i.e., generally, net operating contribution less a capital charge).

   Value Added or other financial measurement's performance is determined after adjustment in accordance with the following:

   > In order to assure the incentive features of the Plan and to avoid distortion in the operation of the Plan, the Committee or the Chairman, as applicable, shall make adjustments in the criteria established for any Award Year, whether before or after the end of the Award Year to compensate for or reflect any extraordinary changes which may have occurred during the Award Year which alter the basis upon which performance levels were determined. Such changes include the following: accounting changes, extraordinary items, income from discontinued operations, and the impact of material events that have been publicly disclosed.

   - Other Performance Criteria

   Other performance criteria may include, but are not limited to, Value Drivers, i.e., quantifiable operational and other indicators, such as revenue growth, customer or subscriber growth, operating margin, etc., that are tied to the strategy of the operating entity and are key barometers of value creation.

4. Funding . Each year, a maximum funding level of 1.0 percent of reported SBC net income (before any extraordinary loss and/or cumulative effect of changes in accounting principles) minus amounts paid as Key Executive Officer Short Term Award(s) pursuant to the 1996 Stock and Incentive Plan and/or the 2001 Incentive Plan shall be available to payment or awards under the Plan with respect to the preceding Award Year.

5. Distribution of Awards . Awards for the preceding Award Year will generally be distributed after completion of the Award Year in accordance with the following paragraphs. Distribution of all awards is subject to approval by the Committee or the Chairman, as applicable, generally obtained in January following the completion of an Award Year.

   Formula-Driven Awards -

   The Committee, or the Chairman, as applicable, shall establish financial and/or other performance objectives for SBC and such other entities as deemed appropriate by the Committee or the Chairman, as applicable.

   A percentage of the Target Award for the preceding Award Year is paid to Officers and to non-Officer Eligible Employees in each entity based on the achievement of applicable financial and/or other performance results of their entity.

   Discretionary Pools -

   After determination of formula-driven awards, the Committee for Officers and the Chairman for non-Officer Eligible Employees may establish Discretionary Pools to reward individuals and/or entities for exceptional performance. Maximum funding available for

Discretionary Pools is the maximum funding level described in Section 4 less the formula-driven amounts distributed.

The Committee or the Chairman, as applicable, will determine funding for each pool and provide guidelines for distribution of awards. The following are examples of factors that may be considered:

- Financial results above objective
- Outstanding customer service results
- Advancement of workforce diversity
- Outstanding individual contribution

The Chairman will recommend to the Committee the discretionary awards for officers reporting directly to the Chairman.

6. Changes/Exceptions . Changes in these Guidelines and exceptions to their provisions may be authorized by the Committee.

SBC Communications Inc.

SUPPLEMENTAL LIFE INSURANCE PLAN

Effective: January 1, 1986
Revisions Effective: April 1, 2002

SUPPLEMENTAL LIFE INSURANCE PLAN

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SUPPLEMENTAL LIFE INSURANCE PLAN

1. Purpose. The purpose of the Supplemental Life Insurance Plan ("Plan") is to allow for provision of additional survivor benefits for Eligible Employees.

2. Definitions. For purposes of this Plan, the following words and phrases shall have the meanings indicated, unless the context clearly indicates otherwise:

Annual Base Salary or Annual Salary or Salary. "Annual Base Salary" or "Annual Salary" or "Salary" shall mean an Eligible Employee's annual base salary rate determined by SBC, excluding (1) all differentials regarded as temporary or extra payments and (2) all payments and incentive awards and distributions made either as a long term award or as a short term award; and such Salary shall be as before reduction due to any contribution pursuant to any deferred compensation plan or agreement provided by SBC, including but not limited to compensation deferred in accordance with Section 401(k) of the Internal Revenue Code. Annual Salary or Salary shall mean an annualized amount determined from an Eligible Employee's Annual Base Salary rate.

Beneficiary . "Beneficiary" shall mean any beneficiary or beneficiaries designated by the Eligible Employee pursuant to the SBC Rules for Employee Beneficiary Designations as may hereafter be amended from time-to-time ("Rules").

Chairman . "Chairman" shall mean the Chairman of the Board of SBC Communications Inc.

Committee . "Committee" shall mean the Human Resources Committee of the Board of SBC Communications Inc.

Eligible Employee . "Eligible Employee" shall mean an Officer or a non-Officer employee of any SBC company who is designated by the Chairman as eligible to participate in the Plan.

Notwithstanding the foregoing, the Chairman may, from time to time, exclude any Employee or group of Employees from being deemed an "Eligible Employee" under this Plan.
Insurance Contract . "Insurance Contract" shall mean a contract(s) of life insurance insuring the life of the Eligible Employee entered into by SBC.

Officer . "Officer" shall mean an individual who is designated as an officer of SBC or of any SBC subsidiary for compensation purposes on SBC's records.

Retirement . "Retirement" shall mean the termination of an Eligible Employee's employment with SBC or any of its subsidiaries, for reasons other than death, on or after the earlier of the following dates: (1) the date a participant has attained age 55, and, for an individual who becomes a participant on or after January 1, 2002, has five (5) years of service, or (2) the date the Eligible Employee has attained one of the following combinations of age and service at termination of employment on or after April 1, 1997, except as otherwise indicated below:

Net Credited Service	Age
10 Years of more	65 or older
20 Years of more	55 or older
25 Years of more	50 or older
30 Years of more	Any age

With respect to an Eligible Employee who is granted an EMP Service Pension under and pursuant to the provisions of the SBC Pension Benefit Plan - Nonbargained Program ("SBCPBP") upon termination of Employment, the term "Retirement" shall include such Eligible Employee's termination of employment.

Termination Under EPR . In determining whether an Eligible Employee's termination of employment under the Enhanced Pension and Retirement Program ("EPR") is a Retirement for purposes of this Plan, five years shall be added to each of age and net credited service ("NCS"). If with such additional age and years of service, (1) an Eligible Employee upon such termination of employment under EPR is Retirement Eligible according to the SBC Supplemental Retirement Income Plan ("SRIP") or (2) the Eligible Employee upon such termination of employment under EPR has attained one of the following combinations of age and service,

Actual NCS + 5 Years	Actual Age + 5 Years
10 Years of more	65 or older
20 Years of more	55 or older
25 Years of more	50 or older
30 Years of more	Any age

then such termination of employment shall be a Retirement for all purposes under this Plan and the Eligible Employee shall be entitled to the treatment under this Plan afforded in the case of a termination of employment which is a Retirement.

SBC . "SBC" shall mean SBC Communications Inc.

3. Eligibility . Each Eligible Employee shall be eligible to participate in the Plan

4. Pre-Retirement Benefits and Post-Retirement Benefits .

Basic Death Benefit

While this plan is in effect, the Beneficiary who is designated by the Eligible Employee shall be entitled to receive as a Basic Death

Benefit from the proceeds of the Insurance Contract an amount equal to the result of multiplying the Eligible Employee's Annual Salary rounded to the next higher $1,000 by the following amounts:

Chief Executive Officer	3
Direct Reporting Officer as such term is defined in SBC's Schedule of Authorizations	2
Other Eligible Employee	1

This amount shall be reduced (but not below zero) by any amount payable under any group term life insurance covering the Eligible Employee which is maintained by SBC, which amount of group term life insurance will be limited to a maximum of $50,000.

The amount of Basic Death Benefit payable hereunder will automatically increase if pay increases.

At Retirement, the pre-retirement benefit converts to a post-retirement benefit. This benefit is equal to one times Salary rounded to the next higher $1,000 (at the time of retirement) and shall be reduced (but not below zero) by any amount payable under any group term life insurance covering the Eligible Employee which is maintained by SBC, which amount of group term life insurance will be limited to a maximum of $50,000; provided, however, for an executive who first becomes a Plan participant on or after January 1, 1998, this post-retirement death benefit shall be reduced by 10% of its original post-retirement amount each year for five years beginning at the later of the date the Eligible Employee attains age 65 or Retirement.

Optional Supplementary Benefit

Subject to the limitations in the remaining paragraphs in this section describing optional supplementary benefits, each Eligible Employee may also purchase optional supplementary pre-retirement life insurance coverage from SBC in an amount equal to one times the Eligible Employee's Annual Salary rounded to the next higher $1,000, and an additional amount of such insurance in an amount equal to another one times such amount (for a total of two times the Annual Salary rounded to the next higher $1,000), which insurance shall be payable from the proceeds of the Insurance Contract. Each such amount of insurance ("one times salary") continued until such employee reaches age 65, by continuing to contribute for it, shall entitle the beneficiary under the Insurance Contract to receive an amount from the proceeds of such Insurance Contract equal to one times the Eligible Employee's final Annual Salary rounded to the next higher $1,000, when such Eligible Employee dies after Retirement.

To elect this optional supplementary coverage, the Eligible Employee must complete an enrollment form on which he or she specifies the amount of coverage he or she wishes to purchase and authorizes his or her employing company to deduct his or her contributions for coverage from his or her salary.

An Eligible Employee may not elect this coverage while receiving disability benefits under any Company disability benefit plan.

An Eligible Employee must make his or her election to purchase optional supplementary coverage within three calendar months of being declared eligible to participate in the Plan; except any Eligible Employee who was declared an Eligible Employee before October 1, 1997, shall have until December 31, 1997 to enroll for such optional supplementary coverage or to increase such coverage.

The optional supplementary life insurance is effective upon SBC's binding of life insurance coverage for the Eligible Employee pursuant to an Insurance Contract

Effective January 1, 1998, once an Eligible Employee enrolls for optional supplementary coverage, he or she can later decrease or terminate such coverage but never increase or reinstate such coverage.

Regardless of the amount of coverage elected, the amount in force will automatically increase if Salary increases. The cost for this coverage will increase accordingly.

This optional supplementary life insurance is paid for on a contributory basis by those Eligible Employees who enroll in the coverage. The cost of coverage, and therefore, how much an Eligible Employee contributes, depends on age and the amount of coverage and shall be as determined by SBC. There will be no periodic waiver of premium payments.

In the event of death, the Eligible Employee's optional supplementary life insurance benefit will be paid to the Eligible Employee's Beneficiary or Beneficiaries in a lump sum, unless the Salary Continuation Death Benefit form of payment was elected on the Eligible Employee's enrollment form. The option to elect other than a lump sum payment is limited to an Eligible Employee who became an Eligible Employee on or before January 1, 1998. If the Eligible Employee has no surviving beneficiaries, the benefit will be paid in a lump sum in accordance with the Rules.

The optional supplementary life insurance coverage hereunder will automatically continue while an Eligible Employee is receiving disability benefits under any SBC disability benefit plan, provided the Eligible Employee continues his or her contributions.

If an Eligible Employee terminates employment with SBC or any of its subsidiaries for any reason other than Retirement, this coverage will stop at the end of the month of termination; provided, however, Eligible Employees who are 65 at the time of their termination will continue to have non-contributory unreduced coverage after age 65.

Alternate Death Benefit

Alternate death benefit coverage shall only be available to an Eligible Employee who became an Eligible Employee before January 1, 1998. Such Eligible Employees shall be entitled to elect to receive alternate death benefit life insurance coverage; provided such election is made before January 1, 1998.

Under such coverage, an Eligible Employee's Beneficiary or Beneficiaries will be entitled to receive from the proceeds of the Insurance Contract a payment equal to the Eligible Employee's final Annual Salary upon his or her death. This benefit will not be rounded to the next higher $1,000. The amount of insurance in force will automatically increase if salary increases. Coverage applies to death from any cause, except with respect to an on-the-job accident for which an Eligible Employee is protected while an active employee by any Accident Death Benefit feature of the SBCPBP.

By enrolling in this coverage, an Eligible Employee automatically waives his or her eligibility for any Sickness Death Benefit and Pensioner Death Benefits otherwise payable under the SBCPBP.

The coverage provided by the alternate death benefit life insurance coverage will continue after Retirement .

To elect this coverage, an Eligible Employee must complete an irrevocable enrollment and waiver form.

SBC pays the full cost of the alternate death benefit life insurance coverage.

The insurance benefit provided under this alternate death benefit life insurance will be paid in a lump sum, unless otherwise elected on the Eligible Employee's enrollment form.

Alternate death benefit coverage ceases upon an Eligible Employee's Termination of Employment other than a Retirement. This alternate death benefit life insurance may not be converted to an individual policy.

Salary Continuation Death Benefit.

The salary continuation death benefit shall only be available under the conditions specified hereunder, to an Eligible Employee who became an Eligible Employee before January 1, 1998.

By a written election filed with SBC before January 1, 1998, an Eligible Employee may terminate his or her rights to a Basic Death Benefit and/or to Optional Supplementary Coverage (if any) and/or to an Alternate Death Benefit (if any).

If such an election is filed, and the Eligible Employee dies on or after the first day of the calendar year following the year in which such election is filed and prior to the termination of coverage pursuant to Section 7, the Eligible Employee's Beneficiary or Beneficiaries theretofore named shall be paid by SBC an amount per annum for ten (10) years which amounts, in the aggregate, have a net present value, using an eleven percent (11%) discount rate, equal to one hundred eight-five percent (185%) of the (i)Basic Death Benefit amount and/or (ii) the amount elected as Optional Supplementary coverage(if any) and/or (iii) the amount elected as an Alternate Death Benefit (if any) which would be payable to his or her Beneficiary or Beneficiaries as of the date of the Eligible Employee's death, and no other benefit shall be payable hereunder as either a Basic Death Benefit, Optional Supplementary Coverage or Alternate Death Benefit . Such payment(s) shall commence no later than sixty (60) days following the date of the Eligible Employee's death.

On or after January 1, 1998, an Eligible Employee who has elected death benefits in the form of salary continuation pursuant to this Section may cancel such election and have his or her Beneficiaries receive death benefits as insurance in a lump-sum but, an Eligible Employee who cancels his or her salary continuation election may not thereafter re-elect such option.

Survivor Annuity Equivalent

Additionally, each Eligible Employee who is not eligible for the Immediate Automatic Pre-retirement Survivor Annuity of the SBCPBP (or equivalent thereof) shall be eligible hereunder for a Survivor Annuity Equivalent benefit of one times salary payable to the surviving spouse of such Eligible Employee. Such benefit shall be paid as follows: an amount per annum for ten (10) years shall be paid to the Eligible Employee's surviving spouse which amounts, in the aggregate, shall have a net present value, using an eleven percent (11%) discount rate, equal to one hundred eighty-five percent (185%) of one times the Eligible Employee's salary at the time of his or her death; provided, however, no such Survivor Annuity Equivalent payments will be made on or after the date of death of the surviving spouse. Such payments shall commence no later than sixty (60) days following the date of the Eligible Employee's death.

For the purposes of the Survivor Annuity Equivalent, the Eligible Employee's surviving spouse means a spouse legally married to the Eligible Employee at the time of the Eligible Employee's death.

Eligibility for the Survivor Annuity Equivalent shall automatically cease on the date of termination of the Eligible Employee's employment. If the Eligible Employee becomes totally disabled prior to Retirement, the Eligible Employee shall continue to be eligible for the Survivor Annuity Equivalent until the expiration of disability benefits. If the Eligible Employee is granted a leave of absence, other than for military service of more than four weeks, the Eligible Employee shall continue to be eligible for the Survivor Annuity Equivalent during such leave of absence. The Eligible Employee shall cease to be eligible for the Survivor Annuity Equivalent at the conclusion of the day immediately preceding the date the Eligible Employee becomes eligible for the Immediate Automatic Pre-

retirement Survivor Annuity of the SBCPBP.

5. Incidents of Ownership . SBC will be the owner and hold all the incidents of ownership in the Insurance Contract, including the right to dividends, if paid. The Eligible Employee may specify in writing to SBC, the Beneficiary or Beneficiaries and the mode of payment for any death proceeds not in excess of the amounts payable under this Plan. Upon receipt of a written request from the Eligible Employee, SBC will immediately take such action as shall be necessary to implement such Beneficiary appointment. Any balance of proceeds from the Insurance Contract not paid as either a Basic Death Benefit or otherwise pursuant to the Plan shall be paid to SBC.

6. Premiums . All premiums due on the Insurance Contract shall be paid by SBC. However, the Eligible Employee agrees to reimburse SBC by January 31 following the date of each premium payment in an amount such that, for Federal Income Tax purposes the reimbursement for each year is equal to the amount which would be required to be included in the Eligible Employee's income for Federal Income Tax purposes by reasons of the "economic benefit" of the Insurance Contract provided by SBC; provided, however, that SBC, in its sole discretion, may decline to accept any such reimbursement and require the inclusion of such "economic benefit" in the Eligible Employee's income. In its discretion SBC may deduct the Eligible Employee's portion of the premiums from the Eligible Employee's pay. For purposes of this Plan, the value of the "economic benefit" shall be determined based on the insurers published premium rates available to all standard risks for initial issue one-year term insurance in compliance with Revenue Rulings 66-110 and 67-154 issued by the Internal Revenue Service.

when the Eligible Employee realizes an "Event of Termination" which shall mean any of the following:

(a) Termination of an Eligible Employee's employment with his or her employing company for any reason other than (i) death, (ii) Disability as such term is defined in the SRIP, or (iii) Retirement.

(b) In the case of an Eligible Employee who terminates employment by reason of a disability but who does not realize an Event of Termination because of Section 7a(ii) above, a termination of the Eligible Employee's total Disability that is not accompanied by either a return to employment with his or her employing company or the Eligible Employee's death or Retirement.

(c) Except in the case of an Eligible Employee who has theretofore terminated employment for a reason described in Section 7a(ii) or (iii) above, SBC elects to terminate the Eligible Employee's coverage under the Plan by a written notice to that effect given to the Eligible Employee. SBC shall have no right to amend the Plan or terminate the Eligible Employee's coverage under the Plan with respect to an Eligible Employee who has theretofore terminated employment for a reason described in Section 7a(ii) or (iii) above without the written consent of the Eligible Employee.

8. Non-Competition . Notwithstanding any other provision of this Plan, no coverage shall be provided under this Plan with respect to any Eligible Employee who shall, without the written consent of SBC, and while employed by SBC or any subsidiary thereof, or within three (3) years after termination of employment from SBC or any subsidiary thereof, engage in competition with SBC or any subsidiary thereof or with any business with which a subsidiary of SBC or an affiliated company has a substantial interest (collectively referred to herein as "Employer business"). For purposes of this Plan, engaging in competition with any Employer business shall mean engaging by Eligible Employee in any business or activity in the same geographical market where the same or substantially similar business or activity is being carried on as an Employer business. Such term shall not include owning a nonsubstantial publicly traded interest as a shareholder in a business that competes with an Employer business. However, engaging in competition with an Employer business shall include representing or providing consulting services to, or being an employee of, any person or entity that is engaged in competition with any Employer business or that takes a position adverse to any Employer business. Accordingly, coverage shall not be provided under this Plan if, within the time period and without the written consent specified, Eligible Employee either engages directly in competitive activity or in any capacity in any location becomes employed by, associated with, or renders service to any company, or parent or affiliate thereof, or any subsidiary of any of them, if any of them is engaged in competition with an Employer business, regardless of the position or duties the Eligible Employee takes and regardless of whether or not the employing company, or the company that Eligible Employee becomes associated with or renders service to, is itself engaged in direct competition with an Employer business.

9. Restriction on Assignment . The Eligible Employee may assign all or any part of his or her right, title, claim, interest, benefits and all other incidents of ownership which he or she may have in the Insurance Contract to any other individual or trustee, provided that any such assignment shall be subject to the terms of this Plan; except neither the Eligible Employee nor any other person shall have any right to commute, sell, assign, transfer, pledge, anticipate, mortgage or otherwise encumber, transfer, hypothecate or convey in advance of actual receipt the amounts, if any, payable as a Salary Continuation Death Benefit hereunder , which are, and all rights to which are, expressly declared to be unassignable and non-transferable. No part of the amounts payable as a Salary Continuation Death Benefit hereunder shall, prior to actual payment, be subject to seizure or sequestration for the payment of any debts, judgments, alimony or separate maintenance owed by the Eligible Employee or any other person, nor be transferable by operation of law in the event of the Eligible Employee's or any other person's bankruptcy or insolvency. Except as provided in this Section 8, no assignment or alienation of any benefits under the Plan will be permitted or recognized.

10. Unsecured General Creditor . Except to the extent of rights with respect to the Insurance Contract in the absence of an election to receive benefits in Salary Continuation Death Benefit form, the Eligible Employee and his or her Beneficiaries, heirs, successors and assigns shall have no legal or equitable rights, interest or claims in any property or assets of SBC, nor shall they be beneficiaries, or have any rights, claims or interests in, any life insurance policies, annuity contracts or the proceeds therefrom owned or which may be acquired by SBC ("Policies"); such Policies or other assets of SBC shall not be held under any trust for the benefit of the Eligible Employee , his or her designated beneficiaries, heirs, successors or assigns, or held in any way as collateral security for the fulfilling of the obligations of SBC under this Agreement; any and all of SBC's assets and Policies shall be, and remain, the general, unpledged, unrestricted assets of SBC; SBC shall have no obligation to

acquire any Policies or any other assets; and SBC's obligations under this Agreement shall be merely that of an unfunded and unsecured promise of SBC to pay money in the future.

11. Employment Not Guaranteed . Nothing contained in this Plan nor any action taken hereunder shall be construed as a contract of employment or as giving the Eligible Employee any right to be retained in the employ of any SBC company.

12. Protective Provisions . The Eligible Employee will cooperate with SBC by furnishing any and all information requested by SBC, in order to facilitate the payment of benefits hereunder, taking such physical examinations as SBC may deem necessary and taking such other relevant action as may be requested by SBC, in order to facilitate the payment of benefits hereunder. If the Eligible Employee refuses so to cooperate, the Eligible Employee's participation in the Plan shall terminate and SBC shall have no further obligation to the Eligible Employee or his or her designated Beneficiary hereunder. If the Eligible Employee commits suicide during the two-year period beginning on the date of eligibility under the Plan, or if the Eligible Employee makes any material misstatement of information or nondisclosure of medical history, then no benefits will be payable by reason of this Plan to the Eligible Employee or his or her designated Beneficiary, or in SBC's sole discretion, benefits may be payable in a reduced amount.

13. Change in Status . In the event of a change in the employment status of an Eligible Employee to a status in which he or she is no longer an Eligible Employee under the Plan, such Eligible Employee shall immediately cease to be eligible for any benefits under this Plan; provided, however, such survivor benefits as would be available to such employee by reason of his or her new status but which do not automatically become effective upon attainment of such new status shall continue to be provided under this Plan until such benefits become effective or until such employee has had reasonable opportunity to effectuate such benefits but has failed to take any requisite action necessary for such benefits to become effective.

14. Named Fiduciary . If this Plan is subject to the Employee Retirement Income Security Act of 1974 (ERISA), SBC is the "named fiduciary" of the Plan.

15. Applicable Law . This Plan and the rights and obligations hereunder shall be governed by and construed in accordance with the laws of the State of Texas to the extent such law is not preempted by ERISA.

16. Administration of the Plan . The Committee shall be the sole administrator of the Plan and will administer the Plan, interpret, construe and apply its provisions in accordance with its terms. The Committee shall further establish, adopt or revise such rules and regulations as it may deem necessary or advisable for the administration of the Plan. All decisions of the Committee shall be binding.

17. Relation to Prior Plans . This Plan supersedes and replaces prior Senior Management Survivor Benefit, Senior Management Supplementary Life Insurance, and Senior Management Alternate Death Benefit Life Insurance Plans as in effect prior to January 1, 1986, except such plans shall continue to apply to Eligible Employees who retired before January 1, 1986; provided, however, that with respect to those Eligible Employees who retired during calendar year 1986 by reason of the fact of attaining age 65, the Post-Retirement Benefit provided pursuant to the Senior Management Survivor Benefit Plan as in effect prior to January 1, 1986, shall continue to apply and the post-retirement benefit provided under the Basic Death Benefit portion hereof shall not apply.

18. Amendments and Termination . This Plan may be modified or terminated at any time in accordance with the provisions of SBC's Schedule of Authorizations. A modification or Plan termination may affect present and future Eligible Employees; provided, however, that no modification shall be made to this Plan with respect to an Eligible Employee who terminates employment for reason of disability or Retirement), nor shall a termination of the Plan operate so as to be applicable to such an individual, without the written consent of the Eligible Employee.

SBC Communications Inc.

SUPPLEMENTAL RETIREMENT INCOME PLAN

Effective: January 1, 1984
Revisions Effective: April 1, 2002

SUPPLEMENTAL RETIREMENT INCOME PLAN

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SUPPLEMENTAL RETIREMENT INCOME PLAN

1 Purpose.

The purpose of the Supplemental Retirement Income Plan (“Plan”) is to provide Eligible Employees with retirement benefits to supplement benefits payable pursuant to SBC’s qualified group pension plans.

2 Definitions.

For purposes of this Plan, the following words and phrases shall have the meanings indicated, unless the context clearly indicates otherwise:

Administrative Committee . “Administrative Committee” means a Committee consisting of the Senior Executive Vice President-Human Resources and two or more other members designated by the Senior Executive Vice President-Human Resources who shall administer the Plan.

Agreement . “Agreement” means the written agreement (substantially in the form attached to this Plan) that shall be entered into between SBC by the Senior Executive Vice President-Human Resources and a Participant to carry out the Plan with respect to such Participant. Entry into a new Agreement shall not be required upon amendment of the Plan or upon an increase in a Participant's Retirement Percent (which increase shall nevertheless be utilized to determine the Participant's benefits hereunder even though not reflected in the Participant's Agreement), except entry into a new Agreement shall be required in the case of an amendment which alters, to the detriment of a Participant, the benefits described in this Plan as applicable to such Participant (See Section 6.5). Such new Agreement shall operate as the written consent required by Section 6.5 of the Participant to such amendment.

Beneficiary . “Beneficiary” shall mean any beneficiary or beneficiaries designated by the Eligible Employee pursuant to the SBC Rules for Employee Beneficiary Designations as may hereafter be amended from time-to-time ("Rules").

Chairman . “Chairman” shall mean the Chairman of the Board of SBC Communications Inc.

Disability . “Disability” means any Termination of Employment prior to being Retirement Eligible (without regard to the 5 Years of Service requirement otherwise applicable to certain Participants age 55 or older) that the Administrative Committee, in its complete and sole discretion, determines is by reason of a Participant's total and permanent disability. The Administrative Committee may require that the Participant submit to an examination by a competent physician or medical clinic selected by the Administrative Committee. On the basis of such medical evidence, the determination of the Administrative Committee as to whether or not a condition of total and permanent disability exists shall be conclusive.

Earnings . “Earnings” means for a given calendar year the Participant's: (1) bonus earned as a short term award during the calendar year but not exceeding 200% of the target amount of such bonus (or such other portion of the bonus as may be determined by the Human Resources Committee of the Board of SBC), plus (2) base salary before reduction due to any contribution pursuant to any deferred compensation plan or agreement provided by SBC, including but not limited to compensation deferred in accordance with Section 401 (k) of the Internal Revenue Code.

Eligible Employee . “Eligible Employee” means an Officer or a non-Officer employee of any SBC company who is designated by the Chairman as eligible to participate in the Plan. Effective on and after July 1, 1994, only an Officer may become an Eligible Employee. Notwithstanding the foregoing, the Chairman, may, at any time and from time to time, exclude any Employee or group of Employees from being deemed an “Eligible Employee” under this plan.

Final Average Earnings . “Final Average Earnings” means the average of the Participant’s Monthly Earnings for the thirty-six (36) consecutive months out of the one hundred twenty (120) months next preceding the Participant’s Termination of Employment which yields the highest average earnings. If the Participant has fewer than thirty-six (36) months of employment, the average shall be taken over his or her period of employment.

GAAP Rate . “GAAP Rate” means the interest rate used for valuing Plan liabilities for purposes of SBC’s financial statement reporting requirements for the referenced period.

Immediate Annuity Value . “Immediate Annuity Value” means the annual amount of annuity payments that would be paid out of a plan on a single life annuity basis if payment of the plan’s benefit was commenced immediately upon Termination of Employment, notwithstanding the form of payment of the plan’s benefit actually made to the Participant (i.e., joint and survivor annuity, lump sum, etc.) and notwithstanding the actual commencement date of the payment of such benefit.

Mid-Career Hire . “Mid-Career Hire” means an individual (i) initially hired or rehired at age 35 or older into a position eligible for benefits under this Plan or (ii) initially hired or rehired at age 35 or older who is subsequently promoted to a position eligible for benefits under this Plan.

Monthly Earnings. “Monthly Earnings” means one-twelfth (1/12) of Earnings.

Mortality Tables . “Mortality Tables” means the mortality tables used for purposes of valuing Plan liabilities for SBC’s financial statement reporting requirements for the referenced period.

Officer . “Officer” shall mean an individual who is designated as an officer level Employee for compensation purposes on the records of SBC.

Participant . A “Participant” means an Eligible Employee who has entered into an Agreement to Participate in the Plan.

Retire or Retirement . “Retire” or “Retirement” shall mean the Termination of Employment of an Eligible Employee for reasons other than death, on or after the earlier of the following dates: (1) the date the Eligible Employee is Retirement Eligible or (2) the date the Eligible Employee has attained one of the following combinations of age and service at Termination of Employment on or after April 1, 1997, except as otherwise indicated below:

Net Credited Service	Age
10 Years of more	65 or older
20 Years of more	55 or older
25 Years of more	50 or older
30 Years of more	Any age

With respect to an Eligible Employee who is granted an EMP Service Pension under and pursuant to the provisions of the SBC Pension Benefit Plan - Nonbargained Program (“SBCPBP”) upon Termination of Employment, the term “Retirement” shall include such Eligible Employee’s Termination of Employment.

Retirement Eligible . “Retirement Eligible” or “Retirement Eligibility” means that a Participant has attained age 55 and, for an individual who becomes a Participant on or after January 1, 2002, has five (5) Years of Service; provided, however, if (1) the Participant is, or has been within the one year period immediately preceding the relevant date, an Officer with 30 or more Years of Service and has not attained age 55, or 2) the Participant has 15 or more Years of Service and has not attained age 55 and is, or has been within the one year period immediately preceding the relevant date, the Chairman or a Direct Reporting Officer as such term is defined in SBC’s

Schedule of Authorizations, he shall nevertheless be deemed to be Retirement Eligible. Note: Any reference in any other SBC plan to a person being eligible to retire with an immediate pension pursuant to the SBC Supplemental Retirement Income Plan shall be interpreted as having the same meaning as the term Retirement Eligible.

Retirement Percent . "Retirement Percent" means the percent specified in the Agreement with the Participant which establishes a Target Retirement Benefit (see Section 3.1) as a percentage of Final Average Earnings.

SBC . "SBC" means SBC Communications Inc.

Service Factor . "Service Factor" means, unless otherwise agreed in writing by the Participant and SBC, either (a) a deduction of 1.43 percent, or .715 percent for Mid-Career Hires, multiplied by the number by which (i) thirty-five (or thirty in the case of an Officer) exceeds (ii) the number of Years of Service of the Participant, or (b) a credit of 0.715 percent multiplied by the number by which (i) the number of Years of Service of the Participant exceeds (ii) thirty-five (or thirty in the case of an Officer). For purposes of the above computation, a deduction shall result in the Service Factor being subtracted from the Retirement Percent whereas a credit shall result in the Service Factor being added to the Retirement Percent.

Termination of Employment . "Termination of Employment" means the ceasing of the Participant's employment from the SBC controlled group of companies for any reason whatsoever, whether voluntarily or involuntarily.

Year . A "Year" is a period of twelve (12) consecutive calendar months.

Years of Service . "Years of Service" means the number of each complete years of continuous, full-time service as an employee beginning on the date when a Participant first began such continuous employment with any SBC company and on each anniversary of such date, including service prior to the adoption of this Plan.

3 Plan ("SRIP") Benefits.

3.1 Termination of Employment/Vesting.

With respect to (1) a person who becomes a Participant prior to January 1, 1998, or (2) a person who prior to January 1, 1998 is an officer of a Pacific Telesis Group ("PTG") company and becomes a Participant after January 1, 1998, upon such a Participant's Termination of Employment, SBC shall pay to such Participant a SRIP Benefit in accordance with Section 3.3. The amount of such SRIP Benefit is calculated as follows:

	Final Average Earnings
x	Revised Retirement Percentage
=	Target Retirement Benefit
-	Immediate Annuity Value of any SBC/PTG Qualified Pensions
-	Immediate Annuity Value of any other SBC/PTG Non-Qualified Pensions other than SRIP
=	Target Benefit
-	Age Discount
=	Annual Value of Life with 10 Year Certain SRIP Benefit immediately payable upon Termination of Employment

With respect to a person who is appointed an Officer and becomes a Participant on or after January 1, 1998, upon such a Participant's Termination of Employment, SBC shall pay to such Participant a SRIP Benefit in accordance with Section 3.3. The amount of such SRIP Benefit is calculated as follows:

	Final Average Earnings
x	Revised Retirement Percentage
=	Target Retirement Benefit
-	Age Discount
=	Discounted Target Benefit
-	Immediate Annuity Value of any SBC/PTG Qualified Pensions
-	Immediate Annuity Value of any other SBC/PTG Non-Qualified Pensions, other than SRIP
=	Annual Value of Life with 10 Year Certain SRIP Benefit immediately payable upon Termination of Employement

Where in both of the above cases the following apply:

(a) Revised Retirement Percentage = Retirement Percent + Service Factor

(b) For purposes of determining the Service Factor, the Participant's actual Years of Service as of the date of Termination of Employment, to the day, shall be used.

(c) For purposes of determining the Final Average Earnings, the Participant's Earnings history as of the date of Termination of Employment shall be used.

(d) Age Discount means the Participant's SRIP Benefit shall be decreased by five-tenths of one percent (.5%) for each month that the date of the commencement of payment precedes the date on which the Participant will attain age 60.

Notwithstanding the foregoing, if at the time of Termination of Employment the Participant (1) is, or has been within the one year period immediately preceding Participant's Termination of Employment, an Officer with 30 or more Years of Service or (2) has 15 or more Years of Service and is, or has been within the one year period immediately preceding Participant's Termination of Employment, the Chairman or a Direct Reporting Officer, such Participant's Age Discount shall be zero.

Except to true up for an actual short term award paid following Termination of Employment, there shall be no recalculation of a Participant's SRIP Benefit following a Participant's Termination of Employment.

If a Participant who has commenced payment of his or her SRIP Benefit dies, his or her Beneficiary shall be entitled to receive the remaining SRIP Benefit in accordance with the Benefit Payout Alternative elected or deemed elected by the Participant. If the Participant had elected the Lump Sum Benefit, such Beneficiary may make an election under Section 3.8. If a Participant dies while in active service, Section 4 shall apply.

Notwithstanding any other provision of this Plan, upon any Termination of Employment of the Participant for a reason other than death or Disability, SBC shall have no obligation to the Participant under this Plan if the Participant has less than 5 Years of Service at the time of Termination of Employment.

3.2 Disability.

Upon a Participant's Disability and application for benefits under the Social Security Act as now in effect or as hereinafter amended, the Participant will continue to accrue Years of Service during his or her Disability until the earliest of his or her:

(a) Recovery from Disability,

(b) Retirement (determined without regard to the 5 Years of Service requirement otherwise applicable to certain Participants age 55 or older), or

(c) Death.

Upon the occurrence of either (a) Participant's recovery from Disability prior to his or her Retirement Eligibility if Participant does not return to employment, or (b) Participant's Retirement (determined without regard to the 5 Years of Service requirement otherwise applicable to certain Participants age 55 or older), the Participant shall be entitled to receive a SRIP Benefit in accordance with Section 3.1.

For purposes of calculating the foregoing benefit, the Participant's Final Average Earnings shall be determined using his or her Earnings history as of the date of his or her Disability.

If a Participant who continues to have a Disability dies prior to his or her Retirement Eligibility (without regard to the 5 Years of Service requirement otherwise applicable to certain Participants age 55 or older), the Participant will be treated in the same manner as if he or she had died while in employment (See Section 4.1).

3.3 Benefit Payout Alternatives.

The normal form of a Participant's benefits hereunder shall be a Life with 10-Year Certain Benefit as described in Section 3.3(a). However, a Participant may elect in his or her Agreement or in a subsequently filed election to convert his or her benefits hereunder, into one of the Benefit Payout Alternatives described in Section 3.3(b), 3.3(c) or 3.3(d).

(a) Life with a 10-Year Certain Benefit. An annuity payable during the longer of (i) the life of the Participant or (ii) the 10-year period commencing on the date of the first payment and ending on the day next preceding the tenth anniversary of such date (the "Life With 10-Year Certain Benefit"). If a Participant who is receiving a Life with 10-Year Certain Benefit dies prior to the expiration of the 10-year period described in this Section 3.3(a), the Participant's Beneficiary shall be entitled to receive the remaining Life With 10-Year Certain Benefit installments which would have been paid to the Participant had the Participant survived for the entire such 10-year period.

(b) Joint and 100% Survivor Benefit. A joint and one hundred percent (100%) survivor annuity payable for life to the Participant and at his or her death to his or her Beneficiary, in an amount equal to one hundred percent (100%) of the amount payable during the Participant's life, for life (the "Joint and 100% Survivor Benefit").

(c) Joint and 50% Survivor Benefit. A joint and fifty percent (50%) survivor annuity payable for life to the Participant and at his or her death to his or her Beneficiary, in an amount equal to fifty percent (50%) of the amount payable during the Participant's life, for life (the "Joint and 50% Survivor Benefit").

(d) Lump Sum Benefit. Effective for a Termination of Employment on or after June 19, 2001, if the Participant has attained the age of fifty-five years as of his or her Termination of Employment, the Participant is eligible to receive a lump sum benefit as described in Section 3.4 or Section 3.6.

The Benefit Payout Alternatives described in Section 3.3(b), 3.3(c) and 3.3(d) shall be the actuarially determined equivalent (as determined by the Administrative Committee in its complete and sole discretion) of the Life With 10-Year Certain Benefit that is converted by such election.

Any election made pursuant to this Section 3.3 may be made in the Participant's Agreement or in a timely filed benefit payout election form. A Participant may elect in his or her Agreement or in a timely filed benefit payout election form to defer the time by which he or she is required to elect one of the foregoing forms of Benefit Payout Alternatives. A benefit payout election form is timely filed only if it is delivered by the Participant, in writing, telecopy, email or in another electronic format, to the Administrative Committee no later than the last day of the calendar year preceding the calendar year in which Participant's Termination of Employment takes place or other benefit payment under this Plan commences.

If a Participant's Agreement or benefit payout election form fails to show an election of a Benefit Payout Alternative, or if the Participant having chosen to defer his or her benefit election, fails to make a timely election of benefits, such Participant shall be deemed to have elected and such Participant's form of benefit shall be the Life With 10-Year Certain Benefit which is described in Section 3.3(a).

Notwithstanding the foregoing, in the event of the death of a designated annuitant during the life of the Participant, the Participant's election to have a Benefit Payout Alternative described in Section 3.3(b) or 3.3(c) shall be deemed to be revoked, in which event, subject to the conditions and limitations specified in the immediately preceding paragraph, or within the ninety-day period following the death of the annuitant if such period would end later than the time allowed for an election by the immediately preceding paragraph, the Participant may elect to have his or her benefit, or remaining benefit, under the Plan, as the case may be, paid in any of the forms described in Sections 3.3(a), 3.3(b) or 3.3(c). In the event the Participant's designated annuitant predeceases the Participant and the Participant fails to make a timely election in accordance with the provisions of the immediately preceding sentence, the Participant's benefit, or remaining benefit, as the case may be, shall be paid or reinstated, as the case may be, in the form of a Life With 10-Year Certain Benefit as described in Section 3.3(a). Any conversion of benefit from one form to another pursuant to the provisions of this paragraph shall be subject to actuarial adjustment (as determined by the Administrative Committee in its complete and sole discretion) such that the Participant's new benefit is the actuarial equivalent of the Participant's remaining prior form of benefit. Payments pursuant to Participant's new form of benefit shall be effective commencing with the first monthly payment for the month following the death of the annuitant.

Notwithstanding any other provision of this Plan to the contrary, payment in the form of a Benefit Payout Alternative described in Section 3.3(b) or 3.3(c), with a survivor annuity for the benefit of the Participant's spouse as Beneficiary, may be waived by the annuitant with the consent of the Participant in the event of the divorce (or legal separation) of said annuitant from said Participant. In such event, the Participant's benefit shall be reinstated to the remainder of the Life with 10-Year Certain Benefit as described in Section 3.3(a) (i.e., the 10-Year period as described in Section 3.3(a) shall be the same 10-year period as if such form of benefit was the form of benefit originally selected and the expiration date of such period shall not be extended beyond its original expiration date) effective commencing with the first monthly payment following receipt of the waiver and Participant consent in a form acceptable to the Administrative Committee. A waiver of the type described in this paragraph shall be irrevocable.

3.4 Lump Sum Benefit Election.

A Participant who has attained the age of fifty-five (55) years as of his or her Termination of Employment and whose Termination of Employment occurs after December 31, 2001 shall be eligible to make an election for a Lump Sum Benefit. A Lump Sum Benefit Election may be made in the calendar year immediately preceding the calendar year in which the Participant attains age fifty-five (55); provided , however , such election shall not be effective unless the Participant attains age fifty-five on or before such Participant's Termination of Employment, and, in such event, the Participant shall be deemed to have elected the Benefit Payout Alternative described in Section 3.3(a).

The amount of such Participant's Lump Sum Benefit shall be calculated as of the Participant's Termination of Employment applying the Mortality Tables and the GAAP Rate, both as in effect as of the end of the calendar year immediately preceding the Participant's Termination of Employment, but using the Participant's age, Years of Service and other factors as of the Participant's Termination of Employment.

3.5 Lump Sum Benefit Deferral Right for Participant Who Has a Termination of Employment On or After December 31, 2001.

A Participant who elects a Lump Sum Benefit under Sections 3.3(d) and 3.4 may, contemporaneous with such Lump Sum Benefit election, elect to defer all or a portion of the Lump Sum Benefit (including any interest accrued thereon as provided in Section 3.7) in accordance with a payment schedule timely elected by the Participant; provided, however , (i) the Participant must defer the receipt of one hundred percent (100%) of such Lump Sum Benefit (including any interest thereon) until the later of (A) his or her Termination of

Employment or (B) March 1 of the calendar year in which the Participant realizes a Termination of Employment; (ii) the Participant must defer the receipt of at least seventy percent (70%) of such Lump Sum Benefit (excluding any interest accrued thereon as provided in Section 3.7) until at least the third (3 rd) anniversary of such Participant's Termination of Employment; and (iii) the Participant may not defer the receipt of all or any portion of such Lump Sum Benefit, including any interest accrued thereon, beyond the twentieth (20 th) calendar year after such Participant's Termination of Employment. The payment schedule elected by a Participant must comply with the rules for payment schedules as adopted by the Administrative Committee (as determined by the Administrative Committee in its sole and absolute discretion), which, for example, may require payment of principal to be made no more frequently than once per calendar year.

If a Participant who timely elects to defer the receipt of a Lump Sum Benefit under this Section 3.5 fails to timely elect a payment schedule or if such Participant's timely filed payment schedule does not comply with the rules for payment schedules, (i) thirty percent (30%) of such Participant's Lump Sum Benefit shall be paid to the Participant upon the later of (A) such Participant's Termination of Employment, or (B) March 1 of the calendar year in which the Participant realizes a Termination of Employment, and (ii) the remaining seventy percent (70%) (plus any interest accrued thereon as provided in Section 3.7) shall be paid to the Participant on the third (3 rd) anniversary of such Participant's Termination of Employment.

3.6 Special Lump Sum Benefit Election and Deferral Right for Participant Who Has a Termination of Employment On or After June 19, 2001 and On or Before December 31, 2001.

A Participant who has a Termination of Employment on or after June 19, 2001 and on or before December 31, 2001 and who is 55 years of age or older on his or her Termination of Employment may, on or before December 31, 2001, file an election for a Lump Sum Benefit, and, contemporaneous with such Lump Sum Benefit election, elect to defer all or a portion of the Lump Sum Benefit (including any interest accrued thereon as provided in Section 3.7) in accordance with a timely filed payment schedule elected by the Participant; provided, however , (i) the Participant must defer the receipt of one hundred percent (100%) of such Lump Sum Benefit (excluding any interest thereon) until March 1, 2002; (ii) the Participant must defer the receipt of at least seventy percent (70%) of such Lump Sum Benefit (excluding any interest accrued thereon as provided in Section 3.7) until at least the third (3 rd) anniversary of such Participant's Termination of Employment; and (iii) the Participant may not defer the receipt of all or any portion of such Lump Sum Benefit (including any interest accrued thereon) beyond the twentieth (20 th) calendar year after such Participant's Termination of Employment. Unless the Participant elects otherwise, if SRIP Benefits have commenced at the time of the Lump Sum election, they shall continue until March 1, 2002. The payment schedule elected by a Participant must comply with the rules for payment schedules as adopted by the Administrative Committee (as determined by the Administrative Committee in its sole and absolute discretion).

If a Participant who timely elects to defer the receipt of a Lump Sum Benefit under this Section 3.6 fails to timely elect a payment schedule or if such Participant's timely filed payment schedule does not comply with the rules for payment schedules, (i) thirty percent (30%) of such Participant's Lump Sum Benefit shall be paid to the Participant upon March 1, 2002, and (ii) the remaining seventy percent (70%) (plus any interest accrued thereon as provided in Section 3.7) shall be paid to the Participant on the third (3 rd) anniversary of such Participant's Termination of Employment.

3.7 Lump Sum Benefit Account Balance.

The Administrative Committee shall maintain a Lump Sum Benefit account balance on its books and records for each Participant (or Beneficiary) that elects a Lump Sum Benefit. During such period of time that all or any portion of a Participant's Lump Sum Benefit is not paid, interest shall be credited using the same methodology used by SBC for financial accounting purposes using the GAAP Rate that was used to calculate such Participant's Lump Sum Benefit. Payments of principal and interest shall be deducted from the Lump Sum Benefit account balance.

3.8 One-Time Acceleration of Deferred Lump Sum Benefit.

Participants who realize a Termination of Employment on or after June 19, 2001 who timely elected a Lump Sum Benefit under Section 3.3(d) may make a one-time, irrevocable election to accelerate the payment of their unpaid Lump Sum Benefit, if any, subject to the following conditions and limitations. The Participant's election to accelerate his unpaid Lump Sum Benefit, if any, must be received by the Administrative Committee on or before the last day of the calendar year immediately preceding the calendar year in which such unpaid Lump Sum Benefit distribution is to be made. Such distribution shall be made on March 1 of the calendar year immediately following the calendar year in which such acceleration election is made (the "Accelerated Distribution Date"); provided , however , a Participant who makes a Lump Sum Benefit acceleration election pursuant to this Section 3.8 whose Termination of Employment occurred within three (3) years of the Accelerated Distribution Date shall receive thirty percent (30%) of such Lump Sum Benefit on the Accelerated Distribution Date and the remaining seventy percent (70%) of such Lump Sum Benefit (plus accrued interest as provided in Section 3.7) on the third (3 rd) anniversary of such Participant's Termination of Employment.

4 Death Benefits.

4.1 Death.

If a Participant dies prior to his or her Retirement, a pre-retirement death benefit will be calculated and paid as though the Participant had Retired (determined without regard to the 5 Years of Service requirement otherwise applicable to certain Participants age 55 or older) on the day prior to the date of death. Notwithstanding the provisions of Section 3.3, if a Participant's Agreement or benefit payout

election form fails to show an election of a Benefit Payout Alternative, or if the Participant, having chosen to defer his benefit election, failed to make a timely election of a Benefit Payout Alternative prior to his or her death, the form of the pre-retirement death benefit shall, at the option of the Participant's Beneficiary, be either the Life With 10-Year Certain Benefit form of the Participant's benefit, a Beneficiary Life Annuity (as such term is hereinafter described) based on the life expectancy of the Beneficiary, or, if the Participant was eligible to make a Lump Sum Benefit election as of his or her date of death, a Lump Sum Benefit (calculated in the manner described in this Section 4.1). If paid as a Beneficiary Life Annuity based on the Life of the Beneficiary, such benefit shall be the actuarially determined equivalent (as determined by the Administrative Committee in its complete and sole discretion) of the Life With 10-Year Certain Benefit; provided , however , should the Beneficiary die prior to the payment to the Beneficiary of the total dollar amount of the Life with 10-Year Certain Benefit, the remaining dollar balance of such Life With 10-Year Certain Benefit shall be paid in accordance with the Participant's beneficiary designation and the Rules at the same monthly rate of payment as would have been the monthly payment pursuant to the 10-year payment schedule had the Life With 10-Year Certain Benefit been selected. For purposes of this Section 4.1, a Lump Sum Benefit shall be calculated in the same manner as provided in Section 3.4 as if the Participant were alive; e.g., calculated as of the Participant's Death applying the Mortality Tables and the GAAP Rate, both as in effect as of the end of the calendar year immediately preceding the Participant's Death, but using the Participant's age, Years of Service and other factors as of the Participants date of death.

4.2 Disability.

In the event that a Participant terminates employment prior to Retirement by reason of a Disability that entitles the Participant to continue to accrue Years of Service until Retirement Eligibility pursuant to Section 3.2 and thereafter dies after attaining Retirement Eligibility (without regard to the 5 Years of Service requirement otherwise applicable to certain Participants age 55 or older), the Employer shall pay to the Participant's Beneficiary the Death Benefit specified in Section 4.1 based on the Participant's Monthly Earnings for the twelve (12) months preceding his or her Disability. No death benefit shall be payable if the Participant dies prior to attaining Retirement Eligibility (without regard to the 5 Years of Service requirement otherwise applicable to certain Participant's age 55 or older).

4.3 Termination of Employment.

If a Participant terminates employment other than by reason of Disability prior to Retirement Eligibility (without regard to the 5 Years of Service requirement otherwise applicable to certain Participants age 55 or older), no death benefit shall be payable to the Participant's Beneficiary.

5 Payment.

5.1 Commencement of Payments.

Notwithstanding the designation of a specific date for payment of a distribution hereunder, commencement of payments under this Plan may be delayed for administrative reasons in the discretion of the Administrative Committee, but shall begin not later than sixty (60) days following the occurrence of an event which entitles a Participant (or a Beneficiary) to payments under this Plan.

5.2 Withholding; Unemployment Taxes.

To the extent required by the law in effect at the time payments are made or deferred hereunder, any taxes required to be withheld by the Federal or any state or local government shall be withheld from payments or deferrals made hereunder.

5.3 Recipients of Payments; Designation of Beneficiary.

All payments to be made under the Plan shall be made to the Participant during his or her lifetime, provided that if the Participant dies prior to the completion of such payments, then all subsequent payments under the Plan shall be made to the Participant's Beneficiary or Beneficiaries.

In the event of the death of a Participant, distributions/benefits under this Plan shall pass to the Beneficiary (ies) designated by the Participant in accordance with the Rules.

5.4 Additional Benefit.

The reduction of any benefits payable under the SBC Pension Benefit Plan ("SBCPBP"), which results from participation in the SBC Senior Management Deferred Compensation Program of 1988, will be restored under this Plan.

5.5 No Other Benefits.

No benefits shall be paid hereunder to the Participant or his or her Beneficiary except as specifically provided herein.

5.6 Small Benefit.

Notwithstanding any election made by the Participant, the Administrative Committee in its sole discretion may pay any benefit in the

form of a lump sum payment if the lump sum equivalent amount is or would be less than $10,000 when payment of such benefit would otherwise commence.

5.7 Special Increases.

5.7.1 1990 Special Increase.

Notwithstanding any other provision of this Plan to the contrary:

(a) Effective July 1, 1990, the monthly pension benefit amount then being paid hereunder to a retired Participant whose Plan payments began before January 1990 shall be increased by 1/30 of 5.0% for each month from and including January 1988 or the month in which said Participant's pension payments began, whichever is later, through and including June 1990, inclusive.

(b) Effective July 1, 1990, the present and/or future monthly payment hereunder of a surviving annuitant of a Participant whose Plan payments began before January 1990 or of a Participant who died in active service before January 1990, shall be increased by the same percentage as the related pension was or would have been increased under the provisions of Paragraph (a) of this Section 5.7.1.

5.7.2 Enhanced Management Pension (EMP) Flow-Through for Participant Receiving Other than an SBCPBP "Cash Balance" Benefit.

Notwithstanding any other provision of this Plan to the contrary:

(a) Effective December 30, 1991, a Participant who as of the date of his or her Retirement satisfies the requirements for a service pension under the terms of the SBCPBP as it existed prior to December 30, 1991, shall have his or her SRIP Benefit determined without subtracting any increase in his or her SBCPBP (or successor plan) pension amount attributable to the Enhanced Management Pension ("EMP") provisions thereof, i.e., EMP benefits will "flow-through" to the Participant; provided, however, such additional benefit amounts corresponding to term of employment extending beyond age 65 through application of the EMP provisions shall be subtracted.

(b) EMP flow-through shall not apply in the case of any person who becomes an Eligible Employee after December 31, 1997.

5.7.3 1993 Special Increase and Subsequent Special Increases.

Notwithstanding any other provision of this Plan to the contrary:

Effective July 1, 1993, the monthly pension benefit amount then being paid hereunder to (1) all retired Participants whose Plan payments began before July 1, 1993, (2) then current and contingent annuitants of such retired Participants who elected one of the Plan's survivor annuities and (3) then current annuitants of employees who before July 1, 1993 died in active service shall be increased in the same percentages as the SBCPBP ad hoc pension increase percentages effective July 1, 1993.

(b) Any time after July 1, 1993 that the SBCPBP is amended to provide for an ad hoc pension increase for SBCPBP nonbargained participants, the same percentage increase shall apply to Plan benefit amounts.

6 Conditions Related to Benefits.

6.1 Administration of Plan.

The Administrative Committee shall be the sole administrator of the Plan and will, in its discretion, administer, interpret, construe and apply the Plan in accordance with its terms. The Administrative Committee shall further establish, adopt or revise such rules and regulations as it may deem necessary or advisable for the administration of the Plan. All decisions of the Administrative Committee shall be final and binding unless the Board of Directors should determine otherwise.

6.2 No Right to SBC Assets.

Neither a Participant nor any other person shall acquire by reason of the Plan any right in or title to any assets, funds or property of any SBC company whatsoever including, without limiting the generality of the foregoing, any specific funds or assets which SBC, in its sole discretion, may set aside in anticipation of a liability hereunder, nor in or to any policy or policies of insurance on the life of a Participant owned by SBC. No trust shall be created in connection with or by the execution or adoption of this Plan or any Agreement, and any benefits which become payable hereunder shall be paid from the general assets of SBC. A Participant shall have only a contractual right to the amounts, if any, payable hereunder unsecured by any asset of SBC.

6.3 Trust Fund.

SBC shall be responsible for the payment of all benefits provided under the Plan. At its discretion, SBC may establish one or more trusts, for the purpose of providing for the payment of such benefits. Such trust or trusts may be irrevocable, but the assets thereof shall be subject to the claims of SBC's creditors. To the extent any benefits provided under the Plan are actually paid from any such trust, SBC shall have no further obligation with respect thereto, but to the extent not so paid, such benefits shall remain the obligation of, and shall be paid by SBC.

6.4 No Employment Rights.

Nothing herein shall constitute a contract of continuing employment or in any manner obligate any SBC company to continue the service of a Participant, or obligate a Participant to continue in the service of any SBC company and nothing herein shall be construed as fixing or regulating the compensation paid to a Participant.

6.5 Modification or Termination of Plan.

This Plan may be modified or terminated at any time in accordance with the provisions of SBC's Schedule of Authorizations. A modification may affect present and future Eligible Employees. SBC also reserves the sole right to terminate at any time any or all Agreements. In the event of termination of the Plan or of a Participant's Agreement, a Participant shall be entitled to benefits hereunder, if prior to the date of termination of the Plan or of his or her Agreement, such Participant has attained 5 Years of Service, in which case, regardless of the termination of the Plan/Participant's Agreement, such Participant shall be entitled to benefits at such time as provided in and as otherwise in accordance with the Plan and his or her Agreement, provided, however, Participant's benefit shall be computed as if Participant had terminated employment as of the date of termination of the Plan or of his or her Agreement; provided further, however, Participant's service subsequent to Plan/Agreement termination shall be recognized for purposes of reducing or eliminating the Age discount provided for by Section 3.1(d). No amendment, including an amendment to this Section 6.5, shall be effective, without the written consent of a Participant, to alter, to the detriment of such Participant, the benefits described in this Plan as applicable to such Participant as of the effective date of such amendment. For purposes of this Section 6.5, an alteration to the detriment of a Participant shall mean a reduction in the amount payable hereunder to a Participant to which such Participant would be entitled if such Participant terminated employment at such time, or any change in the form of benefit payable hereunder to a Participant to which such Participant would be entitled if such Participant terminated employment at such time. Any amendment which reduces Participant's benefit hereunder to adjust for a change in his or her pension benefit resulting from an amendment to any company-sponsored defined benefit pension plan which changes the pension benefits payable to all employees, shall not require the Participant's consent. Written notice of any amendment shall be given to each Participant.

6.6 Offset.

If at the time payments or installments of payments are to be made hereunder, a Participant or his or her Beneficiary or both are indebted to any SBC company, then the payments remaining to be made to the Participant or his or her Beneficiary or both may, at the discretion of the Board of Directors, be reduced by the amount of such indebtedness; provided, however, that an election by the Board of Directors not to reduce any such payment or payments shall not constitute a waiver of such SBC company's claim for such indebtedness.

6.7 Change in Status.

In the event of a change in the employment status of a Participant to a status in which he is no longer an Eligible Employee, the Participant shall immediately cease to be eligible for any benefits under this Plan except such benefits as had previously vested. Only Participant's Years of Service and Earnings history prior to the change in his employment status shall be taken into account for purposes of determining Participant's vested benefits hereunder.

7 Miscellaneous.

7.1 Nonassignability.

Neither a Participant nor any other person shall have any right to commute, sell, assign, transfer, pledge, anticipate, mortgage or otherwise encumber, transfer, hypothecate or convey in advance of actual receipt of the amounts, if any, payable hereunder, or any part thereof, which are, and all rights to which are, expressly declared to be unassignable and non-transferable. No part of the amounts payable shall, prior to actual payment, be subject to seizure or sequestration for the payment of any debts, judgments, alimony or separate maintenance owed by a Participant or any other person, nor be transferable by operation of law in the event of a Participant's or any other person's bankruptcy or insolvency.

7.2 Non-Competition.

Notwithstanding any other provision of this Plan, all benefits provided under the Plan with respect to a Participant shall be forfeited and canceled in their entirety if the Participant, without the consent of SBC and while employed by SBC or any subsidiary thereof or within three (3) years after termination of such employment, engages in competition with SBC or any subsidiary thereof or with any business with which SBC or a subsidiary or affiliated company has a substantial interest (collectively referred to herein as "Employer business") and fails to cease and desist from engaging in said competitive activity within 120 days following receipt of written notice from SBC to Participant demanding that Participant cease and desist from engaging in said competitive activity. For purposes of this Plan, engaging in competition with any Employer business shall mean engaging by the Participant in any business or activity in the same geographical

market where the same or substantially similar business or activity is being carried on as an Employer business. Such term shall not include owning a nonsubstantial publicly traded interest as a shareholder in a business that competes with an Employer business. However, engaging in competition with an Employer business shall include representing or providing consulting services to, or being an employee of, any person or entity that is engaged in competition with any Employer business or that takes a position adverse to any Employer business. Accordingly, benefits shall not be provided under this Plan if, within the time period and without the written consent specified, Participant either engages directly in competitive activity or in any capacity in any location becomes employed by, associated with, or renders service to any company, or parent or affiliate thereof, or any subsidiary of any of them, if any of them is engaged in competition with an Employer business, regardless of the position or duties the Participant takes and regardless of whether or not the employing company, or the company that Participant becomes associated with or renders service to, is itself engaged in direct competition with an Employer business.

7.3 Notice.

Any notice required or permitted to be given to the Administrative Committee under the Plan shall be sufficient if in writing and hand delivered, or sent by certified mail, to the principal office of SBC, directed to the attention of the Senior Vice President-Human Resources. Any notice required or permitted to be given to a Participant shall be sufficient if in writing and hand delivered, or sent by certified mail, to Participant at Participant's last known mailing address as reflected on the records of his or her employing company or the company from which the Participant incurred a Termination of Employment, as applicable. Notice shall be deemed given as of the date of delivery or, if delivery is made by mail, as of the date shown on the postmark or on the receipt for certification.

7.4 Validity.

In the event any provision of this Plan is held invalid, void or unenforceable, the same shall not affect, in any respect whatsoever, the validity of any other provision of this plan.

7.5 Applicable Law.

This Plan shall be governed and construed in accordance with the laws of the State of Texas to the extent not preempted by the Employee Retirement Income Security Act of 1974, as amended, and regulations thereunder ("ERISA").

7.6 Plan Provisions in Effect Upon Termination of Employment.

The Plan provisions in effect upon a Participant's Termination of Employment shall govern the provision of benefits to such Participant. Notwithstanding the foregoing sentence, the benefits of a Participant whose Retirement occurred prior to February 1, 1989, shall be subject to the provisions of Section 3.3 hereof.

SUPPLEMENTAL RETIREMENT INCOME PLAN AGREEMENT

THIS AGREEMENT is made and entered into at San Antonio, Texas as of this _____ day of _____, by and between SBC Communications Inc. ("SBC") and _____ ("Participant").

WHEREAS, SBC has adopted a Supplemental Retirement Income Plan (the "Plan"); and

WHEREAS, the Participant has been determined to be eligible to participate in the Plan; and

WHEREAS, the Plan requires that an agreement be entered into between SBC and Participant setting out certain terms and benefits of the Plan as they apply to the Participant;

NOW, THEREFORE, SBC and the Participant hereby agree as follows:

1. The Plan is hereby incorporated into and made a part of this Agreement as though set forth in full herein. The parties shall be bound by, and have the benefit of, each and every provision of the Plan as set forth in the Plan.

2. The Participant was born on _____, and his or her present employment began on _____,

3. 3. The Participant's "Retirement Percent" which is described in the Plan shall be _____ percent (__%)

4. Election as to Form of Benefits. The Participant elects the Benefit Payout Alternative listed below next to which the Participant has subscribed his or her initials. If no option is initialed, the Participant's form of benefit under the Plan shall be the Life With 10-Year Certain Benefit, which is listed under a. below:

_____ a.Life with 10-Year Certain Benefit described in Section 3.3(a) of the Plan.

_____ b.Joint and 100% Survivor Benefit described in Section 3.3(b) of the Plan.

_____ c.Joint and 50% Survivor Benefit described in Section 3.3(c) of the Plan.

_____ d.The Participant elects the Benefit Payout Alternative as shown on the Supplemental Retirement Income Plan (SRIP) Benefit Election form attached hereto and incorporated herein for all purposes (the "Form"). The Participant may change this election at any time prior to the end of the calendar year immediately preceding the Participant's Termination of Employment. The Participant's election in effect at the end of the calendar year immediately preceding the Participant's Termination of Employment time will control the distribution of benefits under the Plan. If the Participant has not elected a Benefit Payout Alternative prior to the end of the calendar year immediately preceding the Participant's Termination of Employment, the Participant's form of benefit under the Plan shall be the Life With 10-Year Certain Benefit.

This Agreement supersedes all prior Supplemental Retirement Income Plan Agreements between SBC and Participant, and any amendments thereto, and shall inure to the benefit of, and be binding upon, SBC, its successors and assigns, and the Participant and his or her Beneficiaries.

IN WITNESS WHEREOF, the parties hereto have signed and entered into this Agreement on and as of the date first above written.

SBC COMMUNICATIONS INC.:

By: _____
Senior Executive Vice President-Human Resources

PARTICIPANT:

Due Date:

Form SRIP-4 (9/01)

Supplemental Retirement Income Plan (SRIP)

Payment Election

Name: Social Security Number:

1. Form of Payment

I hereby elect the following form of benefit for my SRIP benefit in accordance with and subject to the terms of the Plan:

a. ____Life with 10-Year Certain Benefit. Complete Section 4.
b. ____Joint and 100% Survivor Benefit. Complete Section 4.
c. ____Joint and 50% Survivor Benefit. Complete Section 4.
d. ____Lump Sum. Complete Section 2. (Only available if age 54 or older at time of election and age 55 or older at termination of employment).
e. ____Defer making an election until no later than the last day of the calendar year preceding the calendar year in which my termination of employment takes place or my SRIP benefit commences. Complete Section 4.

Default Distribution: If a payment election is not on file as of the last day of the year prior to your retirement or termination, the form of benefit shall be the Life with10-Year Certain Benefit.

2. SRIP Lump Sum Deferral Amount

You must defer the receipt of at least seventy percent (70%) of your lump sum (excluding accrued interest thereon) until at least the third anniversary of your retirement (the “70% Rule”). Please indicate below the portion of your lump sum that you wish to defer:
I wish to defer _____% (not less than 70%). Any portion not deferred will be paid within 60 days following my termination of employment. Complete Section 3.

Note: You have a one-time right to accelerate the distribution of your deferred balance by making an election prior to the first day of the calendar year in which you desire to receive an accelerated distribution of your deferred balance.

3. Distribution Election for Deferred Lump Sum and Accrued Interest ("Deferred Balance")

Please indicate how you would like your deferred balance distributed.

- Complete Section 3a if you wish to receive monthly interest only payments. You must also complete Section 3b to elect how to receive your remaining deferred balance.
- Complete Section 3b to specify distribution of your deferred balance. Subject to the 70% Rule, payment will begin within 60 days of your retirement date if you elect distribution in your year of retirement.
- The deferred balance must be distributed no later than the 20th anniversary of your retirement.
- If applicable, the dates you complete in Section a and b cannot overlap.

a. **Interest Paid Monthly**
Please distribute interest on my deferred balance paid monthly commencing _____(month/year) through _____(month/year).
Note: Also complete Section 3b to elect payment of deferred balance.

b. **Ratable Distribution Over a Period of Years**
Please make an annual payment of my deferred balance on March 1st of each year paid for _____ (insert number from 1 through 20) year(s) commencing _____(insert year). Please choose one distribution method as follows:

☐ Paid ratably for the period(s) selected in 3b. (e.g. 1/20th, 1/19th, 1/18th.... If payment is requested over 20 years).
☐ Paid in equal annual installments for the period(s) selected in 3b. Note: You may not request more than 30% of your lump sum within 36 months following retirement. Complete Section 4.

4. Authorization

I hereby authorize and make the above elections.

Signature Date

Please return to Executive Compensation Staff
175 E. Houston, 3-N-1, San Antonio, Texas 78205

SBC Communications Inc.

SENIOR MANAGEMENT DEFERRED COMPENSATION PLAN OF 1988

Effective For Units of Participation
Having A Unit Start Date Of
January 1, 1988 Or Later And
Prior To January 1, 1991

Effective: January 1, 1988
As amended through April 1, 2002

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SENIOR MANAGEMENT
DEFERRED COMPENSATION PLAN OF 1988

Section 1 Statement of Purpose. The purpose of the Senior Management Deferred Compensation Plan of 1988 is to provide retirement, death, or termination-of-employment benefits to a select group of management employees consisting of Eligible Employees of SBC Communications Inc. (the "Company") and its Subsidiaries ("Participating Companies").

Section 2 Definitions . For the purposes of this Plan, the following words and phrases shall have the meanings indicated, unless the context clearly indicates otherwise.

1. Administrative Committee. "Administrative Committee" means a committee of three or more members, at least one of whom is a Senior Manager, who shall be designated by the Vice President-Human Resources to administer the Plan pursuant to Section 3.

2. Agreement. "Agreement" means the written agreement entitled "Senior Management Deferred Compensation Plan of 1988 Agreement" (substantially in the form attached to this Plan) that shall be entered into by the Employer and a Participant with respect to each Unit of Participation to carry out the Plan with respect to such Participant.

3. Annualized Total Unit Deferral Amount. The "Annualized Total Unit Deferral Amount" means the Total Unit Deferral Amount divided by four.

4. Base Salary. "Base Salary" means the Participant's annual base salary before reduction pursuant to this Plan or any plan of the Employer whereby compensation is deferred, including but not limited to a plan whereby compensation is deferred in accordance with Section 401(k) of the Internal Revenue Code.

5. Beneficiary. "Beneficiary" means the person or persons designated as such in accordance with Section 9.

6. Board. "Board" means the Board of Directors of SBC Communications Inc.

7. Compensation. "Compensation" means the Participant's monthly Base Salary plus any other compensation that is normally matched in the SBC Communications Inc. Savings Plan for Salaried Employees before reduction for compensation deferred pursuant to this Plan or any plan of the Employer whereby compensation is deferred, including but not limited to a plan whereby compensation is deferred in accordance with Section 401(k) of the Internal Revenue Code.

8. Declared Rate. "Declared Rate" means with respect to any Plan Year the interest rate which will be credited during such Plan Year on a Participant's Deferred Compensation Accounts for Units of Participation which have not yet commenced benefit payments. The Declared Rate for each Plan Year will be determined by the Administrative Committee, in its complete and sole discretion, and will be announced on or before January 1 of the applicable Plan Year; provided that in no event will the Declared Rate for any Plan Year be less than the Moody's Corporate Bond Yield Average-Monthly Average Corporates as published by Moody's Investor's Service, Inc. (or any successor thereto) for the month of September before the Plan Year in question, or, if such yield is no longer published, a substantially similar average selected by the Administrative Committee.

9. Deferral Amount. "Deferral Amount" means an amount of Base Salary deferred with respect to a Unit of Participation under this Plan.

10. Deferred Compensation Account. "Deferred Compensation Account" means the account maintained on the books of account of the Employer for each Participant for each Unit of Participation pursuant to Section 5.1.

11. Disability. "Disability" means a disability as defined in the SBC Communications Inc. Sickness and Accident Disability Benefit Plan or the SBC Communications Inc. Senior Management Long Term Disability Plan covering the Participant, as applicable.

12. Intentionally Omitted.

13. Intentionally Omitted.

14. Intentionally Omitted.

15. Early Retirement. "Early Retirement" means the termination of a Participant's employment with Employer for reasons other than death prior to Normal Retirement and on or after the date Participant attains age 55.

16. Election Form. The "Election Form" means an Eligible Employee's written election to participate in the Plan with respect to each Unit of Participation in accordance with Section 4.

17. Eligible Employee. "Eligible Employee" means an Employee of the Employer who (a) is in active service, (b) is a Senior Manager or has an employment status which has been approved by the Board or its Chairman to be eligible to participate in this Plan, and (c) who continuously maintains the employment status upon which eligibility to participate in this Plan was based.

18. Employee. "Employee" means any person employed by the Employer on a regular full-time salaried basis.

19. Employer. "Employer" means SBC Communications Inc. or any of its Subsidiaries.

20. Normal Retirement. "Normal Retirement" means attainment of age 65 during a Participant's employment with Employer irrespective of whether there is a termination of Participant's employment with Employer.

21. Participant. "Participant" means an Employee participating in the Plan in accordance with the provisions of Section 4.

22. Plan Year. "Plan Year" means the calendar year.

23. Projected Employer Contribution. "Projected Employer Contribution" means for purposes of computing the Pre-Retirement Survivor Benefit with respect to a Unit of Participation pursuant to Section 6.6(a), the product of (i) the Company Match Rate Expressed as a Percent* as in effect at the time of the Unit Start Date, times the Participant's annual Base Salary at the Unit Start Date minus (a) any Employer matching contribution determined as of the Unit Start Date associated with said Base Salary at the Unit Start Date which is then being contributed or is to be contributed to the Salaried Savings Plan and minus (b) any Employer matching contribution which has previously been allocated to a Unit of Participation under this or any other Employer deferred compensation plan and (ii) the number of years in the Unit Deferral Period for the Unit of Participation.

24. Rotational Work Assignment Company (`RWAC"). shall mean Bell Communications Research, Inc. ("Bellcore"), formerly the Central Services Organization, Inc., and/or any other entity with which SBC Communications Inc. or any of its Subsidiaries may enter into an agreement to provide an employee for a rotational work assignment.

25. Retirement Benefit Option. "Retirement Benefit Option" means with respect to any Unit of Participation the Retirement Benefit payment option described in Section 6.

26. Senior Manager. "Senior Manager" means an individual employed by Employer in a position having a Salary Grade of 29 or above or equivalent.

27. SBC Communications Inc. Savings Plan for Salaried Employees. "SBC Communications Inc. Savings Plan for Salaried Employees" or "Salaried Savings Plan" means the SBC Communications Inc. Savings Plan for Salaried Employees or any successor plan to such plan adopted by the Employer. Participants from any Subsidiary, permitted to participate in this Plan, shall be treated as participating in the SBC Communications Inc. Savings Plan for Salaried Employees for purposes of calculating any matching Employer contributions.

* **The Company Match Rate Expressed as a Percent means the maximum percent of salary that can be received as Employer matching contribution under the SBC Communications Inc. Savings Plan for Salaried Employees, e.g., a match of 66 2/3% of the amount of basic allotment (up to 6%) of salary results in a Company Match Rate Expressed as a Percent of .667 x 6% -- 4%.**

28. Subsidiary. A "Subsidiary" of the Company is any corporation, partnership, venture or other entity in which the Company has, either directly or indirectly, at least a 10% ownership interest.

29. Total Unit Deferral Amount. "Total Unit Deferral Amount" means the sum of all amounts of Base Salary deferred during the Unit Deferral Period with respect to a Unit of Participation, as shown in Exhibit A of Participant's Agreement for that Unit of Participation.

30. Unit Deferral Period. "Unit Deferral Period" means the number of months the Participant elects to reduce his Base Salary with respect to a Unit of Participation, as shown in Exhibit A of Participant's Agreement for that Unit of Participation. The Unit Deferral Period for a Unit of Participation will commence on the Unit Start Date and end upon the earliest to occur of the following: (i) the last day of the forty-eight (48) month period which commenced with the Unit Start Date, or (ii) when the Participant terminates employment, terminates the Unit of Participation or ceases to be an Eligible Employee as described in Section 6.4 of the Plan. In no event shall the Unit Deferral Period for a Unit of Participation end later than forty-eight (48) months after the Unit Start Date.

31. Unit of Participation. "Unit of Participation" means a stated Total Unit Deferral Amount and associated Employer contributions which provide stated benefits pursuant to Section 6 in accordance with the Participant's Agreement for that Unit of Participation.

32. Unit Start Date. "Unit Start Date" means the date for commencement of deferrals shown in Exhibit A of a Participant's Agreement for a given Unit of Participation. The Unit Start Date will be January 1, unless the Administrative Committee, in its sole discretion permits a new Participant to elect a Unit Start Date within 30 days after such Participant first becomes an Eligible Employee.

Section 3 Administration of the Plan.

The Administrative Committee shall be the sole administrator of the Plan and will administer the Plan, interpret, construe and apply its provisions in accordance with its terms. The Administrative Committee shall further establish, adopt or revise such rules and regulations as it may deem necessary or advisable for the administration of the Plan. All decisions of the Administrative Committee shall be final and binding.

Section 4 Participation.

4.1 Election to Commence a Unit of Participation. Any Eligible Employee may elect to commence deferral of Base Salary with respect to a Unit of Participation under the Plan by filing a completed Election Form with the Administrative Committee prior to the beginning of the Unit Start Date. Pursuant to said Election Form, the Eligible Employee shall elect a Total Unit Deferral Amount and a Unit Deferral Period to be specified in Exhibit A of Participant’s Agreement with respect to such Unit of Participation.

The combination of deferrals from all of the Participant’s Units of Participation including the Unit of Participation with respect to which the Participant is electing to commence deferrals and from Units of Participation under the SBC Communications Inc. Senior Management Deferred Compensation Plan (“SBC DCP”), must be at least six percent (6%) of Participant’s Base Salary at the Unit Start Date for the Unit of Participation with respect to which the Participant is electing to commence deferrals. A Unit of Participation shall require a minimum Annualized Total Unit Deferral Amount of $1,000. The sum of the Participant’s contributions, if any, to the SBC Communications Inc. Savings Plan for Salaried Employees plus the Annualized Total Unit Deferral Amounts for all Units of Participation under this Plan and under the SBC DCP in a given Plan Year may not exceed thirty percent (30%) of a Participant’s Compensation for that Plan Year.

4.2 Termination of Election. A Participant’s election to defer Base Salary is irrevocable upon the filing of his Election Form with the Administrative Committee, provided, however, that the election may be terminated with respect to Base Salary not yet paid by mutual agreement in writing between the Participant and the Administrative Committee. Such termination if approved shall be effective beginning the first day of the month following the execution of such mutual agreement.

Section 5 Deferred Compensation.

5.1 Deferred Compensation Account. The Administrative Committee shall establish and maintain a separate Deferred Compensation Account for each Participant for each Unit of Participation. The amount by which a Participant’s Base Salary is reduced each month pursuant to Section 4.1 and the amount of Employer contribution allocated to the Participant’s Units of Participation pursuant to Section 5.3 with respect to any Unit of Participation shall be credited by the Employer to the Participant’s Deferred Compensation Account for such Unit of Participation no later than the first day of the following month, and such Deferred Compensation Account shall be debited by the amount of any payments made by the Employer to the Participant or the Participant’s Beneficiary with respect to such Unit of Participation pursuant to this Plan.

With respect to each Unit of Participation, the Deferred Compensation Account of a Participant shall be deemed to bear interest from the date such Deferred Compensation Account was established through the date of commencement of benefit payments at a rate equal to the applicable Declared Rate for the particular Plan Year on the balance from month-to-month in such Deferred Compensation Account. Interest will be credited monthly to the Deferred Compensation Account at one-twelfth of the annual Declared Rate, compounded annually. Following the commencement of benefit payments with respect to a Unit of Participation, a Participant’s Deferred Compensation Account shall be deemed to bear interest on the balance in such Deferred Compensation Account from month-to-month at a rate equal to one-twelfth of the average of the annual Declared Rates for the five (5) Plan Years ending prior to commencement of benefit payments (or, if the Plan has been in operation for less than five (5) Plan Years,

the average of the Declared Rates for all Plan Years ending prior to commencement of benefit payments).

5.2 Participant Deferrals. The Participant's Total Unit Deferral Amount is deferred in equal amounts on a monthly basis over the Unit Deferral Period or as otherwise may be permitted by the Administrative Committee. The amount deferred each month with respect to a given Unit of Participation shall be credited by the Employer to the Participant's Deferred Compensation Account for that Unit of Participation no later than the first day of the following month.

The Participant will be permitted to defer an additional amount equal to all or a portion of his Short Term Incentive Award. A Participant shall not be permitted to "defer" into the Plan any monies that are not compensation paid by Employer. Any additional deferrals by a Participant with respect to a given Unit of Participation shall not affect Total Unit Deferral Amount and shall not result in any change in the maximum Employer contribution pursuant to Section 5.3 for the Plan Year during which the additional deferral is made. In no event shall any such additional deferral by a Participant result in any reduction in the amounts by which the Participant's Base Salary is reduced pursuant to Exhibit A to the Participant's Agreement with respect to such Unit of Participation prior to completion of deferral of the Total Unit Deferral Amount for such Unit of Participation. Participant's election to defer all or a portion of his Short Term Incentive Award shall be filed with the Administrative Committee (on a form to be provided by said Committee for such purpose) prior to the beginning of the fiscal year during which such Award is earned.

Such additional deferral amount shall be considered a separate part of Participant's Deferred Compensation Account, shall be subject to the terms thereof except survivor benefits, and shall be paid out in the same manner as the rest of such Deferred Compensation Account.

5.3 Employer Contribution. Participation in this Plan does not preclude participation in the SBC Communications Inc. Savings Plan for Salaried Employees. For a given Plan Year, the aggregate Employer contribution to both the SBC Communications Inc. Savings Plan for Salaried Employees and this Plan on behalf of a Participant will be an amount equal to the Company Match Rate Expressed as a Percent as in effect during all or portions of that Plan year times the Participant's Compensation as in effect during all or portions of that Plan Year which is contributed or deferred for that Plan Year by the Participant in accordance with each plan, respectively. Any such amount of Employer contribution not allocated to the SBC Communications Inc. Savings Plan for Salaried Employees will be credited to the Participant's Deferred Compensation Accounts, as applicable. The amount or percent of a Participant's Base Salary to be allocated to Basic Allotments in the SBC Communications Inc. Savings Plan for Salaried Employees shall be specified in Paragraph 3 of a Participant's Agreement.

5.4 Vesting of Deferred Compensation Account. A Participant's interest in his Deferred Compensation Account shall vest at the same rate and in the same manner as it would under the SBC Communications Inc. Savings Plan for Salaried Employees, as in effect from time to time, had both the Deferral Amount and the Employer contribution to this Plan with respect to that Deferral Amount for any given Unit of Participation been contributed instead to the SBC Communications Inc. Savings Plan for Salaried Employees. For this purpose all years of service recognized under the SBC Communications Inc. Savings Plan for Salaried Employees, for purposes of determining a Participants vested interest under that plan, shall be taken into account in determining the Participant's vested interest under this Plan.

5.5 Valuation of Accounts. The value of a Deferred Compensation Account as of any date shall equal the amounts theretofore credited to such account plus the interest on such account credited in accordance with Section 5.1 through the day preceding such date.

5.6 Statement of Accounts. Each Participant will receive annual statements in such form as the Administrative Committee deems desirable setting forth the balance standing to the credit of each of the Participant's Deferred Compensation Accounts.

Section 6 Retirement Benefits. Section 6 shall apply to all Units of Participation under this Plan. The benefits specified in this Section 6 shall be provided under the Retirement Benefit Option.

6.1 Normal Retirement. Upon Normal Retirement, with respect to a Unit of Participation, the Employer shall pay to the Participant an equal amount each month for one hundred eighty (180) months, beginning on the first day of the month next following the date of Normal Retirement, which will amortize over such one hundred eighty (180) equal monthly payments the sum of (a) the value of the Deferred Compensation Account for such Unit of Participation as of the date of commencement of benefit payments, plus (b) the interest that will accrue on the unpaid balance in such Deferred Compensation Account during such one hundred eighty (180) month period pursuant to Section 5.1 ("Standard Retirement Benefit"). Alternatively, a Participant may elect in the Agreement for any Unit of Participation to receive an alternative retirement benefit in lieu of the Standard Retirement Benefit ("Alternative Retirement Benefit") for such Unit of Participation either in a lump sum payment or in sixty (60) or one hundred twenty (120) equal monthly payments, with the amount of each monthly payment to be calculated in accordance with the principle stated in the preceding sentence.

6.2 Early Retirement. Upon Early Retirement, with respect to a Unit of Participation, the Employer shall pay to the Participant an equal amount each month for one hundred eighty (180) months, beginning on the first day of the month next following the date of Early Retirement, which will amortize over such one hundred eighty (180) equal monthly payments the sum of (a) the value of the Deferred Compensation Account for such Unit of Participation as of the date of commencement of benefit payments, plus (b) the interest that will accrue on the unpaid balance in such Deferred Compensation Account during such one hundred eighty (180) month period pursuant to Section 5.1 ("Standard Retirement Benefit"). Alternatively, a Participant may elect in the Agreement for any Unit of Participation to receive an alternative retirement benefit in lieu of the Standard Retirement Benefit ("Alternative Retirement Benefit") for such Unit of Participation either in a lump sum payment or in sixty (60) or one hundred twenty (120) equal monthly payments, with the amount of each monthly payment to be calculated in accordance with the principle stated in the preceding sentence. A Participant may further elect in the Agreement for any Unit of Participation to have the Early

Retirement Benefit for such Unit of Participation commence when he attains age 65.

6.3 Provisions Relating to Manner and Time of Payments. If a Participant's Agreement fails to show an election of a manner of payment of a Normal or Early Retirement Benefit such Participant will receive the Standard Normal or Early Retirement Benefit in accordance with Section 6.1 or Section 6.2, respectively.

In the event that a final determination shall be made by the Internal Revenue Service or any court of competent jurisdiction that by reason of Normal or Early Retirement a Participant has recognized gross income for Federal income tax purposes in excess of the Standard or Alternative Retirement Benefit actually paid by the Employer to which such gross income is attributable, the Employer shall make a lump sum payment to the Participant of the remaining balance of his Deferred Compensation Accounts for any affected Units of Participation. If a benefit is payable to a Participant pursuant to this paragraph for any Unit of Participation, no other benefits shall thereafter be payable under this Plan with respect to such Unit of Participation.

Notwithstanding any election made by the Participant, the Administrative Committee will pay the Participant's Standard or Alternative Retirement Benefit in the form of a lump sum payment if the value of his Deferred Compensation Account for a Unit of Participation is less than $10,000 when payment of a Normal or Early Retirement Benefit with respect to the Unit of Participation would otherwise commence.

6.4 Termination Benefit.

(a) Termination of Employment Before Attaining Age 55. Upon any termination of employment of the Participant for reasons other than death or Disability before the Participant attains age fifty-five (55), the Company shall pay to the Participant, with respect to a Unit of Participation, as compensation earned for services rendered prior to his termination of service, a lump sum equal to the vested portion of the amounts standing credited to his Deferred Compensation Account for such Unit of Participation as of the date of such termination of service ("Termination Benefit").

(b) Termination of a Unit of Participation. A Participant may discontinue a Unit of Participation while continuing in the service of the Employer. Notwithstanding any other provision of the Plan, upon such discontinuance, the Participant shall immediately cease to be eligible for any benefits other than his Termination Benefit with respect to that Unit of Participation except as provided under Section 8.1.

No other benefit shall be payable with regard to such Unit of Participation to either the Participant or any Beneficiary of such Participant. The Participant shall continue to be credited with interest on the amounts standing credited to his Deferred Compensation Accounts as provided under Section 5.1 and to vest in such amounts as provided under Section 5.4 while he remains in employment with the Employer until payment of his Termination Benefit. However, no further Participant deferrals or Employer contributions to this Plan shall be made pursuant to Sections 5.2 or 5.3 with respect to a Unit of Participation after a Participant discontinues or terminates such Unit of Participation.

A Participant shall terminate a Unit of Participation if he terminates his election to defer Base Salary with the approval of the Administrative Committee pursuant to Section 4.2.

(c) Loss of Eligibility. In the event that the Participant ceases to be an Eligible Employee by reason of a change to an employment status which is not eligible to participate in this Plan, except as provided under Section 8.1, the Participant shall immediately cease to be eligible for any benefits other than a modified Termination Benefit which shall consist of a lump sum equal to the vested amounts standing credited to his Deferred Compensation Accounts as of the date of such loss of eligibility, provided the Participant shall continue to be credited with interest on such amounts as provided under Section 5.1 and to vest in such amounts as provided under Section 5.4 while he remains in employment with the Employer. However, no further Participant deferrals or Employer contributions shall be made to this Plan pursuant to Sections 5.2 or 5.3 subsequent to the date of such loss of eligibility. Each such lump sum Termination Benefit shall be payable upon the Participant's termination of employment by the Employer, whether by death, Normal Retirement, Early Retirement or any other means. The provisions of this subparagraph 6.4(c) shall not apply if the Participant in his new employment status is an eligible employee under another similar deferred compensation plan of the Employer. In such event the provisions of Section 8.6 of this Plan shall apply.

(d) No Other Benefits Payable. When a Participant terminates employment, terminates a Unit of Participation or ceases to be an Eligible Employee under circumstances in which Section 6.4(a), (b) or (c) applies, no Survivor Benefit or other benefit shall thereafter be payable under this Plan to either the Participant or any Beneficiary of the Participant with respect to such Unit of Participation except as provided under Section 8.1.

6.5 Disability. In the event that a Participant suffers a Disability, Participant deferrals and Employer contributions that otherwise would have been credited to the Deferred Compensation Accounts of the Participant in accordance with Sections 5.2 and 5.3 will continue to be credited to such Deferred Compensation Accounts at the same time and in the same amounts as they would have been credited if the Participant had not suffered a Disability for as long as he is eligible to receive monthly disability benefits equal to 100 percent of his monthly base salary at the time of his Disability. At such time as the Participant is not eligible to receive monthly disability benefits equal to 100 percent of his monthly

base salary at the time of his Disability, Participant deferrals and Employer contributions that otherwise would have been credited to the Deferred Compensation Accounts of the Participant in accordance with Section 5.2 and 5.3 shall cease.

If the Participant recovers from his Disability and returns within sixty (60) days thereafter to employment with the Employer in an employment status which would make him eligible to participate in this Plan and prior to the end of the original Unit Deferral Period, the Participant shall continue or resume making deferrals, as the case may be, in accordance with Section 5.2 and the Employer shall continue or resume making contributions, as the case may be, in accordance with Section 5.3 until the end of the original Unit Deferral Period.

If the Participant recovers from his Disability, the Participant shall be treated as terminating service with the Employer on the date of his recovery, unless within sixty (60) days thereafter he returns to employment with the Employer in an employment status which makes him eligible to participate in this Plan.

If a Participant's Disability terminates by reason of his death, the rights of his Beneficiary shall be determined pursuant to Section 6.6 as if the Participant had not been disabled but rather had been in service on the date of his death and either died or retired on such date, whichever would be most advantageous to such Beneficiary. If a Participant's Disability terminates by reason of attainment of age 65, the Participant shall upon the attainment of age 65 be entitled to a Normal Retirement Benefit determined pursuant to Section 6.1. If a Participant's Disability terminates by reason of the Participant's election to take Early Retirement under the Plan, the Participant shall be treated as having an Early Retirement on the date elected by the Participant and shall be entitled to an Early Retirement Benefit determined pursuant to Section 6.2.

6.6 Survivor Benefits.

(a) If a Participant dies while in service with the Employer (or while suffering from a Disability prior to attaining age 55) prior to eligibility for Early Retirement with respect to a Unit of Participation, upon the Participant's death the Employer will pay to the Participant's Beneficiary with respect to each Unit of Participation an amount per month, as specified in paragraph 6 of his Agreement, equal to the greater of (i) [(50% of the sum of the Total Unit Deferral Amount plus the Projected Employer Contribution for such Unit of Participation) divided by 12] or (ii) the balance in the Deferred Compensation Account (excluding any Short Term Incentive Award deferred pursuant to Section 5.2 and excluding any interest earned on the Short Term Incentive Award) divided by the number of months payments are to be made as stated below, plus interest in accordance with the interest methodology of Section 6.2. Payments are to be made for the greater of one hundred twenty (120) months or the number of months from the date of Participant's death until he would have been age 65 ("Pre-Retirement Survivor Benefit").

In addition, the Participant's Beneficiary will receive any Short Term Incentive Award associated with such Unit of Participation, deferred pursuant to Section 5.2, plus corresponding interest earned on the Short Term Incentive Award, paid out over the same period as the Pre-Retirement Survivor Benefit and in accordance with the interest methodology of Section 6.2.

(b) If a Participant dies while in service after eligibility for Early Retirement with respect to a Unit of Participation, but prior to commencement of payment of an Early or Normal Retirement Benefit with respect to such Unit of Participation, the Employer will pay to the Participant's Beneficiary the greater of (i) the benefit that such Participant's Beneficiary would have received with respect to such Unit of Participation had the Participant retired and commenced to receive an Early Retirement Benefit on the day prior to such Participant's death or (ii) a benefit equal to the Pre-Retirement Survivor Benefit. The Administrative Committee shall determine which benefit is greater on a present value basis using such interest rate as the Administrative Committee may determine in its sole discretion. Payments will commence upon the Participant's death, irrespective of when Early Retirement Benefit payments would have commenced if the Participant had survived. Such payments shall be made in accordance with the method of payment which the Participant had elected for payment of his Normal or Early Retirement Benefit.

(c) If a Participant dies after Early or Normal Retirement but before commencement of payment of an Early or Normal Retirement Benefit with respect to a Unit of Participation, the Employer will pay to the Participant's Beneficiary the installments of any such benefit that such Participant's Beneficiary would have received with respect to such Unit of Participation had the Participant commenced to receive an Early or Normal Retirement Benefit on the day prior to such Participant's death. Payments will commence upon the Participant's death, irrespective of when Early or Normal Retirement Benefit payments would have commenced if the Participant had survived. Such payments shall be made in accordance with the method of payment which the Participant had elected for payment of his Normal or Early Retirement Benefit.

(d) If a Participant dies after the commencement of payment of an Early or Normal Retirement Benefit with respect to a Unit of Participation, the Employer will pay to the Participant's Beneficiary the remaining installments of any such benefit that would have been paid to the Participant had the Participant survived.

(e) As an additional benefit, if a Participant dies subsequent to eligibility to commence payment of a Standard or Alternative Retirement Benefit, and has a surviving spouse, the Employer shall pay to the spouse commencing on the later of (a) the sixteenth (16th) year after commencement of payment of any Standard or Alternative

Retirement Benefit or (b) the first of the month following the Participant's death, an amount per month for the life of the spouse equal to sixty-six and two-thirds percent (66-2/3%) of the Standard Retirement Benefit. If the spouse is more than three (3) years younger or older than the Participant on the date of Participant's death, the amount of such benefit shall be actuarially adjusted based on standard mortality tables.

6.7 Termination with Retirement Eligibility/Involuntary Termination. Notwithstanding any other provisions of the Plan, if after November 17, 1995, a Participant's employment terminates before the Participant attains age fifty-five, and if such termination is involuntary (which shall be deemed to include termination by reason of death), and is for a reason other than for cause (i.e., willful and gross misconduct on the part of the Participant that is materially and demonstrably detrimental to the Company or any entity in which the Company has at least a 50% ownership interest), and is on or after the date Participant is within five years of being pension eligible, i.e., would be within five years of being eligible to retire with a service pension under the rules for service pension eligibility as in effect under the SBC Pension Benefit Plan, and/or is a Senior Manager within five years of being eligible to retire with an immediate pension based on the eligibility rules of the SBC Senior Management Supplemental Retirement Income Plan, whether or not actually a participant in either such plan, then the provisions of this Section 6.7 shall govern and control with respect to the distribution of the Plan's benefits if the benefits offered by this Section 6.7 are elected. In such case, the Participant, or the Participant's Beneficiary(ies) if the Participant's employment terminates by reason of the Participant's death, may irrevocably elect in writing, in a Waiver Agreement, as described below, filed with the Company, to waive the Termination Benefit or the Pre-Retirement Survivor Benefit, as applicable, with respect to any or all Units of Participation, and in lieu of said Benefit for any such Unit, receive an "Alternative Termination Benefit".

Such Alternative Termination Benefit for a Unit shall be the Unit as described in the Participant's Agreement, provided in accordance with and governed in all respects by the terms of the Plan and said Agreement, except that the Plan and Agreement shall be applied with respect to such Unit as if the Participant had remained in employment and retired upon or after attaining age fifty-five, regardless of Participant's actual termination date. For purposes of applying the Plan and the Agreement, Normal Retirement shall be the Participant's sixty-fifth birthday and Early Retirement shall be the date specified by the Participant as Participant's Early Retirement date, which date shall be specified at the time the waiver Agreement, as described below, is filed with the Company, and which date may be no earlier than Participant's fifty-fifth birthday. In the event of Participant's death prior to age fifty-five, the Alternative Termination Benefit for a Unit, whether such Benefit was elected by the Participant or Participant's Beneficiary(ies), shall be determined, as described below, by applying the Plan and Agreement with respect to such Unit as if the Participant had died upon reaching age fifty-five.

Accordingly, notwithstanding any other provisions of the Plan, for purposes of application of this Section 6.7, in the event a Participant elects an Alternative Termination Benefit in lieu of the Termination Benefit for a Unit, or a Beneficiary(ies) elects to receive an Alternative Termination Benefit in lieu of a Pre-Retirement Survivor Benefit for a Unit, survivor benefits for such Unit shall be determined as follows: (a) If Participant dies on or after the date specified by Participant as Participant's Early Retirement date, Participant's Beneficiary(ies) shall receive the remaining installments of Participant's retirement benefit; or (b) If Participant dies on or after age fifty-five but prior to the date specified by Participant as Participant's Early Retirement date, Participant's Beneficiary(ies) will receive survivor benefits in accordance with Section 6.6(b), i.e., the provision of the Plan that would have applied had Participant's death actually been an in service death which occurred upon or after attainment of age fifty-five, or (c) If Participant's death occurs prior to age fifty-five, Participant's Beneficiary(ies) will receive at such time as Participant would have attained age fifty-five, survivor benefits in accordance with Section 6.6(b), i.e., the provision of the Plan that would have applied had Participant's death actually been an in service death which occurred upon attainment of age fifty-five; and (d) Finally, the benefit described in Section 6.6(e) shall apply commencing on the later of the sixteenth year after commencement of payments pursuant to the Alternative Termination Benefit or the first of the month following Participant's death.

For purposes of computing the Vested Benefits (as such term is used in rabbi trusts ("Trusts") established by the Company for the purpose of providing for the payment of benefits under the Plan) corresponding to an Alternative Termination Benefit, for all Trust purposes, including for purposes of determining the Trust funding level applicable for such Alternative Termination Benefit, the Participant shall be treated for each such Alternative Termination Benefit Unit as if continuing in employment until age fifty-five if the Participant dies before attaining age fifty-five or until the date of Participant's death if Participant dies after attaining age fifty-five or until reaching the Participant's Early Retirement Date for such Unit as selected by the Participant if Participant survives until such date, i.e., the Trust funding for any such Unit and the security afforded Participant or Participant's Beneficiary(ies) thereby shall be no different as a result of this Section 6.7 than they would have been had Participant continued in employment in the absence of this Section 6.7 and lived until at least age fifty-five.

Waiver of a Termination Benefit with respect to a Unit by a Participant, or of a Pre-Retirement Survivor Benefit with respect to a Unit by a Beneficiary(ies), and in either case, receipt of an Alternative Termination Benefit in lieu thereof, shall be conditioned upon the agreement in writing by the Participant, or Participant's Beneficiary (ies), as applicable, at the time of Participant's termination of employment, to provisions substantially as attached.

6.8 Termination Under EPR. Notwithstanding any other provisions of the Plan, if a Participant's employment terminates before the Participant attains age fifty-five, and if such termination is as an EPR Terminee under the Enhanced Pension and Retirement Program ("EPR") of the SBC Pension Benefit Plan-Nonbargained Program ("SBC PBP") or as a Deceased Electing Employee under EPR, and is on or after the date Participant is within five years of being pension eligible, i.e., would be within five years of being eligible to retire with a service pension under

the rules for service pension eligibility as in effect under the SBC PBP, and/or is a Senior Manager within five years of being eligible to retire with an immediate pension based on the eligibility rules of the SBC Supplemental Retirement Income Plan, whether or not actually a participant in either such plan, or a Participant who is age 55 or over terminates employment under EPR, then the provisions of this Section 6.8 shall govern and control with respect to the distribution of the Plan's benefits if the benefits offered by this Section 6.8 are elected. In such case, the Participant, or the Participant's Beneficiary(ies) if the Participant's employment terminates by reason of the Participant's death, may irrevocably elect in writing, in an EPR special election form filed with the Company, to waive the Termination Benefit or the Pre-Retirement Survivor Benefit or the Early Retirement Benefit, as applicable, with respect to any or all Units of Participation, and in lieu of said Benefit for any such Unit, receive an "EPR Alternative Termination Benefit".

Such an EPR Alternative Termination Benefit for a Unit shall be the Unit as described in the Participant's Agreement, provided in accordance with and governed in all respects by the terms of the Plan and said Agreement, except that the Plan and Agreement shall be applied with respect to such Unit, in accordance with Participant's special EPR election form applicable to such Unit, as if the Participant had remained in employment and retired upon the Participant's Early Retirement Date specified in his EPR special election form applicable to such Unit of Participation, regardless of Participant's actual termination date. For purposes of applying the Plan and the Agreement, Normal Retirement shall be the Participant's sixty-fifth birthday and Early Retirement shall be the date specified by the Participant as Participant's Early Retirement date, which date shall be specified in Participant's special EPR election form filed with the Company, and which date may be no earlier than Participant's fifty-fifth birthday. In the event of Participant's death prior to age fifty-five, the EPR Alternative Termination Benefit for a Unit, whether such Benefit was elected by the Participant or Participant's Beneficiary (ies), shall be determined, as described below, by applying the Plan and Agreement with respect to such Unit as if the Participant had died upon or after reaching age fifty-five.

Accordingly, notwithstanding any other provisions of the Plan, for purposes of application of this Section 6.8, in the event a Participant elects an EPR Alternative Termination Benefit in lieu of the Termination Benefit or the Early Retirement Benefit for a Unit, or a Beneficiary(ies) elects to receive an EPR Alternative Termination Benefit in lieu of a Pre-Retirement Survivor Benefit for a Unit, as applicable, survivor benefits for such Unit shall be determined as follows: (a) If Participant dies on or after the date specified by Participant as Participant's Early Retirement date, Participant's Beneficiary(ies) shall receive the remaining installments of Participant's retirement benefit; or (b) If Participant dies on or after age fifty-five but prior to the date specified by Participant as Participant's Early Retirement date, Participant's Beneficiary(ies) will receive survivor benefits in accordance with Section 6.6(b), i.e., the provision of the Plan that would have applied had Participant's death actually been an in service death which occurred upon or after attainment of age fifty-five, or (c) If Participant's death occurs prior to age fifty-five, Participant's Beneficiary(ies) will receive at such time as Participant would have attained age fifty-five, survivor benefits in accordance with Section 6.6(b), i.e., the provision of the Plan that would have applied had Participant's death actually been an in service death which occurred upon attainment of age fifty-five; and (d) Finally, the benefit described in Section 6.6(e) shall apply commencing on the later of the sixteenth year after commencement of payments pursuant to the EPR Alternative Termination Benefit or the first of the month following Participant's death.

For purposes of computing the Vested Benefits (as such term is used in rabbi trusts ("Trusts") established by the Company for the purpose of providing for the payment of benefits under the Plan) corresponding to an EPR Alternative Termination Benefit, for all Trust purposes, including for purposes of determining the Trust funding level applicable for such EPR Alternative Termination Benefit, the Participant shall be treated for each such EPR Alternative Termination Benefit Unit as if continuing in employment until age fifty-five if the Participant dies before attaining age fifty-five or until the date of Participant's death if Participant dies after attaining age fifty-five or until reaching the Participant's Early Retirement Date for such Unit as selected by the Participant if Participant survives until such date, i.e., the Trust funding for any such Unit and the security afforded Participant or Participant's Beneficiary(ies) thereby shall be no different as a result of this Section 6.8 than they would have been had Participant continued in employment in the absence of this Section 6.8 and lived until at least age fifty-five.

Section 7 Intentionally Omitted.

Section 8 Payment of Benefits.

8.1 Intentionally Omitted.

8.2 Small Benefit. Notwithstanding any election made by the Participant, the Administrative Committee will pay any benefit in the form of a lump sum payment if the lump sum equivalent amount is less than $10,000 when payment of such benefit would otherwise commence.

8.3 Emergency Benefit. In the event that the Administrative Committee, upon written petition of the Participant, determines in its sole discretion, that the Participant has suffered an unforeseeable financial emergency, the Employer shall pay to the Participant, as soon as practicable following such determination, the balance of his Deferred Compensation Accounts for one or more Units of Participation as necessary to meet the emergency (the "Emergency Benefit"). For purposes of this Plan, an unforeseeable financial emergency is an unexpected need for cash arising from an illness, casualty loss, sudden financial reversal, or other such unforeseeable occurrence. Cash needs arising from foreseeable events such as the purchase of a house or education expenses for children shall not be considered to be the result of an

unforeseeable financial emergency. Upon payment of an Emergency Benefit with respect to any Unit of Participation, the Unit of Participation shall thereupon terminate, and no other benefits shall be payable under the Plan to either the Participant or any Beneficiary of the Participant with respect to the Unit of Participation.

8.4 Commencement of Payments. Except as otherwise provided in this Plan, commencement of payments under this Plan shall begin sixty (60) days following the event which entitles a Participant (or a Beneficiary) to payments under the Plan, or at such earlier date as may be determined by the Administrative Committee.

8.5 Withholding; Unemployment Taxes. To the extent required by the law in effect at the time payments are made, the Employer shall withhold from payments made hereunder the minimum taxes required to be withheld by the federal or any state or local government.

8.6 Change in Status. In the event of a change in the employment status of a Participant to a status in which he is no longer an Eligible Employee under this Plan, but is an eligible employee under the Management Deferred Compensation Plan of 1988 or another similar deferred compensation plan of the Employer, the Participant and all of his Units of Participation under this Plan shall automatically be transferred to such other deferred compensation plan for which he is then an eligible employee, unless otherwise determined by the Administrative Committee. In the event of any such transfer, the provisions of the other deferred compensation plan to which the Participant transfers shall thereafter determine the rights and benefits of the Participant with respect to all of his Units of Participation, unless otherwise determined by the Administrative Committee. The Employer may, but shall not be required to, enter into revised Agreements with the Participant to carry out the provisions of this Section.

8.7 Transfer to RWAC. Effective August 1, 1990, if a Participant transfers to a RWAC prior to completion of a Unit of Participation, deferrals which would otherwise have been made by the Participant in accordance with Section 5.2 shall continue to be made by the Employer until the Participant resumes employment with the Employer but for a maximum period not to exceed 5 years. Contributions which would have been made by the Employer in accordance with Section 5.3 shall also continue to be made by the Employer during such period as Participant contributions are continued in accordance with the preceding sentence. Benefits applicable during the period of employment at a RWAC (not to exceed 5 years) and the methods used for crediting the Deferred Compensation Account and repaying amounts contributed by the Employer and reducing the Normal Retirement or Early Retirement Benefit paid to the Participant or his Beneficiary shall be the same as those applicable pursuant to Section 6.7 in the case of Disability, i.e., employment at a RWAC shall be deemed a Disability for the purpose of making determinations pursuant to Section 6.7. If the Participant has not resumed employment with the Employer or has not completed a Unit of Participation as result of Employer Contributions within 5 years from date of transfer, a Termination Benefit based on the amounts credited to the Participant's Deferred Compensation Account at the date of transfer shall be paid upon termination of employment with a RWAC or the expiration of such 5 year period whichever is earlier.

8.8 Leave of Absence. If a Participant absents himself from employment on a formally granted leave of absence (i.e., the absence is with formal permission in order to prevent a break in the continuity of the Employee's term of employment which permission is granted in conformity with the rules of the Employer which employs the individual, as adopted from time to time), all of the Participant's Units of Participation shall automatically be frozen upon such leave of absence, unless otherwise determined by the Administrative Committee. No Participant deferrals or Employer contributions shall be made during the leave of absence. However, during the leave of absence (for a period not to exceed six (6) months), the Participant shall continue to be credited with interest on his Deferred Compensation Accounts as provided under Section 5.1 and to vest in such amounts as provided under Section 5.4, and all benefits shall continue to be payable to the Participant and his Beneficiaries in accordance with Section 6 hereof, except in the case of a political leave (i.e., to campaign for or serve when elected to a political office, to serve if appointed to public office or for non-candidate employees to participate in campaigns of candidates for political office). In the case of such a political leave, except as provided under Section 8.1, the only benefit payable if the Participant dies during such leave shall be a Termination Benefit based on the amounts credited to the Participant's Deferred Compensation Accounts, which shall be payable to the Participant's Beneficiary. If the Participant returns to employment with the Employer in an employment status which makes him eligible to participate in this Plan within six (6) months from commencement of the leave of absence, Participant deferrals and Employer contributions will resume until the end of the original Unit Deferral Period. If the Participant has not resumed employment with the Employer in an employment status which makes him eligible to participate in this Plan within six (6) months from the commencement of the leave of absence, a Termination Benefit based on the amounts credited to the Participant's Deferred Compensation Accounts shall be paid to the Participant.

This Section 8.8 shall not apply with respect to any period during which a Participant is suffering from a Disability, and such period of Disability shall not be included under this Section 8.8 as a portion of a period of leave of absence.

8.9 Ineligible Participant. Notwithstanding any other provisions of this Plan to the contrary, if any Participant is determined not to be a "management or highly compensated employee" within the meaning of the Employee Retirement Income Security Act of 1974, as amended (ERISA) or Regulations thereunder, such Participant will not be eligible to participate in this Plan and shall receive an immediate lump sum payment equal to the vested portion of the amounts standing credited to his Deferred Compensation Accounts. Upon such payment no Survivor Benefit or other benefit shall thereafter be payable under this Plan either to the Participant or any Beneficiary of the Participant, except as provided under Section 8.1.

Each Participant shall have the right, at any time, to designate any person or persons as his Beneficiary or Beneficiaries (both primary as well as contingent) to whom payment under this Plan shall be made in the event of his death prior to complete distribution to Participant of the benefits due him under the Plan. Each Beneficiary designation shall become effective only when filed in writing with the Administrative Committee during the Participant's lifetime on a form prescribed by the Administrative Committee with written acknowledgment of receipt.

The filing of a new Beneficiary designation form will cancel all Beneficiary designations previously filed. The spouse of a married Participant domiciled in a community property jurisdiction shall join in any designation of Beneficiary or Beneficiaries other than the spouse.

If a Participant fails to designate a Beneficiary as provided above, or if all designated Beneficiaries predecease the Participant or die prior to complete distribution of the Participant's benefits, then the Administrative Committee shall direct the distribution of such benefits to the Participant's estate.

Section 9 Beneficiary Designation . Each Participant shall have the right, at any time, to designate any person or persons as his Beneficiary or Beneficiaries (both primary as well as contingent) to whom payment under this Plan shall be made in the event of his death prior to complete distribution to Participant of the benefits due him under the Plan. Each Beneficiary designation shall become effective only when filed in writing with the Administrative Committee during the Participant's lifetime on a form prescribed by the Administrative Committee with written acknowledgment of receipt.

The filing of a new Beneficiary designation form will cancel all Beneficiary designations previously filed. The spouse of a married Participant domiciled in a community property jurisdiction shall join in any designation of Beneficiary or Beneficiaries other than the spouse.

If a Participant fails to designate a Beneficiary as provided above, or if all designated Beneficiaries predecease the Participant or die prior to complete distribution of the Participant's benefits, then the Administrative Committee shall direct the distribution of such benefits to the Participant's estate.

Section 10 Discontinuation, Termination, Amendment.

10.1 Employer's Right to Discontinue Offering Units. The Chairman of the Board may at any time discontinue offerings of additional Units of Participation with respect to any or all future Plan Years. Any such discontinuance shall have no affect upon the deferrals or benefits or the terms or provisions of this Plan as applicable to any then previously existing Units of Participation.

10.2 Employer's Right to Terminate Plan. The Board may at any time terminate the Plan. Termination of the Plan shall mean that (1) there shall be no further offerings of additional Units of Participation with respect to any future Plan Year; (2) Base Salary shall prospectively cease to be deferred with respect to all Units of Participation for the then Plan Year and thereafter; and (3) all then currently existing Units of Participation shall be treated as follows:

The Participant's Deferred Compensation Accounts shall be 100% vested. The Participant shall receive or continue to receive all benefits under this Plan at such time as provided in and pursuant to the terms and conditions of his Agreement(s) and as described in this Plan, provided however, any benefits payable under a Unit of Participation that is not completed due to a termination of the Plan under this Section 10.2 shall be prorated based upon the number of months Participant made deferrals with respect to such Unit of Participation divided by the Unit Deferral Period for that Unit of Participation.

10.3 Amendment. The Board may at any time amend the Plan in whole or in part, provided however, that no amendment, including an amendment to this Section 10, shall be effective, without the written consent of a Participant, to alter, to the detriment of such Participant, the benefits described in this Plan as applicable to a Unit of Participation of the Participant or to decrease amounts standing credited to such Participant's Deferred Compensation Accounts under the Plan. For purposes of this Section 10.3, an alteration to the detriment of a Participant shall mean a reduction in the period of time over which benefits are payable under a Participant's Agreement, subject however to the proration provisions of Section 10.2 hereof, or any change in the form of benefits payable to a Participant under the Participant's Agreement. Written notice of any amendment shall be given to each Participant.

Section 11 Miscellaneous.

11.1 Unsecured General Creditor. Participants and their Beneficiaries, heirs, successors, and assigns shall have no legal or equitable rights, interest, or claims in any property or assets of Employer, nor shall they be Beneficiaries of, or have any rights, claims, or interests in any life insurance policies, annuity contracts, or the proceeds therefrom owned or which may be acquired by Employer ("Policies"). Any such Policies or other assets of Employer shall not be held under any trust for the benefit of Participants, their Beneficiaries, heirs, successors, or assigns, or held in any way as collateral security for the fulfilling of the obligations of Employer under this Plan. Any and all of the Employer's assets and Policies shall be, and remain, the general, unpledged, unrestricted assets of Employer. Employer's obligation under the Plan shall be merely that of an unfunded and unsecured promise of Employer to pay money in the future.

11.2 Trust Fund. The Employer shall be responsible for the payment of all benefits provided under the Plan. At its discretion, the Company may establish one or more trusts, for the purpose of providing for the payment of such benefits. Such trust or trusts may be irrevocable, but the assets thereof shall be subject to the claims of the Employer's creditors. To the extent any benefits provided under the Plan are actually paid from any such trust, the Employer shall have no further obligation with respect thereto, but to the extent not so paid, such benefits shall remain the obligation of, and shall be paid by, the Employer.

11.3 Obligations to Employer. If a Participant becomes entitled to a distribution of benefits under the Plan, the Employer may offset against the

amount of benefits otherwise distributable any claim to reimbursement for intentional wrongdoing by the Participant against the Employer or an affiliate. Such determination shall be made by the Administrative Committee.

11.4 Nonassignability. Neither a Participant nor any other person shall have any right to commute, sell, assign, transfer, pledge, anticipate, mortgage, or otherwise encumber, transfer, hypothecate or convey in advance of actual receipt the amounts, if any, payable hereunder, or any part thereof, which are, and all rights to which are, expressly declared to be unassignable and non-transferable. No part of the amounts payable shall, prior to actual payment, be subject to seizure or sequestration for the payment of any debts, judgments, alimony or separate maintenance owed by a Participant or any other person, nor be transferable by operation of law in the event of a Participant's or any other person's bankruptcy or insolvency.

11.5 Employment Not Guaranteed. Nothing contained in this Plan nor any action taken hereunder shall be construed as a contract of employment or as giving any Employee any right to be retained in the employ of the Employer or to serve as a director.

11.6 Protective Provisions. A Participant will cooperate with the Employer by furnishing any and all information requested by the Employer, in order to facilitate the payment of benefits hereunder, taking such physical examinations as the Employer may deem necessary and taking such other relevant action as may be requested by the Employer. If a Participant refuses so to cooperate, the Employer shall have no further obligation to the Participant under the Plan. If a Participant commits suicide during the two-year period beginning on the Unit Start Date for a given Unit of Participation or if the Participant makes any material misstatement of information or non-disclosure of medical history, then no benefits will be payable with respect to that Unit of Participation to such Participant or his Beneficiary, or in the Employer's sole discretion, benefits may be payable in a reduced amount.

11.7 Gender, Singular and Plural. All pronouns and any variations thereof shall be deemed to refer to the masculine or feminine, as the identity of the person or persons may require. As the context may require, the singular may be read as the plural and the plural as the singular.

11.8 Waiver of Benefits. No benefit shall be payable under the provisions of this Plan with respect to any Participant who is or was a member of a group of employees designated by an Employer as eligible to waive such benefit if such Participant has waived such benefit under this Plan unless the Employer by which such Participant is or was last employed has authorized the revocation of such waiver and such Participant has revoked such waiver.

11.9 Captions. The captions of the articles, sections, and paragraphs of this Plan are for convenience only and shall not control nor affect the meaning of construction of any of its provisions.

11.10 Applicable Law. This Plan shall be governed and construed in accordance with the laws of the State of Missouri.

11.11 Validity. In the event any provision of this Plan is held invalid, void, or unenforceable, the same shall not affect, in any respect whatsoever, the validity of any other provision of this Plan.

11.12 Notice. Any notice or filing required or permitted to be given to the Administrative Committee under the Plan shall be sufficient if in writing and hand delivered, or sent by registered or certified mail, to the principal office of the Employer, directed to the attention of the Vice President-Human Resources of the Employer. Such notice shall be deemed given as of the date of delivery or, if delivery is made by mail, as of the date shown on the postmark on the receipt for registration or certification.

11.13 Successors and Assigns. This Plan shall be binding upon the Company and its successors and assigns.

SBC COMMUNICATIONS INC.
SENIOR MANAGEMENT
DEFERRED COMPENSATION PLAN OF 1988 AGREEMENT
19___ UNIT OF PARTICIPATION

THIS AGREEMENT is made and entered into at St. Louis, Missouri as of the _____ day of _____, 19___, by and between SBC Communications Inc. ("Company"), and ("Senior Manager").

WHEREAS, the Company has adopted a Senior Management Deferred Compensation Plan of 1988 (the "Plan"); and

WHEREAS, The Senior Manager has been determined to be eligible to participate in the Plan; and

WHEREAS, the Plan requires that an agreement be entered into between the Company and the Senior Manager setting out certain terms and benefits of the Plan as they apply to the Senior Manager;

NOW, THEREFORE, the Company and the Senior Manager hereby agree as follows:

1. The Plan is hereby incorporated into and made a part of this Agreement, as though set forth in full herein. The parties shall be bound by, and have the benefit of, each and every provision of the Plan, including without limitation the restrictions on assignability set forth in the Plan.

2. The Senior Manager was born on _____.

3. The Senior Manager's basic allotment percentage in the SBC Communications Inc. Savings Plan for Salaried Employees ("Savings Plan") is _____ percent (___%). Any subsequent change in this level of participation by the Senior Manager before this Unit of Participation is completed will void this Agreement and require that a new Agreement be entered into between the Employer and the Senior Manager.

4. The Senior Manager's Base Salary during a calendar year shall be reduced in accordance with Exhibit A attached to this Agreement.

5. The Senior Manager's Projected Employer Contribution associated with this Unit of Participation is set forth in Exhibit A attached to this Agreement. There shall be no duplication of Employer matching contributions, i.e., it is understood that any Employer matching contributions corresponding to Senior Manager deferrals under this Unit of Participation that are contributed to the Plan will preclude Employer matching contributions to the Savings Plan with respect to such Senior Manager deferrals, and vice versa.

6. The amount per month of Pre-Retirement Survivor Benefit in accordance with Section 6.6(a) of the Plan is the greater of (i) $_____, or (ii) the balance in the Deferred Compensation Account (excluding Short Term Incentive Awards deferred and interest earned on such awards) divided by the number of months payments are to be made, plus interest; such amounts shall be payable for the greater of ten (10) years or the number of years from the date of Participant's death until he would have been age 65.

7. The payment option for Participant's 19___ Unit of Participation shall be the Retirement Benefit Option in accordance with Section 6.

This payment option will also apply to payout of any Short Term Incentive Awards deferred and interest earned on such awards. Such payout is not considered part of the Standard Retirement Benefit.

RETIREMENT BENEFIT OPTION

(Paragraphs 8 and 9 apply to benefits paid pursuant to the Retirement Benefit Option.)

8. Upon Normal or Early Retirement, the Participant hereby elects: (please initial (a) or (b))

(a) _____ To receive a Standard Retirement Benefit, payable for a period of one hundred eighty (180) months.

(b) _____ To receive an Alternative Retirement Benefit to be paid in accordance with one of the following payment modes: (please initial one of the following)

(i) _____ In a lump sum payment.

(ii) _____ In equal monthly installments for a period of sixty (60) months.

(iii) _____ In equal monthly installments for a period of one hundred twenty (120) months.

9. The Participant hereby elects to receive any Early Retirement Benefit as follows (please initial (a) or (b)):

(a) _____ Commencing at age 65.

(b) _____ Commencing at Early Retirement.

10. Intentionally Omitted

11. Intentionally Omitted

12. This Agreement shall inure to the benefit of, and be binding upon, the Company, its successors and assigns, and the Senior Manager and his Beneficiaries.

IN WITNESS WHEREOF, the parties hereto have signed and entered into this Agreement on and as of the date first above written.

THE COMPANY: By _____
Its Senior Vice President-Human Resources

SENIOR MANAGER _____ _____
Signature Date

Exhibit A

SBC COMMUNICATIONS INC.
SENIOR MANAGEMENT
DEFERRED COMPENSATION PLAN AGREEMENT

19__ Unit of Participation

Unit Start Date: _____, 19____
Unit Deferral Period: 48 Months

Year	Annual Amount Deferred
1. Unit Start Date: 19__ (commencing the first day of the month of January)	$_____(1)
2. 19__	_____(1)
3. 19__	_____(1)
4. 19__ (ending the last day of the month of December)	_____(1)
Total Unit Deferral Amount	$ _____
Projected Employer Contribution associated with this Unit of Participation	$ _____
Monthly Pre-Retirement Survivor Benefit associated with this Unit of Participation	$ _____

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(1) This amount will be deferred in equal amounts on a monthly basis.

SBC Communications Inc.

SENIOR MANAGEMENT
DEFERRED COMPENSATION PLAN

Effective For Units of Participation
Having a Unit Start Date Prior to
January 1, 1988

Effective: January 1, 1984
As amended through April 1, 2002

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Senior Management
Deferred Compensation Plan

Section 1 Statement of Purpose . The purpose of the Senior Management Deferred Compensation Plan is to provide retirement, death, or termination-of-employment benefits to a select group of highly compensated or management employees consisting of Senior Managers of SBC Communications Inc. (the “Company”) and its Subsidiaries (“Participating Companies”).

Section 2 Definitions . For the purposes of this Plan, the following words and phrases shall have the meanings indicated, unless the context clearly indicates otherwise:

2.1 Administrative Committee . “Administrative Committee” means a committee of three or more members, at least one of whom is a Senior Manager, who shall be designated by the Senior Vice President-Human Resources to administer the Plan pursuant to Section 3.

2.2 Agreement . "Agreement" means the written agreement entitled “Senior Management Deferred Compensation Plan Agreement” (substantially in the form attached to this Plan) that shall be entered into by the Employer and a Participant with respect to each Unit of Participation to carry out the Plan with respect to such Participant.

2.3 Annualized Total Unit Deferral Amount . The “Annualized Total Unit Deferral Amount” means the Total Unit Deferral Amount divided by eight years.

2.4 Beneficiary . “Beneficiary” means the person or persons designated as such in accordance with Section 7.

2.5 Board . “Board” means the Board of Directors of SBC Communications Inc.

2.6 Compensation . “Compensation” means the Participant’s monthly base salary as of the Participant’s Unit Start Date, but before reduction for compensation deferred pursuant to this Plan or any Plan of the Employer whereby compensation is deferred including but not limited to a plan whereby compensation is deferred in accordance with Section 401(k) of the Internal Revenue Code.

2.7 Deferral Amounts For All Units of Participation . “Deferral Amounts for all Units of Participation” means the aggregate amount of Compensation deferred in a given calendar year with respect to all Units of Participation as specified in Exhibit A of a Participant’s Agreements.

2.8 Deferred Compensation Account . “Deferred Compensation Account” means the account maintained on the books of account of the Employer for each Participant pursuant to Section 5.1.

2.9 Disability . “Disability” means a disability as defined in the SBC Communications Inc. Sickness and Accident Disability Benefit Plan and the SBC Communications Inc. Senior Management Long Term Disability Plan covering the Participant.

2.10 Early Retirement . “Early Retirement” means the termination of a Participant's employment with Employer for reasons other than death on or after Participant attains age 55.

2.11 Election Form . The “Election Form” means an Eligible Employee’s written election to participate in the Plan with respect to each Unit of Participation in accordance with Section 4.

2.12 Eligible Employee . “Eligible Employee” means an Employee of the Employer who (a) is in active service, (b) has an employment status which has been approved by the Board or its Chairman to be eligible to participate in this Plan, and (c) who continuously maintains the employment status upon which such approval was based.

2.13 Employee . “Employee” means any person employed by the Employer on a regular full-time salaried basis.

2.14 Employer . “Employer” means SBC Communications Inc. and any of its Subsidiaries.

2.15 Normal Retirement . “Normal Retirement” means termination of a Participant's employment with Employer for reasons other than death on or after the date Participant attains age 65.

2.16 Participant . “Participant” means an Eligible Employee who has entered into an Agreement to participate in the Plan in accordance with the provisions of Section 4.

2.17 Plan Year . “Plan Year” means the calendar year.

2.18 Rotational Work Assignment Company (“RWAC”) shall mean Bell Communications Research, Inc. (“Bellcore”), formerly the Central Services Organization, Inc., and/or any other entity with which SBC Communications Inc. or any of its Subsidiaries may enter into an agreement to provide an employee for a rotational work assignment.

2.19 SBC Communications Inc. Savings Plan for Salaried. Employees . “SBC Communications Inc. Savings Plan for Salaried Employees” means the SBC Communications Inc. Savings Plan for Salaried Employees and any successor plan adopted by the Employer.

2.20 Subsidiary . A “Subsidiary” of the Company is any corporation, partnership, venture or other entity in which the Company has, either directly or indirectly, at least a 10% ownership interest.

2.21 Total Unit Deferral Amount . “Total Unit Deferral Amount” means the sum of all amounts of Compensation deferred during the Unit Deferral Period with respect to a Unit of Participation, as shown in Exhibit A of Participant’s Agreement for that Unit of Participation.

2.22 Unit Deferral Period . “Unit Deferral Period” means the number of months the Participant elects to reduce his Compensation with respect to a Unit of Participation, as shown in Exhibit A of Participant’s Agreement for that Unit of Participation.

2.23 Unit of Participation . A “Unit of Participation” consists of a stated Total Unit Deferral Amount and associated Employer contributions which provide stated benefits in accordance with the Participant’s Agreement for that Unit of Participation.

2.24 Unit Start Date . “Unit Start Date” means the date shown in Exhibit A of a ParticipantW’s Agreement for a given Unit of Participation which follows an Eligible Employee’s election to commence a Unit of Participation under the Plan. For years subsequent to the first year as an Eligible Employee, the Unit Start Date will be January 1, unless the Administrative Committee, in its sole discretion deems that another date is allowable. A Unit of Participation may not commence if the employee cannot complete eight (8) years of participation prior to age 65, unless otherwise permitted by the Administrative Committee.

Section 3 Administration of the Plan .

3.1 Administration of Plan . The Administrative Committee shall be the sole administrator of the Plan and will administer the Plan, interpret, construe and apply its provisions in accordance with its terms. The Administrative Committee shall further establish, adopt or revise such rules and regulations as it may deem necessary or advisable for the administration of the Plan. All decisions of the Administrative Committee shall be final and binding unless the Board of Directors should determine otherwise.

Section 4 Participation .

4.1 Election to Commence a Unit Of Participation . Any Eligible Employee may elect to commence deferral of Compensation with respect to a Unit of Participation in the Plan by filing a completed Election Form with the Administrative Committee prior to the beginning of the Unit Start Date. Pursuant to said Election Form, the Eligible Employee shall elect a Total Unit Deferral Amount and a Unit Deferral Period to be specified in Exhibit A of Participant’s Agreement with respect to such Unit.

The Deferral Amount For All Units of Participation cannot exceed one hundred percent (100%) of Compensation during any calendar year. In order to participate in the Plan, a Participant must defer a minimum of six percent (6%) of his Compensation at the time of commencement of his first Unit of Participation in the Plan. Subsequent additional Units of Participation require a minimum annual Participant deferral of $1,000. The sum of the Participant’s contributions, if any, to the Southwestern Bell Savings Plan for Salaried Employees plus the Annualized Total Unit Deferral Amounts for all Units of Participation in a given year may not exceed thirty percent (30%) of a Participant’s Compensation for that year.

4.2 Termination Of Election . A Participant’s election to defer Compensation is irrevocable upon the filing of his Election Form with

the Administrative Committee, provided, however, that the election may be terminated with respect to Compensation not yet paid by mutual agreement in writing between the Participant and the Administrative Committee. Such termination if approved shall be effective beginning the first day of the month following the execution of such mutual agreement.

Section 5 Deferred Compensation .

5.1 Deferred Compensation Account . The Administrative Committee shall establish and maintain a separate Deferred Compensation Account for each Participant for each Unit of Participation. Each of a Participant's Deferred Compensation Accounts will be credited from time to time with interest on the balance compounded at an eight percent (8%) annual rate.

5.2 Total Unit Deferral Amount . The Participant's Total Unit Deferral Amount is deferred in equal amounts on a monthly basis over the Unit Deferral Period or as otherwise may be permitted by the Administrative Committee. The amount deferred each month with respect to a given Unit of Participation shall be credited by the Employer to the Participant's Deferred Compensation Account for that Unit of Participation on the last day of such month.

The Participant will be permitted to complete deferrals of the Total Unit Deferral Amount on an accelerated basis over a shorter period than the original Unit Deferral Period at such times and in such manner as may be permitted by the Administrative Committee. In this connection the Administrative Committee may permit a Participant to defer an additional amount or percent of his Compensation and/or all or a portion of his Short Term Incentive Award, subject to the limitations contained in Section 4.1. Any acceleration in deferrals by a Participant with respect to a given Unit of Participation shall not increase the Total Unit Deferral Amount and shall not cause any change in the amounts of the benefits payable pursuant to Section 6 on account of such Unit of Participation or any change in the maximum Employer Contribution pursuant to Section 5.3 for the year, but shall be applied proportionally as a credit against the Total Unit Deferral Amount and Equivalent Employer Contribution Shortfall and shorten the length of the Unit Deferral Period for such Unit of Participation. In no event shall any such increase in deferrals by a Participant result in any reduction in the amounts by which the Participant's Compensation is reduced in subsequent years pursuant to Exhibit A to the Participant's Agreement with respect to such Unit of Participation prior to completion of deferral of the Total Unit Deferral Amount for such Unit of Participation. Equivalent Employer Contribution Shortfall shall mean an amount equal to the Employer Contribution that would be associated with the accelerated deferral if said deferral amount was deferred in the manner as originally agreed upon as timely. Amounts credited against Equivalent Employer Contribution Shortfall shall be immediately vested.

5.3 Employer Contribution . Participation in this Plan does not preclude participation in the SBC Communications Inc. Savings Plan for Salaried Employees. For a given year, the aggregate Employer contribution to both the Savings Plan for Salaried Employees and this Plan on behalf of a Participant will be an amount equal to the Company Match Rate Expressed as a Percent* as in effect during all or portions of that year times the Participant's Compensation as in effect during all or portions of that year which is contributed or deferred during that year in accordance with each Plan, respectively. Any amount of Employer contribution not allocated to the Savings Plan for Salaried Employees will be credited to the Participant's Deferred Compensation Accounts. The amount or percent of a Participant's Compensation to be allocated to Basic Allotments in the Savings Plan for Salaried Employees shall be specified in Paragraph 3 of his Agreement.

5.4 Vesting of Deferred Compensation Account . A Participant's interest in his Deferred Compensation Account shall vest at the same rate and in the same manner as it would under the SBC Communications Inc. Savings Plan for Salaried Employees, as in effect from time to time, had both the amount of the Participant's Deferral Amount and the Employer contribution with respect to that Participant's Deferral Amount for any given Unit of Participation been contributed instead to the Savings Plan for Salaried Employees. For this purpose all years of previous participation under the Savings Plan for Salaried Employees, for purposes of determining a Participant's vested interest under that Plan, shall be taken into account in determining the Participant's vested interest under this Plan.

*** The Company Match Rate Expressed as a Percent means the maximum percent of salary that can be received as Employer matching contribution under the SBC Communications Inc. Savings Plan for Salaried Employees, e.g., a match of 66 2/3% of the amount of basic allotment (up to 6%) of salary results in a Company Match Rate Expressed as a Percent of .667 x 6% = 4%.**

Section 6 Benefits .

6.1 Normal Retirement . Upon Normal Retirement, Employer shall pay to Participant the amount per month specified in Paragraph 6 of his Agreement for a period of one hundred eighty (180) months ("Standard Retirement Benefit"). Alternatively, a Participant may elect to receive the present value equivalent of his Standard Retirement Benefit ("Alternative Retirement Benefit"). He may elect in his Agreement to receive this Alternative Retirement Benefit as (i) a lump sum payment, (ii) sixty (60) monthly installments, or (iii) one hundred twenty (120) monthly installments. Any such election once made shall be irrevocable.

Notwithstanding the foregoing, a Participant may elect in his Agreement to defer the time by which he is required to elect the manner of payment of any Alternative Retirement Benefit until no later than the last day of the calendar year preceding the calendar year in which Normal Retirement takes place. Any such deferred election must be made in writing to the Administrative Committee. If a Participant's Agreement fails to show an election of a manner of payment of an Alternative Retirement Benefit, or if the Participant, having chosen to defer his election, fails to make a timely election, such Participant will receive the

Standard Retirement Benefit upon his Normal Retirement.

In the event that a final determination shall be made by the Internal Revenue Service or any court of competent jurisdiction that by reason of Normal Retirement a Participant has recognized gross income for Federal Income tax purposes in excess of the Standard or Alternative Retirement Benefit actually paid by the Employer to which such gross income is attributable, the Employer shall deem the Participant to have elected a lump sum payment of his Alternative Retirement Benefit effective as of his Normal Retirement. Under these circumstances, the Employer shall pay to the Participant in one lump sum, within sixty (60) days of such final determination, an amount equal to the excess of (a) the lump sum Alternative Retirement Benefit that would have been payable to the Participant had the Participant so elected such an Alternative Retirement Benefit in his Agreement plus interest thereon of 10% per annum, compounded annually, from a Participant's Normal Retirement until receipt of such lump sum payment, less (b) any amounts of Standard or Alternative Retirement Benefit theretofore paid to such Participant plus interest thereon at 10% per annum, compounded annually from the date of receipt of each such amount to the date a Participant received such lump sum payment. If a benefit is payable to a Participant pursuant to this paragraph, no other Standard or Alternative Retirement Benefit shall be payable under the Plan.

If a Participant who is entitled to either a Standard or Alternative Retirement Benefit dies after his Normal Retirement, his Beneficiary shall be entitled to receive the remaining installments, if any, of such Standard or Alternative Retirement Benefit.

6.2 Early Retirement . Upon Early Retirement after deferral of a Participant's Total Unit Deferral Amount, Employer shall pay to Participant commencing on the date he attains age sixty-five (65) the Standard or Alternative Retirement Benefit as specified in Paragraphs 6 and 7 of his Agreement.

A Participant may elect in his Agreements to commence payment, following his Early Retirement and completion of deferral of his Total Unit Deferral Amount, of any Standard or Alternative Retirement Benefit at a date prior to the Participant's attainment of age sixty-five (65), but no earlier than eight years following the Unit Start Date. However, in such event, the amount of the Standard Retirement Benefit shall be reduced by the result of multiplying (i) fifty one-hundredths of one percent (0.50%) of such Early Retirement Benefit by (ii) the number of whole and fractional months between the Participant's age on the date of commencement of benefits and the date on which the Participant will attain age sixty-five (65). The amount of any Alternative Retirement Benefit payable pursuant to this paragraph shall be the actuarial equivalent of the Standard Retirement Benefit payable pursuant to this paragraph. Any such election in any Agreement once made shall be irrevocable.

Notwithstanding the foregoing, a Participant may elect in his Agreement to defer the time by which he is required to elect commencement of payment of Standard Retirement Benefit or Alternative Retirement Benefit until no later than the last day of the calendar year preceding the calendar year in which the Participant's Early Retirement takes place. Any such deferred election must be made in writing to the Administrative Committee. If a Participant's Agreements fail to show an election as to timing of commencement of payment of a Standard or Alternative Early Retirement Benefit, or if the Participant, having chosen to defer his election, fails to make a timely election, such Participant's Standard or Alternative Retirement Benefit, if any, shall commence as of the date he reaches age sixty-five (65) in accordance with the first paragraph of this Section 6.2.

In the event that a final determination shall be made by the Internal Revenue Service or any court of competent jurisdiction that by reason of Early Retirement a Participant has recognized gross income for Federal income tax purposes prior to the actual payment to such Participant of the Standard or Alternative Retirement Benefit to which such gross income is attributable, the Employer shall deem the Participant to have elected a Standard or Alternative Retirement Benefit commencing on the date as of which such Participant is determined to have recognized his first payment of Standard or Alternative Retirement Benefit. Under these circumstances, the Employer shall pay to the Participant in one lump sum within sixty (60) days following such final determination an amount equal to the sum of (a) the excess of (i) the aggregate of the payments that would have been made to the Participant through such date had the Participant so elected such a Standard or Alternative Retirement Benefit over (ii) any amounts of Standard or Alternative Retirement Benefits theretofore paid to such Participant and (b) 10% per annum interest, compounded annually, on such payments from the date each would otherwise have been made had such Standard or Alternative Retirement Benefit been elected until the date of actual payment. Thereafter, the Employer shall pay to the Participant the remaining installments of Standard or Alternative Retirement Benefit in accordance with the deemed Standard or Alternative Retirement Benefit election described in the preceding two sentences. If a benefit is payable to a Participant pursuant to this paragraph, no other Standard or Alternative Retirement Benefit shall be payable under the Plan.

If a Participant dies subsequent to commencement of payment of a Standard or Alternative Retirement Benefit, his Beneficiary shall be entitled to receive the remaining installments of Standard or Alternative Retirement Benefit, if any.

If a Participant dies after his Early Retirement or eligibility for Early Retirement and after his eligibility to commence payments of his Standard or Alternative Retirement Benefit, his Beneficiaries will receive his Standard or Alternative Retirement Benefit as if payments had commenced on the date of the Participant's death.

If a Participant dies after his Early Retirement or eligibility for Early Retirement but prior to is eligibility to commence payments of his Standard or Alternative Retirement Benefit, his Beneficiaries will receive a Pre-Retirement Survivor Benefit in accordance with Section 6.4.

6.3 Termination Benefit .

Termination of Employment Before Attaining Age 55 or After Attaining Age 55 but Prior To Completion of Deferral of

a. Total Unit Deferral Amount. Upon any termination of employment of the Participant for reasons other than death before the Participant attains age fifty-five (55), or after the Participant attains age fifty-five (55) but before the Participant completes deferral of his Total Unit Deferral Amount, the Company shall pay to the Participant, with respect to each Unit of Participation if Participant terminates employment before attaining age fifty-five (55), or with respect to each Unit of Participation for which deferrals have not been completed if Participant terminates employment after attaining age fifty-five (55) but before completing deferral of his Total Unit Deferral Amount, as Compensation earned for services rendered prior to his termination of service, a lump sum equal to the vested portion of the amounts standing credited to his Deferred Compensation Account as of the date of such termination of service ("Termination Benefit").

b. Termination of a Unit of Participation . A Participant may discontinue a Unit of Participation while continuing in the service of the Employer. Notwithstanding any other provision of the Plan, upon such discontinuance, the Participant shall immediately cease to be eligible for any benefits other than his Termination Benefit with respect to that Unit of Participation. No other benefit shall be payable with regard to his Unit of Participation to either the Participant or any Beneficiary of such Participant. The Participant shall continue to be credited with interest on the amounts standing credited to his Deferred Compensation Accounts as provided under Section 5.1 and to vest in such amounts as provided under Section 5.4 while he remains in employment with the Employer until payment of his Termination Benefit. However, no further Participant deferrals or Employer contributions shall be made pursuant to Sections 5.2 or 5.3 with respect to a Unit of Participation after a Participant discontinues or terminates such Unit of Participation.

A Participant shall terminate a Unit of Participation if he terminates his election to defer Compensation with the approval of the Administrative Committee pursuant to Section 4.2.

6.4 Pre-Retirement Survivor Benefit . If the Participant dies prior to his eligibility for Early Retirement while in service with the Employer, the Employer shall pay to the Participant's Beneficiary the amount per month specified in paragraph 5 of his Agreement for the greater of one hundred twenty (120 months or the number of months from the date of Participant's death until he would have been age 65 ("Pre-Retirement Survivor Benefit").

6.5 Additional Benefit . The reduction of any benefit payable under the SBC Communications Inc. Management Pension Plan, which results from participation in this Plan, will be restored as an additional benefit under this Plan or any other comparable deferral plan. The Company shall have the option to pay in a lump sum the present value equivalent of the pension retirement benefit (life annuity).

6.6 Survivor Spouse Benefit . If a Participant dies subsequent to eligibility to commence payment of a Standard or Alternative Retirement Benefit, and has a surviving spouse, the Employer shall pay to the spouse commencing on the later of (a) the sixteenth (16th) year after commencement of payment of any Standard or Alternative Retirement Benefit or (b) the first of the month following the Participant's death, an amount per month for the life of the spouse equal to sixty-six and two-thirds percent (66-2/3%) of the Standard Retirement Benefit. If the spouse is more than three (3) years younger or older than the Participant on the date of Participant's death, the amount of such benefit shall be actuarially adjusted based on standard mortality tables.

6.7 Disability . In the event that a Participant suffers a Disability, amounts that otherwise would have been credited to the Deferred Compensation Accounts of the Participant in accordance with Sections 5.2 and 5.3 will continue to be credited to such Deferred Compensation Accounts at the same times and in the same amounts as they would have been credited if the Participant had not suffered a Disability. During such Disability, deferrals shall continue to be made by the Participant in accordance with Section 5.2 for as long as he is eligible to receive monthly disability benefits equal to 100 percent of his monthly base salary at the time of his Disability. If the Participant is no longer eligible to receive monthly disability benefits equal to 100 percent of his monthly base salary at the time of his Disability, the deferrals which would otherwise have been made by the Participant in accordance with Section 5.2 shall be contributed by the Employer. Employer contributions shall continue to be made by the Employer in accordance with Section 5.3.

If the Participant recovers from his Disability and returns to employment with the Employer in an employment status which would make him eligible to participate in this Plan or another similar Deferred Compensation Plan of the Employer, the Participant shall resume making deferrals in accordance with Section 5.2 and shall thereafter repay any amounts which were previously contributed by the Employer in lieu of deferrals which would otherwise have been made by the Participant in accordance with Section 5.2. Such repayment shall be made following the end of the Unit Deferral Period in monthly amounts equal to the Amount Deferred per Month during the Unit Deferral Period as shown on Exhibit A, or such larger amounts as the Participant may elect. The amounts to be repaid by the Participant shall be equal to the amounts contributed by the Employer which would otherwise have been deferred by the Employee pursuant to Section 5.2, compounded at an eleven percent (11%) annual rate on all such amounts from the date of crediting such amounts to the Participant's Deferred Compensation Account until repaid.

All Participant deferrals and Employer contributions shall cease upon the happening of the earliest of the following:

(a) the Participant's death;
(b) the Participant's attainment of age 65; or
(c) the Participant's election to take Early Retirement under the Plan.

If a Participant's Disability terminates by reason of his death, the rights of his Beneficiary shall be those pursuant to

whichever of Section 6.1, 6.2, 6.4, 6.5, or 6.6 would have been applicable if the Participant had not been disabled but rather had been in service on the date of his death and either died or retired on such date, whichever would be most advantageous to such Beneficiary. If a Participant's Disability terminates by reason of (b) above, the Participant shall be treated as having a Normal Retirement upon the attainment of age 65 and shall be entitled to a Normal Retirement Benefit determined pursuant to Section 6.1, subject to reduction as provided below in the following paragraph. If a Participant's Disability terminates by reason of (c) above, the Participant shall be treated as having an Early Retirement on the date elected by the Participant and shall be entitled to an Early Retirement Benefit determined pursuant to Section 6.2, subject to reduction as provided below in the following paragraph.

A reduction shall be made in the Normal Retirement or Early Retirement Benefit paid to the Participant or his Beneficiary, with respect to any Unit of Participation for which a portion of the Total Unit Deferral Amount required under Section 5.2 has been contributed by the Employer rather than from deferrals by the Employee, unless such amount has been repaid by the Employee as described in the second paragraph of this Section 6.7. Each payment of the Normal or Early Retirement Benefit shall be reduced by the amount necessary to amortize over such payments an amount equal to the sum of (i) the amounts contributed by the Employer which would otherwise have been deferred by the Employee pursuant to Section 5.2 plus (ii) the amounts contributed by the Employer pursuant to Section 5.3 which are matching contributions based on amounts described in (i) above, compounded at an eleven percent (11%) annual rate on all such amounts from the date of crediting such amounts to the Participant's Deferred Compensation Account until deducted from amounts paid to the Participant.

6.8 Emergency Benefit . In the event that the Administrative Committee, upon written petition of the Participant, determines in its sole discretion, that the Participant has suffered an unforeseeable financial emergency, the Employer shall pay to the Participant, as soon as practicable following such determination, an amount necessary to meet the emergency not in excess of the Termination Benefit to which the Participant would have been entitled pursuant to Section 6.3 if he had a termination of service on the date of such determination (the "Emergency Benefit"). For purposes of this Plan, an unforeseeable financial emergency is an unexpected need for cash arising from an illness, casualty loss, sudden financial reversal, or other such unforeseeable occurrence. Cash needs arising from foreseeable events such as the purchase of a house or education expenses for children shall not be considered to be the result of an unforeseeable financial emergency. The amount of the benefit otherwise payable under Sections 6.1, 6.2, 6.3, 6.4, 6.5, 6.6 or 6.7 shall thereafter be actuarially adjusted to reflect the early payment of the Emergency Benefit.

6.9 Withholding; Unemployment Taxes . To the extent required by the law in effect at the time payments are made, the Employer shall withhold from payments made hereunder the minimum taxes required to be withheld by the federal or any state or local government.

6.10 Commencement of Payments . Except as otherwise provided in this Plan, commencement of payments under this Plan shall begin sixty (60) days following the event which entitles a Participant (or a Beneficiary) to payments under the Plan, or at such earlier date as may be determined by the Administrative Committee.

6.11 Change in Status . In the event of a change in the employment status of a Participant to a status in which he is no longer an eligible employee under this Plan, but is an eligible employee under the Management Deferred Compensation Plan or another similar deferred compensation plan of the Employer, the Participant and all of his Units of Participation under this Plan shall automatically be transferred to such other deferred compensation plan for which he is then an eligible employee, unless otherwise determined by the Administrative Committee. In the event of any such transfer, the provisions of the other deferred compensation plan to which the Participant transfers shall thereafter determine the rights and benefits of the Participant with respect to all of his Units of Participation, unless otherwise determined by the Administrative Committee. The Employer may, but shall not be required to, enter into revised Agreements with the Participant to carry out the provisions of this Section.

6.12 Transfer to RWAC . Effective August 1, 1990, if a Participant transfers to a RWAC prior to completion of a Unit of Participation, deferrals which would otherwise have been made by the Participant in accordance with Section 5.2 shall continue to be made by the Employer until the Participant resumes employment with the Employer but for a maximum period not to exceed 5 years. Contributions which would have been made by the Employer in accordance with Section 5.3 shall also continue to be made by the Employer during such period as Participant contributions are continued in accordance with the preceding sentence. Benefits applicable during the period of employment at a RWAC (not to exceed 5 years) and the methods used for crediting the Deferred Compensation Account and repaying amounts contributed by the Employer and reducing the Normal Retirement or Early Retirement Benefit paid to the Participant or his Beneficiary shall be the same as those applicable pursuant to Section 6.7 in the case of Disability, i.e., employment at a RWAC shall be deemed a Disability for the purpose of making determinations pursuant to Section 6.7. If the Participant has not resumed employment with the Employer or has not completed a Unit of Participation as result of Employer Contributions within 5 years from date of transfer, a Termination Benefit based on the amounts credited to the Participant's Deferred Compensation Account at the date of transfer shall be paid upon termination of employment with a RWAC or the expiration of such 5 year period whichever is earlier.

6.13 Leave of Absence . Effective January 1, 1985, if a Participant absents himself from employment on a formally granted leave of absence (i.e., the absence is with formal permission in order to prevent a break in the continuity of the Employee's term of employment which permission is granted in conformity with the rules of the Employer which employs the individual, as adopted from time to time) prior to completion of a Unit of Participation, deferrals which would otherwise have been made by the Participant in accordance with Section 5.2 shall continue to be made by the Employer until the Participant resumes employment with the Employer but for a maximum period not to exceed 6 months. Contributions which would have been made by the Employer in accordance with Section 5.3 shall also continue to be made by the Employer during such period as Participant

contributions are continued in accordance with the preceding sentence.

Benefits applicable during the leave of absence (not to exceed 6 months) and the methods used for crediting the Deferred Compensation Account and repaying amounts contributed by the Employer and reducing the Normal Retirement or Early Retirement Benefit paid to the Participant or his Beneficiary shall be the same as those applicable pursuant to Section 6.7 in the case of Disability, i.e., the leave of absence shall be deemed a Disability for the purpose of making determination pursuant to Section 6.7, except in the case of a political leave (i.e., to campaign for or serve when elected to political office, to serve if appointed to public office or for non-candidate employees to participate in campaigns of candidates for political office) the only benefit payable if the Participant dies during such leave shall be a Termination Benefit based on the amounts credited to the Participant's Deferred Compensation Account on the date of commencement of the leave which shall be payable to the Participant's Beneficiary. If the Participant has not resumed employment with the Employer within 6 months from the commencement of the leave of absence, a Termination Benefit based on the amounts credited to the Participant's Deferred Compensation Account at the commencement of the leave of absence shall be paid to the Participant.

Section 6.7 of this Plan and not this Section 6.13 shall apply with respect to any period during which a Participant is suffering a Disability and such period of Disability shall not be included under this Section 6.13 as a portion of a period of leave of absence.

6.14 Ineligible Participant . Notwithstanding any other provisions of this Plan to the contrary, if any Participant is determined not to be a "management or highly compensated employee" within the meaning of the Employee Retirement Income Security act of 1974, as amended (ERISA) or Regulations thereunder, such Participant will not be eligible to participate in this Plan and shall receive an immediate lump sum payment equal to the vested portion of the amounts standing credited to his Deferred Compensation Accounts with interest on the balance compounded at an eight percent (8%) annual rate. Upon such payment no survivor benefit or other benefit shall thereafter by payable under this Plan either to the Participant or any Beneficiary of the Participant, except as provided under Section 6.5.

Section 7 Beneficiary Designation . Each Participant shall have the right, at any time, to designate any person or persons as his Beneficiary or Beneficiaries (both primary as well as contingent) to whom payment under this Plan shall be made in the event of his death prior to complete distribution to Participant of the benefits due him under the Plan. Each Beneficiary designation shall become effective only when filed in writing with the Administrative Committee during the Participant's lifetime on a form prescribed by the Administrative Committee with written acknowledgment of receipt.

The filing of a new Beneficiary designation form will cancel all Beneficiary designations previously filed. The spouse of a married Participant domiciled in a community property jurisdiction shall join in any designation of Beneficiary or Beneficiaries other than the spouse.

If a Participant fails to designate a Beneficiary as provided above, or if all designated Beneficiaries predecease the Participant or die prior to complete distribution of the Participant's benefits, then the Administrative Committee shall direct the distribution of such benefits to the Participant's estate.

Section 8 Termination, Amendment .

8.1 Employer's Right to Terminate Plan . The Board may at any time terminate the Plan. Termination of the Plan shall mean that (1) Base Salary shall prospectively cease to be deferred with respect to all Units of Participation for the then Plan Year and thereafter; and (2) all then currently existing Units of Participation shall be treated as follows:

The Participant's Deferred Compensation Accounts shall be 100% vested. The Participant shall receive or continue to receive all benefits under this Plan at such time as provided in and pursuant to the terms and conditions of his Agreement(s) and as described in this Plan, provided however, any benefits payable under a Unit of Participation that is not completed due to a termination of the Plan under this Section 8.1 shall be prorated based upon the amount in the Deferred Compensation Account for that Unit of Participation as of said Plan termination divided by the Total Unit Deferral amount for that Unit of Participation.

8.2 Amendment . The Board may at any time amend the Plan in whole or in part, provided however, that no amendment, including an amendment to this Section 8, shall be effective, without the written consent of a Participant, to alter, to the detriment of such Participant, the benefits described in this Plan as applicable to a Unit of Participation of the Participant or to decrease amounts standing credited to such Participant's Deferred Compensation Accounts under the Plan. For purposes of this Section 8.2, an alteration to the detriment of a Participant shall mean a reduction in the period of time over which benefits are payable under a Participant's Agreement, subject however to the pro-ration provisions of Section 8.1 hereof, or any change in the form of benefits payable to a Participant under the Participant's Agreement. Written notice of any amendment shall be given to each Participant.

Section 9 Miscellaneous .

9.1 Unsecured General Creditor . Participants and their Beneficiaries, heirs, successors, and assigns shall have no legal or equitable rights, interest, or claims in any property or assets of Employer, nor shall they be Beneficiaries of, or have any rights, claims, or interests in any life insurance policies, annuity contracts, or the proceeds therefrom owned or which may be acquired by

Employer ("Policies"). Any such Policies or other assets of Employer shall not be held under any trust for the benefit of Participants, their Beneficiaries, heirs, successors, or assigns, or held in any way as collateral security for the fulfilling of the obligations of Employer under this Plan. Any and all of the Employer's assets and Policies shall be, and remain, the general, unpledged, unrestricted assets of Employer. Employer's obligation under the Plan shall be merely that of an unfunded and unsecured promise of Employer to pay money in the future.

9.2 Trust Fund . The Employer shall be responsible for the payment of all benefits provided under the Plan. At its discretion, the Company may establish one or more trusts, for the purpose of providing for the payment of such benefits. Such trust or trusts may be irrevocable, but the assets thereof shall be subject to the claims of the Employer's creditors. To the extent any benefits provided under the Plan are actually paid from any such trust, the Employer shall have no further obligation with respect thereto, but to the extent not so paid, such benefits shall remain the obligation of and shall be paid by, the Employer.

9.3 Obligations to Employer . If a Participant becomes entitled to a distribution of benefits under the Plan, the Employer may offset against the amount of benefits otherwise distributable any claims to reimbursement for intentional wrongdoing by the Participant against the Employer or an affiliate. Such determination shall be made by the Administrative Committee.

9.4 Nonassignability . Neither a Participant nor any other person shall have any right to commute, sell, assign, transfer, pledge, anticipate, mortgage, or otherwise encumber, transfer, hypothecate or convey in advance of actual receipt the amounts, if any, payable hereunder, or any part thereof, which are, and all rights to which are, expressly declared to be unassignable and non-transferable. No part of the amounts payable shall, prior to actual payment, be subject to seizure or sequestration for the payment of any debts, judgments, alimony or separate maintenance owed by a Participant or any other person, nor be transferable by operation of law in the event of a Participant's or any other person's bankruptcy or insolvency.

9.5 Employment Not Guaranteed . Nothing contained in this Plan nor any action taken hereunder shall be construed as a contract of employment or as giving any Employee any right to be retained in the employ of the Employer or to serve as a director.

9.6 Protective Provisions . A Participant will cooperate with the Employer by furnishing any and all information requested by the Employer, in order to facilitate the payment of benefits hereunder, taking such physical examinations as the Employer may deem necessary and taking such other relevant action as may be requested by the Employer. If a Participant refuses so to cooperate, the Employer shall have no further obligation to the Participant under the Plan. If a Participant commits suicide during the two-year period beginning on the Unit Start Date for a given Unit of Participation or if the Participant makes any material misstatement of information or non-disclosure of medical history, then no benefits will be payable with respect to that Unit of Participation to such Participant or his Beneficiary, or in the Employer's sole discretion, benefits may be payable in a reduced amount.

9.7 Gender, Singular and Plural . All pronouns and any variations thereof shall be deemed to refer to the masculine or feminine, as the identity of the person or persons may require. As the context may require, the singular may be read as the plural and the plural as the singular.

9.8 Waiver of Benefits . No benefit shall be payable under the provisions of this Plan with respect to any Participant who is or was a member of a group of employees designated by an Employer as eligible to waive such benefit if such Participant has waived such benefit under this Plan unless the Employer by which such Participant is or was last employed has authorized the revocation of such waiver and such Participant has revoked such waiver.

9.9 Captions . The captions of the articles, sections, and paragraphs of this Plan are for convenience only and shall not control nor affect the meaning or construction of any of its provisions.

9.10 Applicable Law . This Plan shall be governed and construed in accordance with the laws of the State of Missouri.

9.11 Validity . In the event any provision of this Plan is held invalid, void, or unenforceable, the same shall not affect, in any respect whatsoever, the validity of any other provision of this Plan.

9.12 Notice . Any notice or filing required or permitted to be given to the Committee under the Plan shall be sufficient if in writing and hand delivered, or sent by registered or certified mail, to the principal office of the Employer, directed to the attention of the Vice President-Human Resources of the Employer. Such notice shall be deemed given as of the date of delivery or, if delivery is made by mail, as of the date shown on the postmark on the receipt for registration or certification.

9.13 Termination With Retirement Eligibility/Involuntary Termination . Notwithstanding any other provisions of the Plan, if after November 17, 1995, a Participant's employment terminates before the Participant attains age fifty-five, and if such termination is involuntary (which shall be deemed to include termination by reason of death), and is for a reason other than for cause (i.e., willful and gross misconduct on the part of the Participant that is materially and demonstrably detrimental to the Company or any entity in which the Company has at least a 50% ownership interest), and is on or after the date Participant is within five years of being pension eligible, i.e., would be within five years of being eligible to retire with a service pension under the rules for service pension eligibility as in effect under the SBC Pension Benefit Plan, and/or is a Senior Manager within five years of being eligible to retire with an immediate pension based on the eligibility rules of the SBC Senior Management Supplemental Retirement Income Plan, whether or not actually a participant in either such plan, then the provisions of this Section 9.13 shall govern and control with respect to the distribution of the Plan's benefits if the benefits offered by this Section 9.13 are elected. In such case, the Participant, or the Participant's Beneficiary(ies) if the Participant's employment terminates by reason of the Participant's death, may irrevocably elect in writing, in a Waiver Agreement, as described below, filed with the Company, to waive the

Termination Benefit or the Pre-Retirement Survivor Benefit, as applicable, with respect to any or all Units of Participation, and in lieu of said Benefit for any such Unit, receive an "Alternative Termination Benefit."

Such Alternative Termination Benefit for a Unit shall be the Unit as described in the Participant's Agreement, provided in accordance with and governed in all respects by the terms of the Plan and said Agreement, except that the Plan and Agreement shall be applied with respect to such Unit as if the Participant had remained in employment and retired upon or after attaining age fifty-five, regardless of Participant's actual termination date. For purposes of applying the Plan and the Agreement, Normal Retirement shall be the Participant's sixty-fifth birthday and Early Retirement shall be the date specified by the Participant as Participant's Early Retirement date, which date shall be specified at the time the Waiver Agreement, as described below, is filed with the Company, and which date may be no earlier than Participant's fifty-fifth birthday. In the event of Participant's death prior to age fifty-five, the Alternative Termination Benefit for a Unit, whether such Benefit was elected by the Participant or Participant's Beneficiary(ies), shall be determined, as described below, by applying the Plan and Agreement with respect to such Unit as if the Participant had died upon reaching age fifty-five.

Accordingly, notwithstanding any other provisions of the Plan, for purposes of application of this Section 9.13, in the event a Participant elects an Alternative Termination Benefit in lieu of the Termination Benefit for a Unit, or a Beneficiary(ies) elects to receive an Alternative Termination Benefit in lieu of a Pre-Retirement Survivor Benefit for a Unit, survivor benefits for such Unit shall be determined as follows: (a) If Participant dies on or after the date specified by Participant as Participant's Early Retirement date, Participant's Beneficiary(ies) shall receive the remaining installments of Participant's retirement benefit; or (b) If Participant dies on or after age fifty-five but prior to the date specified by Participant as Participant's Early Retirement date, Participant's Beneficiary(ies) will receive survivor benefits in accordance with the next to the last paragraph in Section 6.2, i.e., the provision of the Plan that would have applied had Participant's death actually been an in service death which occurred upon or after attainment of age fifty-five; or (c) If Participant's death occurs prior to age fifty-five, Participant's Beneficiary(ies) will receive at such time as Participant would have attained age fifty-five, survivor benefits in accordance with the next to the last paragraph in Section 6.2, i.e., the provision of the Plan that would have applied had Participant's death actually been an in service death which occurred upon attainment of age fifty-five; and (d) Finally, the benefit described in Section 6.6 shall apply commencing on the later of the sixteenth year after commencement of payments pursuant to the Alternative Termination Benefit or the first of the month following Participant's death.

For purposes of computing the Vested Benefits (as such term is used in rabbi trusts ("Trusts") established by the Company for the purpose of providing for the payment of benefits under the Plan) corresponding to an Alternative Termination Benefit, for all Trust purposes, including for purposes of determining the Trust funding level applicable for such Alternative Termination Benefit, the Participant shall be treated for each such Alternative Termination Benefit Unit as if continuing in employment until age fifty-five if the Participant dies before attaining age fifty-five or until the date of Participant's death if Participant dies after attaining age fifty-five or until reaching the Participant's Early Retirement date for such Unit as selected by the Participant if Participant survives until such date, i.e., the Trust funding for any such Unit and the security afforded

Participant or Participant's Beneficiary(ies) thereby shall be no different as a result of this Section 9.13 than they would have been had Participant continued in employment in the absence of this Section 9.13 and lived until at least age fifty-five.

Waiver of a Termination Benefit with respect to a Unit by a Participant, or of a Pre-Retirement Survivor Benefit with respect to a Unit by a Beneficiary(ies), and in either case, receipt of an Alternative Termination Benefit in lieu thereof, shall be conditioned upon the agreement in writing by the Participant, or Participant's Beneficiary(ies), as applicable, at the time of Participant's termination of employment, to provisions substantially as attached.

9.14 Termination Under EPR . Notwithstanding any other provisions of the Plan, if a Participant's employment terminates before the Participant attains age fifty-five, and if such termination is as an EPR Terminee under the Enhanced Pension and Retirement Program ("EPR") of the SBC Pension Benefit Plan-Nonbargained Program ("SBC PBP") or as a Deceased Electing Employee under EPR and is on or after the date Participant is within five years of being pension eligible, i.e., would be within five years of being eligible to retire with a service pension under the rules for service pension eligibility as in effect under the SBC PBP, and/or is a Senior Manager within five years of being eligible to retire with an immediate pension based on the eligibility rules of the SBC Supplemental Retirement Income Plan, whether or not actually a participant in either such plan, or a Participant who is age 55 or over terminates employment under EPR, then the provisions of this Section 9.14 shall govern and control with respect to the distribution of the Plan's benefits if the benefits offered by this Section 9.14 are elected. In such case, the Participant, or the Participant's Beneficiary(ies) if the Participant's employment terminates by reason of the Participant's death, may irrevocably elect in writing, in an EPR special election form accompanied by a Waiver Agreement, as described below, filed with the Company, to waive the Termination Benefit or the Pre-Retirement Survivor Benefit or the Early Retirement Benefit, as applicable, with respect to any or all Units of Participation, and in lieu of said Benefit for any such Unit, receive an "EPR Alternative Termination Benefit."

Such an EPR Alternative Termination Benefit for a Unit shall be the Unit as described in the Participant's Agreement, provided in accordance with and governed in all respects by the terms of the Plan and said Agreement, except that the Plan and Agreement shall be applied with respect to such Unit, in accordance with Participant's special EPR election form applicable to such Unit, as if the Participant had remained in employment and retired upon the Participant's Early Retirement Date specified in his EPR special election form applicable to such Unit of Participation, regardless of Participant's actual termination date. For purposes of applying the Plan and the Agreement, Normal Retirement shall be the Participant's sixty-fifth birthday and Early Retirement shall be the date specified by the Participant as Participant's Early Retirement date, which date shall be specified at the time the Waiver Agreement, as described below, is filed with the Company, and which date may be no earlier than Participant's fifty-fifth

birthday. In the event of Participant's death prior to age fifty-five, the EPR Alternative Termination Benefit for a Unit, whether such Benefit was elected by the Participant or Participant's Beneficiary(ies), shall be determined, as described below, by applying the Plan and Agreement with respect to such Unit as if the Participant had died upon or after reaching age fifty-five.

Accordingly, notwithstanding any other provisions of the Plan, for purposes of application of this Section 9.14, in the event a Participant elects an EPR Alternative Termination Benefit in lieu of the Termination Benefit or the Early Retirement Benefit for a Unit, or a Beneficiary(ies) elects to receive an EPR Alternative Termination Benefit in lieu of a Pre-Retirement Survivor Benefit for a Unit, as applicable, survivor benefits for such Unit shall be determined as follows: (a) If Participant dies on or after the date specified by Participant as Participant's Early Retirement date, Participant's Beneficiary(ies) shall receive the remaining installments of Participant's retirement benefit; or (b) If Participant dies on or after age fifty-five but prior to the date specified by Participant as Participant's Early Retirement date, Participant's Beneficiary(ies) will receive survivor benefits in accordance with the next to the last paragraph in Section 6.2, i.e., the provision of the Plan that would have applied had Participant's death actually been an in service death which occurred upon or after attainment of age fifty-five; or (c) If Participant's death occurs prior to age fifty-five, Participant's Beneficiary(ies) will receive at such time as Participant would have attained age fifty-five, survivor benefits in accordance with the next to the last paragraph in Section 6.2, i.e., the provision of the Plan that would have applied had Participant's death actually been an in service death which occurred upon attainment of age fifty-five; and (d) Finally, the benefit described in Section 6.6 shall apply commencing on the later of the sixteenth year after commencement of payments pursuant to the EPR Alternative Termination Benefit or the first of the month following Participant's death.

For purposes of computing the Vested Benefits (as such term is used in rabbi trusts ("Trusts") established by the Company for the purpose of providing for the payment of benefits under the Plan) corresponding to an EPR Alternative Termination Benefit, for all Trust purposes, including for purposes of determining the Trust funding level applicable for such EPR Alternative Termination Benefit, the Participant shall be treated for each such EPR Alternative Termination Benefit Unit as if continuing in employment until age fifty-five if the Participant dies before attaining age fifty-five or until the date of Participant's death if Participant dies after attaining age fifty-five or until reaching the Participant's Early Retirement date for such Unit as selected by the Participant if Participant survives until such date, i.e., the Trust funding for any such Unit and the security afforded Participant or Participant's Beneficiary(ies) thereby shall be no different as a result of this Section 9.14 than they would have been had Participant continued in employment in the absence of this Section 9.14 and lived until at least age fifty-five.

Waiver of a Termination Benefit or Early Retirement Benefit with respect to a Unit by a Participant, or of a Pre-Retirement Survivor Benefit with respect to a Unit by a Beneficiary(ies), as applicable, and receipt of an EPR Alternative Termination Benefit in lieu thereof, shall be conditioned upon the agreement in writing by the Participant, or Participant's Beneficiary(ies), as applicable, at the time of Participant's termination of employment, to provisions substantially as provided in Exhibit C, hereto.

SBC COMMUNICATIONS INC.
SENIOR MANAGEMENT
DEFERRED COMPENSATION PLAN AGREEMENT

THIS AGREEMENT is made and entered into at St. Louis, Missouri as of the 31st day of December, 1983, by and between SBC COMMUNICATIONS INC. ("Company"), and _____ ("Senior Manager").

WHEREAS, the Company has adopted a Senior Management Deferred Compensation Plan (the "Plan"); and

WHEREAS, the Senior Manager has been determined to be eligible to participate in the Plan; and

WHEREAS, the Plan requires that an agreement be entered into between the Company and the Senior Manager setting out certain terms and benefits of the Plan as they apply to the Senior Manager;

NOW, THEREFORE, the Company and the Senior Manager hereby agree as follows:

1. The Plan is hereby incorporated into and made a part of this Agreement, as though set forth in full herein. The parties shall be bound by, and have the benefit of, each and every provision of the Plan, including without limitation the restrictions on assignability set forth in the Plan.

2. The Senior Manager was born on _____.

3. The Senior Manager's basic allotment percentage in the SBC Communications Inc. Savings Plan for Salaried Employees is ____ percent (__%) of his Compensation. Any subsequent change in this level of participation by the Senior Manager will void this Agreement and require that a new Agreement be entered into between the Employer and the Senior Manager.

4. The Senior Manager's Compensation during a calendar year shall be reduced in accordance with Exhibit A attached to this Agreement.

5. The amount per month of Pre-Retirement Survivor Benefit in accordance with Section 6.4 of the Plan is $_____, payable for the greater of ten (10) years or the number of years from the date of Participant's death until he would have been age 65.

6. The amount per month of Standard Retirement Benefit in accordance with Section 6.1 of the Plan is $_____, payable for a period of 180 months commencing the first day of the month following Participant's 65th birthday.

7. Upon Normal or Early Retirement, the Participant hereby elects: (please initial (a), (b) or (c))

(a) _____ To receive a Standard Retirement Benefit, payable for a period of one hundred eighty (180) months.

(b) _____ To receive an Alternative Retirement Benefit to be paid in accordance with one of the following payment modes: (please initial one of the following:)

(i) _____ In a lump sum payment.

(ii) _____ In equal monthly installments for a period of sixty (60) months.

(iii) _____ In equal monthly installments for a period of one hundred twenty (120) months.

(c) _____ The Participant elects to defer the making of an election as to whether to receive a Standard Retirement Benefit or an Alternative Retirement Benefit until no later than the last day of the calendar year preceding the calendar year in which Normal or Early Retirement takes place.

8. The Participant hereby elects to receive any Early Retirement Benefit as follows (please initial one of the following):

(a) _____ Commencing at age 65.

(b) _____ Commencing at Early Retirement.

(c) _____ The Participant elects to defer the making of an election as to the time of commencement of Standard or Alternative Retirement Benefit until no later than the last day of the calendar year preceding the calendar year in which the Participant's Early Retirement takes place.

9. This Agreement shall inure to the benefit of, and be binding upon, the Company, its successors and assigns, and the Senior Manager and his Beneficiaries.

IN WITNESS WHEREOF, the parties hereto have signed and entered into this Agreement on and as of the date first above written.

THE COMPANY: By _____
Its Senior Vice President-Human Resources

SENIOR MANAGER _____ _____
Signature Date

Exhibit A

SBC COMMUNICATIONS INC.
SENIOR MANAGEMENT
DEFERRED COMPENSATION PLAN AGREEMENT

19____ Unit of Participation

Unit Start Date: _____, 19____ Unit Deferral Period: ____ Months

Year	Annual Amount (1) Deferred
1. Unit Start Date: 1984 (commencing the first day of the month of _____)	$_____
2. 1985	_____

3.	1986	_____
4.	1987	_____
5.	1988	_____
6.	1989	_____
7.	1990	_____
8.	1991	_____
9.	1992 (ending the last day of the month of _____)	_____
	Total Unit Deferral Amount	$ _____

---

(1) This amount will be deferred in equal amounts on a monthly basis.

Exhibit C

AGREEMENT AND RELEASE OF CLAIMS- MANAGER RETIRING UNDER THE ENHANCED PENSION AND RETIREMENT PROGRAM ("EPR") WITH AN 8-YEAR UNIT UNDER THE MANAGEMENT DEFERRED COMPENSATION PLAN ("PLAN")

In consideration for treatment under the EPR provisions of the Plan, Participant agrees as follows:

1. Participant agrees that Participant shall not, without the written consent of Participant's SBC Communications Inc. ("SBC") employing company ("Company"), and while employed by the Company or within three (3) years after termination of employment from Company, engage in competition with SBC or any Subsidiary thereof or with any business with which a Subsidiary of SBC or an affiliated company has a substantial interest (collectively referred to herein as "Employer business"). For purposes of this Agreement, engaging in competition with any Employer business shall mean engaging by Participant in any business or activity in the same geographical market where the same or substantially similar business or activity is being carried on as an Employer business. Such term shall not include owning a nonsubstantial publicly traded interest as a shareholder in a business that competes with an Employer business. However, it is hereby specifically agreed that engaging in competition with an Employer business shall include representing or providing consulting services to, or being an employee of, any person or entity that is engaged in competition with any Employer business or that takes a position adverse to any Employer business in a judicial, regulatory, legislative or administrative proceeding and Participant hereby specifically agrees not to engage in any such conduct. Participant also specifically agrees that a breach of this provision would result if, within the time period and without the written consent specified, Participant either engages directly in competitive activity or in any capacity in any location becomes employed by, associated with, or renders service to any company, or parent or affiliate thereof, or any Subsidiary of any of them, if any of them is engaged in competition with an Employer business, regardless of the position or duties the Participant takes and regardless of whether or not the employing company, or the company that Participant becomes associated with or renders service to, is itself engaged in direct competition with an Employer business.

Participant may submit a description of proposed employment in writing to Company and Company shall advise Participant in writing within ten business days whether such proposed employment would constitute engaging in competition with an Employer business.

2. Participant acknowledges that, as a result of Participant's employment by the Company, Participant had and continued to have until Participant's termination, access to trade secrets, intellectual property, proprietary information, and private non-public information including technological, legal, financial, marketing, personnel and other information (including this Agreement and the Release of Claims contained herein) relating to litigation, the business and contemplated business of the Company and SBC and other matters, all of which is confidential and proprietary to SBC and the Company ("Confidential Information"); and Participant agrees that Participant did not before and will not after Participant's termination, divulge or in any way make available to others through public statements, voluntary testimony, or otherwise, or make use of, alone or in concert with others, any Confidential Information. The aforesaid obligations regarding Confidential Information will not apply to information that is now in or hereafter enters the public domain without a breach of this Agreement and the Release of Claims contained herein, nor shall they apply to information required to be delivered pursuant to a subpoena or similar legislative, judicial or administrative requirement; provided, however, Participant will notify the Company upon receipt of any such subpoena or similar request, and give the Company a reasonable opportunity to contest or otherwise oppose the subpoena or similar request.

Participant may represent himself or herself as a retiree of Company (if Participant is actually Service Pension eligible) or as a former employee who voluntarily terminated employment for a reason other than cause (if Participant is not actually Service Pension eligible); but otherwise Participant agrees that Participant will not make, nor cause to be made any public statements, disclosures or publications which relate in any way, directly or indirectly to Participant's cessation of employment with the Company without prior written approval by the Company. Participant also agrees that Participant will not make, nor cause to be made any public statements, disclosures or publications which portray unfavorably, reflect adversely on, or are derogatory or inimical to the best interests of, the Company, SBC, their Subsidiaries, directors, officers, employees and agents, past, present or future.

3. Participant agrees that during the three (3) year period immediately after termination of Participant's employment with Company, Participant will not solicit any customer of any SBC company on behalf of Participant or any other person or entity or solicit any employee of any SBC company to seek or accept employment with any other person or entity, or disclose confidential information about such employee to any prospective employer or employer other than an SBC company. Participant acknowledges that even an unsuccessful solicitation of an employee of any SBC company will negatively impact the morale, commitment and performance of the employee in question. Participant further acknowledges that any solicitation of either a customer or an employee of any SBC company will result in immediate and irreparable harm to the SBC company, for which there will be no adequate remedy at law, and that the SBC company will be entitled to equitable relief to restrain Participant from violating the terms of this Paragraph 3, in addition to any other remedies available to the SBC Company. In any action brought by any SBC company to enforce the provisions of this Paragraph 3, the prevailing party shall be entitled to recover costs, including, but not limited to, reasonable and actual attorneys' fees.

4. Participant shall forfeit Participant's Alternative Termination Benefit(s) under the EPR provisions of the Plan, for any breach by Participant of the provisions of Paragraph 1 hereof, or of Paragraph 2 hereof (except to the extent disclosure of any Confidential Information is specifically required by law), or of Paragraph 3 hereof, or of the Release of Claims contained herein. In the event of any such forfeiture of any Alternative Termination Benefit(s), Participant shall receive the Termination Benefit corresponding to such Unit of Participation pursuant to the Plan, that would have been paid in the absence of this Agreement, less any amounts previously paid to Participant as part of the corresponding Alternative Termination Benefit.

5. Company hereby expressly advises Participant to seek personal legal advice prior to executing this Agreement and the Release of Claims contained herein and Participant by Participant's signature below, hereby expressly acknowledges that Participant was given at least forty-five (45) days in which to seek such advice and decide whether or not to enter into this Agreement and the Release of Claims contained herein. The parties agree that any changes to this Agreement or to the Release of Claims contained herein made after the initial draft of this Agreement and Release of Claims is presented to Participant, whether material or immaterial, do not restart the running of said forty-five (45) day period.

6. Participant may revoke this Agreement and the Release of Claims contained herein within seven (7) days of Participant's execution of this Agreement and the Release of Claims contained herein by giving notice, in writing, by certified mail, return receipt requested, to the Company c/o the Executive Compensation Group, 175 East Houston Street, Room 3-J-4, San Antonio, Texas, 78205. Proof of such mailing within said seven (7) day period shall suffice to establish revocation pursuant to this Paragraph. In the event of any such revocation, this entire Agreement and the Release of Claims contained herein shall be null and void.

7. Participant agrees that for any breach or threatened breach of any of the provisions of this Agreement and the Release of Claims contained herein by Participant, the Company shall have no adequate legal remedy, and in addition to any other remedies available, a restraining order and/or an injunction may be issued against Participant to prevent or restrain any such breach, in addition to any other rights the Company may have.

8. In the event any provision of this Agreement or the Release of Claims contained herein is held invalid, void, or unenforceable, the same shall not affect in any respect whatsoever the validity of any other provision of this Agreement or said Release of Claims, except that should said Release of Claims be held to be invalid as applicable to and as asserted by Participant with regard to any claim or dispute covered thereunder, or should any part of the provisions of Paragraphs 1, 2 or 3 of this Agreement be held invalid, void or unenforceable as applicable to and as asserted by Participant, this Agreement and the Release of Claims contained herein, at the Company's option, may be declared by the Company null and void. If this Agreement and the Release of Claims contained herein are declared null and void by Company pursuant to the provisions of this Paragraph, Participant shall return to Company all consideration previously received pursuant to this Agreement and the Release of Claims contained herein less any of said consideration Participant would have received in the absence of entering into this Agreement and the Release of Claims contained herein.

RELEASE OF CLAIMS

Participant hereby fully waives and forever releases and discharges Company, SBC, any and all other Subsidiaries of Company and of SBC, their officers, directors, agents, servants, employees, successors and assigns and any and all employee benefit plans maintained by SBC or any Subsidiary thereof and/or any and all fiduciaries of any such plan from any and all common law and/or statutory claims, causes of action or suits of any kind whatsoever arising from or in connection with Participant's past employment by Company and/or Participant's separation therefrom, including but not limited to claims, actions, causes of action or suits of any kind allegedly arising under the Employee Retirement Income Security Act (ERISA), as amended, 29 USC §§ 1001 et seq.; the Rehabilitation Act of 1973, as amended, 29 USC §§ 701 et seq.; the Civil Rights Acts of 1866 and 1870, as amended, 42 USC §§ 1981, 1982 and 1988; the Civil Rights Act of 1871, as amended, 42 USC §§ 1983 and 1985; the Civil Rights Act of 1964, as amended, 42 USC § 2000d et seq.; the Americans With Disabilities Act, as amended, 42 USC §§ 12101 et seq., and the Age Discrimination in Employment Act of 1967 (ADEA), as amended, 29 USC §§ 621 et seq., known and unknown. In addition, Participant agrees not to file any lawsuits or other claims seeking monetary damage or other relief in any state or federal court or with any administrative agency against any of the aforementioned parties in connection with or relating to any of the aforementioned matters. Provided, however, by executing this Release of Claims, Participant does not waive rights or claims that may arise after the date of execution. Provided further, however, this Release of Claims shall not affect Participant's right to receive or enforce through litigation, any indemnification rights to which Participant is entitled as a result of Participant's past employment by the Company. And, provided further, except as agreed herein, this Agreement and Release of Claims shall not affect the ordinary distribution of benefits/entitlements, if any, to

which Participant is entitled upon termination from Company; it being understood by Participant that said benefits/entitlements, if any, will be subject to and provided in accordance with the terms and conditions of their respective governing plan.

_____
Participant (Signature)

_____
Participant (Print name)

_____
Participant SSN

_____
Date

SBC Communications Inc.

SALARY AND
INCENTIVE AWARD DEFERRAL PLAN

Effective: January 1, 1984
Revision Effective: January 31, 2003

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SBC COMMUNICATIONS INC.

SALARY AND INCENTIVE AWARD DEFERRAL PLAN

As amended through April 1, 2002

Article 1 - Statement of Purpose

The purpose of the Salary and Incentive Award Deferral Plan ("Plan") is to provide a select group of management employees consisting of Eligible Employees of SBC Communications Inc. ("SBC" or the "Company") and its Subsidiaries with a means for deferring the receipt of income.

Article 2 - Definitions

For the purposes of this Plan, the following words and phrases shall have the meanings indicated, unless the context indicates otherwise:

Base Compensation. The following types of cash-based compensation, in each case as determined by SBC, paid by an Employer (but not including payments made by a non-Employer, such as state disability payments), before reduction due to any contribution pursuant to this Plan or reduction pursuant to any deferral plan of an Employer, including but not limited to a plan that includes a qualified cash or deferral arrangement under Section 401(k) of the Internal Revenue Code, as amended ("Code"):

(a) annual base salary.

Payments by an Employer under a Disability plan made in lieu of any compensation described in (a) above, shall be deemed to be a part of the compensation it replaces for purposes of this definition. Base Compensation does not include the TEAM Award (the annual award determined to be the "Team Award" by SBC together with the individual award determined by SBC to be the Individual Discretionary Award made in connection therewith) or comparable awards, if any, determined by SBC to be used in lieu of these awards, commissions or zone allowances or any other geographical differential and shall not include payments made in lieu of unused vacation or other paid days off, and such payments shall not be contributed to this Plan.

Business Day . Any day during regular business hours that SBC is open for business.

Chairman . The Chairman of the Board of Directors of SBC Communications Inc.

Committee . The Human Resources Committee of the Board of Directors of SBC Communications Inc.

Declared Rate. The interest rate for each calendar year as determined by the Senior Executive Vice President-Human Resources, with the concurrence of the Senior Executive Vice President, Chief Financial Officer and Treasurer and announced on or before January 1 of the applicable calendar year. However, in no event will the Declared Rate for any calendar be less than the Moody's Corporate Bond Yield Average-Monthly Average Corporates as published by Moody's Investor's Service, Inc. (or any successor thereto) for the month of September before the calendar year in question, or, if such yield is no longer published, a substantially similar average selected by the Senior Executive Vice President-Human Resources or his or her successor.

Disability . Absence of an Employee from work with an Employer under the relevant Employer's disability plan.

Eligible Employee . An Employee who:

(a) is a full time, salaried Employee of SBC or an Employer in which SBC has a direct or indirect 100% ownership interest and who is on

active duty, Disability (but only while such Employee is deemed by the Employer to be an Employee of such Employer) or Leave of Absence;

(b) is, as determined by SBC, a member of Employer's "select group of management or highly compensated employees" within the meaning of the Employment Retirement Income Security Act of 1974, as amended, and regulations thereunder ("ERISA"); and

(c) is (i) an Officer or (ii) a non-Officer Employee who has been approved by SBC to be eligible to participate in this Plan.

Notwithstanding the foregoing, SBC may, from time to time, exclude any Employee or group of Employees from being deemed an "Eligible Employee" under this Plan.

In the event a court or other governmental authority determines that an individual was improperly excluded from the class of persons who would be considered Eligible Employees during a particular time for any reason, that individual shall not be an Eligible Employee for purposes of the Plan for the period of time prior to such determination.

Employee . Any person employed by an Employer, excluding persons hired for a fixed maximum term and excluding persons who are neither citizens nor permanent residents of the United States, all as determined by SBC. For purposes of this Plan, a person on Leave of Absence who otherwise would be an Employee shall be deemed to be an Employee.

Employer . SBC Communications Inc. or any of its Subsidiaries.

Executive Officer. A person identified as an "executive officer" of SBC in the then most recent SBC Form 10-K containing such information that was filed with the United States Securities and Exchange Commission or who subsequent to such filing was notified by SBC's General Counsel to be an executive officer of SBC.

Grandfathered Senior Manager . An individual who, as of January 31, 2003, is not an Officer but is a Participant in the Plan.

Incentive Award. A cash award paid by an Employer (and not by a non-Employer, such as state disability payments) as either a short term or long term award under the Short Term Incentive Plan, the 1996 Stock and Incentive Plan, or the 2001 Incentive Plan; or paid by an Employer as the Key Executive Officer Short Term Award paid under the 1996 Stock and Incentive Plan or the 2001 Incentive Plan; or any other award that the Committee designates as a short term or long term incentive award specifically for purposes of this Plan (regardless of the purpose of the award) including an award which would otherwise be paid in stock, other than stock of SBC.

Leave of Absence. Where a person is absent from employment with an Employer on a formally granted leave of absence (i.e., the absence is with formal permission in order to prevent a break in the continuity of term of employment, which permission is granted (and not revoked) in conformity with the rules of the Employer which employs the individual, as adopted from time to time). For purposes of this Plan, a Leave of Absence shall be deemed to also include a transfer by an Employer of a person to, and continuous employment by, an entity for a rotational work assignment. In the event a transfer to such an entity lasts more than 5 years or the rotational work assignment status is canceled by SBC, it shall be deemed a Termination of Employment with the Employer at that time for purposes of this Plan. To be a rotational work assignment, the Employer must have indicated in writing to the person that the person was to be rehired by the Employer on termination of the rotational work assignment.

Officer . An individual who is designated as an officer level employee for compensation purposes on the records of SBC.

Participant . An Eligible Employee or former Eligible Employee who participates in this Plan.

Pre-Tax Account. The account maintained on a pre-tax basis on the books of account of SBC for each Participant.

Retirement or Retire. . "Retirement" or "Retire" shall mean the termination of an Eligible Employee's employment with SBC or any of its subsidiaries, for reasons other than death, on or after the earlier of the following dates: (1) solely with respect to Officers and Grandfathered Senior Managers, the date the Officer or Grandfathered Senior Manager has attained age 55, and, for an Officer who became a participant on or after January 1, 2002, has five (5) years of service, or (2) the date the Eligible Employee has attained one of the following combinations of age and service at termination of employment on or after April 1, 1997, except as otherwise indicated below:

Net Credited Service	Age
10 Years or more	65 or older
20 Years or more	55 or older
25 Years or more	50 or older
30 Years or more	Any age

With respect to an Eligible Employee who is granted an EMP Service Pension under and pursuant to the provisions of the SBC Pension Benefit Plan - Nonbargained Program ("SBCPBP") upon termination of Employment, the term "Retirement" shall include such Eligible Employee's termination of employment.

Senior Manager . An individual who is designated as a Senior Manager or a Grandfathered Senior Manager for compensation purposes on the records of SBC.

Subsidiary . Any corporation, partnership, venture or other entity in which SBC holds, directly or indirectly, a 50% or greater ownership interest. SBC may, at its sole discretion, designate any other corporation, partnership, venture or other entity a Subsidiary for the purpose of participating in this Plan.

Termination of Employment . References herein to "Termination of Employment," "Terminate Employment" or a similar reference, shall mean the event where the Employee ceases to be an Employee of any Employer, including but not limited to where the employing company ceases to be an Employer.

Termination Under EPR . In determining whether an Eligible Employee's termination of employment under the Enhanced Pension and Retirement Program ("EPR") is a Retirement for purposes of this Plan, five years shall be added to each of age and net credited service ("NCS"). If with such additional age and years of service, (1) an Eligible Employee upon such termination of employment under EPR is Retirement Eligible according to the SBC Supplemental Retirement Income Plan ("SRIP") or (2) the Eligible Employee upon such termination of employment under EPR has attained one of the following combinations of age and service, <pre>

Actual NCS + 5 Years	Actual Age + 5 Years
10 Years or more	65 or older
20 Years or more	55 or older
25 Years or more	50 or older
30 Years or more	Any age

then such termination of employment shall be a Retirement for all purposes under this Plan and the Eligible Employee shall be entitled to the treatment under this Plan afforded in the case of a termination of employment which is a Retirement.

Article 3 - Administration of the Plan

The Committee shall be the administrator of the Plan and will administer the Plan, interpret, construe and apply its provisions and determine entitlement to benefits, all in its discretion. The Committee may further establish, adopt or revise such rules and regulations as it may deem necessary or advisable for the administration of the Plan. References to determinations or other actions by SBC, herein, shall mean actions authorized by the Committee, the Chairman, the Senior Executive Vice President of SBC in charge of Human Resources, or their respective successors or duly authorized delegates, in each case in the discretion of such person; except that with respect to Executive Officers, only the Committee may take such action. All decisions by SBC shall be final and binding.

Article 4 - Contributions

4.1 Election to Make Contributions.

(a) An Eligible Employee may elect to participate in the Plan through payroll deductions contributed to the Plan as follows (such contributions to the Plan are "Employee Contributions"):

1. An Eligible Employee who is an Officer or a Grandfathered Senior Manager may elect to contribute up to 50% (in whole percentage increments) of his or her monthly Base Compensation, as the same may change from time to time; provided, however, any Base Compensation deferral hereunder is conditioned upon a 30% Base Compensation deferral election being in effect in the Stock Savings Plan.

2. An Eligible Employee who is an Officer or a Senior Manager may elect to contribute up to 100% (in whole percentage increments or a specified dollar amount) of an Incentive Award.

(b) An Eligible Employee may only make an election, change an election, or terminate an election to make Employee Contributions as follows:

1. An Employee who is an Eligible Employee as of September 30 may make an election on or prior to the last Business Day of the immediately following November with respect to the contribution of Base Compensation, if authorized hereunder, and/or Incentive Awards paid on or after the immediately following January 1.

2. An Employee who was not an Eligible Employee as of September 30 but who is an Eligible Employee the immediately following March 31 may make an election on or prior to the last Business Day of the immediately following May with respect to the contribution of Base Compensation, if authorized hereunder, and/or Incentive Awards paid on or after the immediately following July 1.

SBC may refuse or terminate any election to make Employee Contributions at any time.

In the event the Participant takes a hardship withdrawal from a benefit plan qualified under the Code and sponsored by SBC or an Employer, any election to make Employee Contributions by such Participant shall be immediately cancelled, and the Participant shall not be permitted to make a new election with respect to Employee Contributions that would be contributed during the then current and immediately following calendar year.

4.2 Contributions To Pre-Tax Account; Interest/Dividends.

(a) Employee Contributions shall be made solely pursuant to a proper election and only during the Employee's lifetime and while the Employee remains an Eligible Employee (if the Employee ceases to be an Eligible Employee, his or her election to make Employee Contributions shall be cancelled); provided, however, Termination of Employment of an Eligible Employee shall not constitute loss of eligibility solely with respect to contribution of Base Compensation (if otherwise permitted hereunder) that is earned prior to termination but paid within 60 days thereafter or with respect to an Incentive Award paid after Retirement (and such person shall be deemed an Eligible Employee for such contributions).

1. Section 6.2(b) of Article 6 is deleted in its entirety and the following is inserted in lieu thereof:

(b) To the extent any Participant who Retires before 2001 would, were it not for the 2000 Amendments, under valid elections made prior to September 1, 2000, receive a distribution that would extend the Participant’s distributions beyond 2015, then the contributions so affected shall not be combined with other contributions and shall be distributed in accordance with such elections. Notwithstanding the foregoing, the Participant may, with the consent of SBC, elect to have all of Participant's contributions to the Plan governed by this Plan as in effect after September 1, 2000.

1. Effective January 31, 2003, pursuant to the authority granted to her under Article 3 and the definition of Eligible Employee of the Plan, the Senior Executive Vice President-Human Resources & Communications hereby approves Senior Managers, as defined in this amendment, for participation in the Plan pursuant to its provisions, as amended herein. Such approval for Senior Managers to participate in the Plan applies to all Senior Managers as of January 31, 2003 and any Employee who subsequently becomes a Senior Manager, other than those who are denied participation pursuant to the process described in the Plan’s definition of “Eligible Employee.”

Article 5 - Distributions

5.1 Distributions From Pre-Tax Account.

(a) Retirement . Beginning March 10 (or such other date as determined by SBC) of the first (1st) calendar year following the calendar year of the Retirement of a Participant and on March 10 (or such other date as determined by SBC) of each of the successive 14 calendar years, SBC shall distribute to the Participant that portion of the Participant's Pre-Tax Account that is equal to the total dollar amount of the Participant's Pre-Tax Account (and/or number of deferred shares then held in the Participant's Pre-Tax Account) divided by the number of remaining installments. Notwithstanding the foregoing, if the Participant Retires prior to 2001, then any undistributed portion of the Participant's Pre-Tax Account will be distributed in a lump sum on March 10 of the fifteenth (15th) calendar year following the calendar year of the Retirement of the Participant.

(b) Non-Retirement Termination of Employment . Beginning March 10 (or such other date as determined by SBC) of the calendar year following the calendar year of Termination of Employment which is not a Retirement and on March 10 (or such other date as determined by SBC) of each of the successive 2 calendar years, SBC shall distribute that portion of the Participant's Pre-Tax Account that is equal to the total dollar amount of the Participant's Pre-Tax Account (and/or number of deferred shares held in the Participant's Pre-Tax Account) divided by the number of remaining installments.

(c) Death . Notwithstanding (a) or (b) above to the contrary, in the event of the death of a Participant, any amounts remaining in the Participant's Pre-Tax Account (and/or number of deferred shares then held in the Participant's Pre-Tax Account) shall be promptly distributed to the Participant's beneficiary designated in accordance with the SBC Rules for Employee Beneficiary Designations, as the same may be amended from time to time ("Rules"). If no designation has been made or if all designated beneficiaries predecease the Participant, the Participant's Pre-Tax Account shall be distributed according to the Rules.

Notwithstanding any other provision of this Plan, if a surviving beneficiary of a Plan participant disclaims in whole or in part, that beneficiary’s interest or share in the distribution of the Plan participant’s Plan proceeds, and such disclaimer satisfies the requirements of Section 2518(b) of the Internal Revenue Code (or any successor provision) and any applicable state law, such disclaimer shall not constitute an assignment, transfer or alienation by any method of such interest or share or proceeds and the portion of such proceeds subject to such disclaimer shall be distributed as if that beneficiary had predeceased the Plan participant.

(d) Discharge for Cause/Non Competition . Notwithstanding any other provision of this Plan to the contrary, all amounts (including deferred shares) then credited to the Participant's Pre-Tax Account shall be paid immediately in a single payment if a Participant is discharged for cause by his or her Employer, or if a Participant otherwise ceases to be employed by his or her Employer and engages in competition with SBC or any direct or indirect Subsidiary thereof or with any business with which a Subsidiary of SBC or an affiliated company has a substantial interest (collectively referred to herein as an "Employer Business"), or becomes employed by a governmental agency having

jurisdiction over the activities of SBC or any of its Subsidiaries. For purposes hereof, engaging in competition with any Employer business shall mean engaging by the Participant in any business or activity in the same geographical market where the same or substantially similar business or activity is being carried on as an Employer business. Such term shall not include owning a nonsubstantial publicly traded interest as a shareholder in a business that competes with an Employer business. However, engaging in competition with an Employer business shall include representing or providing consulting services to, or being an employee of, any person or entity that is engaged in competition with any Employer business or that takes a position adverse to any Employer business in a judicial, regulatory, legislative or administrative proceeding. Further, engaging in competition with an Employer business would result if the Participant either engages directly in competitive activity or in any capacity in any location becomes employed by, associated with, or renders service to any company, or parent or affiliate thereof, or any subsidiary of any of them, if any of them is engaged in competition with an Employer business, regardless of the position or duties the Participant takes and regardless of whether or not the employing company, or the company that the Participant becomes associated with or renders service to, is itself engaged in direct competition with an Employer business.

(e) Deferred amounts held pending distribution shall continue to be credited with interest or additional deferred shares, as applicable, determined in accordance with Section 4.2(b) or 4.2 (d), as applicable.

(f) The obligation to make distribution of deferred amounts credited to a Participant's Pre-Tax Account during any calendar year, plus the additional amounts credited on such deferred amounts pursuant to Section 4.2(b) or 4.2(d), as applicable, shall be borne by SBC or the applicable Employer which otherwise would have paid the related award currently. However, the obligation to make distributions with respect to deferred amounts which are related to amounts credited to a Participant's Pre-Tax Account as of the effective date of the Plan pursuant to Section 4.2(c), and with respect to which no SBC company would otherwise have paid the related award currently, shall be borne by the Employer which employed the Participant on the effective date of the Plan.

(g) For the purpose of this Plan, a beneficiary designation like that described in Section 5.1(c) that was made under the comparable provisions of the Predecessor Plan shall be considered as a beneficiary designation made under Section 5.1(c).

(h) Notwithstanding the other provisions of this Section 5.1 to the contrary, but subject to the provisions of Section 5.2(b), a Participant who was a Participant on, and made contributions to the Plan prior to, September 1, 2000, may request that receipt of the cash portion of Participant’s Pre-Tax Account be deferred to Participant’s death, or to be received earlier if accelerated in accordance with the provisions of 5.2 (a). Approval of such request shall be in SBC's sole discretion.

5.2 Accelerated Distribution.

(a) On or before the last Business Day of a calendar year, a Participant may elect to receive a distribution of all or a portion of the Participant's Pre-Tax Account. Such distribution shall be made March 10 (or such other date as determined by SBC) of the immediately following calendar year. This distribution shall be in addition to the portion of the Pre-Tax Account to be distributed at the same time under Section 5.1, which distribution shall be calculated without regard to an election under this section. No distribution under this Section 5.2(a) shall be made of amounts contributed to or earned under this Plan in the same calendar year as the distribution.

(b) In the event the Participant Terminates Employment for reasons other than Retirement, SBC may, at its sole discretion, accelerate the distribution of all or a portion of a Participant's Pre-Tax Account to the date of SBC's choosing, without notice to, or the consent of, the Participant.

5.3 Small Distribution.

Notwithstanding any election made by the Participant, after the Termination of Employment of the Participant for any reason, if at the time the total value of the Participant’s Pre-Tax Account is less than $10,000, SBC may, in its discretion, distribute all of such account in the form of a lump sum distribution.

5.4 Determination by Internal Revenue Service.

In the event that a final determination shall be made by the Internal Revenue Service or any court of competent jurisdiction that a Participant has recognized gross income for Federal income tax purposes in excess of the portion of Participant’s Pre-Tax Account actually distributed by SBC, SBC shall promptly distribute to the Participant that portion of Participant’s Pre-Tax Account to which such additional gross income is attributable.

5.5 Emergency Distribution.

In the event that SBC, upon written petition of the Participant, determines in its sole discretion that the Participant has suffered an unforeseeable financial emergency, SBC shall distribute to the Participant, as soon as practicable following such determination, that portion of Participant’s Pre-Tax Account determined by SBC in its sole discretion to meet the emergency (the “Emergency Distribution. For purposes of this Plan, an unforeseeable financial emergency is an unexpected need for cash arising from an illness, casualty loss, sudden financial reversal, or other such unforeseeable occurrence. Cash needs arising from foreseeable events such as the purchase of a house or education expenses for children shall not be considered to be the result of an unforeseeable financial emergency. Upon such distribution, any election to make Employee Contributions by such Participant shall be immediately cancelled, and the Participant shall not be permitted to make a new election

with respect to Employee Contributions that would be contributed during the then current and immediately following calendar year.

5.6 Ineligible Participant.

Notwithstanding any other provisions of this Plan to the contrary, if SBC receives an opinion from counsel selected by SBC, or a final determination is made by a Federal, state or local government or agency, acting within its scope of authority, to the effect that an individual is not, or was not at the time of his or her making Employee Contributions to this Plan, to be a member of Employer's "select group of management or highly compensated employees" within the meaning of ERISA, then such person will not be eligible to participate in this Plan and shall receive an immediate lump sum distribution of the Participant's Pre-Tax Account. Upon such payment no other distribution shall thereafter be payable under this Plan either to the individual or any beneficiary of the individual, except as provided under Section 8.1 Additional Benefit.

Article 6 - Transition Provisions

The transition rules of this Article 6 shall supercede all other terms of this Plan.

6.1 Effective Dates.

Except as otherwise provided herein, the amendments to this Plan made September 1, 2000 (the "2000 Amendments") shall be effective September 1, 2000, and no election regarding the further deferral of a distribution of contributions to this Plan may be made on or after September 1, 2000.

6.2 Combination of Existing Contributions.

(a) Effective January 1, 2001, all prior contributions made to the Plan by a Participant shall be combined into Participant's single Pre-Tax Account.

(b) To the extent any Participant who retires before 2001 would, were it not for the 2000 Amendments, under valid elections made prior to September 1, 2000, receive a distribution that would extend the Participant's distributions beyond 2015, then the contributions so affected shall not be combined with other contributions and shall be distributed in accordance with such elections. Notwithstanding the foregoing, the Participant may, with the consent of SBC, elect to have all of Participant's contributions to the Plan governed by this Plan as in effect after September 1, 2000.

(c) In the event a Participant dies prior to 2001, the Participant's accounts shall not be combined with and shall be distributed in accordance with the Plan as it existed immediately prior to September 1, 2000.

6.3 Termination of Elections.

(a) Distributions from the Plan that would be made in the year 2000 under the Plan as it existed immediately prior to September 1, 2000, based on elections made before September 1, 2000, shall continue to be made in the year 2000 as provided in the Plan immediately prior to September 1, 2000. All other distribution elections are cancelled, including but not limited to distributions which have already commenced, but only to the extent such elections call for distributions after the year 2000. All amounts (or shares) remaining undistributed after such distributions shall be held and distributed in accordance with the terms of the Plan as in effect after September 1, 2000.

(b) Contributions to the Plan that would be made in the year 2000 under the Plan as it existed immediately prior to September 1, 2000, based on elections made before September 1, 2000, shall continue to be made in the year 2000 as provided in the Plan immediately prior to September 1, 2000. Elections to participate in the Plan shall not automatically be renewed for the year 2001. Each Eligible Employee must make a new election after September 1, 2000, in order to make Employee Contributions after 2000. Provided, however, valid elections made prior to September 1, 2000, to contribute Incentive Awards in 2001 shall be valid elections under this Plan.

6.4 Annual Base Salary Contribution Transition.

Annual base salary earned prior to January 1, 2001, shall be contributed when earned, while annual base salary earned on or after such date shall be contributed when paid. In order to avoid any double contribution of annual base salary, that part of annual base salary earned in the year 2000 shall not be included in any determination of contributions to the Plan in a later calendar year, even though paid in such calendar year.

Article 7 - Discontinuation, Termination, Amendment.

7.1 SBC's Right to Terminate Plan.

The Committee may terminate the Plan at any time. Upon termination of the Plan, contributions shall no longer be made under the Plan.

After termination of the Plan, Participants shall continue to earn interest/dividend equivalents and shall continue to receive all distributions under this Plan at such time as provided in and pursuant to the terms and conditions of this Plan at the time of the Plan's termination.

7.2 Amendment.

This Plan may be modified or terminated at any time in accordance with the provisions of SBC's Schedule of Authorizations; provided, however, that no amendment, including but not limited to an amendment to this section, shall be effective, without the consent of a Participant, to alter, to the material detriment of such Participant, the distributions described in this Plan as applicable to the Participant or to decrease such Participant's Pre-Tax Account. For purposes of this section, an alteration to the material detriment of a Participant shall mean a material reduction in the period of time over which Participant's Pre-Tax Account may be distributed to a Participant or a reduction in the amounts then credited to a Participant's Pre-Tax Account. Any such consent may be in a writing, telecopy, or e-mail or in another electronic format. An election to make Employee Contributions and the failure to terminate an election to make Employee Contributions when able to do so shall each be conclusively deemed to be the consent of the Participant to any and all amendments to the Plan prior to such election or failure to terminate an election, and such consent shall be a condition to making any election with respect to Employee Contributions.

Article 8 – Miscellaneous

8.1 Additional Benefit.

The reduction of any benefit payable under the SBC Pension Benefit Plan (or comparable plan identified by SBC as a replacement therefor), which results from participation in this Plan, will be restored as an additional benefit ("make-up piece") under this Plan. The Participant shall elect prior to commencement of payment of the make-up piece whether to receive such benefit in cash in a lump sum (consisting of the present value equivalent of the pension retirement benefit (life annuity) make-up piece) or such benefit in an annuity form of payment . Notwithstanding the proceeding provisions of this section, if all or a portion of the make-up piece is paid pursuant to SRIP or another non-qualified plan, then such amount shall not be payable pursuant to this Plan.

8.2 Tax Withholding.

Upon a distribution from Participant's Pre-Tax Account, SBC shall withhold such amount (or shares) as determined by SBC to satisfy the minimum amount of Federal, state, and local taxes required by law to be withheld as a result of such distribution, or such greater amount as specified by the Participant.

8.3 Elections and Notices.

Notwithstanding anything to the contrary contained in this Plan, all elections and notices of every kind shall be made on forms prepared by SBC or the General Counsel, Secretary or Assistant Secretary, or their respective delegates or shall be made in such other manner as permitted or required by SBC or the General Counsel, Secretary, or Assistant Secretary, or their respective delegates, including through electronic means, over the Internet or otherwise. An election shall be deemed made when received by SBC (or its designated agent, but only in cases where the designated agent has been appointed for the purposes of receiving such election), which may waive any defects in form. Unless made irrevocable by the electing person, each election with regard to making Employee Contributions or distributions under the Plan shall become irrevocable at the close of business on the last day to make such election. SBC may limit the time an election may be made in advance of any deadline.

If not otherwise specified by this Plan or SBC, any notice or filing required or permitted to be given to SBC under the Plan shall be delivered to the principal office of SBC, directed to the attention of the Senior Executive Vice President-Human Resources of SBC or his or her successor. Such notice shall be deemed given on the date of delivery.

Notice to the Participant shall be deemed given when mailed (or sent by telecopy) to the Participant's work or home address as shown on the records of SBC or, at the option of SBC, to the Participant's e-mail address as shown on the records of SBC. It is the Participant's responsibility to ensure that the Participant's addresses are kept up to date on the records of SBC. In the case of notices affecting multiple Participants, the notices may be given by general distribution at the Participants' work locations.

By participating in the Plan, each Participant agrees that SBC may provide any documents required or permitted under the Federal or state securities laws, including but not limited to the Securities Act of 1933 and the Securities Exchange Act of 1934 by e-mail, by e-mail attachment, or by notice by e-mail of electronic delivery through SBC's Internet Web site or by other electronic means.

8.4 Unsecured General Creditor.

Participants and their beneficiaries, heirs, successors, and assigns shall have no legal or equitable rights, interest, or claims in any property or assets of any Employer. No assets of any Employer shall be held under any trust for the benefit of Participants, their beneficiaries, heirs, successors, or assigns, or held in any way as collateral security for the fulfilling of the obligations of any Employer under this Plan. Any and all of each Employer's assets shall be, and remain, the general, unpledged, unrestricted assets of such Employer. The only obligation of an Employer under the Plan shall be merely that of an unfunded and unsecured promise of SBC to make distributions under, and in accordance with the terms of, the Plan.

8.5 Offset.

SBC may offset against the amount (or shares) otherwise distributable to a Participant, any amounts due an Employer by a Participant, including but not limited to overpayments under any compensation or benefit plans.

8.6 Non-Assignability.

Neither a Participant nor any other person shall have any right to commute, sell, assign, transfer, pledge, anticipate, mortgage, or otherwise encumber, transfer, hypothecate or convey in advance of actual receipt, any amounts (or shares) distributable under the Plan, or any part thereof, which are, and all rights to which are, expressly declared to be unassignable and non-transferable. No part of the amount (or shares) distributable shall, prior to actual distribution, be subject to seizure or sequestration for the payment of any debts, judgments, alimony or separate maintenance owed by a Participant or any other person, nor be transferable by operation of law in the event of a Participant's or any other person's bankruptcy or insolvency.

Not withstanding the foregoing, in the event a Participant becomes employed by Cingular Wireless LLC ("Cingular") or an entity directly or indirectly owned by Cingular and elects or has elected to have his or her interest in this Plan transferred to the Cingular Wireless Cash Deferral Plan, the Participant shall have no further interest in the transferred amounts under this Plan and shall look solely to Cingular for any rights previously held under this Plan.

8.7 Employment Not Guaranteed.

Nothing contained in this Plan nor any action taken hereunder shall be construed as a contract of employment or as giving any employee any right to be retained in the employ of an Employer or to serve as a director.

8.8 Errors.

At any time SBC may correct any error made under the Plan without prejudice to SBC. Such corrections may include, among other things, refunding contributions to a Participant with respect to any period he or she made Employee Contributions while not an Eligible Employee, or canceling the enrollment of a non-Eligible Employee.

8.9 Captions.

The captions of the articles, sections, and paragraphs of this Plan are for convenience only and shall not control nor affect the meaning or construction of any of its provisions.

8.10 Governing Law.

To the extent not preempted by Federal law, the Plan, and all awards and agreements hereunder, and any and all disputes in connection therewith, shall be governed by and construed in accordance with the substantive laws of the State of Texas, without regard to conflict or choice of law principles which might otherwise refer the construction, interpretation or enforceability of this Plan to the substantive law of another jurisdiction.

Because awards under the Plan are granted in Texas, records relating to the Plan and awards thereunder are located in Texas, and the Plan and awards thereunder are administered in Texas, the Company and the Participant to whom an award under this Plan is granted, for themselves and their successors and assigns, irrevocably submit to the exclusive and sole jurisdiction and venue of the state or federal courts of Texas with respect to any and all disputes arising out of or relating to this Plan, the subject matter of this Plan or any awards under this Plan, including but not limited to any disputes arising out of or relating to the interpretation and enforceability of any awards or the terms and conditions of this Plan. To achieve certainty regarding the appropriate forum in which to prosecute and defend actions arising out of or relating to this Plan, and to ensure consistency in application and interpretation of the Governing Law to the Plan, the parties agree that (a) sole and exclusive appropriate venue for any such action shall be an appropriate federal or state court in Bexar County, Texas, and no other, (b) all claims with respect to any such action shall be heard and determined exclusively in such Texas court, and no other, (c) such Texas court shall have sole and exclusive jurisdiction over the person of such parties and over the subject matter of any dispute relating hereto and (d) that the parties waive any and all objections and defenses to bringing any such action before such Texas court, including but not limited to those relating to lack of personal jurisdiction, improper venue or *forum non conveniens* .

8.11 Validity.

In the event any provision of this Plan is held invalid, void, or unenforceable, the same shall not affect, in any respect whatsoever, the validity of any other provision of this Plan.

8.12 Successors and Assigns.

This Plan shall be binding upon SBC and its successors and assigns.

SBC Communications Inc.

EXECUTIVE HEALTH PLAN

(Formerly the SUPPLEMENTAL HEALTH PLAN prior to September 1, 2001)

Effective: January 1, 1987
Revisions Effective: January 1, 2003

EXECUTIVE HEALTH PLAN

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EXECUTIVE
HEALTH PLAN

1. Purpose . The Executive Health Plan ("Plan") provides Eligible Employees and their eligible dependents with supplemental medical, dental and vision benefits.

2. Definitions . For purposes of this Plan, the following words and phrases shall have the meanings indicated, unless the context clearly indicates otherwise:

Chairman. "Chairman" shall mean the Chairman of the Board of SBC Communications Inc.

Committee. "Committee" shall mean the Human Resources Committee of the Board of SBC Communications Inc.

Disability. "Disability" shall have the meaning assigned to such term in the SBC company sponsored group disability benefit plan under which the participant is eligible to receive benefits.

Eligible Employee. "Eligible Employee" shall mean an Officer who is designated by the Chairman as eligible to participate in the Plan. Notwithstanding the foregoing, the Chairman may, from time to time, exclude any Employee or group of Employees from being deemed an "Eligible Employee" under this Plan.

Employer. "Employer" shall mean SBC Communications Inc. or any of its Subsidiaries.

Officer. "Officer" shall mean an individual who is designated as an officer of SBC or of any SBC subsidiary for compensation purposes on SBC's records.

Retirement. "Retirement" shall mean the termination of an Eligible Employee's employment with SBC or any of its subsidiaries, for reasons other than death, on or after the earlier of the following dates: (1) the date a participant has attained age 55, and, for an individual who becomes a participant on or after January 1, 2002, has five (5) years of service, or (2) the date the Eligible Employee has attained one of the following combinations of age and service at termination of employment on or after April 1, 1997, except as otherwise indicated below:

Net Credited Service	Age
10 Years or more	65 or older
20 Years or more	55 or older
25 Years or more	50 or older

30 Years or more	Any age

With respect to an Eligible Employee who is granted an EMP Service Pension under and pursuant to the provisions of the SBC Pension Benefit Plan - Nonbargained Program ("SBCPBP") upon termination of Employment, the term "Retirement" shall include such Eligible Employee's termination of employment.

Subsidiary. "Subsidiary" shall mean any corporation, partnership, venture or other entity in which SBC holds, directly or indirectly, a 50% or greater ownership interest. The Committee may, at its sole discretion, designate any other corporation, partnership, venture or other entity a Subsidiary for the purpose of participating in this Plan. Notwithstanding anything herein to the contrary, Cingular Wireless LLC and its subsidiaries shall not be considered a Subsidiary under this Plan.

Termination Under EPR. In determining whether an Eligible Employee's termination of employment under the Enhanced Pension and Retirement Program ("EPR") is a Retirement for purposes of this Plan, five years shall be added to each of age and net credited service ("NCS"). If with such additional age and years of service, (1) an Eligible Employee upon such termination of employment under EPR is Retirement Eligible according to the SBC Supplemental Retirement Income Plan ("SRIP") or (2) the Eligible Employee upon such termination of employment under EPR has attained one of the following combinations of age and service,

Actual NCS + 5 Years	Actual Age + 5 Years
10 Years or more	65 or older
20 Years or more	55 or older
25 Years or more	50 or older
30 Years or more	Any age

then such termination of employment shall be a Retirement for all purposes under this Plan and the Eligible Employee shall be entitled to the treatment under this Plan afforded in the case of a termination of employment which is a Retirement.

SBC. "SBC" shall mean SBC Communications Inc.

3. Eligibility. Each Eligible Employee shall be eligible to participate in this Plan along with his or her eligible dependents. Eligible dependents are those covered under the Eligible Employee's SBC company's basic managed care medical, dental, and vision care plans ("Basic Plans").

   Provisions of this Plan will continue in effect during Retirement for each Eligible Employee who became an Eligible Employee on or after January 1, 1987 but before January 1, 1999. Dependent coverage will also continue during the Retirement period for an Eligible Employee who became an Eligible Employee on or after January 1, 1987 but before January 1, 1999. An Eligible Employee who becomes an Eligible Employee after December 31, 1998 shall not be eligible hereunder for coverage during Retirement.

   Eligible Employees as of October 1, 1998 must elect to continue coverage effective January 1, 1999 by December 31, 1998. An Eligible Employee who becomes an Eligible Employee after October 1, 1998 shall have 90 days after becoming an Eligible Employee to elect coverage under this Plan. Coverage will remain in effect as long as the applicable contribution is paid by the Eligible Employee. However, once an Eligible Employee terminates coverage he or she may not reinstate such coverage.

   With respect to Eligible Employees who are receiving short term or long term disability benefits under an SBC company sponsored group disability benefit plan, coverage under this Plan will be as follows:

   - the Employee will be eligible for coverage under this Plan for as long as he/she receives short term or long term disability benefits.
   - An individual who became an Eligible Employee on or after January 1, 1999, will no longer be eligible for benefits under this Plan once long term disability benefits are discontinued, unless the Eligible Employee is otherwise eligible for continued benefits under this Plan.
   - An Employee who became an Eligible Employee before January 1, 1999, will be eligible for coverage under this Plan as follows: - If the individual is Retirement eligible at the time long term disability benefits commence, he/she will be eligible for coverage under this Plan until death, on the same terms and conditions that coverage would be available to such Eligible Employee in Retirement, regardless of his/her continued receipt of long term disability benefits.
   - If the individual is not Retirement eligible at the time long term disability benefits commence, he/she will be eligible for coverage under this Plan for as long as coverage is maintained under the applicable SBC company sponsored group medical plan.
   - If an Eligible Employee terminates employment after short term disability benefits are discontinued, or if the Employee returns to active employment, eligibility for benefits under the Plan will be provided in accordance with Plan terms.

4. (a) Coverage . Subject to the limitations in this Section, this Plan provides 100% coverage of all medical, dental and vision services not covered by the Eligible Employee's Basic Plans provided such expenses for such services would qualify as deductible medical expenses for federal income tax purposes, whether deducted or not. Group health plan premiums and contributions are not considered "services", and are therefore not covered under this Plan. Notwithstanding any other provision of the Plan to the contrary, an employee who first becomes an Eligible Employee mid-year and who is enrolled in SBC sponsored medical plans other than his or her company's Basic Plans (e.g., HMO) will be allowed to participate in the Plan for the remainder of the calendar year along with his or her dependents who

are enrolled in such other SBC sponsored Plans, as if he or she was participating in his or her company's Basic Plans. Thereafter, to participate in the Plan, the Eligible Employee, as well as his or her dependents for whom coverage is desired under this Plan, must be enrolled in the Basic Plans to have coverage hereunder. Expenses incurred by any Eligible Employee or any of his or her eligible dependents under this Plan shall not exceed $50,000 per year per individual. Effective January 1, 1998, expenses incurred by any Eligible Employee and his or her eligible dependents under this Plan shall not exceed $100,000 total per Plan year (i.e., January 1 through December 31). Expenses covered by the Basic Plans will not be included in these limits.
Claims will be applied against the various health plans in the following order:

1. Medicare if participant is eligible for same,
2. Group Health Plans,
3. CarePlus if elected and applicable,
4. Long Term Care Plan if elected and applicable,
5. this Plan.

(b) Substitute Basic Coverage . Notwithstanding any other provision of this Plan to the contrary, if upon Retirement, an Eligible Employee is eligible for coverage under this Plan during Retirement, but not eligible for coverage under the Basic Plans, this Plan shall provide all medical, dental and vision expenses as if such Eligible Employee had been eligible for Non-Network coverage under the Basic Plans (hereinafter, "Substitute Basic Coverage"). Such Substitute Basic Coverage shall be subject to the same terms and conditions, including monthly retiree contributions, copays, etc. (if any), as would be applicable to the Eligible Employees and dependents if provided under the Basic Plans and shall constitute such Eligible Employee's Basic Plans for all purposes under this Plan. The costs of Substitute Basic Coverage (except for any monthly contributions, copays, etc.) shall be borne by SBC and shall not be included in the determination of any Eligible Employee's annual Plan contribution amount as provided in Section 5.

5. Costs . Except as provided below in this Section, costs and expenses incurred in the operation and administration of this Plan will be borne by SBC; and each subsidiary will be required to reimburse SBC for applicable costs and expenses attributable to Eligible Employees employed by it:

- Effective January 1, 1999, an Eligible Employee electing coverage under the Plan will pay for coverage under the Plan while in active service **or while receiving short term or long term disability benefits under an SBC company sponsored group disability benefit plan.** Such Eligible Employee’s annual contribution amount will be equal to 10% of SBC’s actual costs per Eligible Employee for the prior Plan year.
- Effective with respect to a retirement **or discontinuation of the payment of long term disability benefits under an SBC company sponsored group disability benefit plan** occurring on or after January 1, 1999, an Eligible Employee who became an Eligible Employee before January 1, 1999 and who elects retirement coverage under the Plan will pay for coverage under the Plan during **retirement or after the discontinuation of the payment of such long term disability benefits** . Such Eligible Employee’s annual contribution amount during **this period** will be equal to a percentage of SBC’s actual costs per Eligible Employee for the prior Plan year according to the following:

The contribution percentage to be used shall be the lower of the Annual Contribution Percentage determined using each Eligible Employee’s Age or Years Until Retirement as of December 31, 1997 :

Age	Annual Contribution Percentage**OR**		Years Until Retirement	An
if age 55 or older	10%		if retirement eligible	
if age 50 or older but less than 55	25%		if not retirement eligible	10 w ret (n
if less than age 50	50%			

*in the event an Eligible Employee is less than one whole year from retirement eligibility, the Annual Contribution Percentage shall be determined as if one whole year from retirement eligibility

- Effective January 1, 2003, an Eligible Employee, who retired prior to January, 1, 1999 will pay a contribution for coverage under the Plan equal to 10% of SBC’s actual costs per Eligible Employee for the prior Plan year.

Coverage will remain in effect as long as the applicable contribution is paid by the Retiree. However, once a Retiree terminates coverage he or she may not reinstate such coverage.

6. Non-Competition . Notwithstanding any other provision of this Plan, no coverage shall be provided under this Plan with respect to any Eligible Employee who shall, without the written consent of SBC, and while employed by SBC or any subsidiary thereof, or within three (3) years after termination of employment from SBC or any subsidiary thereof, engage in competition with SBC or any subsidiary thereof or with any business with which a subsidiary of SBC or an affiliated company has a substantial interest (collectively referred to herein as "Employer business"). For purposes of this Plan, engaging in competition with any Employer business shall mean engaging by Eligible Employee in any business or activity in the same geographical market where the same or substantially similar business or activity is being carried on as an Employer business. Such term shall not include owning a nonsubstantial publicly traded interest as a shareholder in a business that competes with an Employer business. However, engaging in competition with an Employer business shall include representing or providing consulting services to, or being an employee of, any person or entity that is engaged in competition with any Employer business or that takes a position adverse to any Employer business. Accordingly, coverage shall not be provided under this Plan if, within the time period and without the written consent specified, Eligible Employee either engages directly in competitive activity or in any capacity in any location becomes employed by, associated with, or renders service to any company, or parent or affiliate thereof, or any subsidiary of any of them, if any of them is engaged in competition with an Employer business, regardless of the position or duties the Eligible Employee takes and regardless of whether or not the employing company, or the company that Eligible Employee becomes associated with or renders service to, is itself engaged in direct competition with an Employer business.

7. Administration. Subject to the terms of the Plan, the Chairman shall establish such rules as are deemed necessary for the proper administration of the Plan. SBC will compute a "gross-up" allowance which will be paid to an Eligible Employee to offset income tax liabilities incurred as a result of receiving benefits under this Plan.

8. Amendments and Termination. This Plan may be modified or terminated at any time in accordance with the provisions of SBC's Schedule of Authorizations.

EXECUTIVE
HEALTH PLAN
ADMINISTRATIVE GUIDELINES

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Approved:

_____ _____
Chairman & Chief Executive Officer Date

EXECUTIVE
HEALTH PLAN
ADMINISTRATIVE GUIDELINES

1. General. The purpose of these guidelines is to list the procedures to be followed in administering the Executive Health Plan ("EHP").

The Senior Vice President - Human Resources will establish internal procedures and group insurance policies with health carrier(s) as appropriate to carry out the provisions of the Plan.

2. Coverage Considerations.

Eligible Employees:

Coverage is provided only for an Eligible Employee covered by a subsidiary's basic medical plan ("basic plan"), except as otherwise provided for in Section 4 of the Plan.

Coverage continues during periods of disability and during retirement in certain circumstances as described in the Plan. Coverage during such periods shall be the same as provided to active Eligible Employees.

Coverage for a new Eligible Employee is effective the first day of the month in which the employee is declared to be eligible to participate in the Plan by the Chairman.

Coverage will cease on the last day of the month in which one of the following conditions exist:

A. Eligible Employee is no longer a participant in the Basic Plan
B. termination of Eligible Employee from active service for reasons other than disability or the retirement of an Eligible Employee who became an Eligible Employee before January 1, 1999
C. death of Eligible Employee (unless surviving dependents continue coverage under basic plan)
D. demotion of Eligible Employee so as to no longer be eligible to participate in the Plan
E. transfer to a subsidiary that will not bear expenses for the Eligible Employee to participate in the Plan
F. Eligible Employee engages in competitive activity
G. discontinuance of the Plan by SBC or a subsidiary

Dependents:

Coverage is provided for dependents of a covered Eligible Employee if the dependents are covered by the basic plan.

If coverage for a dependent ceases under the basic plan, coverage under this Plan will cease with the same effective date.

If coverage for the Eligible Employee under this Plan ceases for any reason, dependent coverage will cease with the same effective date except where employee coverage ceases due to death of the Eligible Employee, the Plan will continue in effect for surviving dependents as long as the dependents are covered under the basic plan (through automatic coverage or through payment of basic premiums) and are paying any applicable premiums under this Plan.

3. Enrollment. Upon approval as an Eligible Employee, enrollment in the basic plan and payment of any applicable premium under this Plan, the Eligible Employee and current dependents (provided they are also enrolled in the basic plan) shall be covered under the Plan. The Executive Compensation Administration (ECA) contact will forward a portfolio to the Eligible Employee including the following:

- Blank claim forms (5 to 10 copies)
- Blue return envelopes (5 to 10)
- Filing instructions
- I. D. Cards with Eligible Employee's name imprinted (for use for Eligible Employee, spouse, and eligible dependents)

As a matter of convenience for the Eligible Employee, the ECA contact will advise the appropriate payroll office regarding the enrollment and withholding of basic coverage premiums for dependents who are not already enrolled in the basic plan. The Eligible Employee must authorize and make premium payments under the basic plan in order for such dependents to obtain coverage under the EHP. There is no additional premium to be paid for EHP coverage for the dependent. Withholding of dependent basic premiums for retired Eligible Employees, where applicable, shall be handled in the same manner as other withholding arrangements for retired executives.

Each month, the ECA contact will provide the EHP carrier and subsidiary benefit administration groups with a list of Eligible Employees

currently enrolled in the Plan. The ECA contact will provide updated dependent information to the carrier whenever new or revised Dependent Enrollment Forms are received from Eligible Employees.

4. Eligible Charges. Charges for medical care services will be eligible for reimbursement under this Plan if such charges are deductible as medical expenses under the Internal Revenue Code. Group health plan premiums and contributions are not considered "services", and are therefore not covered under this Plan. In general, medical expenses are defined to include any amounts paid for the diagnosis, cure, mitigation, treatment or prevention of disease or for the purpose of affecting any structure or function of the body, and transportation for and essential to medical care. Amounts paid for illegal operations or treatments are not eligible medical expenses. In addition, expenses incurred which are merely beneficial to the general health of an individual are also not considered eligible medical expenses unless they are for the primary purpose of curing a particular disease or ailment and prescribed by a doctor.

Eligible Employees are encouraged to use basic plan cost management features, including pre-certification, continued stay, second surgical opinion and designation of Primary Care Physician. Use of these features is optional for Eligible Employees.

5. Annual Limits. The annual limits for charges which will be paid under the Plan are specified in the Plan. Expenses incurred under provisions of basic medical, dental and vision plans are not counted against the Plan's limits. The Plan's limits apply to the following eligible charges:

A. Medical expenses not paid under a basic medical expense plan (deductibles, co-pay amounts, excluded charges, etc., but not premiums to enroll dependents in the basic plan); plus
B. Dental expenses not paid under basic dental plan (deductibles, co-pay amounts, excluded charges etc., but not premiums to enroll dependents in the basic plan); plus
C. All vision expenses not covered by basic vision plan, but not premiums to enroll dependents in the basic plan
D. When an Eligible Employee or dependent or the Eligible Employee's family exhausts annual coverage, the Eligible Employee will be notified by the carrier.

6. Claims Processing. Eligible Employees or their Providers (Doctors, Hospitals, etc.) should submit all basic medical, dental and vision plan and EHP claims to the EHP carrier (UnitedHealthcare). In no case should claims be submitted for processing under the procedures of the basic medical, dental and vision plans. UnitedHealthcare will coordinate processing for both basic and EHP claims to reduce administrative efforts for Eligible Employees. Retired Eligible Employees who are eligible for coverage under the Plan and who are eligible for Medicare should file with Medicare first. See Medicare Section below.

To submit a claim, Eligible Employees or their Providers should use a claim form (see Attachment 1) and one of the blue envelopes provided in the enrollment portfolio. Documentation of service provided should be attached to the claim form. Additional forms and envelopes are available from the carrier.

The carrier will receive completed forms, verify participation and make payment to the Eligible Employee or to the Provider as appropriate. The Explanation of Benefits statement will be forwarded to the Eligible Employee when payments are made.

Medical and Dental Claims. The carrier will allocate claim charges to either basic medical or dental plan coverage, EHP coverage or non-covered charges. The Eligible Employee or the Eligible Employee's Provider will be reimbursed for all charges except those not eligible under either a basic medical or dental plan or EHP. The carrier will use the separation of charges between plans to produce reports and to track against annual limits.

Vision Claims. The carrier will allocate claim charges to either basic vision plan coverage, EHP coverage or non-covered charges. The Eligible Employee or the Eligible Employee's Provider will be reimbursed for all charges except those not eligible under either a basic vision plan or EHP. The carrier will use the separation of charges between plans to produce reports and to track against annual limits. Eligible Employees should not submit vision claims to carriers other than the EHP carrier.

Medicare. Any retired Eligible Employee eligible for coverage under the Plan or his or her dependents any of whom are eligible for Medicare shall file claims with Medicare first. Expenses not reimbursed by Medicare should then be filed with UnitedHealthcare using the Executive Health Plan Claim Form.

Coordination by Administrators. The ECA contact will instruct claims administrators for basic plans (vision, dental, medical) to forward all Eligible Employee claims to the EHP carrier for processing.

Release of Information. If requested by a Provider, it will be necessary for the Eligible Employee to sign a form to authorize the carrier to obtain additional information from a Provider. In those cases, the carrier will forward an information release form directly to the Eligible Employee.

7. I. D. Cards. Each enrollment portfolio includes I.D. cards for the Eligible Employee and eligible spouse and dependents. The dependent's name will be shown on the dependent's card.

Additional cards can be obtained by contacting the ECA Group.

Each card will contain a carrier telephone number dedicated to the EHP. This number is also on the claim forms.

8. Prescriptions. Participants in the EHP should use the Mail Service Prescription Drug Program or purchase prescriptions from a pharmacy, as appropriate. The Eligible Employee should attach his/her receipt for any amount not covered by the basic Plan to a claim form, and forward to the carrier for full reimbursement. Only prescription medicines are eligible for reimbursement. Over-the-counter medicines (cold tablets, aspirin, etc.) and hygienic supplies (contact lens solution, eye drops, etc.) are not covered under the plan.

9. Billing. The carrier will issue insurance premium bills at the beginning of each quarter to the following SBC entities:

- SBC ECA Group (for corporate staff Eligible Employees)
- Each subsidiary's Human Resources/Personal Administration Group (for subsidiary Eligible Employees).

Quarterly payments are due to the carrier by the end of the first month in the quarter.

Bills will provide sufficient detail to show the following:

- Amounts above that allocated to basic medical, dental and vision plans
- EHP premiums
- Other EHP charges/credits
- SBC code
- State code
- Individual bills for each Eligible Employee as requested by the employing subsidiary

10. Reports. The carrier will issue quarterly reports to the SBC ECA contact. These will include claim-to-premium reconciliation data for use in forecasting end-of-year true-ups and determining whether or not accruals will be required.

11. Accruals. If claim-to premium reconciliation data indicates claims are significantly exceeding premiums during a quarter, accruals should be considered during the year. At the end of the year, an accrual is generally required unless a year-end true-up bill is not expected.

12. Taxes. If receipt of coverage/benefits under this Plan results in taxable income, an Eligible Employee's income will be grossed-up.

SBC COMMUNICATIONS INC.

STOCK SAVINGS PLAN

As amended through November 2, 2002

Article 1 - Statement of Purpose

The purpose of the Stock Savings Plan (“Plan”) is to increase stock ownership by, and to provide retirement and savings opportunities to, a select group of management employees consisting of Eligible Employees of SBC Communications Inc. (“SBC” or the “Company”) and its Subsidiaries.

Article 2 - Definitions

For the purposes of this Plan, the following words and phrases shall have the meanings indicated, unless the context indicates otherwise:

After-Tax Account. The account maintained on an after-tax basis on the books of account of SBC for each Participant.

Base Compensation. The following types of cash-based compensation, in each case as determined by SBC, paid by an Employer (but not including payments made by a non-Employer, such as state disability payments), before reduction due to any contribution pursuant to this Plan or reduction pursuant to any deferral plan of an Employer, including but not limited to a plan that includes a qualified cash or deferral arrangement under Section 401(k) of the Internal Revenue Code, as amended (“Code”):

(a)annual base salary;

(b)commissions;

(c)Team Award (the annual award determined to be the "Team Award" by SBC together with the individual award determined by SBC to be the Individual Discretionary Award made in connection therewith) or comparable awards, if any, determined by SBC to be used in lieu of these awards. Unless otherwise provided by SBC, Team Award shall include, among other things, bonus awards under the Ameritech Management Incentive Plan or the Ameritech Senior Management Short Term Incentive Plan.

Payments by an Employer under a Disability plan made in lieu of any compensation described in (a), (b) or (c), above, shall be deemed to be a part of the respective form of compensation it replaces for purposes of this definition. Base Compensation does not include zone allowances or any other geographical differential and shall not include payments made in lieu of unused vacation or other paid days off, and such payments shall not be contributed to this Plan.

Business Day. Any day during regular business hours that SBC is open for business.

Chairman. The Chairman of the Board of Directors of SBC Communications Inc.

Committee. The Human Resources Committee of the Board of Directors of SBC Communications Inc.

Disability. Absence of an Employee from work with an Employer under the relevant Employer's disability plan.

Eligible Employee. An Employee who:

(a) is a full time, salaried Employee of SBC or an Employer in which SBC has a direct or indirect 100% ownership interest and who is on active duty, Disability (but only while such Employee is deemed by the Employer to be an Employee of such Employer) or Leave of Absence; and

(b) is, as determined by SBC, a member of Employer's "select group of management or highly compensated employees" within the meaning of the Employment Retirement Income Security Act of 1974, as amended, and regulations thereunder ("ERISA").

(c) is an officer level employee for compensation purposes as shown on the records of SBC or has an employment status which has been approved by SBC to be eligible to participate in this Plan.

Notwithstanding the foregoing, SBC may, from time to time, exclude any Employee or group of Employees from being deemed an “Eligible Employee” under this Plan.

In the event a court or other governmental authority determines that an individual was improperly excluded from the class of persons who would be considered Eligible Employees during a particular time for any reason, that individual shall not be an Eligible Employee for purposes of the Plan for the period of time prior to such determination.

Any Employee that holds options to acquire shares of AirTouch Communications, Inc. or ordinary shares or American Depository Shares of Vodafone AirTouch plc (or any similar rights), under the Pacific Telesis Group Stock Option and Stock Appreciation Rights Plan or any other stock option plan of an Employer is not an Eligible Employee and may not participate in this Plan.

Employee. Any person employed by an Employer, excluding persons hired for a fixed maximum term and excluding persons who are neither citizens nor permanent residents of the United States, all as determined by SBC. For purposes of this Plan, a person on Leave of Absence who otherwise would be an Employee shall be deemed to be an Employee.

Employer. SBC Communications Inc. or any of its Subsidiaries.

Exercise Price. The price per share of Stock purchasable under an Option.

Fair Market Value or FMV. In valuing Stock or any other item subject to valuation under this Plan, the Committee may use such index or measurement as the Committee may reasonably determine from time to time, and such index or measurement shall be the FMV of such Stock or other item. In the absence of such action by the Committee, FMV means, with respect to Stock, the closing price on the New York Stock Exchange (“NYSE”) of the Stock on the relevant date, or if on such date the Stock is not traded on the NYSE, then the closing price on the immediately preceding date such Stock is so traded.

Leave of Absence. Where a person is absent from employment with an Employer on a formally granted leave of absence (i.e., the absence is with formal permission in order to prevent a break in the continuity of term of employment, which permission is granted (and not revoked) in conformity with the rules of the Employer which employs the individual, as adopted from time to time). For purposes of this Plan, a Leave of Absence shall be deemed to also include a transfer by an Employer of a person to, and continuous employment by, an entity for a rotational work assignment. In the event a transfer to such an entity lasts more than 5 years or the rotational work assignment status is canceled by SBC, it shall be deemed a Termination of Employment with the Employer at that time for purposes of this Plan. To be a rotational work assignment, the Employer must have indicated in writing to the person that the person was to be rehired by the Employer on termination of the rotational work assignment.

Options or Stock Options. Options to purchase Stock issued pursuant to this Plan.

Participant. An Eligible Employee or former Eligible Employee who participates in this Plan.

Pre-Tax Account. The account maintained on a pre-tax basis on the books of account of SBC for each Participant.

Retirement or Retire. The Termination of Employment for any reason other than death or Disability on or after the earlier of the following dates, or as otherwise provided by the Committee: (1) for Officer Level Employees (Participants deemed officer level Employees for compensation purposes as indicated on the records of SBC), the date the Participant attains age 55 - individuals who become Officer Level Employees on or after January 1, 2002, must also have five (5) years of service; or (2) the date the Participant has attained one of the following combinations of age and Net Credited Service (as that term is used from time to time for the SBC Pension Benefit Plan), except as otherwise indicated below:

Net Credited Service	Age
10 Years or more	65 or older
20 Years or more	55 or older
25 Years or more	50 or older
30 Years or more	Any age

With respect to an Employee who is granted an EMP Service Pension under and pursuant to the provisions of the SBC Pension Benefit Plan - Nonbargained Program upon Termination of Employment, the term “Retirement” shall include such Employee’s Termination of Employment.

Shares or Share Units. An accounting entry representing the right to receive an equivalent number of shares of Stock.

Short Term Incentive Award. An award paid by an Employer (and not by a non-Employer, such as state disability payments) under the Short Term Incentive Plan; an award under a similar plan intended by the Committee to be in lieu of an award under such Short Term Incentive Plan; the Key Executive Officer Short Term Award paid under the 1996 Stock and Incentive Plan or the 2001 Incentive Plan; or any other award that the Committee designates as a Short Term Incentive Award specifically for purposes of this Plan (regardless of the purpose of the award).

Stock. The common stock of SBC Communications Inc.

Subsidiary. Any corporation, partnership, venture or other entity in which SBC holds, directly or indirectly, a 50% or greater ownership interest. The Committee may, at its sole discretion, designate any other corporation, partnership, venture or other entity a Subsidiary for the purpose of participating in this Plan.

Termination of Employment. References herein to “Termination of Employment”, “Terminate Employment” or a similar reference, shall mean the event where the Employee ceases to be an Employee of any Employer, including but not limited to where the employing company ceases to be an Employer.

Article 3 - Administration of the Plan

3.1 The Committee.

The Committee shall be the administrator of the Plan and will administer the Plan, interpret, construe and apply its provisions and determine entitlement to benefits, all in its discretion. The Committee may further establish, adopt or revise such rules and regulations as it may deem necessary or advisable for the administration of the Plan. References to determinations or other actions by SBC, herein, shall mean actions authorized by the Committee, the Chairman, the Senior Executive Vice President of SBC in charge of Human Resources, or their respective successors or duly authorized delegates, in each case in the discretion of such person. All decisions by SBC shall be final and binding.

3.2 Authorized Shares of Stock.

(a) Except as provided below, the number of shares of Stock which may be distributed pursuant to the Plan, exclusive of Article 8, is 21,000,000. The number of Stock Options and shares of Stock which may be issued pursuant to Article 8 of the Plan is 34,000,000 each. Of the foregoing Stock Options, the number of incentive Stock Options which may be issued pursuant to the Plan is 34,000,000. Conversions of stock awards into Share Units pursuant to Section 4.4 and their eventual distribution shall count only against the limits of the plans from which they are transferred or contributed and shall not be applied against the limits in this Plan. To the extent Share Units are acquired through deferrals of Stock or contributions of cash where the payment of which would otherwise be deductible by SBC under Section 162(m) of the Code regardless of the size of the distribution, and such Share Units are available for distribution, they shall be distributed first. In the event SBC determines that continuing the purchase of Share Units under the Plan may cause the number of shares of Stock that are to be distributed under this Plan (which may take into account, among other things, the number of Share Units acquired and the number of Stock Options issued or required to be issued, reduced by the number of shares of Stock that would be withheld for income tax purposes) to exceed the number of authorized shares of Stock, then SBC may cancel further purchases of Share Units and require that any further dividend equivalents on Share Units be paid in cash to the Participants.

(b) In the event of a merger, reorganization, consolidation, recapitalization, separation, liquidation, stock dividend, stock split, share combination, or other change in the corporate structure of SBC affecting the shares of Stock, such adjustment shall be made to the number and class of the shares of Stock which may be delivered under the Plan (including but not limited to individual limits), and in the number and class

of and/or price of shares of Stock subject to outstanding Options granted under the Plan, and/or in the number of outstanding Options and Share Units, in each case as may be determined to be appropriate and equitable by the Committee, in its sole discretion, to prevent dilution or enlargement of rights.

3.3 Claims Procedure.

Subject to the authority of the Committee over the Plan, SBC shall appoint a Claims Board to adjudicate claims brought by or in respect to Participants and their beneficiaries relating to benefits under the Plan. A Participant may apply in writing to the Claims Board to make a claim under this Plan. The Claims Board shall provide written notice within 90 days to a Participant whose claim hereunder has been denied, setting forth reasons for such denial or explaining that an extension of the time for processing the claim is necessary, written in a manner calculated to be understood by such person. After receipt of such notice, or expiration of 90 days without any response from the Claims Board, the Participant may appeal the decision in writing to the Senior Executive Vice President of SBC in charge of Human Resources, or to the person's successor, within 90 days, except that if the Participant is an Insider, as that term is used in the 2001 Incentive Plan, then the Participant's appeal shall be to the Committee. The Participant shall receive a full and fair review of the decision denying the claim in accordance with the requirements of ERISA.

Article 4 - Contributions

4.1 Election to Make Contributions.

(a) An Eligible Employee may elect to purchase Share Units through payroll deductions contributed to the Plan as follows (such contributions to the Plan are "Employee Contributions"):

(i) An Eligible Employee may elect to contribute from 6% to 30% (in whole percentage increments) of his or her monthly Base Compensation, as the same may change from time to time.

(ii) An Eligible Employee may elect to contribute up to 100% (in whole percentage increments) of a Short Term Incentive Award.

(b) An Eligible Employee may only make an election, change an election, or terminate an election to purchase Share Units with Employee Contributions as follows:

(i) An Employee who is an Eligible Employee as of September 30 may make an election on or prior to the last Business Day of the immediately following November with respect to the contribution of Base Compensation and/or Short Term Incentive Awards paid on or after the immediately following January 1.

(ii) An Employee who was not an Eligible Employee as of September 30 but who is an Eligible Employee the immediately following March 31 may make an election on or prior to the last Business Day of the immediately following May with respect to the contribution of Base Compensation and/or Short Term Incentive Awards paid on or after the immediately following July 1.

SBC may refuse or terminate any election to purchase Share Units in the Plan at any time; provided, however, only the Committee may take such action with respect to persons who are "officer level" Employees as shown on the records of SBC.

In the event the Participant takes a hardship withdrawal from a benefit plan qualified under the Code and sponsored by SBC or an Employer, any election to make Employee Contributions by such Participant shall be immediately cancelled, and the Participant shall not be permitted to make a new election with respect to Employee Contributions that would be contributed during the then current and immediately following calendar year.

4.2 Purchase of Share Units.

(a) Employee Contributions (as well as any corresponding SBC Matching Contribution) shall be made solely pursuant to a proper election and only during the Employee's lifetime and while the Employee remains an Eligible Employee (if the Employee ceases to be an Eligible Employee, his or her election to make Employee Contributions shall be cancelled); provided, however, Termination of Employment of an Eligible Employee shall not constitute loss of eligibility solely with respect to contribution of annual base salary earned prior to termination but paid within 60 days thereafter or with respect to a Short Term Incentive Award paid after Retirement (and such person shall be deemed an Eligible Employee for such contributions).

(b) The number of Share Units purchased by a Participant during a calendar month shall be found by dividing the Participant's Employee Contributions during the month by the FMV on the last day of such month.

(c) A contribution to the Plan shall be made when the compensation - from which the contribution is to be deducted - is paid using the "check date" shown on the related pay record (sometimes referred to as the "paycheck stub") as the contribution date (if no "check date" is shown, then the date of the pay record). When there is an underpayment or delayed payment of gross compensation for any reason, the related contribution shall be determined and made when the underpayment or delayed payment is paid, again using the date on the pay record. Where there is an overpayment of gross compensation, the amount of the overpayment will not be considered in determining the contribution amount.

4.3 Reinvestment of Dividends.

In the month containing a record date for a regular cash dividend on SBC Stock, each Participant shall be credited with that number of Share Units equal to the declared dividend per share of Stock multiplied by the number of Share Units held by the Participant and divided by the FMV on the last day of the month containing the dividend record date.

4.4 Deferral of Other Stock Awards.

(a) An Eligible Employee who would receive from SBC a distribution of Stock (including but not limited to the removal of restrictions on restricted stock) pursuant to the 1996 Stock and Incentive Plan or the 2001 Incentive Plan (but not through the exercise of stock options granted under either such plan) or pursuant to any other plan or award specifically permitted to be contributed to this Plan by the Committee, may contribute all or part of such distribution that would not be recognized as income for Federal income tax purposes, upon conversion to Share Units under this Plan. To make this contribution, the Eligible Employee must make an election on or prior to the last Business Day of the calendar year prior to the calendar year such Stock would otherwise actually been paid (or, for restricted stock, the calendar year such restrictions would be removed and the stock recognized for Federal income tax purposes) to convert the part of the distribution that is not recognized as income for Federal income tax purposes into the number of Share Units under this Plan equal to the number of shares of Stock to which the Eligible Employee would be entitled; provided such person remains an Eligible Employee at the time of such conversion. Distribution of such Share Units shall be governed solely by the provisions of this Plan. SBC may refuse or terminate any election under this Section 4.4 to convert a distribution into Share Units in the Plan at any time.

(b) Effective January 1, 2001, except for persons who die prior to 2001, deferrals of Stock made prior thereto under the Salary and Incentive Award Deferral Plan will be converted into the number of Share Units equal to the number of shares of Stock or the equivalent thereof then held by the Participant through such Salary and Incentive Award Deferral Plan. Any such conversion shall not reduce or offset the number of authorized shares of Stock under this Plan. All elections made under such plan shall be terminated and the distribution of such Share Units shall be governed solely by the provisions of this Plan.

(c) The Committee may permit an Eligible Employee to purchase Share Units under this Plan with amounts other than Base Compensation or Short Term Incentive Awards on such terms and conditions as such Committee may permit from time to time.

(d) In no event shall an acquisition of Share Units pursuant to this Section 4.4 result in the crediting of an SBC Matching Contribution or Options.

Article 5 - SBC Matching Contributions

5.1 SBC Match.

(a) SBC shall credit each Participant's account with the number of Share Units found by taking eighty percent (80%) of the Participant's Employee Contributions from no more than six percent (6%) of the Participant's Base Compensation made during the month and dividing the resulting figure by the FMV of the Stock on the last day of such month ("SBC Matching Contribution"). However, if during any month the Participant is concurrently participating in this Plan and (a) the match eligible portion of the SBC Savings Plan (which may be referred to as "basic contributions") or (b) the match eligible portion of any other tax qualified or nonqualified plan of an Employer, then the monthly SBC Matching Contribution under this Plan shall be reduced so that the total monthly matching contribution shall be paid with respect to no more than:

(A) six percent (6%) minus
(B) the Participant's match eligible percentage determined under such other plan,

of the Participant’s monthly Base Compensation. In no event shall matching contributions under this Plan and all other plans of SBC and all Employers combined (including but not limited to the SBC Savings Plan) be paid with respect to more than six percent (6%) of Participant’s monthly Base Compensation. SBC Matching Contributions shall only be paid on Base Compensation contributed to the Plan. The Committee, in its discretion, may reduce or eliminate the SBC Matching Contributions with respect to those Employee Contributions that have not then been made for which a Participant then has or will have an opportunity to change his or her Share Unit purchase election.

(b) In the sole discretion of the Committee, it may also provide for the contribution of a Bonus Matching Contribution. Such Bonus Matching Contribution may not exceed 20% of the Participant's Employee Contributions for the month. The Bonus Matching Contribution shall be subject to such terms and conditions as required by the Committee and, unless otherwise provided by the Committee, to the same vesting and distribution requirements as SBC Matching Contributions.

5.2 Vesting and Distribution of Share Units Acquired with Matching Contributions.

A Participant’s interest in Share Units purchased with SBC Matching Contributions, as well as earnings thereon, shall vest when a Participant shall have three (3) years of continuous service (regardless of any subsequent break in service) as reflected on the records of SBC. Share Units shall be available for distribution in accordance with the Plan’s distribution provisions only upon becoming vested and only after the earlier of: (a) the Termination of Employment of the Participant, or (b) the beginning of the calendar year in which the Participant will reach age 55. Upon the Participant’s Termination of Employment, all the Participant’s unvested Share Units shall be forfeited and shall not be reinstated if Participant is re-Employed.

Article 6 - Distributions

6.1 Distributions of Share Units.

(a) Beginning March 10 (or such other date as determined by SBC) of the first (1st) calendar year following the calendar year of the Retirement of a Participant and on March 10 (or such other date as determined by SBC) of each of the successive 14 calendar years, SBC shall distribute that number of Share Units that is equal to the total number of Share Units then held by the Participant divided by the number of remaining installments. Not withstanding the foregoing, if the Participant Retires prior to 2001, then any undistributed Share Units will be distributed in a lump sum on March 10 of the fifteenth (15th) calendar following the calendar year of the Retirement of the Participant.

(b) Beginning March 10 (or such other date as determined by SBC) of the calendar year following the calendar year of Termination of Employment which is not a Retirement and on March 10 (or such other date as determined by SBC) of each of the successive 2 calendar years, SBC shall distribute that number of Share Units that is equal to the total number of Share Units then held by the Participant divided by the number of remaining installments. Notwithstanding the foregoing, non-Retirement eligible Participants who Terminate Employment prior to January 1, 2001, shall receive all undistributed Share Units in a lump sum.

(c) Notwithstanding (a) or (b), above, to the contrary, in the event of the death of a Participant, all undistributed Share Units shall be promptly distributed to the Participant's beneficiary in accordance with the SBC Rules for Employee Beneficiary Designations, as the same may be amended from time to time.

(d) In the event a Participant Terminates Employment and is subsequently re-Employed, then beginning with the calendar year following such re-Employment, the Participant's undistributed Share Units shall no longer be subject to distribution under this Section 6.1 as a result of the prior Termination of Employment. For purposes of distribution of Share Units only, a subsequent Termination of Employment shall be deemed a Retirement if the Participant has previously Retired.

6.2 Accelerated Distribution.

(a) On or before the last Business Day of a calendar year, a Participant may elect to receive a distribution of all or a specified number of the Participant's vested Share Units. Such distribution shall be made March 10 (or such other date as determined by SBC) of the immediately following calendar year. If the Participant will not be age 55 or older at any time during the calendar year of the distribution, then Share Units that were acquired with SBC Matching Contributions, as well as earnings thereon, may be distributed pursuant to an Accelerated Distribution election only if the Participant Terminated Employment prior to the calendar year of the distribution. This distribution shall be in addition to the number of Share Units to be distributed at the same time under Section 6.1, to the extent any remain available for distribution, which Distribution shall be calculated without regard to an election under this section. No distribution under this Section 6.2 (a) shall be made of Share Units acquired with Employee Contributions or SBC Matching Contributions in the same calendar year as the distribution.

(b) In the event the Participant Terminates Employment for reasons other than Retirement, SBC may, at its sole discretion, accelerate the distribution of all or part of the Share Units credited to the Participant to the date of SBC's choosing, without notice to, or the consent of, the Participant.

6.3 Small Distribution.

Notwithstanding any election made by the Participant, after the Termination of Employment of the Participant for any reason, if at the time of a distribution the Participant’s Share Units have a FMV of less than $10,000, SBC may, in its discretion, convert and distribute all of the Participant’s Share Units in the form of a lump sum distribution.

6.4 Determination by Internal Revenue Service.

In the event that a final determination shall be made by the Internal Revenue Service or any court of competent jurisdiction that a Participant has recognized gross income for Federal income tax purposes in excess of the Share Units actually distributed by SBC, SBC shall promptly convert and distribute to the Participant those Share Units to which such additional gross income is attributable.

6.5 Emergency Distribution.

In the event that SBC, upon written petition of the Participant, determines in its sole discretion that the Participant has suffered an unforeseeable financial emergency, SBC shall convert and distribute to the Participant, as soon as practicable following such determination, the number of Share Units determined by SBC in its sole discretion to meet the emergency (the “Emergency Distribution”), other than Share Units acquired with SBC Matching Contributions, as well as earnings thereon. For purposes of this Plan, an unforeseeable financial emergency is an unexpected need for cash arising from an illness, casualty loss, sudden financial reversal, or other such unforeseeable occurrence. Cash needs arising from foreseeable events such as the purchase of a house or education expenses for children shall not be considered to be the result of an unforeseeable financial emergency. Upon such distribution, any election to make Employee Contributions by such Participant shall be immediately cancelled, and the Participant shall not be permitted to make a new election with respect to Employee Contributions that would be contributed during the then current and immediately following calendar year.

6.6 Ineligible Participant.

Notwithstanding any other provisions of this Plan to the contrary, if SBC receives an opinion from counsel selected by SBC, or a final determination is made by a Federal, state or local government or agency, acting within its scope of authority, to the effect that an individual is not, or was not at the time of his or her making Employee Contributions to this Plan, a member of Employer’s “select group of management or highly compensated employees” within the meaning of ERISA, then such person will not be eligible to participate in this Plan and shall receive an immediate lump sum distribution of shares of Stock corresponding to the vested portion of the Share Units standing credited to his or her account. Upon such payment no other distribution shall thereafter be payable under this Plan either to the individual or any beneficiary of the

individual, except as provided under Section 10.1 Additional Benefit.

6.7 Distribution Process.
Share Units shall be distributed under this Plan by taking the number of Share Units to be distributed and converting them into an equal number of shares of Stock. (Once distributed, a Share Unit shall be canceled.)

Article 7 - Transition Provisions

The transition rules of this Article 7 shall supercede all other terms of this Plan.

7.1 Effective Dates.
Except as otherwise provided in this Article, the amendments to this Plan made March 31, 2000 (the “2000 Amendments”) shall be effective March 31, 2000. No election to begin a Savings Unit nor an election regarding the distribution or further deferral of a distribution of a Savings Unit may be made on or after March 31, 2000. (As used herein, “Savings Units” shall have the same meaning as used in this Plan prior to such amendments.)

7.2 Combination of Share Units.
(a) Effective January 1, 2001, all Share Units (previously referred to as "Shares") acquired under Savings Units by a Participant shall be combined in a single account regardless of date acquired or the Savings Unit to which they were related, except for the Share Units to be distributed under (b), below.

(b) Share Units equal in value to, and constituting, a Participant's tax basis in the Share Units acquired on an after-tax basis shall be valued and distributed on or promptly after March 10, 2001, unless a later distribution is required by SBC.

(c) To the extent any Participant who retires before 2001 would, were it not for the 2000 Amendments, under valid elections made prior to March 31, 2000, receive a distribution under a Savings Unit(s) that would extend the Participant's distributions beyond 2015, then the Savings Unit(s) so affected shall not be combined with other Share Units and shall be distributed in accordance with such elections. Notwithstanding the foregoing, the Participant may, with the consent of SBC, elect to have all undistributed Shares in such Savings Unit(s) be governed by this Plan as in effect after March 31, 2000.

(d) In the event a Participant dies prior to 2001, the Participant's Savings Unit(s) shall not be combined with other Savings Units and shall be distributed in accordance with the Plan as it existed immediately prior to March 31, 2000, and deferrals under the Salary and Incentive Award Deferral Plan by such Participant will not be transferred to this Plan but will be paid out in accordance with the terms of that plan as it existed immediately prior to March 31, 2000.

7.3 Termination of Elections.
(a) Distributions from the Plan that would be made in the year 2000 under the Plan as it existed immediately prior to March 31, 2000, based on elections made before March 31, 2000, shall continue to be made in the year 2000 as provided in the Plan immediately prior to March 31, 2000. All other distribution elections are cancelled, including but not limited to distributions which have already commenced, but only to the extent such elections call for distributions after the year 2000. All Share Units remaining undistributed after such distributions shall be held and distributed in accordance with the terms of the Plan as in effect after March 31, 2000.

(b) Contributions to the Plan that would be made in the year 2000 under the Plan as it existed immediately prior to March 31, 2000, based on elections made before March 31, 2000, shall continue to be made in the year 2000 as provided in the Plan immediately prior to March 31, 2000. Elections to participate in the Plan shall not automatically be renewed for the year 2001. Each Eligible Employee must make a new election after March 31, 2000, in order to purchase Share Units with Employee Contributions after 2000. Provided, however, valid elections made prior to March 31, 2000, to contribute Short Term Incentive Awards in 2001 shall be valid elections under this Plan.

7.4 Annual Base Salary Contribution Transition.
Annual base salary earned prior to January 1, 2001, shall be contributed when earned, while annual base salary earned on or after such date shall be contributed when paid. In order to avoid any double contribution of annual base salary, that part of annual base salary earned in the year 2000 shall not be included in any determination of contributions to the Plan in a later calendar year, even though paid in such calendar year. This section shall not apply to employees of Ameritech Corporation or its direct or indirectly held subsidiaries or to Employees who did not make contributions to the Plan in 2000.

7.5 Stock Options.
The August 2000 and February 2001 issuances of Options shall be determined and made as the Plan was written immediately prior to March 31, 2000, so as not to enlarge or reduce the rights of Participants with Savings Units commencing in 2000.

Article 8 - Options

8.1 Grants.
The Committee shall determine at its discretion whether the Options issued pursuant to this Plan shall be non-qualified Stock Options or incentive Stock Options within the meaning of Section 422 of the Code. Any Options issued hereunder shall be non-qualified Options unless

the Committee specifies prior to the issuance thereof that they shall be incentive Stock Options. Notwithstanding any other provision of the Plan, any incentive Stock Options issued under this Plan shall be issued and exercised in accordance with Section 422 of the Code. The Options may be issued in definitive form or recorded on the books and records of SBC for the account of the Participant, at the discretion of SBC. If SBC elects not to issue the Options in definitive form, they shall be deemed issued, and the Participants shall have all rights incident thereto as if they were issued on the dates provided herein, without further action on the part of SBC or the Participant. In addition to the terms herein, all Options shall be subject to such additional provisions and limitations as provided in any Administrative Procedures adopted by the Committee prior to the issuance of such Options. The number of Options issued to a Participant shall be reflected on the Participant's annual statement of account.

8.2 Term of Options.

The Options may only be exercised: (a) after the earlier of (i) the expiration of one (1) year from date of issue or (ii) the Participant's Termination of Employment, and (b) no later than the tenth (10^{th}) anniversary of their issue; and Options shall be subject to earlier termination as provided herein.

8.3 Exercise Price.

The Exercise Price of an Option shall be the FMV of the Stock on the date of issuance of the Options.

8.4 Issuance of Options.

(a) On each June 1 a Participant shall receive two (2) Options for each Share Unit acquired by the Participant during the immediately preceding January through April period with Employee Contributions of Base Compensation and/or Short Term Incentive Award. A fractional number of Options shall be rounded up to the next whole number.

(b) On each February 1 a Participant shall receive:

(i) two (2) Options for each Share Unit acquired by the Participant during the immediately preceding May through December with Employee Contributions of Base Compensation and/or Short Term Incentive Award; and

(ii)two (2) Options for each Share Unit acquired prior to such date by the Participant with dividend equivalents that were derived, directly or indirectly (such as dividend equivalents paid on Share Units acquired with dividend equivalents), from Share Units acquired with Employee Contributions during the immediately preceding January through December.

A fractional number of Options shall be rounded up to the next whole number.

(c) If Stock is not traded on the NYSE on any of the foregoing Option issuance dates, then the Options shall not be issued until the next such day on which Stock is so traded.

(d) If a Participant Terminates Employment other than (i) while Retirement eligible or (ii) because of death or Disability, no further Options shall be issued to or with respect to such Participant. In the event of re-Employment following a Termination of Employment, the preceding sentence shall not apply to those Options resulting from participation in the Plan after such re-Employment until a subsequent Termination of Employment.

(e) No more than 400,000 Options shall be issued to any individual under this Plan during a calendar year. No Share Unit may be counted more than once for the issuance of Options.

(f) The Committee may, in its sole discretion, at any time increase or lower the number of Options that are to be issued for each Share Unit acquired. However, if the Committee lowers the number of Options, then such change shall only be effective with respect to the next period in which a Participant may change his or her Share Unit purchase election.

(g) The Committee may also, at any time and in any manner, limit the number of Options which may be acquired as a result of the Short Term Incentive Award being contributed to the Plan. Further, except as otherwise provided by the Committee, in determining the number of Options to be issued to a Participant with respect to a Participant's contribution of a Short Term Incentive Award to the Plan and subsequent crediting of Share Units, Options may be issued only with respect to an amount which does not exceed the target amount of such award (or such other portion of the award as may be determined by the Committee).

(h) No options shall be issued to or in respect of a Participant for a particular issuance, unless at least 10 Options will be issued to that Participant.

8.5 Exercise and Payment of Options.

Options shall be exercised by providing notice to the designated agent selected by SBC (if no such agent has been designated, then to SBC), in the manner and form determined by SBC, which notice shall be irrevocable, setting forth the exact number of shares of Stock with respect to which the Option is being exercised and including with such notice payment of the Exercise Price. When Options have been transferred, SBC or its designated agent may require appropriate documentation that the person or persons exercising the Option, if other than the Participant, has the right to exercise the Option. No Option may be exercised with respect to a fraction of a share of Stock.

Exercises of Options may be effected only on days and during the hours that the New York Stock Exchange is open for regular trading or as otherwise provided or limited by SBC. If an Option expires on a day or at a time when exercises are not permitted, then the Options may be exercised no later than the immediately preceding date and time that the Options were exercisable.

The Exercise Price shall be paid in full at the time of exercise. No Stock shall be issued or transferred until full payment has been received therefor.

Payment may be made:

(a) in cash, or

(b) unless otherwise provided by the Committee at any time, and subject to such additional terms and conditions and/or modifications as SBC may impose from time to time, and further subject to suspension or termination of this provision by SBC at any time, by:

> (i) delivery of Stock owned by the Participant in partial (if in partial payment, then together with cash) or full payment; provided, however, as a condition to paying any part of the Exercise Price in Stock, at the time of exercise of the Option, the Participant must establish to the satisfaction of SBC that the Stock tendered to SBC must have been held by the Participant for a minimum of six (6) months preceding the tender; or
>
> (ii) if SBC has designated a stockbroker to act as SBC's agent to process Option exercises, issuance of an exercise notice to such stockbroker together with instructions irrevocably instructing the stockbroker: (A) to immediately sell (which shall include an exercise notice that becomes effective upon execution of a sell order) a sufficient portion of the Stock to pay the Exercise Price of the Options being exercised and the required tax withholding, and (B) to deliver on the settlement date the portion of the proceeds of the sale equal to the Exercise Price and tax withholding to SBC. In the event the stockbroker sells any Stock on behalf of a Participant, the stockbroker shall be acting solely as the agent of the Participant, and SBC disclaims any responsibility for the actions of the stockbroker in making any such sales. No Stock shall be issued until the settlement date and until the proceeds (equal to the Exercise Price and tax withholding) are paid to SBC.

If payment is made by the delivery of Stock, the value of the Stock delivered shall be equal to the FMV of the Stock on the day preceding the date of exercise of the Option.

Restricted Stock may not be used to pay the Option exercise price.

8.6 Restrictions on Exercise and Transfer.

No Option shall be transferable except: (a) upon the death of a Participant in accordance with SBC's Rules for Employee Beneficiary Designations, as the same may be amended from time to time; and (b) in the case of any holder after the Participant's death, only by will or by the laws of descent and distribution. During the Participant's lifetime, the Participant's Options shall be exercisable only by the Participant or by the Participant's guardian or legal representative. After the death of the Participant, an Option shall only be exercised by the holder thereof (including but not limited to an executor or administrator of a decedent's estate) or his or her guardian or legal representative.

8.7 Termination of Employment.

(a) *Not Retirement Eligible.* If a Participant Terminates Employment while not Retirement eligible, a Participant's Options may be exercised, to the extent then exercisable:

> (i) if such Termination of Employment is by reason of death or Disability, then for a period of three (3) years from the date of such Termination of Employment or until the expiration of the stated term of such Option, whichever period is shorter; or
>
> (ii) if such Termination of Employment is for any other reason, then for a period of one (1) year (three (3) months for Options granted before August 1, 1998) from the date of such Termination of Employment or until the expiration of the stated term of such Option, whichever period is shorter.

(b) *Retirement Eligible.* If a Participant Terminates Employment while Retirement eligible, a Participant's Option may be exercised, to the extent then exercisable: (i) for a period of five (5) years (three (3) years for options granted before August 1, 1998) from the date of Retirement or (ii) until the expiration of the stated term of such Option, whichever period is shorter. If a Participant Terminated Employment because of death or Disability on or before March 31, 2000, the Participant will be deemed to have Terminated Employment while not Retirement eligible for purposes of this section.

(c) Re-Employment of a Participant after a Termination of Employment shall have no effect on the periods during which Options resulting from the prior Employment may be exercised. For example, if the Option exercise period has been shortened because of the prior Termination of Employment, it shall not be extended because of the re-Employment.

Article 9 - Discontinuation, Termination, Amendment.

9.1 SBC's Right to Discontinue Offering Share Units..

SBC may at any time discontinue offerings of Share Units under the Plan. Any such discontinuance shall have no effect upon existing Share Units or the terms or provisions of this Plan as applicable to such Share Units.

9.2 SBC's Right to Terminate Plan.

The Committee may terminate the Plan at any time. Upon termination of the Plan, contributions shall no longer be made under the Plan.

After termination of the Plan, Participants shall continue to earn dividend equivalents in the form of Share Units on undistributed Share Units and shall continue to receive all distributions under this Plan at such time as provided in and pursuant to the terms and conditions of Participant's elections and this Plan.

9.3 Amendment.

The Committee may at any time amend the Plan in whole or in part including but not limited to changing the formulas for determining the amount of SBC Matching Contributions under Article 5 or increasing or decreasing the number of Options to be issued under Article 8; provided, however, that no amendment, including but not limited to an amendment to this section, shall be effective, without the consent of a Participant, to alter, to the material detriment of such Participant, the distributions described in this Plan as applicable to Share Units of the Participant or to decrease the number of Share Units standing credited to such Participant's Accounts under the Plan. For purposes of this section, an alteration to the material detriment of a Participant shall mean a material reduction in the period of time over which Stock may be distributed to a Participant, any reduction in the Participant's number of vested Share Units or Options, or an increase in the Exercise Price or decrease in the term of an Option. Any such consent may be in a writing, telecopy, or e-mail or in another electronic format. An election to acquire, or to modify an election to acquire, Share Units with Employee Contributions and the failure to terminate an election to acquire Share Units with Employee Contributions when able to do so shall each be conclusively deemed to be the consent of the Participant to any and all amendments to the Plan prior to such election or failure to terminate an election, and such consent shall be a condition to making any election with respect to Employee Contributions.

Notwithstanding anything to the contrary contained in this section of the Plan, the Committee may modify this Plan with respect to any person subject to the provisions of Section 16 of the Securities Exchange Act of 1934 as amended ("Exchange Act") to place additional restrictions on the exercise of any Option or the transfer of any Stock not yet issued under the Plan.

Article 10 - Miscellaneous

10.1 Additional Benefit.

The reduction of any benefit payable under the SBC Pension Benefit Plan (or comparable plan identified by SBC as a replacement therefor), which results from participation in this Plan, will be restored as an additional benefit ("make-up piece") under this Plan. The Participant shall elect prior to commencement of payment of the make-up piece whether to receive such benefit in cash in a lump sum (consisting of the present value equivalent of the pension retirement benefit (life annuity) make-up piece) or such benefit in an annuity form of payment. Notwithstanding the proceeding provisions of this section, if all or a portion of the make-up piece is paid pursuant to SRIP or another non-qualified plan, then such amount shall not be payable pursuant to this Plan.

10.2 Tax Withholding.

Upon distribution of Stock, including but not limited to, shares of Stock issued upon the exercise of an Option, SBC shall withhold shares of Stock sufficient in value, using the FMV on the date determined by SBC to be used to value the Stock for tax purposes, to satisfy the minimum amount of Federal, state, and local taxes required by law to be withheld as a result of such distribution.

Any fractional share of Stock payable to a Participant shall be withheld as additional Federal withholding, or, at the option of SBC, paid in cash to the Participant.

Unless otherwise determined by the Committee, when the method of payment for the Exercise Price is from the sale by a stockbroker pursuant to Section 8.5(b)(ii), hereof, of the Stock acquired through the Option exercise, then the tax withholding shall be satisfied out of the proceeds. For administrative purposes in determining the amount of taxes due, the sale price of such Stock shall be deemed to be the FMV of the Stock.

10.3 Elections and Notices.

Notwithstanding anything to the contrary contained in this Plan, all elections and notices of every kind shall be made on forms prepared by SBC or the General Counsel, Secretary or Assistant Secretary, or their respective delegates or shall be made in such other manner as permitted or required by SBC or the General Counsel, Secretary or Assistant Secretary, or their respective delegates, including through electronic means, over the Internet or otherwise. An election shall be deemed made when received by SBC (or its designated agent, but only in cases where the designated agent has been appointed for the purpose of receiving such election), which may waive any defects in form. Unless made irrevocable by the electing person, each election with regard to making Employee Contributions or distributions of Share Units shall become irrevocable at the close of business on the last day to make such election. SBC may limit the time an election may be made in advance of any deadline.

If not otherwise specified by this Plan or SBC, any notice or filing required or permitted to be given to SBC under the Plan shall be delivered to the principal office of SBC, directed to the attention of the Senior Executive Vice President-Human Resources of SBC or his or her successor. Such notice shall be deemed given on the date of delivery.

Notice to the Participant shall be deemed given when mailed (or sent by telecopy) to the Participant's work or home address as shown on the records of SBC or, at the option of SBC, to the Participant's e-mail address as shown on the records of SBC. It is the Participant's responsibility to ensure that the Participant's addresses are kept up to date on the records of SBC. In the case of notices affecting multiple Participants, the notices may be given by general distribution at the Participants' work locations.

By participating in the Plan, each Participant agrees that SBC may provide any documents required or permitted under the Federal or state securities laws, including but not limited to the Securities Act of 1933 and the Securities Exchange Act of 1934 by e-mail, by e-mail attachment, or by notice by e-mail of electronic delivery through SBC's Internet Web site or by other electronic means.

10.4 Unsecured General Creditor.

Participants and their beneficiaries, heirs, successors, and assigns shall have no legal or equitable rights, interest, or claims in any property or assets of any Employer. No assets of any Employer shall be held under any trust for the benefit of Participants, their beneficiaries, heirs, successors, or assigns, or held in any way as collateral security for the fulfilling of the obligations of any Employer under this Plan. Any and all of each Employer's assets shall be, and remain, the general, unpledged, unrestricted assets of such Employer. The only obligation of an Employer under the Plan shall be merely that of an unfunded and unsecured promise of SBC to distribute shares of Stock corresponding to Share Units, and Options, under the Plan.

10.5 Offset.

SBC may offset against the amount of Stock otherwise distributable to a Participant, any amounts due an Employer by a Participant, including but not limited to overpayments under any compensation or benefit plans. In addition, SBC may also cancel a Stock Option to satisfy such an obligation to an Employer. For this purpose, each Stock Option shall be valued by subtracting the Exercise Price of the Stock Option from the FMV of the Stock on such date.

10.6 Non-Assignability.

Neither a Participant nor any other person shall have any right to commute, sell, assign, transfer, pledge, anticipate, mortgage, or otherwise encumber, transfer, hypothecate or convey in advance of actual receipt, shares of Stock corresponding to Share Units under the Plan, if any, or any part thereof, which are, and all rights to which are, expressly declared to be unassignable and non-transferable. No part of the Stock distributable shall, prior to actual distribution, be subject to seizure or sequestration for the payment of any debts, judgments, alimony or separate maintenance owed by a Participant or any other person, nor be transferable by operation of law in the event of a Participant's or any other person's bankruptcy or insolvency.

10.7 Employment Not Guaranteed.

Nothing contained in this Plan nor any action taken hereunder shall be construed as a contract of employment or as giving any employee any right to be retained in the employ of an Employer or to serve as a director.

10.8 Errors.

At any time SBC may correct any error made under the Plan without prejudice to SBC. Such corrections may include, among other things, changing or revoking a Stock Option issuance, canceling Share Units and refunding contributions to a Participant with respect to any period he or she made Employee Contributions while not an Eligible Employee, or canceling the enrollment of a non-Eligible Employee.

10.9 Captions.

The captions of the articles, sections, and paragraphs of this Plan are for convenience only and shall not control nor affect the meaning or construction of any of its provisions.

10.10 Governing Law.

To the extent not preempted by Federal law, the Plan, and all awards and agreements hereunder, and any and all disputes in connection therewith, shall be governed by and construed in accordance with the substantive laws of the State of Texas, without regard to conflict or choice of law principles which might otherwise refer the construction, interpretation or enforceability of this Plan to the substantive law of another jurisdiction.

Because awards under the Plan are granted in Texas, records relating to the Plan and awards thereunder are located in Texas, and the Plan and awards thereunder are administered in Texas, the Company and the Participant to whom an award under this Plan is granted, for themselves and their successors and assigns, irrevocably submit to the exclusive and sole jurisdiction and venue of the state or federal courts of Texas with respect to any and all disputes arising out of or relating to this Plan, the subject matter of this Plan or any awards under this Plan, including but not limited to any disputes arising out of or relating to the interpretation and enforceability of any awards or the terms and conditions of this Plan. To achieve certainty regarding the appropriate forum in which to prosecute and defend actions arising out of or relating to this Plan, and to ensure consistency in application and interpretation of the Governing Law to the Plan, the parties agree that (a) sole and exclusive appropriate venue for any such action shall be an appropriate federal or state court in Bexar County, Texas, and no other, (b) all claims with respect to any such action shall be heard and determined exclusively in such Texas court, and no other, (c) such Texas court shall have sole and exclusive jurisdiction over the person of such parties and over the subject matter of any dispute relating hereto and (d) that the parties waive any and all objections and defenses to bringing any such action before such Texas court, including but not limited to those relating to lack of personal jurisdiction, improper venue or *forum non conveniens* .

10.11 Validity.

In the event any provision of this Plan is held invalid, void, or unenforceable, the same shall not affect, in any respect whatsoever, the

validity of any other provision of this Plan.

10.12 Successors and Assigns.
This Plan shall be binding upon SBC and its successors and assigns.

10.13 Participation in Predecessor Plans.
Effective November 21, 1997, the plans of the Stock Savings Program were merged into the Stock Savings Plan. All Share Units under the Stock Based Savings Plan or the Management Stock Savings Plan were transferred to this Plan as of that date and are governed by the terms of this Plan.

SBC Communications Inc.

1996 STOCK AND INCENTIVE PLAN

Plan Effective: January 1, 1996
Revisions Effective: November 2, 2002

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SBC COMMUNICATIONS INC.
1996 STOCK AND INCENTIVE PLAN

Article 1 Establishment and Purpose.

1.1 Establishment of the Plan. SBC Communications Inc., a Delaware corporation (the "Company" or "SBC"), hereby establishes an incentive compensation plan (the "Plan"), as set forth in this document. No awards may be granted under this Plan on or after April 27,

2001.

1.2 Purpose of the Plan . The purpose of the Plan is to promote the success and enhance the value of the Company by linking the personal interests of Participants to those of the Company's shareowners, and by providing Participants with an incentive for outstanding performance.

The Plan is further intended to attract and retain the services of Participants upon whose judgment, interest, and special efforts the successful operation of SBC and its subsidiaries is dependent.

1.3 Effective Date of the Plan . The Plan shall become effective on January 1, 1996; however, grants may be made before that time subject to becoming effective on or after that date. During the first year this Plan is effective, Awards shall be issued only to the extent the potential payout of Shares shall not exceed 10% of the Shares approved for issuance under this Plan.

Article 2 Definitions.

Whenever used in the Plan, the following terms shall have the meanings set forth below and, when the meaning is intended, the initial letter of the word is capitalized:

(a) "Award" means, individually or collectively, a grant under this Plan of Nonqualified Stock Options, Incentive Stock Options, Restricted Stock, Performance Units, or Performance Shares.

(b) "Award Agreement" means an agreement which may be entered into by each Participant and the Company, setting forth the terms and provisions applicable to Awards granted to Participants under this Plan.

(c) "Board" or "Board of Directors" means the SBC Board of Directors.

(d) "Cause" shall mean willful and gross misconduct on the part of a Participant that is materially and demonstrably detrimental to the Company or any Subsidiary as determined by the Company in its sole discretion.

(e) "Change in Control" shall be deemed to have occurred if (i) any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act), other than a trustee or other fiduciary holding securities under an employee benefit plan of the Company or a corporation owned directly or indirectly by the shareowners of the Company in substantially the same proportions as their ownership of stock of the Company, is or becomes the "beneficial owner" (as defined in Rule 13d-3 under said Act), directly or indirectly, of securities of the Company representing twenty percent (20%) or more of the total voting power represented by the Company's then outstanding voting securities, or (ii) during any period of two (2) consecutive years, individuals who at the beginning of such period constitute the Board of Directors of the Company and any new Director whose election by the Board of Directors or nomination for election by the Company's shareowners was approved by a vote of at least two-thirds (2/3) of the Directors then still in office who either were Directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority thereof, or (iii) the shareowners of the Company approve a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least eighty percent (80%) of the total voting power represented by the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation, or the shareowners of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all the Company's assets.

(f) "Code" means the Internal Revenue Code of 1986, as amended from time to time.

(g) "Committee" means the committee or committees, as specified in Article 3, appointed by the Board to administer the Plan with respect to grants of Awards.

(h) "Director" means any individual who is a member of the SBC Board of Directors.

(i) "Disability" shall mean absence of an Employee from work under the relevant Company or Subsidiary disability plan.

(j) "Employee" means any management employee of the Company or of one of the Company's Subsidiaries. "Employment" means the employment of an Employee by the Company or one of its Subsidiaries. Directors who are not otherwise employed by the Company shall not be considered Employees under this Plan.

(k) "Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time, or any successor Act thereto.

(l) "Exercise Price" means the price at which a Share may be purchased by a Participant pursuant to an Option, as determined by the Committee.

(m) "Fair Market Value" shall mean the closing price on the New York Stock Exchange ("NYSE") for Shares on the relevant date, or if such date was not a trading day, the next preceding trading date, all as determined by the Company. A trading day is any day that the Shares are traded on the NYSE. In lieu of the foregoing, the Committee may select any other index or

measurement to determine the Fair Market Value of Shares under the Plan.

(n) "Incentive Stock Option" or "ISO" means an option to purchase Shares from SBC, granted under this Plan, which is designated as an Incentive Stock Option and is intended to meet the requirements of Section 422 of the Code.

(o) "Insider" shall mean an Employee who is, on the relevant date, an officer, director, or ten percent (10%) beneficial owner of the Company, as those terms are defined under Section 16 of the Exchange Act.

(p) "Key Executive Officer Short Term Award" means a Performance Unit expressed in dollars.

(q) "Nonqualified Stock Option" or "NQSO" means the option to purchase Shares from SBC, granted under this Plan, which is not intended to be an Incentive Stock Option.

(r) "Option" or "Stock Option" shall mean an Incentive Stock Option or a Nonqualified Stock Option, and shall include a Restoration Option.

(s) "Participant" shall mean an Employee or former Employee that participates in this Plan.

(t) "Performance Unit" and "Performance Share" shall each mean an Award granted to an Employee pursuant to Article 8 herein.

(u) "Plan" means this 1996 Stock and Incentive Plan. The Plan may also be referred to as the "SBC 1996 Stock and Incentive Plan" or as the "SBC Communications Inc. 1996 Stock and Incentive Plan."

(v) "Restricted Stock" means an Award of Stock granted to an Employee pursuant to Article 7 herein.

(w) "Restriction Period" means the period during which Shares of Restricted Stock are subject to restrictions or conditions under Article 7.

(x) "Retirement" or to "Retire" shall mean the termination of a Participant's employment with the Company or one of its Subsidiaries, for any reason other than death, Disability or for Cause, on or after the earlier of the following dates, or as otherwise provided by the Committee: (1) for Officer Level Employees (Participants deemed officer level Employees for compensation purposes as indicated on the records of SBC), the date the Participant attains age 55 (individuals who become Officer Level Employees on or after January 1, 2002, must also have five (5) years of service); or (2) the date the Participant has attained one of the following combinations of age and service at termination of employment on or after April 1, 1997, except as otherwise indicated below:

Net Credited Service	Age
10 Years of more	65 or older
20 Years of more	55 or older
25 Years of more	50 or older
30 Years of more	Any age

With respect to a Participant who is granted an EMP Service Pension under and pursuant to the provisions of the SBC Pension Benefit Plan – Nonbargained Program upon termination of employment, the terms “Retirement” or to “Retire” shall include such Participant’s termination of employment.

Termination Under EPR. In determining whether an Eligible Employee's termination of employment under the Enhanced Pension and Retirement Program ("EPR") is a Retirement for purposes of this Plan, five years shall be added to each of age and net credited service ("NCS"). If with such additional age and years of service, (1) an Eligible Employee upon such termination of employment under EPR is Retirement Eligible according to the SBC Supplemental Retirement Income Plan (“SRIP”) or (2) the Eligible Employee upon such termination of employment under EPR has attained one of the following combinations of age and service,

Actual NCS + 5 Years	Actual Age + 5 Years
10 Years of more	65 or older
20 Years of more	55 or older
25 Years of more	50 or older
30 Years of more	Any age

then such termination of employment shall be a Retirement for all purposes under this Plan and the Eligible Employee shall be entitled to the treatment under this Plan afforded in the case of a termination of employment which is a Retirement.

(y) "Rotational Work Assignment Company ("RWAC") shall mean any entity with which SBC Communications Inc. or any of its Subsidiaries may enter into an agreement to provide an employee for a rotational work assignment.

(z) "Shares" or "Stock" means the shares of common stock of the Company.

(aa) "Subsidiary" shall mean any corporation in which the Company owns directly, or indirectly through subsidiaries, more than fifty percent (50%) of the total combined voting power of all classes of Stock, or any other entity (including, but not limited to, partnerships and joint ventures) in which the Company owns more than fifty percent (50%) of the combined equity thereof.

(bb) "Window Period" means the period beginning on the third business day following the date of public release of the Company's quarterly sales and earnings information, and ending on the twelfth business day following such date.

Article 3 Administration.

3.1 The Committee. Administration of the Plan shall be bifurcated as follows:

(a) With respect to Insiders, the Plan and all Awards hereunder shall be administered only by the Human Resources Committee of the Board or such other Committee as may be appointed by the Board for this purpose (the "Disinterested Committee"), where each Director on such Disinterested Committee is a "Disinterested Person" (or any successor designation for determining who may administer plans, transactions or awards exempt under Section 16(b) of the Exchange Act), as that term is used in Rule 16b-3 under the Exchange Act, as that rule may be modified from time to time.

(b) The Disinterested Committee and such other Committee as the Board may create, if any, specifically to administer the Plan with respect to non-Insiders (the "Non-Insider Committee") shall each have full authority to administer the Plan and all Awards hereunder with respect to all persons who are not Insiders, except as otherwise provided herein or by the Board. Either Committee may be replaced by the Board at any time.

3.2 Authority of the Committee . The Committee shall have full power, except as limited by law and subject to the provisions herein, in its sole and exclusive discretion: to grant Awards; to select the recipients of Awards; to determine the eligibility of a person to participate in the Plan or to receive a particular Award; to determine the sizes and types of Awards; to determine the terms and conditions of such Awards in a manner consistent with the Plan; to construe and interpret the Plan and any agreement or instrument entered into under the Plan; to establish, amend, or waive rules and regulations for the Plan’s administration; and (subject to the provisions of Article 13 herein) to amend the terms and conditions of any outstanding Award to the extent such terms and conditions are within the discretion of the Committee as provided in the Plan. Further, the Committee shall make all other determinations in its discretion which may be necessary or advisable for the administration of the Plan.

References to determinations or other actions by the Company, herein, shall mean actions authorized by the Committee, the Chairman of the Board of the Company, the Senior Executive Vice President of the Company in charge of Human Resources or their respective successors or duly authorized delegates, in each case in the discretion of such person.

All determinations and decisions made by the Company pursuant to the provisions of the Plan, and all related orders and resolutions of the Board shall be final, conclusive, and binding on all persons, including the Company, its stockholders, Employees, Participants, and their estates and beneficiaries.

Article 4 Shares Subject to the Plan.

4.1 Number of Shares . Subject to adjustment as provided in Section 4.3 herein, the number of Shares available for grant under the Plan shall not exceed 60 million Shares of Stock. No more than 10% of the Shares approved for issuance under this Plan may be Shares of Restricted Stock. No more than 40% of the Shares approved for issuance under this Plan may be issued to Participants as a result of Performance Share or Restricted Stock Awards. The Shares granted under this Plan may be either authorized but unissued or reacquired Shares. The Disinterested Committee shall have full discretion to determine the manner in which Shares available for grant are counted in this Plan.

Without limiting the discretion of the Committee under this section, unless otherwise provided by the Committee, the following rules will apply for purposes of the determination of the number of Shares available for grant under the Plan or compliance with the foregoing limits:

(a) The grant of a Stock Option or a Restricted Stock Award shall reduce the Shares available for grant under the Plan by the number of Shares subject to such Award. However, to the extent the Participant uses previously owned Shares to pay the Exercise Price or any taxes, or Shares are withheld to pay taxes, these Shares shall be available for regrant under the Plan.

(b) With respect to Performance Shares, the number of Performance Shares granted under the Plan shall be deducted from the number of Shares available for grant under the Plan. The number of Performance Shares which cannot be, or are not, converted into Shares and distributed (including deferrals) to the Participant (after any applicable tax withholding) following the end of the Performance Period shall increase the number of Shares available for regrant under the Plan by an equal amount.

(c) With respect to Performance Units representing a fixed dollar amount that may only be settled in cash, the Performance Units Award shall not affect the number of Shares available under the Plan.

4.2 Lapsed Awards . If any Award granted under this Plan is canceled, terminates, expires, or lapses for any reason, Shares subject to such Award shall be again available for the grant of an Award under the Plan.

4.3 Adjustments in Authorized Plan Shares . In the event of any merger, reorganization, consolidation, recapitalization, separation, liquidation, Stock dividend, split-up, Share combination, or other change in the corporate structure of the Company affecting the Shares, an adjustment shall be made in the number and class of Shares which may be delivered under the Plan (including individual limits), and in the number and class of and/or price of Shares subject to outstanding Awards granted under the Plan, and/or the number of outstanding Options, Shares of Restricted Stock, and Performance Shares constituting outstanding Awards, as may be determined to be appropriate and equitable by the Committee, in its sole discretion, to prevent dilution or enlargement of rights.

Article 5 Eligibility and Participation.

5.1 Eligibility. All management Employees are eligible to participate in this Plan.

5.2 Actual Participation . Subject to the provisions of the Plan, the Committee may, from time to time, select from all eligible Employees, those to whom Awards shall be granted and shall determine the nature and amount of each Award. No Employee is entitled to receive an Award unless selected by the Committee.

Article 6 Stock Options.

6.1 Grant of Options . Subject to the terms and provisions of the Plan, Options may be granted to Employees at any time and from time to time, and under such terms and conditions, as shall be determined by the Committee. In addition, the Committee may, from time to time, provide for the payment of dividend equivalents on Options, prospectively and/or retroactively, on such terms and conditions as the Committee may require. The Committee shall have discretion in determining the number of Shares subject to Options granted to each Employee; provided, however, that the maximum number of Shares subject to Options which may be granted to any single Employee during any calendar year shall not exceed 2% of the Shares approved for issuance under this Plan. The Committee may grant ISOs, NQSOs, or a combination thereof; provided, however, that no ISO may be issued after January 1, 2006. The Committee may authorize the automatic grant of additional Options ("Restoration Options") when a Participant exercises already outstanding Options, or options granted under a prior option plan of the Company, on such terms and conditions as it shall determine. Unless otherwise provided by the Committee, the number of Restoration Options granted to a Participant with respect to the exercise of an option (including an Option under this Plan) shall not exceed the number of Shares delivered by the Participant in payment of the Exercise Price of such option, and/or in payment of any tax withholding resulting from such exercise, and any Shares which are withheld to satisfy withholding tax liability arising out of such exercise. A Restoration Option shall have an Exercise Price of not less than 100% of the per Share Fair Market Value on the date of grant of such Restoration Option, and shall be subject to all the terms and conditions of the original grant, including the expiration date, and such other terms and conditions as the Committee in its sole discretion shall determine.

6.2 Form of Issuance . Each Option grant may be issued in the form of an Award Agreement and/or may be recorded on the books and records of the Company for the account of the Participant. If an Option is not issued in the form of an Award Agreement, then the Option shall be deemed granted as determined by the Committee. The terms and conditions of an Option shall be set forth in the Award Agreement, in the notice of the issuance of the grant, or in such other documents as the Committee shall determine. Such terms and conditions shall include the Exercise Price, the duration of the Option, the number of Shares to which an Option pertains (unless otherwise provided by the Committee, each Option may be exercised to purchase one Share), and such other provisions as the Committee shall determine, including, but not limited to whether the Option is intended to be an ISO or a NQSO.

6.3 Exercise Price . Unless a greater Exercise Price is determined by the Committee, the Exercise Price for each Option Awarded under this Plan shall be equal to one hundred percent (100%) of the Fair Market Value of a Share on the date the Option is granted.

6.4 Duration of Options . Each Option shall expire at such time as the Committee shall determine at the time of grant (which duration may be extended by the Committee); provided, however, that no Option shall be exercisable later than the tenth (10th) anniversary date of its grant.

6.5 Vesting of Options . Options shall vest at such times and under such terms and conditions as determined by the Committee; provided, however, unless a later vesting period is provided by the Committee at or before the grant of an Option, one-third of the Options will vest on each of the first three anniversaries of the grant; if one Option remains after equally dividing the grant by three, it will vest on the first anniversary of the grant, if two Options remain, then one will vest on each of the first two anniversaries. The Committee shall have the right to accelerate the vesting of any Option; however, the Chairman of the Board or the Senior Vice President-Human Resources, or their respective successors, or such other persons designated by the Committee, shall have the authority to accelerate the vesting of Options for any Participant who is not an Insider.

6.6 Exercise of Options . Options granted under the Plan shall be exercisable at such times and be subject to such restrictions and conditions as the Committee or the Board shall in each instance approve, which need not be the same for each grant or for each Participant. Exercises of Options may be effected only on days and during the hours that the New York Stock Exchange is open for regular trading. The Company may further change or limit the times or days Options may be exercised. If an Option expires on a day or at a time when exercises are not permitted, then the Options may be exercised no later than the immediately preceding date and time that the Options were exercisable.

Options shall be exercised by providing notice to the designated agent selected by the Company (if no such agent has been designated,

then to the Company), in the manner and form determined by the Company, which notice shall be irrevocable, setting forth the exact number of Shares with respect to which the Option is being exercised and including with such notice payment of the Exercise Price. When Options have been transferred, the Company or its designated agent may require appropriate documentation that the person or persons exercising the Option, if other than the Participant, has the right to exercise the Option. No Option may be exercised with respect to a fraction of a Share.

6.7 Payment . The Exercise Price shall be paid in full at the time of exercise. No Shares shall be issued or transferred until full payment has been received therefor.

Payment may be made:

(a) in cash, or

(b) unless otherwise provided by the Committee at any time, and subject to such additional terms and conditions and/or modifications as the Committee or the Company may impose from time to time, and further subject to suspension or termination of this provision by the Committee or Company at any time, by:

(i) delivery of Shares of Stock owned by the Participant in partial (if in partial payment, then together with cash) or full payment; provided, however, as a condition to paying any part of the Exercise Price in Stock, at the time of exercise of the Option, the Participant must establish to the satisfaction of the Company that the Stock tendered to the Company must have been held by the Participant for a minimum of six (6) months preceding the tender; or

(ii) if the Company has designated a stockbroker to act as the Company's agent to process Option exercises, issuance of an exercise notice together with instructions to such stockbroker irrevocably instructing the stockbroker: (A) to immediately sell (which shall include an exercise notice that becomes effective upon execution of a sell order) a sufficient portion of the Shares to pay the Exercise Price of the Options being exercised and the required tax withholding, and (B) to deliver on the settlement date the portion of the proceeds of the sale equal to the Exercise Price and tax withholding to the Company. In the event the stockbroker sells any Shares on behalf of a Participant, the stockbroker shall be acting solely as the agent of the Participant, and the Company disclaims any responsibility for the actions of the stockbroker in making any such sales. No Stock shall be issued until the settlement date and until the proceeds (equal to the Option Price and tax withholding) are paid to the Company.

If payment is made by the delivery of Shares of Stock, the value of the Shares delivered shall be equal to the Fair Market Value of the Shares on the day preceding the date of exercise of the Option.

Restricted Stock may not be used to pay the Option Price.

6.8 Termination of Employment.

Unless otherwise provided by the Committee, the following limitations on exercise of Options shall apply upon termination of Employment:

(a) Termination by Death or Disability. In the event the Employment of a Participant shall terminate by reason of death or Disability, all outstanding Options granted to that Participant shall immediately vest as of the date of termination of Employment and may be exercised, if at all, no more than three (3) years from the date of the termination of Employment, unless the Options, by their terms, expire earlier. However, in the event the Participant was eligible to Retire at the time of termination of Employment, notwithstanding the foregoing, the Options may be exercised, if at all, no more than five (5) years from the date of the termination of Employment, unless the Options, by their terms, expire earlier.

(b) Termination for Cause. If the Employment of a Participant shall be terminated by the Company for Cause, all outstanding Options held by the Participant shall immediately be forfeited to the Company and no additional exercise period shall be allowed, regardless of the vested status of the Options.

(c) Retirement or Other Termination of Employment. If the Employment of a Participant shall terminate for any reason other than the reasons set forth in (a) or (b), above:

(i) If upon the Participant's termination of Employment, the Participant is not an EPR Terminee (as that term is defined in the SBC Pension Benefit Plan or the Ameritech Management Pension Plan), but is eligible to Retire (and if the Participant is an officer level employee for compensation purposes as determined by SBC, the employee must also be age 55 or older at termination of Employment), then all outstanding unvested Options granted to that Participant shall immediately vest as of the date of the Participant's termination of Employment; provided, however, this vesting provision shall not apply to an Option granted prior to September 28, 2001, unless and except for those Options outstanding as of September 27, 2001, that have an Exercise Price equal to or more than the Fair Market Value of Stock on such date;

(ii) All outstanding Options which are vested as of the effective date of termination of Employment may be exercised, if at all, no more than five (5) years from the date of termination of Employment if the Participant is eligible to Retire, or one (1) year from the date of the termination of Employment if the Participant is not eligible to Retire, as the case may be,

unless in either case the Options, by their terms, expire earlier; and

(iii) In the event of the death of the Participant after termination of Employment, this paragraph (c) shall still apply and not paragraph (a), above.

(d) Options not Vested at Termination. Except as provided in paragraph (a), above, all Options held by the Participant which are not vested on or before the effective date of termination of Employment shall immediately be forfeited to the Company (and shall once again become available for grant under the Plan).

(e) Notwithstanding the foregoing, the Committee may, in its sole discretion, establish different terms and conditions pertaining to the effect of termination of Employment, but no such modification shall shorten the terms of Options issued prior to such modification.

6.9 Employee Transfers . For purposes of the Plan, transfer of employment of a Participant between the Company and any one of its Subsidiaries (or between Subsidiaries) or between the Company or a Subsidiary and a RWAC, to the extent the period of employment at a RWAC is equal to or less than five (5) years, shall not be deemed a termination of Employment. Provided, however, for purposes of this Article 6, termination of employment with a RWAC without a concurrent transfer to the Company or any of its Subsidiaries shall be deemed a termination of Employment as that term is used herein. Similarly, termination of an entity's status as a Subsidiary or as a RWAC shall be deemed a termination of Employment of any Participants employed by such Subsidiary or RWAC.

6.10 Restrictions on Exercise and Transfer of Options. Unless otherwise provided by the Committee:

(a) During the Participant's lifetime, the Participant's Options shall be exercisable only by the Participant or by the Participant's guardian or legal representative. After the death of the Participant, except as otherwise provided by SBC's Rules for Employee Beneficiary Designations, as the same may be amended from time to time, an Option shall only be exercised by the holder thereof (including, but not limited to, an executor or administrator of a decedent's estate) or his or her guardian or legal representative.

(b) No Option shall be transferable except: (a) in the case of the Participant, only upon the Participant's death and in accordance with the Company's Rules for Employee Beneficiary Designations, as the same may be amended from time to time; and (b) in the case of any holder after the Participant's death, only by will or by the laws of descent and distribution.

6.11 Competition and Solicitation . In the event a Participant directly or indirectly, engages in competitive activity, or has become associated with, employed by, controls, or renders service to any business that is engaged in competitive activity, with (i) the Company, (ii) any Subsidiary, or (iii) any business in which any of the foregoing have a substantial interest, or if the Participant attempts, directly or indirectly, to induce any employee of the Company or a Subsidiary to be employed or perform services elsewhere without the permission of the Company, then the Company may (i) cancel any Option granted to such Participant, whether or not vested, in whole or in part; and/or (ii) rescind any exercise of the Participant's Options that occurred on or after that date six months prior to engaging in such activity, in which case the Participant shall pay the Company the gain realized or received upon such exercise of Options. "Has become associated with" shall include, among other things, beneficial ownership of 1/10 of 1% or more of a business engaged in competitive activity. The determination of whether a Participant has engaged in any such activity and whether to cancel Options and/or rescind the exercise of Options may be made by the Committee, the Senior Executive Vice President of the Company in charge of Human Resources or such person's successor, or the delegate of or a committee appointed by any of the foregoing, and in each case such determination shall be final, conclusive and binding on all persons.

Article 7 Restricted Stock.

7.1 Grant of Restricted Stock . Subject to the terms and provisions of the Plan, the Committee, at any time and from time to time, may grant Shares of Restricted Stock to eligible Employees in such amounts and upon such terms and conditions as the Committee shall determine. In addition to any other terms and conditions imposed by the Committee, vesting of Restricted Stock may be conditioned upon the attainment of Performance Goals based on Performance Criteria in the same manner as provided in Section 8.4, herein, with respect to Performance Shares. No Employee may receive, in any calendar year, in the form of Restricted Stock more than one-third of 1% of the Shares approved for issuance under this Plan.

7.2 Restricted Stock Agreement . The Committee may require, as a condition to an Award, that a recipient of a Restricted Stock Award enter into a Restricted Stock Award Agreement, setting forth the terms and conditions of the Award. In lieu of a Restricted Stock Award Agreement, the Committee may provide the terms and conditions of an Award in a notice to the Participant of the Award, on the Stock certificate representing the Restricted Stock, in the resolution approving the Award, or in such other manner as it deems appropriate.

7.3 Transferability . Except as otherwise provided in this Article 7, the Shares of Restricted Stock granted herein may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated until the end of the applicable Restriction Period established by the Committee, which shall not be less than a period of three years.

7.4 Other Restrictions . The Committee shall impose such other conditions and/or restrictions on any Shares of Restricted Stock granted pursuant to the Plan as it may deem advisable including, without limitation, a requirement that Participants pay a stipulated purchase price for each Share of Restricted Stock and/or restrictions under applicable Federal or state securities laws; and may legend the certificates representing Restricted Stock to give appropriate notice of such restrictions.

The Company shall also have the right to retain the certificates representing Shares of Restricted Stock in the Company's possession until such time as all conditions and/or restrictions applicable to such Shares have been satisfied.

7.5 Removal of Restrictions . Except as otherwise provided in this Article 7, Shares of Restricted Stock covered by each Restricted Stock grant made under the Plan shall become freely transferable by the Participant after the last day of the Restriction Period and completion of all conditions to vesting, if any. However, unless otherwise provided by the Committee, the Committee, in its sole discretion, shall have the right to immediately waive all or part of the restrictions and conditions with regard to all or part of the Shares held by any Participant at any time.

7.6 Voting Rights, Dividends and Other Distributions . During the Restriction Period, Participants holding Shares of Restricted Stock granted hereunder may exercise full voting rights and shall receive all regular cash dividends paid with respect to such Shares. Except as provided in the following sentence, in the sole discretion of the Committee, other cash dividends and other distributions paid to Participants with respect to Shares of Restricted Stock may be subject to the same restrictions and conditions as the Shares of Restricted Stock with respect to which they were paid. If any such dividends or distributions are paid in Shares, the Shares shall be subject to the same restrictions and conditions as the Shares of Restricted Stock with respect to which they were paid.

7.7 Termination of Employment Due to Death or Disability . In the event the Employment of a Participant shall terminate by reason of death or Disability, all Restriction Periods and all restrictions imposed on outstanding Shares of Restricted Stock held by the Participant shall immediately lapse and the Restricted Stock shall immediately become fully vested as of the date of termination of Employment.

7.8 Termination of Employment for Other Reasons . If the Employment of a Participant shall terminate for any reason other than those specifically set forth in Section 7.7 herein, all Shares of Restricted Stock held by the Participant which are not vested as of the effective date of termination of Employment immediately shall be forfeited and returned to the Company.

7.9 Employee Transfers . For purposes of the Plan, transfer of employment of a Participant between the Company and any one of its Subsidiaries (or between Subsidiaries) or between the Company or a Subsidiary and a RWAC, to the extent the period of employment at a RWAC is equal to or less than five (5) years, shall not be deemed a termination of Employment. Provided, however, for purposes of this Article, termination of employment with a RWAC without a concurrent transfer to the Company or any of its Subsidiaries shall be deemed a termination of Employment as that term is used herein. Similarly, termination of an entity's status as a Subsidiary or as a RWAC shall be deemed a termination of Employment of any Participants employed by such Subsidiary or RWAC.

7.10 Other Grants . Subject to the terms and provisions of the Plan, the Committee, at any time and from time to time, may make grants of cash or other property to eligible Employees in such amounts and upon such terms and conditions as the Committee shall determine. If the grant is in the form of stock or shares in a company other than SBC, the award shall be subject to tax withholding in accordance with Article 14, hereof, in the same manner as Stock.

Article 8 Performance Units and Performance Shares.

8.1 Grants of Performance Units and Performance Shares . Subject to the terms of the Plan, Performance Shares and Performance Units may be granted to eligible Employees at any time and from time to time, as determined by the Committee. The Committee shall have complete discretion in determining the number of Performance Units and/or Performance Shares Awarded to each Participant.

8.2 Value of Performance Shares and Units.

(a) A Performance Share is equivalent in value to a Share of Stock. In any calendar year, no individual may be Awarded Performance Shares having a potential payout of Shares of Stock exceeding two-thirds of 1% of the Shares approved for issuance under this Plan.

(b) A Performance Unit shall be equal in value to a fixed dollar amount determined by the Committee. In any calendar year, no individual may be Awarded Performance Units having a potential payout equivalent exceeding the Fair Market Value of two-thirds of 1% of the Shares approved for issuance under this Plan. The number of Shares equivalent to the potential payout of a Performance Unit shall be determined by dividing the maximum cash payout of the Award by the Fair Market Value per Share on the effective date of the grant. In the event the Committee denominates a Performance Unit Award in dollars instead of Performance Units, the Award may be referred to as a Key Executive Officer Short Term Award. In all other respects, the Key Executive Officer Short Term Award will be treated in the same manner as Performance Units under this Plan.

8.3 Performance Period . The Performance Period for Performance Shares and Performance Units is the period over which the Performance Goals are measured. The Performance Period is set by the Committee for each Award; however, in no event shall an Award have a Performance Period of less than one year.

8.4 Performance Goals . For each Award of Performance Shares or Performance Units, the Committee shall establish performance objectives ("Performance Goals") for the Company, its Subsidiaries, and/or divisions of any of foregoing, based on the Performance Criteria and other factors set forth in (a) through (d), below. Performance Goals shall include payout tables, formulas or other standards to be used in determining the extent to which the Performance Goals are met, and, if met, the number of Performance Shares and/or Performance Units which would be converted into Stock and/or cash (or the rate of such conversion) and distributed to Participants in accordance with Section 8.6. All Performance Shares and Performance Units which may not be converted under the Performance Goals

or which are reduced by the Committee under Section 8.6 or which may not be converted for any other reason after the end of the Performance Period shall be canceled at the time they would otherwise be distributable. When the Committee desires an Award to qualify under Section 162(m) of the Code, as amended, the Committee shall establish the Performance Goals for the respective Performance Shares and Performance Units prior to or within 90 days of the beginning of the service relating to such Performance Goal, and not later than after 25% of such period of service has elapsed. For all other Awards, the Performance Goals must be established before the end of the respective Performance Period.

(a) The Performance Criteria which the Committee is authorized to use, in its sole discretion, are any of the following criteria or any combination thereof:

(1) Financial performance of the Company (on a consolidated basis), of one or more of its Subsidiaries, and/or a division of any of the foregoing. Such financial performance may be based on net income and/or Value Added (after-tax cash operating profit less depreciation and less a capital charge).

(2) Service performance of the Company (on a consolidated basis), of one or more of its Subsidiaries, and/or of a division of any of the foregoing. Such service performance may be based upon measured customer perceptions of service quality.

(3) The Company's Stock price; return on shareholders' equity; total shareholder return (Stock price appreciation plus dividends, assuming the reinvestment of dividends); and/or earnings per share.

(4) With respect to the Company (on a consolidated basis), to one or more of its Subsidiaries, and/or to a division of any of the foregoing: sales; costs; market share of a product or service; return on net assets; return on assets; return on capital; profit margin; and/or operating revenues, expenses or earnings.

(b) If the performance of more than one Subsidiary is being measured to determine the attainment of performance goals, then a weighted average of the Subsidiaries' results shall be used, as determined by the Committee, including, but not limited to, basing such weighting upon the revenues, assets or net income for each Subsidiary for any year prior to the Performance Period or by using budgets to weight such Subsidiaries.

(c) Except to the extent otherwise provided by the Committee in full or in part, if any of the following events occur during a Performance Period and would directly affect the determination of whether or the extent to which Performance Goals are met, they shall be disregarded in any such computation: changes in accounting principles; extraordinary items; changes in tax laws affecting net income and/or Value Added; natural disasters, including floods, hurricanes, and earthquakes; and intentionally inflicted damage to property which directly or indirectly damages the property of the Company or its Subsidiaries. No such adjustment shall be made to the extent such adjustment would cause the Performance Shares or Performance Units to fail to satisfy the performance based exemption of Section 162(m) of the Code.

8.5 Dividend Equivalents on Performance Shares . Unless reduced or eliminated by the Committee, a cash payment in an amount equal to the dividend payable on one Share will be made to each Participant for each Performance Share which on the record date for the dividend had been awarded to the Participant and not converted, distributed (or deferred) or canceled.

8.6 Form and Timing of Payment of Performance Units and Performance Shares . As soon as practicable after the applicable Performance Period has ended and all other conditions (other than Committee actions) to conversion and distribution of a Performance Share and/or Performance Unit Award have been satisfied (or, if applicable, at such other time determined by the Committee at or before the establishment of the Performance Goals for such Performance Period), the Committee shall determine whether and the extent to which the Performance Goals were met for the applicable Performance Units and Performance Shares. If Performance Goals have been met, then the number of Performance Units and Performance Shares to be converted into Stock and/or cash and distributed to the Participants shall be determined in accordance with the Performance Goals for such Awards, subject to any limits imposed by the Committee. Unless the Participant has elected to defer all or part of his Performance Units or Performance Shares as provided in Article 10, herein, payment of Performance Units and Performance Shares shall be made in a single lump sum, as soon as reasonably administratively possible following the determination of the number of Shares or amount of cash to which the Participant is entitled. Performance Units will be distributed to Participants in the form of cash. Performance Shares will be distributed to Participants in the form of 50% Stock and 50% Cash, or at the Participant’s election, 100% Stock or 100% Cash. In the event the Participant is no longer an Employee at the time of the distribution, then the distribution shall be 100% in cash, provided the Participant may elect to take 50% or 100% in Stock. At any time prior to the distribution of the Performance Shares and/or Performance Units (or if distribution has been deferred, then prior to the time the Awards would have been distributed), unless otherwise provided by the Committee, the Committee shall have the authority to reduce or eliminate the number of Performance Units or Performance Shares to be converted and distributed or to mandate the form in which the Award shall be paid (i.e., in cash, in Stock or both, in any proportions determined by the Committee).

Unless otherwise provided by the Committee, any election to take a greater amount of cash or Stock with respect to Performance Shares must be made in the calendar year prior to the calendar year in which the Performance Shares are distributed (or if distribution has been deferred, then in the year prior to the year the Performance Shares would have been distributed absent such deferral). In addition, if required in order to exempt the transaction from the provisions of Section 16(b) of the Exchange Act, any election by an Insider to take a greater amount in cash must be made during a Window Period and shall be subject to Committee approval.

For the purpose of converting Performance Shares into cash and distributing the same to the holders thereof (or for determining the amount of cash to be deferred), the value of a Performance Share shall be the Fair Market Value of a Share on the date the Committee

authorizes the payout of Awards. Performance Shares to be distributed in the form of Stock will be converted at the rate of one (1) Share of Stock per Performance Share.

8.7 Termination of Employment Due to Death, Disability, or Retirement . If the Employment of a Participant shall terminate by reason of death or Disability, the Participant shall receive a lump sum payout of all outstanding Performance Units and Performance Shares calculated as if all unfinished Performance Periods had ended with 100% of the Performance Goals achieved, payable in the year following the date of termination of Employment. In the event of Retirement, the full Performance Units and Performance Shares shall be converted and distributed based on and subject to the achievement of the Performance Goals and in accordance with all other terms of the Award and this Plan.

8.8 Termination of Employment for Other Reasons . If the Employment of a Participant shall terminate for other than a reason set forth in Section 8.7 (and other than for Cause), the number of Performance Units and Performance Shares to be converted and distributed shall be converted and distributed based upon the achievement of the Performance Goals and in accordance with all other terms of the Award and the Plan; however, the Participant may receive no more than a prorated payout of all Performance Units and Performance Shares, based on the portions of the respective Performance Periods that have been completed.

8.9 Termination of Employment for Cause . In the event that a Participant's Employment shall be terminated by the Company for Cause, all Performance Units and Performance Shares shall be forfeited by the Participant to the Company.

8.10 Nontransferability . Performance Units and Performance Shares may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than in accordance with the SBC Rules for Employee Beneficiary Designations.

Article 9 Beneficiary Designation . In the event of the death of a Participant, distributions or Awards under this Plan, other than Restricted Stock, shall pass in accordance with the SBC Rules for Employee Beneficiary Designations, as the same may be amended from time to time.

Article 10 Deferrals . Unless otherwise provided by the Committee, a Participant may, as permitted by the Stock Savings Plan or the Salary and Incentive Award Deferral Plan, defer all or part of awards made under this Plan in accordance with and subject to the terms of such plans.

Article 11. Employee Matters.

11.1 Employment Not Guaranteed . Nothing in the Plan shall interfere with or limit in any way the right of the Company or any Subsidiary to terminate any Participant's Employment at any time, nor confer upon any Participant any right to continue in the employ of the Company or one of its Subsidiaries.

11.2 Participation . No Employee shall have the right to be selected to receive an Award under this Plan, or, having been so selected, to be selected to receive a future Award.

Article 12 Change in Control.

Upon the occurrence of a Change in Control:

(a) Any and all Options granted hereunder immediately shall become vested and exercisable;

(b) Any Restriction Periods and all restrictions imposed on Restricted Shares shall lapse and they shall immediately become fully vested;

(c) The 100% Performance Goal for all Performance Units and Performance Shares relating to incomplete Performance Periods shall be deemed to have been fully achieved and shall be converted and distributed in accordance with all other terms of the Award and this Plan; provided, however, notwithstanding anything to the contrary in this Plan, no outstanding Performance Unit or Performance Share may be reduced.

Article 13. Amendment, Modification, and Termination.

13.1 Amendment, Modification, and Termination . The Board may at any time suspend or terminate the Plan in whole or in part; the Disinterested Committee may at any time and from time to time, alter or amend the Plan in whole or in part.

13.2 Awards Previously Granted . No termination, amendment, or modification of the Plan shall adversely affect in any material way any Award previously granted under the Plan, without the written consent of the Participant holding such Award.

Article 14 Withholding.

14.1 Tax Withholding . The Company shall deduct or withhold an amount sufficient to satisfy Federal, state, and local taxes (including the Participant's employment tax obligations) required by law to be withheld with respect to any taxable event arising or as a result of this Plan ("Withholding Taxes").

14.2 Share Withholding . Upon the exercise of Options, the lapse of restrictions on Restricted Stock, the distribution of Performance Shares in the form of Stock, or any other taxable event hereunder involving the transfer of Stock to a Participant, the Company shall withhold Stock equal in value, using the Fair Market Value on the date determined by the Company to be used to value the Stock for tax purposes, to the Withholding Taxes applicable to such transaction.

Any fractional Share of Stock payable to a Participant shall be withheld as additional Federal withholding, or, at the option of the Company, paid in cash to the Participant.

Unless otherwise determined by the Committee, when the method of payment for the Exercise Price is from the sale by a stockbroker pursuant to Section 6.7(b)(ii), herein, of the Stock acquired through the Option exercise, then the tax withholding shall be satisfied out of the proceeds. For administrative purposes in determining the amount of taxes due, the sale price of such Stock shall be deemed to be the Fair Market Value of the Stock.

Prior to the end of any Performance Period a Participant may elect to have a greater amount of Stock withheld from the distribution of Performance Shares to pay withholding taxes; provided, however, the Committee may prohibit or limit any individual election or all such elections at any time. In addition, if required in order to exempt the transaction from the provisions of Section 16(b) of the Exchange Act, any such election by an Insider must be made during a Window Period and shall be subject to Committee approval.

Article 15 Successors.

All obligations of the Company under the Plan, with respect to Awards granted hereunder, shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business and/or assets of the Company.

Article 16 Legal Construction.

16.1 Gender and Number . Except where otherwise indicated by the context, any masculine term used herein also shall include the feminine; the plural shall include the singular and the singular shall include the plural.

16.2 Severability . In the event any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

16.3 Requirements of Law . The granting of Awards and the issuance of Shares under the Plan shall be subject to all applicable laws, rules, and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

16.4 Securities Law Compliance . With respect to Insiders, transactions under this Plan are intended to comply with all applicable conditions or Rule 16b-3 or its successors under the Exchange Act. To the extent any provision of the plan or action by the Committee fails to comply with a condition of Rule 16b-3 or its successors, it shall not apply to the Insiders or transactions thereby.

16.5 Governing Law . This Plan shall be governed by and construed in accordance with the substantive laws of the State of Texas, excluding any conflicts or choice of law rule or principle that might otherwise refer constructive or interpretation of this Plan to provisions of the substantive law of any jurisdiction other than the State of Texas. Any action seeking to enforce the rights of an employee, former employee or person who holds such rights through, from or on behalf of such employee or former employee under this Plan may be brought only in a Federal or state court located in Bexar County, Texas.

SBC Communications Inc.

Non-Employee Director
Stock and Deferral Plan

Plan Effective Date: November 21, 1997
As Amended Through: November 2, 2002

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SBC Communications Inc.
Non-Employee Director Stock and Deferral Plan

Article 1. Purpose

The purpose of the Non-Employee Director Stock and Deferral Plan (the “Plan”) (formerly the Deferred Compensation Plan for Non-Employee Directors) is to promote the achievement of long-term objectives of SBC Communications Inc. (“SBC” or the “Company”) by linking the personal interests of Non-Employee Directors to those of the Company’s shareholders and to attract and retain Non-Employee Directors of outstanding competence.

Article 2. Definitions

Whenever used in the Plan, the following terms shall have the meanings set forth below and, when the defined meaning is intended, the initial letter of the word is capitalized:

(a) **"Award"** means, individually or collectively, an award under this Plan of Stock Units.

(b) **"Board"** or **"Board of Directors"** means the Board of Directors of the Company.

(c) **"Committee"** means the Human Resources Committee of the Board of Directors of the Company.

(d) **"Company"** means SBC Communications Inc., a Delaware corporation, together with any and all Subsidiaries.

(e) **"Director"** means any individual who is a member of the Board of Directors of the Company, including Advisory Directors.

(f) **"Employee"** means any full-time, nonunion, salaried employee of the Company or of the Company's Subsidiaries. For purposes of the Plan, an individual whose only employment relationship with the Company is as a Director shall not be deemed to be an Employee.

(g) **"Fair Market Value"** or **"FMV"** shall mean the closing price on the New York Stock Exchange ("NYSE") for Shares on the relevant date, or if such date was not a trading day, the next preceding trading date, all as determined by the Company. A trading day is any day that the Shares are traded on the NYSE. In lieu of the foregoing, the Board may select any other index or measurement to determine the FMV of Shares under the Plan.

(h) **"Non-Employee Director"** means any individual who is a member of the Board of Directors of the Company, but who is not otherwise an Employee of the Company, nor has otherwise been an Employee of the Company.

(i) **"Participant"** means a person who is entitled to participate in the Plan.

(j) **"Shares"** means shares of Common Stock of the Company, par value one dollar ($1.00) per share.

(k) **"Stock Unit"** or **"Unit"** means an Award acquired by a Participant as a measure of participation under the Plan, and having a value equal to a Share.

Article 3. Eligibility and Administration

3.1 Eligibility . Persons eligible to participate in the Plan are limited to Non-Employee Directors.

3.2 The Human Resources Committee . The Plan shall be administered by the Human Resources Committee of the Board of Directors of the Company, subject to the restrictions set forth in the Plan.

3.3 Administration by the Committee . The Committee shall have the full power, discretion, and authority to interpret and administer the Plan in a manner consistent with the Plan's provisions. However, in no event shall the Committee have the power to determine Plan eligibility, or to determine the number, the value, the vesting period, or the timing of Awards to be made under the Plan (all such determinations being automatic pursuant to the provisions of the Plan).

3.4 Decisions Binding . All determinations and decisions made by the Committee pursuant to the Plan, and all related orders or resolutions of the Committee shall be final, conclusive, and binding on all persons, including the Company, its shareholders, Participants, and their estates and beneficiaries.

Article 4. Payment of Annual Retainer

4.1 Form of Annual Retainer . In lieu of receiving the annual retainer (which term, as used in this Plan, shall include any additional annual retainer for committee chairman) in cash, effective for payments on or after January 1, 1998, a Non-Employee Director may elect to receive all (100%) or fifty percent (50%) of the Director's annual retainer in the form of Shares. Such election shall be made prior to the beginning of, and will be effective for, the calendar year in which the annual retainer will be paid. Each election shall become irrevocable as of the last day such election may be made. Provided, however, Non-Employee Directors not serving on the Board prior to January 1, 1998, may, at any time within thirty (30) days of their original election to the Board, make an irrevocable election with respect to payments not yet made, effective for the then current calendar year. Unless the Non-Employee Director notifies the Secretary of the Company otherwise prior to the beginning of each subsequent calendar year, the election will renew automatically for an additional calendar year.

4.2 Payment of Shares . One fourth of the annual retainer is paid in advance on the first day of each quarter (if not a business day, then the next preceding business day) and is fully earned on that date. A Director whose term will expire during the quarter and who is not nominated for re-election will receive a pro-rated quarterly retainer. For their first retainer payment only, newly elected Non-Employee Directors are paid the first day of the quarter next occurring on a pro-rata basis. When the retainer is increased after the first day of a calendar quarter, the increased amount will be paid the first day of the following quarter. Each fraction of a month is considered a whole month. The Shares paid pursuant to Section 4.1 shall be delivered as soon as administratively possible following the scheduled retainer payment date. The number of Shares to be paid shall equal the portion of the quarterly retainer being taken in stock, divided by the Fair Market Value of a Share on the date of the scheduled payment of the retainer. Any fractional Share shall be paid in cash as provided hereunder.

4.3 Holding Period for Shares . Any Shares acquired by a Director under this Article 4 may not be sold for one year after acquisition. Thereafter, such Shares shall only be sold pursuant to an effective registration statement or pursuant to an exemption from the Securities Act of 1933, including sales pursuant to Rule 144 thereunder. The Company may place a legend on the certificates for such Shares evidencing this restriction.

Article 5. Award of Stock Units for Non-Employee Directors

5.1 Award of Deferred Stock Units for Non-Employee Directors . Commencing November 21, 1997, and then effective the day of each annual meeting of the Company's shareholders thereafter, each Non-Employee Director shall be Awarded that number of Stock Units that is equal to: (a) fifty percent (50%) of the annual retainer as in effect at the time of the Award divided by (b) the Fair Market Value of a Share on the date of the Award. Effective with the annual meeting in 2001, the percentage in (a), above, shall be increased to one hundred fifty percent

(150%). Each Award is intended to be in consideration for service until the next annual meeting of shareholders, but will be fully earned on the date of the Award. Provided, however, if the Director terminates service on or before the day of the annual meeting of shareholders, the Award to be paid on such meeting date will not be issued.

5.2 Award of Deferred Stock Units for New Non-Employee Directors . The following applies only to Non-Employee Directors who originally became a Non-Employee Director after November 21, 1997. Each Non-Employee Director shall receive an annual Award of Stock Units effective the day of the annual meeting of shareholders. The number of Stock Units in each such Award shall equal thirteen thousand dollars ($13,000), divided by the Fair Market Value of a Share on the date of the Award. Each Award is intended to be in consideration for service until the next annual meeting of shareholders, but will be fully earned on the date of the Award. If the Director terminates service on the day of the annual meeting of shareholders, no such Award will be issued. No Director shall receive more than ten (10) Awards under this Section 5.2.

5.3 Deferral of Retainers and Fees into Stock Units . Effective for payments on or after January 1, 1998, each Non-Employee Director may elect to defer all (100%) or fifty percent (50%) of the cash portion of the Director's annual retainer into Stock Units. In addition, a Non-Employee Director may elect to defer all (100%) of the Director's Board and committee meeting fees and review session fees (collectively "Fees") into Stock Units. The number of Stock Units acquired shall equal the Fees and/or the portion of the annual retainer being deferred into Stock Units, divided by the Fair Market Value of a Share on the date of the scheduled payment of the Fees.

Any deferral election under this Section 5.3 shall be made prior to the beginning of, and will be effective for, the calendar year in which such payments would otherwise be made. Each such election shall become irrevocable as of the last day such election may be made. Provided, however, Non-Employee Directors not serving on the Board prior to January 1, 1998, may, at any time within thirty (30) days of their original election to the Board, make an irrevocable election with respect to payments not yet made, effective for the then current calendar year. Unless the Non-Employee Director notifies the Secretary of the Company otherwise prior to the beginning of each subsequent calendar year, each election hereunder will renew automatically for an additional calendar year.

5.4 Payout of Deferred Stock Units . All Stock Units shall be paid out in the form of one Share for each Stock Unit. The Participant shall elect the timing of the payout for Stock Unit Awards no later than the calendar year prior to the first scheduled payment of such Stock Units; any prior elections by the Participant shall become irrevocable at that time. One election will apply to all Stock Units, whether from deferrals, annual Awards or otherwise. Stock Units acquired under this Plan shall be paid out in a lump sum payment or in up to fifteen (15) annual installments, as elected by the Participant. The lump sum payment or the first installment, as the case may be, shall be payable on the first day of February of the year following the calendar year of the termination of the Participant's service as a Director. All annual installments thereafter shall be payable on the anniversary of the first such payment. If the Director fails to make a timely election as to the number of installments, the Stock Units shall be paid out in four (4) annual installments.

For Participants electing a payout of Stock Units in installments, the number of Stock Units to be paid out in each installment shall equal the number of Stock Units available for payout, divided by the number of remaining installments (including the installment being made). A fractional Stock Unit shall be paid in cash.

5.5 Stock Units . Each Stock Unit shall represent an unfunded and unsecured promise by SBC to issue a Share. On the record date for cash dividends payable on a Share, Participants holding Stock Units shall earn dividend equivalents paid in the form of additional Stock Units added to their account. The number of Stock Units so added shall equal the dividends on an equal number of Shares, divided by the Fair Market Value of a Share on the record date.

5.6 Holding Period for Shares . Any Shares acquired by a Director under this Article 5 may not be sold for one year after acquisition. Thereafter, such Shares shall only be sold pursuant to an effective registration statement or pursuant to an exemption from the Securities Act of 1933, including sales pursuant to Rule 144 thereunder. The Company may place a legend on the certificates for such Shares evidencing this restriction.

Article 6. Cash Deferral Account

6.1 Cash Deferral Account . A cash deferral account (the "Cash Deferral Account") shall be established and maintained by the Company for each Participant that makes a cash deferral under the Plan. Each Cash Deferral Account shall be credited as of the date the amount deferred otherwise would have become due and payable to the Participant and shall be credited to reflect the interest return thereon. The establishment and maintenance of such Cash Deferral Accounts, however, shall not be construed as entitling any Participant to any specific assets of the Company and shall represent an unfunded and unsecured promise of the Company the amounts due thereunder.

6.2 Cash Deferral Elections . Effective for payments on or after January 1, 1998, each Non-Employee Director may elect to defer all (100%) or fifty percent (50%) of the cash portion of the Director's annual retainer into the Director's Cash Deferral Account. In addition, a Non-Employee Director may elect to defer all (100%) of the Director's Board and committee meeting fees and review session fees (collectively "Fees") into the Director's Cash Deferral Account.

Any deferral election under this Section 6.2 shall be made prior to the beginning of, and will be effective for, the calendar year in which such payments would otherwise be made. Each such election shall become irrevocable as of the last day such election may be made. Provided, however, Non-Employee Directors not serving on the Board prior to January 1, 1998, may, at any time within thirty (30) days of their original election to the Board, make an irrevocable election with respect to payments not yet made, effective for the then current calendar year. Unless

the Non-Employee Director notifies the Secretary of the Company otherwise prior to the beginning of each subsequent calendar year, each election hereunder will renew automatically for an additional calendar year.

Deferral elections under the Plan made prior to November 21, 1997, shall remain in place through the end of 1997, and all such deferrals shall be credited to the Cash Deferral Account and continue to earn interest in accordance with Section 6.3. Any new Non-Employee Director joining the Board after November 21, 1997, and before January 1, 1998, may make an election with respect to 1997 annual retainers and fees in accordance with the Plan as it read immediately prior to the modifications of November 21, 1997.

6.3 Interest on Cash Deferral Accounts . The annual rate of interest on amounts in the Cash Deferral Accounts for 1997 and subsequent calendar years shall be the Moody's Corporate Bond Yield Average-Monthly Average Corporates as published by Moody's Investor Service, Inc. (or any successor thereto) for the month of September before the calendar year in question (if such yield is no longer published, a substantially similar average selected by the Human Resources Committee) or such other rate as the Human Resources Committee shall determine prior to the year for which the interest rate would be applicable. Interest shall be credited quarterly, in arrears.

6.4 Form and Timing of Payout of Cash Deferral Accounts . Cash Deferral Accounts shall be paid out in cash. The Participant shall elect the timing of the payout for Participant's Cash Deferral Account no later than the calendar year prior to the first scheduled payment thereof; any prior elections by the Participant shall become irrevocable at that time. One election shall apply to a Participant's entire Cash Deferral Account. A Participant's Cash Deferral Account shall be paid out in a lump sum payment or in up to fifteen (15) annual installments, as elected by the Participant. The lump sum payment or the first installment, as the case may be, shall be payable on the first day of February of the year following the calendar year of the termination of the Participant's service as a Director. All annual installments thereafter shall be payable on the anniversary of the first such payment. If the Director fails to make a timely election as to the number of installments, the Participant's Cash Deferral Account shall be paid out in four (4) annual installments. Each installment shall equal the amount available for payout, divided by the number of remaining installments (including the installment being made).

6.5 Conversion of a Participant's Cash Deferral Account to Deferred Stock Units . Each year, on or before the tenth day following the Company's public release of its annual summary statement of earnings (typically in January of each year) (such tenth day to be the "Conversion Date"), a Non-Employee Director may elect to convert all or part of the balance of his or her Cash Deferral Account into Stock Units, effective the Conversion Date. Each such election shall become irrevocable as of the last day such election may be made. A Non-Employee Director who elects to convert his or her Cash Deferral Account shall receive the number of Stock Units found by dividing the Non-Employee Director's balance in the Cash Deferral Account as of such Conversion Date, together with all accrued but not yet credited interest, or such lesser amount of the Cash Deferral Account elected by the Non-Employee Director, by the Fair Market Value of a Share on such date. Upon such conversion, the Participant's Cash Deferral Account shall be reduced by the amount so converted.

Article 7. Amendment, Modification, and Termination

7.1 Amendment, Modification, and Termination . Subject to the terms set forth in this Article 7, the Board may terminate, amend, or modify the Plan at any time and from time to time.

7.2 Awards Previously Granted . Unless required by law, no termination, amendment, or modification of the Plan shall in any material manner adversely affect any Award previously provided under the Plan, without the written consent of the Participant holding the Award.

Article 8. Miscellaneous

8.1 Competition . Notwithstanding any election hereunder, in the event a Director ceases to be a Director of the Company and becomes a proprietor, officer, partner, employee, director or otherwise becomes affiliated with any business that is in competition with the Company or any of its subsidiaries, or becomes employed by any governmental agency having jurisdiction over the activities of the Company or any of its subsidiaries, all as determined by the Committee in its sole discretion, the entire balance hereunder may be immediately paid out at the election of the Company, in which case no further amounts may be earned under this Plan.

8.2 Elections . All elections and notices of any kind hereunder shall be in writing and provided to the Secretary of the Company in a form prescribed by the Secretary.

8.3 Assignment . Except as otherwise provided herein, no rights under this Plan may be assigned by a Participant.

8.4 Severability . In the event any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

8.5 Death of a Director/Beneficiary Designation . Each Participant under the Plan may, from time to time, name any beneficiary or beneficiaries (who may be named primarily or contingently) to whom any benefit under the Plan is to be paid in the event of his or her death. Each designation will revoke all prior designations by the same Participant, shall be in a form prescribed by the Secretary of SBC, and will be effective only when filed by the Participant in writing with the Secretary during his or her lifetime. In the absence of any such designation, benefits remaining unpaid at the Participant's death shall be paid to the Participant's estate.

In the event of the death of a Participant before full payment of all amounts due hereunder, the balance shall be paid in a lump sum as soon

as administratively possible in accordance with the foregoing. Notwithstanding this, if the Participant so elects as part of the Participant's deferral elections, the Stock Units and/or the Cash Deferral Account will be paid out in the number of annual installments elected by the Participant, beginning on the first day of the month following the Participant's death and occurring annually thereafter; provided, however, if distributions to the Participant have already commenced at the time of the Participant's death, then under this election, distributions will continue as scheduled.

8.6 No Right of Nomination . Nothing in the Plan shall be deemed to create any obligation on the part of the Board to nominate any Director for reelection by the Company's shareholders.

8.7 Shares Available/Fractional Shares . The Shares delivered under the Plan may be either authorized but unissued Shares, or Shares which have been or may be reacquired by the Company, as determined from time to time by the Board.

In no case shall a fractional Share be issued under this Plan. Any fractional Share payable hereunder, upon the conversion of a Stock Unit or otherwise, shall be payable in cash in an amount equal to such fraction of a Share times the Fair Market Value of a Share on the date the fractional Share would otherwise be payable.

No more than one million (1,000,000) Shares may be issued under the Plan. In the event an acquisition of Stock Units or Shares would cause the total of the number of Shares acquired under the Plan and the number of outstanding Stock Units to exceed the maximum number of Shares that may be issued under the Plan, then: (1) no further Stock Units or Shares may be acquired under the Plan, except that outstanding Stock Units may be converted to Shares in accordance with the Plan; and (2) all further dividend equivalents on Stock Units held by a Participant shall be paid in the form of additional accruals to the Participant's Cash Deferral Account in an amount equal to the number of Stock Units in the account on the dividend record date for a Share multiplied by the dividend.

8.8 Successors . All obligations of the Company under the Plan with respect to Awards granted hereunder shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business and/or assets of the Company.

8.9 Requirements of Law . The granting of Awards under the Plan shall be subject to all applicable laws, rules, and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

8.10 Governing Law . The Plan, and all agreements hereunder, shall be construed in accordance with and governed by the internal, substantive laws of the State of Texas.

8.11 Adjustments. In the event of a merger, reorganization, consolidation, recapitalization, separation, liquidation, stock dividend, stock split, share combination, or other change in the corporate structure of SBC affecting SBC Shares, such adjustment shall be made in the number of shares available under the Plan and in the number and characteristics of outstanding Stock Units and/or the number and class of securities into which the Stock Units may be converted, in each case as may be determined to be appropriate and equitable by the Board of Directors, in its sole discretion, to prevent dilution or enlargement of rights.

SBC Communications Inc.

2001 INCENTIVE PLAN

Plan Effective: April 27, 2001
Revisions Effective: January 31, 2003

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SBC COMMUNICATIONS INC.
2001 INCENTIVE PLAN

Article 1 Establishment and Purpose.

1.1 Establishment of the Plan. SBC Communications Inc., a Delaware corporation (the “Company” or “SBC”), hereby establishes an incentive compensation plan (the “Plan”), as set forth in this document.

1.2 Purpose of the Plan . The purpose of the Plan is to promote the success and enhance the value of the Company by linking the personal interests of Participants to those of the Company’s shareowners, and by providing Participants with an incentive for outstanding performance.

1.3 Effective Date of the Plan . The Plan shall become effective on April 27, 2001; however, grants may be made before that time subject to becoming effective on or after that date.

Article 2 Definitions . Whenever used in the Plan, the following terms shall have the meanings set forth below and, when the meaning is intended, the initial letter of the word is capitalized:

(a) "Award" means, individually or collectively, a grant or award under this Plan of Stock Options, Restricted Stock, Performance Units, or Performance Shares.

(b) "Award Agreement" means an agreement which may be entered into by each Participant and the Company, setting forth the terms and provisions applicable to Awards granted to Participants under this Plan.

(c) "Board" or "Board of Directors" means the SBC Board of Directors.

(d) "Cause" shall mean willful and gross misconduct on the part of an Employee that is materially and demonstrably detrimental to the Company or any Subsidiary as determined by the Company in its sole discretion.

(e) "Change in Control" shall be deemed to have occurred if (i) any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act), other than a trustee or other fiduciary holding securities under an employee benefit plan of the Company or a corporation owned directly or indirectly by the shareowners of the Company in substantially the same proportions as their ownership of stock of the Company, is or becomes the "beneficial owner" (as defined in Rule 13d-3 under said Act), directly or indirectly, of securities of the Company representing twenty percent (20%) or more of the total voting power represented by the Company's then outstanding voting securities, or (ii) during any period of two (2) consecutive years, individuals who at the beginning of such period constitute the Board of Directors of the Company and any new Director whose election by the Board of Directors or nomination for election by the Company's shareowners was approved by a vote of at least two-thirds (2/3) of the Directors then still in office who either were Directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority thereof, or (iii) the shareowners of the Company approve a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least eighty percent (80%) of the total voting power represented by the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation, or the shareowners of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all the Company's assets.

(f) "Code" means the Internal Revenue Code of 1986, as amended from time to time.

(g) "Committee" means the committee or committees of the Board of Directors given authority to administer the Plan as provided in Article 3.

(h) "Director" means any individual who is a member of the SBC Board of Directors.

(i) "Disability" shall mean absence of an Employee from work under the relevant Company or Subsidiary disability plan.

(j) "Employee" means any employee of the Company or of one of the Company's Subsidiaries. "Employment" means the employment of an Employee by the Company or one of its Subsidiaries. Directors who are not otherwise employed by the Company shall not be considered Employees under this Plan.

(k) "Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time, or any successor Act thereto.

(l) "Exercise Price" means the price at which a Share may be purchased by a Participant pursuant to an Option, as determined by the Committee.

(m) "Fair Market Value" shall mean the closing price on the New York Stock Exchange ("NYSE") for Shares on the relevant date, or if such date was not a trading day, the next preceding trading date, all as determined by the Company. A trading day is any day that the Shares are traded on the NYSE. In lieu of the foregoing, the Committee may select any other index or measurement to determine the Fair Market Value of Shares under the Plan.

(n) "Insider" shall mean an Employee who is, on the relevant date, an officer, director, or ten percent (10%) beneficial owner of the Company, as those terms are defined under Section 16 of the Exchange Act.

(o) "Key Executive Officer Short Term Award" or "KEO Award" means a Performance Unit.

(p) "Option" means an option to purchase Shares from SBC.

(q) "Participant" means an Employee or former Employee who holds an outstanding Award granted under the Plan.

(r) "Performance Unit" and "Performance Share" shall each mean an Award granted to an Employee pursuant to Article 8 herein.

(s) "Plan" means this 2001 Incentive Plan. The Plan may also be referred to as the "SBC 2001 Incentive Plan" or as the "SBC Communications Inc. 2001 Incentive Plan."

(t) "Restricted Stock" means an Award of Stock granted to an Employee pursuant to Article 7 herein.

(u) "Retirement" or to "Retire" shall mean the Participant's Termination of Employment for any reason other than death, Disability or for Cause, on or after the earlier of the following dates, or as otherwise provided by the Committee: (1) for Officer Level Employees (Participants deemed officer level Employees for compensation purposes as indicated on the records of SBC), the date the Participant attains age 55 (individuals who become Officer Level Employees on or after January 1, 2002, must also have five (5) years of service); or (2) the date the Participant has attained one of the following combinations of age and service, except as otherwise indicated below:

Net Credited Service	Age
10 Years or more	65 or older
20 Years or more	55 or older
25 Years or more	50 or older
30 Years or more	Any age

In determining whether a Participant’s Termination of Employment under the Enhanced Pension and Retirement Program (“EPR”) is a Retirement as defined above, 5 years shall be added to each of Age and Net Credited Service.

(v) "Rotational Work Assignment Company" ("RWAC") shall mean any entity with which SBC Communications Inc. or any of its Subsidiaries may enter into an agreement to provide an employee for a rotational work assignment.

(w) "Shares" or "Stock" means the shares of common stock of the Company.

(x) "Subsidiary" shall mean any corporation in which the Company owns directly, or indirectly through subsidiaries, more than fifty percent (50%) of the total combined voting power of all classes of Stock, or any other entity (including, but not limited to, partnerships and joint ventures) in which the Company owns more than fifty percent (50%) of the combined equity thereof.

(y) "Termination of Employment" or a similar reference shall mean the event where the Employee is no longer an Employee of the Company or of any Subsidiary, including but not limited to where the employing company ceases to be a Subsidiary.

Article 3 Administration.

3.1 The Committee. Administration of the Plan shall be as follows:

(a) With respect to Insiders, the Plan and all Awards hereunder shall be administered by the Human Resources Committee of the Board or such other Committee as may be appointed by the Board for this purpose (each of the Human Resources Committee and such other committee is the "Disinterested Committee"), where each Director on such Disinterested Committee is a "Non-Employee Director", as that term is used in Rule 16b-3 under the Exchange Act (or any successor designation for determining who may administer plans, transactions or awards exempt under Section 16(b) of the Exchange Act), as that rule may be modified from time to time.

(b) The Disinterested Committee and such other Committee as the Board may create, if any, to administer the Plan with respect to non-Insiders (such other Committee shall be the "Non-Insider Committee") shall each have full authority to administer the Plan and all Awards hereunder with respect to all persons who are not Insiders, except as otherwise provided herein or by the Board. Any Committee may be replaced by the Board at any time.

3.2 Authority of the Committee . The Committee shall have full power, except as limited by law and subject to the provisions herein, in its sole and exclusive discretion: to grant Awards; to select the recipients of Awards; to determine the eligibility of a person to participate in the Plan or to receive a particular Award; to determine the sizes and types of Awards; to determine the terms and conditions of such Awards in a manner consistent with the Plan; to construe and interpret the Plan and any agreement or instrument entered into under the Plan; to establish, amend, or waive rules and regulations for the Plan's administration; and (subject to the provisions of Article 13 herein) to amend the terms and conditions of any outstanding Award to the extent such terms and conditions are within the discretion of the Committee as provided in the Plan. Further, the Committee shall make all other determinations in its discretion, which may be necessary or advisable for the administration of the Plan.

No Award other than Restoration Options may be made under the Plan after April 2, 2011.

References to determinations or other actions by SBC or the Company, herein, shall mean actions authorized by the Committee, the Chairman of the Board of SBC, the Senior Executive Vice President of SBC in charge of Human Resources or their respective successors or duly authorized delegates, in each case in the discretion of such person.

All determinations and decisions made by SBC pursuant to the provisions of the Plan and all related orders or resolutions of the Board shall be final, conclusive, and binding on all persons, including the Company, its stockholders, Employees, Participants, and their estates and beneficiaries.

Subject to the terms of this Plan, the Committee is authorized, and shall not be limited in its discretion, to use any of the Performance Criteria specified herein in its determination of any Award under this Plan.

Article 4 Shares Subject to the Plan.

4.1 Number of Shares . Subject to adjustment as provided in Section 4.3 herein, the number of Shares available for issuance under the Plan shall not exceed 60 million Shares of Stock. No more than 10% of the Shares approved for issuance under this Plan may be Shares of Restricted Stock. No more than 40% of the Shares approved for issuance under this Plan may be issued to Participants as a result of Performance Share and Restricted Stock Awards. The Shares granted under this Plan may be either authorized but unissued or reacquired Shares. The Disinterested Committee shall have full discretion to determine the manner in which Shares available for grant are counted in this Plan.

Without limiting the discretion of the Committee under this section, unless otherwise provided by the Committee, the following rules will apply for purposes of the determination of the number of Shares available for grant under the Plan or compliance with the foregoing limits:

(a) The grant of a Stock Option or a Restricted Stock Award shall reduce the Shares available for grant under the Plan by the number of Shares subject to such Award. However, to the extent the Participant uses previously owned Shares to pay the Exercise Price or any taxes, or Shares are withheld to pay taxes, these Shares shall be available for regrant under the Plan.

(b) With respect to Performance Shares, the number of Performance Shares granted under the Plan shall be deducted from the number of Shares available for grant under the Plan. The number of Performance Shares which cannot be, or are not, converted into Shares and distributed (including deferrals) to the Participant or deferred through another plan following the end of the Performance Period, or which are withheld for taxes, shall increase the number of Shares available for regrant under the Plan by an equal amount.

(c) With respect to Performance Units representing a fixed dollar amount that may only be settled in cash, the Performance Units Award shall not affect the number of Shares available under the Plan.

4.2 Lapsed Awards . If any Award granted under this Plan is canceled, terminates, expires, or lapses for any reason, Shares subject to such Award shall be again available for the grant of an Award under the Plan.

4.3 Adjustments in Authorized Plan Shares . In the event of any merger, reorganization, consolidation, recapitalization, separation, liquidation, Stock dividend, split-up, Share combination, or other change in the corporate structure of the Company affecting the Shares, an adjustment shall be made in the number and class of Shares which may be delivered under the Plan (including individual limits), and in the number and class of and/or price of Shares subject to outstanding Awards granted under the Plan, and/or the number of outstanding Options, Shares of Restricted Stock, and Performance Shares constituting outstanding Awards, as may be determined to be appropriate and equitable by the Disinterested Committee, in its sole discretion, to prevent dilution or enlargement of rights.

Article 5 Eligibility and Participation.

5.1 Eligibility. All management Employees are eligible to receive Awards under this Plan.

5.2 Actual Participation . Subject to the provisions of the Plan, the Committee may, from time to time, select from all eligible Employees, those to whom Awards shall be granted and shall determine the nature and amount of each Award. No Employee is entitled to receive an Award unless selected by the Committee.

Article 6 Stock Options.

6.1 Grant of Options . Subject to the terms and provisions of the Plan, Options may be granted to Employees at any time and from time to time, and under such terms and conditions, as shall be determined by the Committee. In addition, the Committee may, from time to time, provide for the payment of dividend equivalents on Options, prospectively and/or retroactively, on such terms and conditions as the Committee may require. The Committee shall have discretion in determining the number of Shares subject to Options granted to each Employee; provided, however, that the maximum number of Shares subject to Options which may be granted to any single Employee during any calendar year shall not exceed 2% of the Shares approved for issuance under this Plan. The Committee may not grant Incentive Stock Options, as described in Section 422 of the Code, under this Plan. The Committee may authorize the automatic grant of additional Options ("Restoration Options") when a Participant exercises already outstanding Options, or options granted under a prior option plan of the Company, on such terms and conditions as it shall determine. Unless otherwise provided by the Committee, the number of Restoration Options granted to a Participant with respect to the exercise of an option (including an Option under this Plan) shall not exceed the number of Shares delivered by the Participant in payment of the Exercise Price of such option, and/or in payment of any tax withholding resulting from such exercise, and any Shares which are withheld to satisfy withholding tax liability arising out of such exercise. A Restoration Option shall have an Exercise Price of not less than 100% of the per Share Fair Market Value on the date of grant of such Restoration Option, and shall be subject to all the terms and conditions of the original grant, including the expiration date, and such other terms and conditions as the Committee in its sole discretion shall determine.

6.2 Form of Issuance . Each Option grant may be issued in the form of an Award Agreement and/or may be recorded on the books and records of the Company for the account of the Participant. If an Option is not issued in the form of an Award Agreement, then the Option shall be deemed granted as determined by the Committee. The terms and conditions of an Option shall be set forth in the Award Agreement, in the notice of the issuance of the grant, or in such other documents as the Committee shall determine. Such terms and conditions shall include the Exercise Price, the duration of the Option, the number of Shares to which an Option pertains (unless otherwise provided by the Committee, each Option may be exercised to purchase one Share), and such other provisions as the Committee shall determine.

6.3 Exercise Price . Unless a greater Exercise Price is determined by the Committee, the Exercise Price for each Option Awarded under this Plan shall be equal to one hundred percent (100%) of the Fair Market Value of a Share on the date the Option is granted.

6.4 Duration of Options . Each Option shall expire at such time as the Committee shall determine at the time of grant (which duration may be extended by the Committee); provided, however, that no Option shall be exercisable later than the tenth (10th) anniversary date of its grant. In the event the Committee does not specify the expiration date of an Option, then such Option will expire on the tenth (10^{th}) anniversary date of its grant, except as otherwise provided herein.

6.5 Vesting of Options . Options shall vest at such times and under such terms and conditions as determined by the Committee; provided, however, unless another vesting period is provided by the Committee at or before the grant of an Option, one-third of the Options will vest on each of the first three anniversaries of the grant; if one Option remains after equally dividing the grant by three, it will vest on the first anniversary of the grant, if two Options remain, then one will vest on each of the first two anniversaries. The Committee shall have the right to accelerate the vesting of any Option; however, the Chairman of the Board or the Senior Executive Vice President-Human Resources, or their respective successors, or such other persons designated by the Committee, shall have the authority to accelerate the vesting of Options for any Participant who is not an Insider.

6.6 Exercise of Options . Options granted under the Plan shall be exercisable at such times and be subject to such restrictions and conditions as the Committee shall in each instance approve, which need not be the same for each grant or for each Participant. Exercises of Options may be effected only on days and during the hours that the New York Stock Exchange is open for regular trading. The Company may change or limit the times or days Options may be exercised. If an Option expires on a day or at a time when exercises are not permitted, then the Options may be exercised no later than the immediately preceding date and time that the Options were exercisable.

Options shall be exercised by providing notice to the designated agent selected by the Company (if no such agent has been designated, then to the Company), in the manner and form determined by the Company, which notice shall be irrevocable, setting forth

the exact number of Shares with respect to which the Option is being exercised and including with such notice payment of the Exercise Price. When Options have been transferred, the Company or its designated agent may require appropriate documentation that the person or persons exercising the Option, if other than the Participant, has the right to exercise the Option. No Option may be exercised with respect to a fraction of a Share.

6.7 Payment . The Exercise Price shall be paid in full at the time of exercise. No Shares shall be issued or transferred until full payment has been received therefor.

Payment may be made:

(a) in cash, or

(b) unless otherwise provided by the Committee at any time, and subject to such additional terms and conditions and/or modifications as the Committee or the Company may impose from time to time, and further subject to suspension or termination of this provision by the Committee or Company at any time, by:

(i) delivery of Shares of Stock owned by the Participant in partial (if in partial payment, then together with cash) or full payment; provided, however, as a condition to paying any part of the Exercise Price in Stock, at the time of exercise of the Option, the Participant must establish to the satisfaction of the Company that the Stock tendered to the Company must have been held by the Participant for a minimum of six (6) months preceding the tender; or

(ii) if the Company has designated a stockbroker to act as the Company's agent to process Option exercises, issuance of an exercise notice together with instructions to such stockbroker irrevocably instructing the stockbroker: (A) to immediately sell (which shall include an exercise notice that becomes effective upon execution of a sale order) a sufficient portion of the Shares to be received from the Option exercise to pay the Exercise Price of the Options being exercised and the required tax withholding, and (B) to deliver on the settlement date the portion of the proceeds of the sale equal to the Exercise Price and tax withholding to the Company. In the event the stockbroker sells any Shares on behalf of a Participant, the stockbroker shall be acting solely as the agent of the Participant, and the Company disclaims any responsibility for the actions of the stockbroker in making any such sales. No Stock shall be issued until the settlement date and until the proceeds (equal to the Option Price and tax withholding) are paid to the Company.

If payment is made by the delivery of Shares of Stock, the value of the Shares delivered shall be equal to the Fair Market Value of the Shares on the day preceding the date of exercise of the Option.

Restricted Stock may not be used to pay the Option Price.

6.8 Termination of Employment. Unless otherwise provided by the Committee, the following limitations on exercise of Options shall apply upon Termination of Employment:

(a) Termination by Death or Disability . In the event of the Participant's Termination of Employment by reason of death or Disability, all outstanding Options granted to that Participant shall immediately vest as of the date of Termination of Employment and may be exercised, if at all, no more than three (3) years from the date of the Termination of Employment, unless the Options, by their terms, expire earlier. However, in the event the Participant was eligible to Retire at the time of Termination of Employment, notwithstanding the foregoing, the Options may be exercised, if at all, no more than five (5) years from the date of the Termination of Employment, unless the Options, by their terms, expire earlier.

(b) Termination for Cause . In the event of the Participant's Termination of Employment by the Company for Cause, all outstanding Options held by the Participant shall immediately be forfeited to the Company and no additional exercise period shall be allowed, regardless of the vested status of the Options.

(c) Retirement or Other Termination of Employment . In the event of the Participant's Termination of Employment for any reason other than the reasons set forth in (a) or (b), above:

(i) If upon the Participant's Termination of Employment, the Participant is not an EPR Terminee (as that term is defined in the SBC Pension Benefit Plan or the Ameritech Management Pension Plan), but is eligible to Retire (and if the Participant is an officer level employee for compensation purposes as determined by SBC, the employee must also be age 55 or older at Termination of Employment), then all outstanding unvested Options granted to that Participant shall immediately vest as of the date of the Participant's Termination of Employment; provided, however, this vesting provision shall not apply to Options granted prior to September 28, 2001, unless and except for those Options outstanding as of September 27, 2001, that have an Exercise Price equal to or more than the Fair Market Value of Stock on such date;

(ii) All outstanding Options which are vested as of the effective date of Termination of Employment may be exercised, if at all, no more than five (5) years from the date of Termination of Employment if the Participant is eligible to Retire, or three (3) months from the date of the Termination of Employment if the Participant is not eligible to Retire, as the case may be, unless in either case the Options, by their terms, expire earlier; and

(iii) In the event of the death of the Participant after Termination of Employment, this paragraph (c) shall still apply and

not paragraph (a), above.

(d) O ptions not Vested at Termination . Except as provided in paragraph (a), above, all Options held by the Participant which are not vested on or before the effective date of Termination of Employment shall immediately be forfeited to the Company (and shall once again become available for grant under the Plan).

(e) Notwithstanding the foregoing, the Committee may, in its sole discretion, establish different terms and conditions pertaining to the effect of Termination of Employment, but no such modification shall shorten the terms of Options issued prior to such modification.

6.9 Employee Transfers . For purposes of the Plan, transfer of employment of a Participant between the Company and any one of its Subsidiaries (or between Subsidiaries) or between the Company or a Subsidiary and a RWAC, to the extent the period of employment at a RWAC is equal to or less than five (5) years, shall not be deemed a Termination of Employment. Provided, however, for purposes of this Article 6, termination of employment with a RWAC without a concurrent transfer to the Company or any of its Subsidiaries shall be deemed a Termination of Employment as that term is used herein. Similarly, termination of an entity's status as a Subsidiary or as a RWAC shall be deemed a Termination of Employment of any Participants employed by such Subsidiary or RWAC.

6.10 Restrictions on Exercise and Transfer of Options. Unless otherwise provided by the Committee:

(a) During the Participant's lifetime, the Participant's Options shall be exercisable only by the Participant or by the Participant's guardian or legal representative. After the death of the Participant, except as otherwise provided by SBC's Rules for Employee Beneficiary Designations, an Option shall only be exercised by the holder thereof (including, but not limited to, an executor or administrator of a decedent's estate) or his or her guardian or legal representative.

(b) No Option shall be transferable except: (i) in the case of the Participant, only upon the Participant's death and in accordance with the SBC Rules for Employee Beneficiary Designations; and (ii) in the case of any holder after the Participant's death, only by will or by the laws of descent and distribution.

6.11 Competition and Solicitation . In the event a Participant directly or indirectly, engages in competitive activity, or has become associated with, employed by, controls, or renders service to any business that is engaged in competitive activity, with (i) the Company, (ii) any Subsidiary, or (iii) any business in which any of the foregoing have a substantial interest, or if the Participant attempts, directly or indirectly, to induce any employee of the Company or a Subsidiary to be employed or perform services elsewhere without the permission of the Company, then the Company may (i) cancel any Option granted to such Participant, whether or not vested, in whole or in part; and/or (ii) rescind any exercise of the Participant's Options that occurred on or after that date six months prior to engaging in such activity, in which case the Participant shall pay the Company the gain realized or received upon such exercise of Options. "Has become associated with" shall include, among other things, beneficial ownership of 1/10 of 1% or more of a business engaged in competitive activity. The determination of whether a Participant has engaged in any such activity and whether to cancel Options and/or rescind the exercise of Options shall be made by SBC, and in each case such determination shall be final, conclusive and binding on all persons.

Article 7 Restricted Stock.

7.1 Grant of Restricted Stock . Subject to the terms and provisions of the Plan, the Committee, at any time and from time to time, may grant Shares of Restricted Stock to eligible Employees in such amounts and upon such terms and conditions as the Committee shall determine. In addition to any other terms and conditions imposed by the Committee, vesting of Restricted Stock may be conditioned upon the attainment of Performance Goals based on Performance Criteria in the same manner as provided in Section 8.4, herein, with respect to Performance Shares. No Employee may receive, in any calendar year, in the form of Restricted Stock more than one-third of 1% of the Shares approved for issuance under this Plan.

7.2 Restricted Stock Agreement . The Committee may require, as a condition to an Award, that a recipient of a Restricted Stock Award enter into a Restricted Stock Award Agreement, setting forth the terms and conditions of the Award. In lieu of a Restricted Stock Award Agreement, the Committee may provide the terms and conditions of an Award in a notice to the Participant of the Award, on the Stock certificate representing the Restricted Stock, in the resolution approving the Award, or in such other manner as it deems appropriate.

7.3 Transferability . Except as otherwise provided in this Article 7, and subject to any additional terms in the grant thereof, Shares of Restricted Stock granted herein may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated until fully vested.

7.4 Restrictions . The Restricted Stock shall be subject to such vesting terms as may be determined by the Committee. The Committee may impose such other conditions and/or restrictions on any Shares of Restricted Stock granted pursuant to the Plan as it may deem advisable including, without limitation, a requirement that Participants pay a stipulated purchase price for each Share of Restricted Stock and/or restrictions under applicable Federal or state securities laws; and may legend the certificates representing Restricted Stock to give appropriate notice of such restrictions.

The Company shall also have the right to retain the certificates representing Shares of Restricted Stock in the Company's possession until such time as the shares are fully vested and all conditions and/or restrictions applicable to such Shares have been satisfied.

7.5 Removal of Restrictions . Except as otherwise provided in this Article 7 or otherwise provided in the grant thereof, Shares of Restricted Stock covered by each Restricted Stock grant made under the Plan shall become freely transferable by the Participant after completion of all conditions to vesting, if any. However, the Committee, in its sole discretion, shall have the right to immediately vest the shares and waive all or part of the restrictions and conditions with regard to all or part of the Shares held by any Participant at any time.

7.6 Voting Rights, Dividends and Other Distributions . Participants holding Shares of Restricted Stock granted hereunder may exercise full voting rights and shall receive all regular cash dividends paid with respect to such Shares. Except as provided in the following sentence, in the sole discretion of the Committee, other cash dividends and other distributions paid to Participants with respect to Shares of Restricted Stock may be subject to the same restrictions and conditions as the Shares of Restricted Stock with respect to which they were paid. If any such dividends or distributions are paid in Shares, the Shares shall be subject to the same restrictions and conditions as the Shares of Restricted Stock with respect to which they were paid.

7.7 Termination of Employment Due to Death or Disability . In the event of the Participant's Termination of Employment by reason of death or Disability, all restrictions imposed on outstanding Shares of Restricted Stock held by the Participant shall immediately lapse and the Restricted Stock shall immediately become fully vested as of the date of Termination of Employment.

7.8 Termination of Employment for Other Reasons . In the event of the Participant's Termination of Employment for any reason other than those specifically set forth in Section 7.7 herein, all Shares of Restricted Stock held by the Participant which are not vested as of the effective date of Termination of Employment immediately shall be forfeited and returned to the Company.

7.9 Employee Transfers . For purposes of the Plan, transfer of employment of a Participant between the Company and any one of its Subsidiaries (or between Subsidiaries) or between the Company or a Subsidiary and a RWAC, to the extent the period of employment at a RWAC is equal to or less than five (5) years, shall not be deemed a Termination of Employment. Provided, however, for purposes of this Article, termination of employment with a RWAC without a concurrent transfer to the Company or any of its Subsidiaries shall be deemed a Termination of Employment as that term is used herein. Similarly, termination of an entity's status as a Subsidiary or as a RWAC shall be deemed a Termination of Employment of any Participants employed by such Subsidiary or RWAC.

Article 8 Performance Units and Performance Shares.

8.1 Grants of Performance Units and Performance Shares . Subject to the terms of the Plan, Performance Shares and Performance Units may be granted to eligible Employees at any time and from time to time, as determined by the Committee. The Committee shall have complete discretion in determining the number of Performance Units and/or Performance Shares Awarded to each Participant.

8.2 Value of Performance Shares and Units.

(a) A Performance Share is equivalent in value to a Share of Stock. In any calendar year, no individual may be Awarded Performance Shares having a potential payout of Shares of Stock exceeding two-thirds of 1% of the Shares approved for issuance under this Plan.

(b) A Performance Unit shall be equal in value to a fixed dollar amount determined by the Committee. In any calendar year, no individual may be Awarded Performance Units having a potential payout equivalent exceeding the Fair Market Value of two-thirds of 1% of the Shares approved for issuance under this Plan. The number of Shares equivalent to the potential payout of a Performance Unit shall be determined by dividing the maximum cash payout of the Award by the Fair Market Value per Share on the effective date of the grant. The Committee may denominate a Performance Unit Award in dollars instead of Performance Units. A Performance Unit Award may be referred to as a "Key Executive Officer Short Term Award" or "KEO Award".

8.3 Performance Period . The Performance Period for Performance Shares and Performance Units is the period over which the Performance Goals are measured. The Performance Period is set by the Committee for each Award; however, in no event shall an Award have a Performance Period of less than one year.

8.4 Performance Goals . For each Award of Performance Shares or Performance Units, the Committee shall establish performance objectives ("Performance Goals") for the Company, its Subsidiaries, and/or divisions of any of foregoing, based on the Performance Criteria and other factors set forth in (a) through (d), below. Performance Goals shall include payout tables, formulas or other standards to be used in determining the extent to which the Performance Goals are met, and, if met, the number of Performance Shares and/or Performance Units which would be converted into Stock and/or cash (or the rate of such conversion) and distributed to Participants in accordance with Section 8.6. All Performance Shares and Performance Units which may not be converted under the Performance Goals or which are reduced by the Committee under Section 8.6 or which may not be converted for any other reason after the end of the Performance Period shall be canceled at the time they would otherwise be distributable. When the Committee desires an Award to qualify under Section 162(m) of the Code, as amended, the Committee shall establish the Performance Goals for the respective Performance Shares and Performance Units prior to or within 90 days of the beginning of the service relating to such Performance Goal, and not later than after 25% of such period of service has elapsed. For all other Awards, the Performance Goals must be established before the end of the respective Performance Period.

(a) The Performance Criteria which the Committee is authorized to use, in its sole discretion, are any of the following criteria or any combination thereof:

(1) Financial performance of the Company (on a consolidated basis), of one or more of its Subsidiaries, and/or a division of any of the foregoing. Such financial performance may be based on net income, Value Added (after-tax cash operating profit less depreciation and less a capital charge), EBITDA (earnings before interest, taxes, depreciation and amortization), revenues, sales, expenses, costs, market share, volumes of a particular product or service or category thereof, including but not limited to the product's life cycle (for example, products introduced in the last 2 years), return on net assets, return on assets, return on capital, profit margin, operating revenues, operating expenses, and/or operating income.

(2) Service performance of the Company (on a consolidated basis), of one or more of its Subsidiaries, and/or of a division of any of the foregoing. Such service performance may be based upon measured customer perceptions of service quality.

(3) The Company's Stock price, return on shareholders' equity, total shareholder return (Stock price appreciation plus dividends, assuming the reinvestment of dividends), and/or earnings per share.

(b) Except to the extent otherwise provided by the Committee in full or in part, if any of the following events occur during a Performance Period and would directly affect the determination of whether or the extent to which Performance Goals are met, the effects of such events shall be disregarded in any such computation: changes in accounting principles; extraordinary items; changes in tax laws affecting net income and/or Value Added; natural disasters, including floods, hurricanes, and earthquakes; and intentionally inflicted damage to property which directly or indirectly damages the property of the Company or its Subsidiaries. No such adjustment shall be made to the extent such adjustment would cause the Performance Shares or Performance Units to fail to satisfy the performance based exemption of Section 162(m) of the Code.

8.5 Dividend Equivalents on Performance Shares . Unless reduced or eliminated by the Committee, a cash payment in an amount equal to the dividend payable on one Share will be made to each Participant for each Performance Share held by a Participant on the record date for the dividend.

8.6 Form and Timing of Payment of Performance Units and Performance Shares . As soon as practicable after the applicable Performance Period has ended and all other conditions (other than Committee actions) to conversion and distribution of a Performance Share and/or Performance Unit Award have been satisfied (or, if applicable, at such other time determined by the Committee at or before the establishment of the Performance Goals for such Performance Period), the Committee shall determine whether and the extent to which the Performance Goals were met for the applicable Performance Units and Performance Shares. If Performance Goals have been met, then the number of Performance Units and Performance Shares to be converted into Stock and/or cash and distributed to the Participants shall be determined in accordance with the Performance Goals for such Awards, subject to any limits imposed by the Committee. Unless the Participant has elected to defer all or part of his Performance Units or Performance Shares as provided in Article 10, herein, payment of Performance Units and Performance Shares shall be made in a single lump sum, as soon as reasonably administratively possible following the determination of the number of Shares or amount of cash to which the Participant is entitled. Performance Units will be distributed to Participants in the form of cash. Performance Shares will be distributed to Participants in the form of 50% Stock and 50% Cash, or at the Participant's election, 100% Stock or 100% Cash. In the event the Participant is no longer an Employee at the time of the distribution, then the distribution shall be 100% in cash, provided the Participant may elect to take 50% or 100% in Stock. At any time prior to the distribution of the Performance Shares and/or Performance Units (or if distribution has been deferred, then prior to the time the Awards would have been distributed), unless otherwise provided by the Committee, the Committee shall have the authority to reduce or eliminate the number of Performance Units or Performance Shares to be converted and distributed or to mandate the form in which the Award shall be paid (i.e., in cash, in Stock or both, in any proportions determined by the Committee).

Unless otherwise provided by the Committee, any election to take a greater amount of cash or Stock with respect to Performance Shares must be made in the calendar year prior to the calendar year in which the Performance Shares are distributed (or if distribution has been deferred, then in the year prior to the year the Performance Shares would have been distributed absent such deferral).

For the purpose of converting Performance Shares into cash and distributing the same to the holders thereof (or for determining the amount of cash to be deferred), the value of a Performance Share shall be the Fair Market Value of a Share on the date the Committee authorizes the payout of Awards. Performance Shares to be distributed in the form of Stock will be converted at the rate of one (1) Share of Stock per Performance Share.

8.7 Termination of Employment Due to Death or Disability . In the event of the Participant's Termination of Employment by reason of death or Disability, the Participant shall receive a lump sum payout of all outstanding Performance Units and Performance Shares calculated as if all unfinished Performance Periods had ended with 100% of the Performance Goals achieved, payable in the year following the date of Termination of Employment.

8.8 Termination of Employment for Other Reasons . In the event of the Participant's Termination of Employment for other than a reason set forth in Section 8.7 (and other than for Cause), if the Participant is not Retirement eligible at Termination of Employment, the Participant may receive no more than a prorated payout of all Performance Units and Performance Shares, based on the number of months the Participant worked at least one day during the respective Performance Period divided by the number of months in the Performance Period.

8.9 Termination of Employment for Cause . In the event of the Participant's Termination of Employment of a Participant by the Company for Cause, all Performance Units and Performance Shares shall be forfeited by the Participant to the Company.

8.10 Nontransferability . Performance Units and Performance Shares may not be sold, transferred, pledged, assigned, or otherwise alienated

or hypothecated, other than in accordance with the SBC Rules for Employee Beneficiary Designations.

Article 9 Beneficiary Designation . In the event of the death of a Participant, distributions or Awards under this Plan, other than Restricted Stock, shall pass in accordance with the SBC Rules for Employee Beneficiary Designations, as the same may be amended from time to time. Beneficiary Designations of a Participant received by SBC prior to November 16, 2001, that were applicable to awards under the 1996 Stock and Incentive Plan will also apply to awards under this Plan unless and until the Participant provides to the contrary.

Article 10 Deferrals . Unless otherwise provided by the Committee, a Participant may, as permitted by the Stock Savings Plan or the Salary and Incentive Award Deferral Plan, defer all or part of Awards made under this Plan in accordance with and subject to the terms of such plans.

Article 11 Employee Matters.

11.1 Employment Not Guaranteed . Nothing in the Plan shall interfere with or limit in any way the right of the Company or any Subsidiary to terminate any Participant's Employment at any time, nor confer upon any Participant any right to continue in the employ of the Company or one of its Subsidiaries.

11.2 Participation . No Employee shall have the right to be selected to receive an Award under this Plan, or, having been so selected, to be selected to receive a future Award.

Article 12 Change in Control.

Upon the occurrence of a Change in Control:

(a) Any and all Options granted hereunder immediately shall become vested and exercisable;

(b) Any Restriction Periods and all restrictions imposed on Restricted Shares shall lapse and they shall immediately become fully vested;

(c) The 100% Performance Goal for all Performance Units and Performance Shares relating to incomplete Performance Periods shall be deemed to have been fully achieved and shall be converted and distributed in accordance with all other terms of the Award and this Plan; provided, however, notwithstanding anything to the contrary in this Plan, no outstanding Performance Unit or Performance Share may be reduced.

Article 13 Amendment, Modification, and Termination.

13.1 Amendment, Modification, and Termination. The Board or the Disinterested Committee may at any time and from time to time, alter or amend the Plan in whole or in part or suspend or terminate the Plan in whole or in part.

13.2 Awards Previously Granted . No termination, amendment, or modification of the Plan shall adversely affect in any material way any Award previously granted under the Plan, without the written consent of the Participant holding such Award.

Article 14 Withholding.

14.1 Tax Withholding . The Company shall deduct or withhold an amount sufficient to satisfy Federal, state, and local taxes (including the Participant's employment tax obligations) required by law to be withheld with respect to any taxable event arising or as a result of this Plan ("Withholding Taxes").

14.2 Share Withholding . Upon the exercise of Options, the lapse of restrictions on Restricted Stock, the distribution of Performance Shares in the form of Stock, or any other taxable event hereunder involving the transfer of Stock to a Participant, the Company shall withhold Stock equal in value, using the Fair Market Value on the date determined by the Company to be used to value the Stock for tax purposes, to the Withholding Taxes applicable to such transaction.

Any fractional Share of Stock payable to a Participant shall be withheld as additional Federal withholding, or, at the option of the Company, paid in cash to the Participant.

Unless otherwise determined by the Committee, when the method of payment for the Exercise Price is from the sale by a stockbroker pursuant to Section 6.7(b)(ii), herein, of the Stock acquired through the Option exercise, then the tax withholding shall be satisfied out of the proceeds. For administrative purposes in determining the amount of taxes due, the sale price of such Stock shall be deemed to be the Fair Market Value of the Stock.

If permitted by the Committee, prior to the end of any Performance Period a Participant may elect to have a greater amount of Stock withheld from the distribution of Performance Shares to pay withholding taxes; provided, however, the Committee may prohibit or limit any individual election or all such elections at any time.

Article 15 Successors.

All obligations of the Company under the Plan, with respect to Awards granted hereunder, shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business and/or assets of the Company.

Article 16 Legal Construction.

16.1 Gender and Number . Except where otherwise indicated by the context, any masculine term used herein also shall include the feminine; the plural shall include the singular and the singular shall include the plural.

16.2 Severability . In the event any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

16.3 Requirements of Law . The granting of Awards and the issuance of Shares under the Plan shall be subject to all applicable laws, rules, and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

16.4 Errors . At any time SBC may correct any error made under the Plan without prejudice to SBC. Such corrections may include, among other things, changing or revoking an issuance of an Award.

16.5 Elections and Notices . Notwithstanding anything to the contrary contained in this Plan, all elections and notices of every kind shall be made on forms prepared by SBC or the General Counsel, Secretary or Assistant Secretary, or their respective delegates or shall be made in such other manner as permitted or required by SBC or the General Counsel, Secretary or Assistant Secretary, or their respective delegates, including through electronic means, over the Internet or otherwise. An election shall be deemed made when received by SBC (or its designated agent, but only in cases where the designated agent has been appointed for the purpose of receiving such election), which may waive any defects in form. SBC may limit the time an election may be made in advance of any deadline.

Where any notice or filing required or permitted to be given to SBC under the Plan, it shall be delivered to the principal office of SBC, directed to the attention of the Senior Executive Vice President-Human Resources of SBC or his or her successor. Such notice shall be deemed given on the date of delivery.

Notice to the Participant shall be deemed given when mailed (or sent by telecopy) to the Participant's work or home address as shown on the records of SBC or, at the option of SBC, to the Participant's e-mail address as shown on the records of SBC. It is the Participant's responsibility to ensure that the Participant's addresses are kept up to date on the records of SBC. In the case of notices affecting multiple Participants, the notices may be given by general distribution at the Participants' work locations.

16.6 Governing Law . To the extent not preempted by Federal law, the Plan, and all awards and agreements hereunder, and any and all disputes in connection therewith, shall be governed by and construed in accordance with the substantive laws of the State of Texas, without regard to conflict or choice of law principles which might otherwise refer the construction, interpretation or enforceability of this Plan to the substantive law of another jurisdiction.

16.7 Venue . Because awards under the Plan are granted in Texas, records relating to the Plan and awards thereunder are located in Texas, and the Plan and awards thereunder are administered in Texas, the Company and the Participant to whom an award under this Plan is granted, for themselves and their successors and assigns, irrevocably submit to the exclusive and sole jurisdiction and venue of the state or federal courts of Texas with respect to any and all disputes arising out of or relating to this Plan, the subject matter of this Plan or any awards under this Plan, including but not limited to any disputes arising out of or relating to the interpretation and enforceability of any awards or the terms and conditions of this Plan. To achieve certainty regarding the appropriate forum in which to prosecute and defend actions arising out of or relating to this Plan, and to ensure consistency in application and interpretation of the Governing Law to the Plan, the parties agree that (a) sole and exclusive appropriate venue for any such action shall be an appropriate federal or state court in Bexar County, Texas, and no other, (b) all claims with respect to any such action shall be heard and determined exclusively in such Texas court, and no other, (c) such Texas court shall have sole and exclusive jurisdiction over the person of such parties and over the subject matter of any dispute relating hereto and (d) that the parties waive any and all objections and defenses to bringing any such action before such Texas court, including but not limited to those relating to lack of personal jurisdiction, improper venue or *forum non conveniens* .

Please read this notice carefully. You will receive additional information about exercising your options and who to contact with any questions prior to April 1, 2002 (the first date your options may be exercised).

PROSPECTUS This document constitutes part of a prospectus covering securities that have been registered under the Securities Act of 1933.

January 8, 2002

SBC Stock Option Grant Notice

2001 Stock Option Grant to Bargained-for and Certain Other Employees

As a result of the early ratification of the collective bargaining agreement dated December 8, 2001, between the Communications Workers of America and Southwestern Bell Yellow Pages, Inc. (the ***"CWA Agreement"***), SBC is pleased to grant stock options to eligible employees covered by the Agreement as described in this notice. **On December 31, 2001, eligible full-time employees were granted 150 options to purchase common stock of SBC (*"SBC Stock"*); eligible part-time employees were granted 75 options.**

An **option** gives you the opportunity to buy a specified number of shares of stock at a fixed price per share (grant price) for a specified period of time. For example, suppose you are given a stock option with a grant price of $40 and the option lasts for five years. If, after four years, the stock is worth $60 per share (market price), you have the opportunity to turn your options into shares (exercise your options) and purchase the shares for the original grant price of $40 per share. You could then sell the shares and receive the $20 cash profit per share or keep the shares as an investment.

Each option gives you the right to buy one share of SBC Stock on or after April 1, 2002, at the December 31, 2001 closing market price of $39.17 per share (the "grant price").

That right will last until the close of business for option exercises on March 31, 2006 (see table below for exceptions). *Options are not shares of stock and are not entitled to dividends or voting rights.* Your options are subject to the terms and conditions contained in this notice.

The value of your options rises and falls with the value of SBC Stock. The ultimate value of your options will depend on the price of SBC Stock at the time of exercise. You make the decision whether or not to exercise your options (you are not required to exercise them as part of your employment).

If you decide to exercise your options, you need to decide whether to:

- simultaneously sell the SBC Stock received from the exercise and receive cash (a *cashless exercise* – you receive the cash proceeds without any out-of-pocket cash from you), or
- keep the SBC Stock received from the exercise as an investment (a *cash purchase exercise* - you provide the funds to purchase the options at the grant price).

You should keep this document for future reference.

Type of Employee	Number of Options	Grant Price (Per Share)	Grant Date	First Day to Exercise (vesting date) (1)	Last Da (e
Full-Time	150	$39.17	Dec. 31, 2001	April 1, 2002	
Part-Time	75	"	"	"	

(1) If your employment is terminated (because you die, retire, quit, or are no longer employed for any other reason) ***before*** this date, you will lose (forfeit) your options.

(2) If your employment is terminated (because you die, retire, quit, or are no longer employed for any other reason) ***on or after April 1, 2002,*** but ***on or before March 31, 2006, options may be exercised for no more than 90 days after the termination date (but under no circumstances may any options be exercised after March 31, 2006).***

See section entitled "When Options May Not Be Exercised," on page 2.

Receipt of this Stock Option Grant Notice is not evidence that you are eligible for the grant. You must comply with the eligibility requirements to be entitled to a grant.

Eligibility

You were eligible to receive SBC stock options under this grant if, at all times from December 20, 2001, through the close of business on December 31, 2001, you met ***all*** of the following criteria:

- you held a job title that was subject to the CWA Agreement, or you held a job title to which the compensation provisions of that Agreement were extended, or you were on an approved leave of absence from the foregoing; ***and***
- you were a Full-Time or Part-Time Employee (as those terms are used in the CWA Agreement).

Grant Price

The grant price of your options is $39.17 per share, which was the closing price on the New York Stock Exchange (***"NYSE"***) on December 31, 2001. Once an option is issued, the grant price does not change regardless of later changes in the market price of SBC Stock. See the section entitled "Change in Capitalization" on page 5 for other events that may affect your options.

When Options May Be Exercised

The first date you may exercise your options is April 1, 2002 (also called the vesting date). You will receive additional information about exercising your options and who to contact with any questions prior to that date.

When Options May Not Be Exercised

Your options may not be exercised after March 31, 2006 (the expiration date). However, if your employment is terminated on or before March 31, 2006, you may lose your options or the time period to exercise your options may be shortened (see table below).

Termination of employment means you are no longer employed by any entity that is, directly or indirectly, wholly-owned by SBC or Cingular Wireless, LLC because you died, quit, retired, or are no longer employed for any other reason, voluntarily or involuntarily.

If Your Employment is Terminated on the Following Dates: (1)

Before April 1, 2002	**On or After April 1, 2002, But On or Before March 31, 2006**
You will immediately lose your options and may not exercise them.	Options may be exercised f after the termination date than the close of business on March 31,

(1) Under no circumstances may any options be exercised after the close of business for option exercises on March 31, 2006.

(2) If the 90th day falls on a day that options may not be exercised (for example, a weekend day), your options will expire on the last day the options may be exercised prior to the 90th day.

Exercising Your Options

You do not have to exercise your options, but if you do decide to exercise, ***then all options from this grant must be exercised at the same time and on or before their expiration date.***

Options shall be exercised by notifying the designated agent selected by SBC (if no agent has been designated, then to SBC) in accordance with procedures established by SBC. Options may only be exercised during certain business hours selected by SBC. You decide how you want to exercise your options, depending on whether you want to receive cash (a *Cashless Exercise*) or SBC Stock (a *Cash Purchase Exercise*). Both methods are described below (also see section entitled "Tax Effects," on next page). The amounts used in the examples do not represent actual amounts, and are only used for purposes of illustration.

Cashless Exercise: If you do not want to keep the SBC Stock purchased when you exercise your options, you may sell the shares simultaneously with the exercise and receive cash. You do not have to use any of your own money. You simply tell the agent to sell all of the SBC Stock to be received upon the exercise of your options. The agent will deduct the total grant price, tax withholding and brokerage fees from the proceeds, and send you a check for the remaining profits. (In connection with the sale of SBC Stock, the designated agent will be acting solely as your agent, and SBC disclaims any responsibility for the actions of the agent in making any such sales.)

Example: Assume you are granted 150 options with a grant price of $39.17. You exercise your options, sell the SBC stock purchased, and receive the net profits as shown below.

	Assuming the market price is $50 per SBC share	**Assuming the market price is $60 per SBC share**
Sell SBC Stock (150 options @ market price per share)	$7,500	$9,0
Deduct total grant price (150 options @ $39.17 each)	‹5,875›	‹5,8
Your net taxable income (market price less grant price)	**$1,625**	**$3,125**
Deduct withholding taxes to be paid on taxable income (using a sample rate of 35%)	‹568›	‹1,0
Deduct estimated brokerage fees	‹50›	‹50›

Cash sent to you	**$1,007**	**$1,982**

Cash Purchase Exercise: If you want to keep the SBC Stock acquired from the option exercise, you must use your own money to pay the grant price. To use this method, you must send the agent a completed exercise form and a check for the full grant price. The agent must receive both your form and check to exercise your options. The last day the agent will accept your form and check is ***March 31, 2006*** . The agent will exercise your options, withhold sufficient shares to pay the withholding taxes and send you the remaining SBC Stock. No brokerage fees are charged for Cash Purchase exercises.

Example: Assume you are granted 150 options at a grant price of $39.17. You exercise your options, pay the total grant price with your own money, and receive SBC Stock as shown below.

Assuming the market price is $60 per SBC share	
Cash you pay (total grant price = 150 options @ $39.17 each)	**$5,875**
Your net taxable income (same as cashless example)	**$3,125**
Shares of SBC Stock purchased with grant price	1
Deduct shares for withholding taxes (using previous example of estimated withholding taxes of $1,093 divided by market price of $60 = 18.2 shares or 19 whole shares; see “Withholding Taxes,” on the next page, regarding fractional shares)	‹
Shares of SBC Stock sent to you	**131**

Withholding Taxes: When you exercise your options, SBC may withhold from the proceeds the minimum amount of Federal, state, and local taxes required by law to be withheld as a result of such distribution, as determined by SBC. If you pay cash to exercise your options, any fractional share of SBC Stock payable to you may be withheld as additional Federal tax withholding, or, at the option of SBC, paid to you in cash. In our Cash Purchase example, the fractional share (.8) was withheld as additional tax withholding.

No SBC Stock will be issued until the grant price and tax withholding are paid to SBC.

SBC may establish additional rules for the exercise of options, including the method of exercise. The cashless method and its terms are offered only in the sole discretion of SBC.

Further details about exercising your options will be provided at a later date, but prior to April 1, 2002 (the first date your options may be exercised).

Tax Effects

SBC believes that, under present law, the following are the Federal income tax consequences of this grant. You should consult a qualified tax advisor to obtain current information as well as advice that is tailored to your particular circumstances.

Grant of Options: No income is recognized by you at the time the options are granted. If you do not exercise the options, you will not recognize any income.

Sale of SBC Stock: Any subsequent sale of SBC Stock acquired upon the exercise of options will be treated as capital gain (or loss).

Exercise of Option: Generally, when you exercise your options, you will realize taxable (ordinary) income equal to the difference between the total grant price and the total market price of SBC Stock at the time of exercise. In our $60 per share example above (using 150 options), $3,125 would be recognized as ordinary income (using the total market price of $9,000 for the SBC Stock less the total grant price of $5,875). SBC will report the ordinary income on your W-2 for the year the options are exercised, and will receive a tax deduction equal to the ordinary income reported on your W-2.

Other Terms

Administration: The Human Resources Committee of SBC (the ***"Committee"***) will administer the options and, in its sole discretion, may interpret and construe any provisions of this grant. The Committee may also establish, adopt or revise any rules and regulations as it may deem necessary or advisable. All decisions of the Committee shall be final and binding.

Applicable Law: Your options are governed by and construed in accordance with the substantive laws of the State of Texas, excluding any conflicts or choice of law rule or principle that might otherwise refer constructive interpretation of this grant to the substantive law of any jurisdiction other than the State of Texas.

Because the options are granted and administered in Texas, SBC and the holders of options irrevocably submit to the exclusive jurisdiction and venue of the appropriate federal or state court in Bexar County, Texas, and no other. To promote consistency in application of the law to the grants, claims arising out of the grant of options shall be heard and determined in federal or state court in Bexar County, Texas, and such court shall have exclusive jurisdiction over the person of such parties and over the subject matter of any dispute relating to the grant of options.

Change in Capitalization: In the event of a merger, reorganization, liquidation, consolidation, recapitalization, separation, stock split, stock dividend, share combination, or other change in SBC's corporate structure affecting shares of SBC Stock, the Committee shall adjust, as it determines in its sole discretion to be appropriate and equitable, the number and class of and/or price of shares of stock subject to outstanding options granted under this grant, and/or in the number of outstanding options, to prevent dilution or enlargement of rights.

Employment Status: You shall not consider any statements in this notice or any action taken hereunder as a contract of employment or as giving you any right to continued employment with an SBC company. Terms of your employment are covered by your CWA Agreement.

Transferability: During your lifetime, your options may be exercised only by you or your guardian or legal representative. If you die after March 31, 2002, your options may only be transferred pursuant to a will or the laws of descent and distribution, as applicable. After you die, your options may be exercised only by the then owner (including, but not limited to, the executor or administrator of your estate) or the holder's guardian or legal representative. The new holder of your options will have 90 days after your death to exercise your options or until March 31, 2006, whichever occurs first. All other terms of your options will apply to the new holder.

When options have been transferred, SBC or its designated agent may require appropriate documentation that the person exercising the option has the right to exercise the option.

About SBC

SBC files annual, quarterly, and other reports and proxy statements with the Securities and Exchange Commission (***"SEC"***). This information, which is specifically identified in the registration statement filed with the SEC to register the SBC Stock to be offered under this grant, is incorporated in this prospectus by reference. Any information SBC files with the SEC after the date of the filing of the registration statement will automatically update and supersede this information.

SBC will furnish without charge, upon written or oral request, a copy of these documents as well as exhibits specifically incorporated by reference in those documents. SBC will also provide a copy of the most recent annual report to shareowners upon request. Requests for copies should be directed to External Reporting, 175 E. Houston, 9th Floor, San Antonio, Texas 78205, telephone number 210-351-3049 (please do not call this number for questions about your options).

If You Have Questions

Please read this notice carefully. It contains all of the information you need regarding your stock options.

You will receive additional information about exercising your options and who to contact with any questions prior to April 1, 2002 (the first date your options may be exercised).

Please read this notice carefully. You will receive additional information about exercising your options and who to contact with any questions prior to April 1, 2002 (the first date your options may be exercised).

PROSPECTUS This document constitutes part of a prospectus covering securities that have been registered under the Securities Act of 1933.

December 1, 2001

SBC Stock Option Grant Notice

2001 Stock Option Grant to Bargained-for and Certain Other Employees

As a result of the early ratification of the collective bargaining agreements listed on page 2 between the Communications Workers of America and certain subsidiaries of SBC Communications Inc. (the ***"CWA Agreements"***), SBC is pleased to grant stock options to eligible employees covered by such Agreements as described in this notice. **On April 2, 2001, eligible full-time employees were granted 150 options to purchase common stock of SBC (*"SBC Stock"*); eligible part-time employees were granted 75 options.**

An **option** gives you the opportunity to buy a specified number of shares of stock at a fixed price per share (grant price) for a specified period of time. For example, suppose you are given a stock option with a grant price of $40 and the option lasts for five years. If, after four years, the stock is worth $60 per share (market price), you have the opportunity to turn your options into shares (exercise your options) and purchase the shares for the original grant price of $40 per share. You could then sell the shares and receive the $20 cash profit per share or keep the shares as an investment.

Each option gives you the right to buy one share of SBC Stock on or after April 1, 2002, at the April 2, 2001 closing market price of $43.76 per share (the "grant price"). That right will last until the close of business for option exercises on March 31, 2006 (see table below for exceptions). *Options are not shares of stock and are not entitled to dividends or voting rights.* Your options are subject to the terms and conditions contained in this notice.

The value of your options rises and falls with the value of SBC Stock. The ultimate value of your options will depend on the price of SBC Stock at the time of exercise. You make the decision whether or not to exercise your options (you are not required to exercise them as part of your employment).

If you decide to exercise your options, you need to decide whether to:

- simultaneously sell the SBC Stock received from the exercise and receive cash (a *cashless exercise* – you receive the cash proceeds without any out-of-pocket cash from you), or
- keep the SBC Stock received from the exercise as an investment (a *cash purchase exercise* - you provide the funds to purchase the options at the grant price).

You should keep this document for future reference.

Type of Employee	Number of Options	Grant Price (Per Share)	Grant Date	First Day to Exercise (vesting date) (1)	Last Day (ex
Full-Time	150	$43.76	April 2, 2001	April 1, 2002	
Part-Time	75	"	"	"	

(1) If your employment is terminated (because you die, retire, quit, or are no longer employed for any other reason) ***before*** this date, you will lose (forfeit) your options.

(2) If your employment is terminated (because you die, retire, quit, or are no longer employed for any other reason) ***on or after April 1, 2002,*** but ***on or before March 31, 2006,*** options may be exercised for no more than 90 days after the termination date ***(but under no circumstances may any options be exercised after March 31, 2006).***

See section entitled "When Options May Not Be Exercised," on page 3.

CWA Agreements

Agreement bearing the effective date of February 1, 2001, between District 4 and Ameritech Corporation, Illinois Bell Telephone Company, Indiana Bell Telephone Company, Incorporated, The Ohio Bell Telephone Company, Wisconsin Bell, Inc., Michigan Bell Telephone Company, Ameritech New Media, Inc., and the following Business Units, divisions of Ameritech Services, Inc.: Ameritech Network Services, Ameritech Consumer Markets, Ameritech Business Communications Services (formerly Enhanced Business Services and Small Business Services), Ameritech Industry Markets (formerly Information Industry Services and Long Distance Industry Services), Ameritech Public Communications (formerly Pay Phone Services), and Ameritech Global Markets (formerly Custom Business Services).

Agreement bearing the date of February 5, 2001, between District 9 and Pacific Bell/Nevada Bell, SBC Telecom, Inc. in Las Vegas, Nevada, SBC Telecom, Inc. - Network Operations, SBC Advanced Solutions, Inc., SBC Services, Inc., Pacific Bell Information Services Maintenance Notification Group, and Pacific Bell Home Entertainment.

Agreement bearing the date of February 1, 2001, between Local 1298 (District 1) and the Southern New England Telecommunications Corporation, The Southern New England Telephone Company, SNET Diversified Group, Inc., SNET Mobility, Inc., SNET Cellular, Inc. (CELLULARONE), Woodbury Telephone Company, SNET Information Services, Inc., SNET Personal Vision, Inc., SNET Real Estate, Inc., and SNET America, Inc.

Agreement bearing the date of February 1, 2001, between District 6 and Southwestern Bell Telephone Company, SBC Advanced Solutions, Inc., SBC Operations, Inc., SBC Services, Inc., and SBC Telecom, Inc.

Receipt of this Stock Option Grant Notice is not evidence that you are eligible for the grant. You must comply with the eligibility requirements to be entitled to a grant.

Eligibility

You were eligible to receive SBC stock options under this grant if, at all times from March 16, 2001 (March 15, 2001, for employees of SNET Companies), through the close of business on April 2, 2001, you met ***all*** of the following criteria:

- you held a job title that was subject to the CWA Agreements, or you held a job title to which the compensation provisions of those Agreements were extended, or you were on an approved leave of absence from the foregoing; ***and***
- you were a Full-Time or Part-Time Employee (as those terms are used in the CWA Agreements).

Grant Price

The grant price of your options is $43.76 per share, which was the closing price on the New York Stock Exchange (*"NYSE"*) on April 2, 2001. Once an option is issued, the grant price does not change regardless of later changes in the market price of SBC Stock. See the section entitled "Change in Capitalization" on page 5 for other events that may affect your options.

When Options May Be Exercised

The first date you may exercise your options is April 1, 2002 (also called the vesting date). You will receive additional information about exercising your options and who to contact with any questions prior to that date.

When Options May Not Be Exercised

Your options may not be exercised after March 31, 2006 (the expiration date). However, if your employment is terminated on or before March 31, 2006, you may lose your options or the time period to exercise your options may be shortened (see table below).

Termination of employment means you are no longer employed by any entity that is, directly or indirectly, wholly-owned by SBC or Cingular Wireless, LLC because you died, quit, retired, or are no longer employed for any other reason, voluntarily or involuntarily.

If Your Employment is Terminated on the Following Dates: (1)

Before April 1, 2002	**On or After April 1, 2002, But On or Before March 31, 2006**
You will immediately lose your options and may not exercise them.	Options may be exercised for after the termination date, b than the close of business fo on March 31, 2006.

(1) Under no circumstances may any options be exercised after the close of business for option exercises on March 31, 2006.

(2) If the 90th day falls on a day that options may not be exercised (for example, a weekend day), your options will expire on the last day the options may be exercised prior to the 90th day.

Exercising Your Options

You do not have to exercise your options, but if you do decide to exercise, ***then all options from this grant must be exercised at the same time and on or before their expiration date.***

Options shall be exercised by notifying the designated agent selected by SBC (if no agent has been designated, then to SBC) in accordance with procedures established by SBC. Options may only be exercised during certain business hours selected by SBC. You decide how you want to exercise your options, depending on whether you want to receive cash (a *Cashless Exercise*) or SBC Stock (a *Cash Purchase Exercise*). Both methods are described below (also see section entitled "Tax Effects," on next page). The amounts used in the examples do not represent actual amounts, and are only used for purposes of illustration.

Cashless Exercise: If you do not want to keep the SBC Stock purchased when you exercise your options, you may sell the shares

simultaneously with the exercise and receive cash. You do not have to use any of your own money. You simply tell the agent to sell all of the SBC Stock to be received upon the exercise of your options. The agent will deduct the total grant price, tax withholding and brokerage fees from the proceeds, and send you a check for the remaining profits. (In connection with the sale of SBC Stock, the designated agent will be acting solely as your agent, and SBC disclaims any responsibility for the actions of the agent in making any such sales.)

Example: Assume you are granted 150 options with a grant price of $43.76. You exercise your options, sell the SBC stock purchased, and receive the net profits as follows.

Assuming the market	**Assuming the market price is $50 per SBC share**	**Assuming the market price is SBC shar**
Sell SBC Stock (150 options @ market price per share)	$7,500	$9,
Deduct total grant price (150 options @ $43.76 each)	‹6,564›	‹6,
Your net taxable income (market price less grant price)	**$ 936**	**$2,436**
Deduct withholding taxes to be paid on taxable income (using a sample rate of 35%)	‹327›	‹32
Deduct estimated brokerage fees	‹50›	‹5
Cash sent to you	**$ 559**	**$1,534**

Cash Purchase Exercise: If you want to keep the SBC Stock acquired from the option exercise, you must use your own money to pay the grant price. To use this method, you must send the agent a completed exercise form and a check for the full grant price. The agent must receive both your form and check to exercise your options. The last day the agent will accept your form and check is ***March 31, 2006*** . The agent will exercise your options, withhold sufficient shares to pay the withholding taxes and send you the remaining SBC Stock. No brokerage fees are charged for Cash Purchase exercises.

Example: Assume you are granted 150 options at a grant price of $43.76. You exercise your options, pay the total grant price with your own money, and receive SBC Stock as follows.

Assuming the market price is $60 p	
Cash you pay (total grant price = 150 options @ $43.76 each)	**$6,564**
Your net taxable income (same as cashless example)	**$2,436**
Shares of SBC Stock purchased with grant price	
Deduct shares for withholding taxes (using previous example of estimated withholding taxes of $852 divided by market price of $60 = 14.2 shares or 15 whole shares; see "Withholding Taxes," on the next page, regarding fractional shares)	‹1
Shares of SBC Stock sent to you	**135**

Withholding Taxes: When you exercise your options, SBC may withhold from the proceeds the minimum amount of Federal, state, and local taxes required by law to be withheld as a result of such distribution, as determined by SBC. If you pay cash to exercise your options, any fractional share of SBC Stock payable to you may be withheld as additional Federal tax withholding, or, at the option of SBC, paid to you in cash. In our Cash Purchase example, the fractional share (.8) was withheld as additional tax withholding.

No SBC Stock will be issued until the grant price and tax withholding are paid to SBC.

SBC may establish additional rules for the exercise of options, including the method of exercise. The cashless method and its terms are offered only in the sole discretion of SBC.

Further details about exercising your options will be provided at a later date, but prior to April 1, 2002 (the first date your options may be exercised).

Tax Effects

SBC believes that, under present law, the following are the Federal income tax consequences of this grant. You should consult a qualified

tax advisor to obtain current information as well as advice that is tailored to your particular circumstances.

Grant of Options: No income is recognized by you at the time the options are granted. If you do not exercise the options, you will not recognize any income.

Sale of SBC Stock: Any subsequent sale of SBC Stock acquired upon the exercise of options will be treated as capital gain (or loss).

Exercise of Option: Generally, when you exercise your options, you will realize taxable (ordinary) income equal to the difference between the total grant price and the total market price of SBC Stock at the time of exercise. In our $60 per share example above (using 150 options), $2,436 would be recognized as ordinary income (using the total market price of $9,000 for the SBC Stock less the total grant price of $6,564). SBC will report the ordinary income on your W-2 for the year the options are exercised, and will receive a tax deduction equal to the ordinary income reported on your W-2.

Other Terms

Administration: The Human Resources Committee of SBC (the ***"Committee"***) will administer the options and, in its sole discretion, may interpret and construe any provisions of this grant. The Committee may also establish, adopt or revise any rules and regulations as it may deem necessary or advisable. All decisions of the Committee shall be final and binding.

Applicable Law: Your options are governed by and construed in accordance with the substantive laws of the State of Texas, excluding any conflicts or choice of law rule or principle that might otherwise refer constructive interpretation of this grant to the substantive law of any jurisdiction other than the State of Texas.

Because the options are granted and administered in Texas, SBC and the holders of options irrevocably submit to the exclusive jurisdiction and venue of the appropriate federal or state court in Bexar County, Texas, and no other. To promote consistency in application of the law to the grants, claims arising out of the grant of options shall be heard and determined in federal or state court in Bexar County, Texas, and such court shall have exclusive jurisdiction over the person of such parties and over the subject matter of any dispute relating to the grant of options.

Change in Capitalization: In the event of a merger, reorganization, liquidation, consolidation, recapitalization, separation, stock split, stock dividend, share combination, or other change in SBC's corporate structure affecting shares of SBC Stock, the Committee shall adjust, as it determines in its sole discretion to be appropriate and equitable, the number and class of and/or price of shares of stock subject to outstanding options granted under this grant, and/or in the number of outstanding options, to prevent dilution or enlargement of rights.

Employment Status: You shall not consider any statements in this notice or any action taken hereunder as a contract of employment or as giving you any right to continued employment with an SBC company. Terms of your employment are covered by your CWA Agreement.

Transferability: During your lifetime, your options may be exercised only by you or your guardian or legal representative. If you die after March 31, 2002, your options may only be transferred pursuant to a will or the laws of descent and distribution, as applicable. After you die, your options may be exercised only by the then owner (including, but not limited to, the executor or administrator of your estate) or the holder's guardian or legal representative. The new holder of your options will have 90 days after your death to exercise your options or until March 31, 2006, whichever occurs first. All other terms of your options will apply to the new holder.

When options have been transferred, SBC or its designated agent may require appropriate documentation that the person exercising the option has the right to exercise the option.

About SBC

SBC files annual, quarterly, and other reports and proxy statements with the Securities and Exchange Commission (***"SEC"***). This information, which is specifically identified in the registration statement filed with the SEC to register the SBC Stock to be offered under this grant, is incorporated in this prospectus by reference. Any information SBC files with the SEC after the date of the filing of the registration statement will automatically update and supersede this information.

SBC will furnish without charge, upon written or oral request, a copy of these documents as well as exhibits specifically incorporated by reference in those documents. SBC will also provide a copy of the most recent annual report to shareowners upon request. Requests for copies should be directed to External Reporting, 175 E. Houston, 9th Floor, San Antonio, Texas 78205, telephone number 210-351-3049 (please do not call this number for questions about your options).

If You Have Questions

Please read this notice carefully. It contains all of the information you need regarding your stock options.

Please read this notice carefully. Receipt of this Stock Option Grant Notice is not evidence that you are eligible for the grant. You must comply with the eligibility requirements to be entitled to a grant. Additional information about exercising options and who to contact with any questions will be distributed prior to September 3, 2002 (the first date your options may be exercised).

PROSPECTUS This document constitutes part of a prospectus covering securities that have been registered under the Securities Act of 1933.

December 1, 2001

SBC Stock Option Grant Notice

2001 Stock Option Grant to Bargained-for and Certain Other Employees

As a result of the ratification of the 1998-2004 Ameritech IBEW Local 21 Collective Bargaining Agreement between the International Brotherhood of Electrical Workers and certain subsidiaries of Ameritech Corporation (the ***"IBEW Agreement"***), SBC is pleased to grant stock options to eligible employees covered by the Agreement as described in this notice. **On September 4, 2001, eligible full-time employees were granted 150 options to purchase common stock of SBC (*"SBC Stock"*); eligible part-time employees were granted 75 options.**

An **option** gives you the opportunity to buy a specified number of shares of stock at a fixed price per share (grant price) for a specified period of time. For example, suppose you are given a stock option with a grant price of $40 and the option lasts for five years. If, after four years, the stock is worth $60 per share (market price), you have the opportunity to turn your options into shares (exercise your options) and purchase the shares for the original grant price of $40 per share. You could then sell the shares and receive the $20 cash profit per share or keep the shares as an investment.

Each option gives you the right to buy one share of SBC Stock on or after September 3, 2002, at the September 4, 2001 closing market price of $42.00 per share (the grant price). That right will last until the close of business for option exercises on September 1, 2006 (see table below for exceptions). *Options are not shares of stock and are not entitled to dividends or voting rights.* Your options are subject to the terms and conditions contained in this notice.

The value of your options rises and falls with the value of SBC Stock. The ultimate value of your options will depend on the price of SBC Stock at the time of exercise. You make the decision whether or not to exercise your options (you are not required to exercise them as part of your employment).

You should keep this document for future reference.

Type of Employee	Number of Options	Grant Price (Per Share)	Grant Date	First Day to Ex (vesting date
Full-Time	150	$42.00	September 4, 2001	September 3,
Part-Time	75			

(1) If your employment is terminated (because you die, retire, quit, or are no longer employed for any other reason) ***before*** this date, you will lose (forfeit) your options.

(2) If your employment is terminated (because you die, retire, quit, or are no longer employed for any other reason) ***on or after September 3, 2002,*** but on or before September 1, 2006, options may be exercised for no more than 90 days after the termination date ***(but under no circumstances may any options be exercised after September 1, 2006). See section entitled "When Options May Not Be Exercised," on page 2.***

Eligibility

You were eligible to receive SBC stock options under this grant if, at all times from August 3, 2001, through the close of business on September 4, 2001, you met ***all*** of the following criteria:

- you held a job title that was subject to the IBEW Agreement, or you held a job title to which the compensation provisions of that Agreement were extended, or you were on an approved leave of absence from the foregoing; ***and***
- you were a Full-Time or Part-Time Employee (as those terms are used in the IBEW Agreement).

Grant Price

The grant price of your options is $42.00 per share, which was the closing price on the New York Stock Exchange (***"NYSE"***) on September 4, 2001. Once an option is issued, the grant price does not change regardless of later changes in the market price of SBC Stock. See the section entitled "Change in Capitalization" on page 4 for other events that may affect your options.

When Options May Be Exercised

The first date you may exercise your options is September 3, 2002 (also called the vesting date). You will receive additional information about exercising your options and who to contact with any questions prior to that date.

If you decide to exercise your options, you need to decide whether to:

- simultaneously sell the SBC Stock received from the exercise and receive cash (a *cashless exercise* – you receive the cash proceeds without any out-of-pocket cash from you), or
- keep the SBC Stock received from the exercise as an investment (a *cash purchase exercise* - you provide the funds to purchase the options at the grant price).

When Options May Not Be Exercised

Your options may not be exercised after September 1, 2006 *(the expiration date).* However, if your employment is terminated on or before September 1, 2006, you may lose your options or the time period to exercise your options may be shortened (see table below).

Termination of employment means you are no longer employed by any entity that is, directly or indirectly, wholly-owned by SBC or Cingular Wireless, LLC because you died, quit, retired, or are no longer employed for any other reason, voluntarily or involuntarily.

If Your Employment is Terminated on the Following Dates: (1)

Before September 3, 2002

You will immediately lose your options and may not exercise them.

On or After September 3, 2002, But On or Before September 1, 2006

Options may be exercised for no more than 90 days after the termination date, but in no event later than the close of business for option exercises on September 1, 2006.(2)

(1) Under no circumstances may any options be exercised after the close of business for option exercises on September 1, 2006.

(2) If the 90 th day falls on a day that options may not be exercised (for example, a weekend day), your options will expire on the last day the options may be exercised prior to the 90 th day.

Exercising Your Options

You do not have to exercise your options, but if you do decide to exercise, then ***all options from this grant must be exercised at the same time and on or before their expiration date.***

Options shall be exercised by notifying the designated agent selected by SBC (if no agent has been designated, then to SBC) in accordance with procedures established by SBC. Options may only be exercised during certain business hours selected by SBC. You decide how you want to exercise your options, depending on whether you want to receive cash (a *Cashless Exercise*) or SBC Stock (a *Cash Purchase Exercise*). Both methods are described below (also see section entitled “Federal Income Tax Effects,” on next page). The amounts used in the examples do not represent actual amounts, and are only used for purposes of illustration.

Cashless Exercise: If you do not want to keep the SBC Stock purchased when you exercise your options, you may sell the shares simultaneously with the exercise and receive cash. You do not have to use any of your own money. You simply tell the agent to sell all of the SBC Stock to be received upon the exercise of your options. The agent will deduct the total grant price, tax withholding and brokerage fees from the proceeds, and send you a check for the remaining profits. (In connection with the sale of SBC Stock, the designated agent will be acting solely as your agent, and SBC disclaims any responsibility for the actions of the agent in making any such sales.)

Example: Assume you are granted 150 options with a grant price of $42.00. You exercise your options, sell the SBC stock purchased, and receive the net profits as shown below.

Assuming the market price is $50 per SBC share	**Assuming the market price is $50 per SBC share**
Sell SBC Stock (150 options @ market price per share)	$7,500
Deduct total grant price (150 options @ $42 each)	‹6,300›
Your net taxable income (market price less grant price)	**$1,200**	**$2,700**

Deduct withholding taxes to be paid on taxable income
(using a sample rate of 35%) ‹420›
Deduct estimated brokerage fees ‹50›
Cash sent to you$ 730$1,705

Cash Purchase Exercise: If you want to keep the SBC Stock acquired from the option exercise, you must use your own money to pay the grant price. To use this method, you must send the agent a completed exercise form and a check for the full grant price. The agent must receive both your form and check to exercise your options. The last day the agent will accept your form and check is ***September 1, 2006*** . The agent will exercise your options, withhold sufficient shares to pay the withholding taxes, and send you the remaining SBC Stock. No brokerage fees are charged for Cash Purchase exercises.

Example: Assume you are granted 150 options at a grant price of $42.00. You exercise your options, pay the total grant price with your own money, and receive SBC Stock as shown below.

Assuming the market

Cash you pay (total grant price = 150 options @ $42 each)**$6,300**
Your net taxable income (same as cashless example)**$2,700**
Shares of SBC Stock purchased with grant price
Deduct shares for withholding taxes (using previous example of estimated

withholding taxes of $945 divided by market price of $60 = 15.75 shares or 16 whole shares; see “Withholding Taxes,” below, regarding fractional shares)

Shares of SBC Stock sent to you 134

Withholding Taxes: When you exercise your options, SBC may withhold from the proceeds the minimum amount of Federal, state, and local taxes required by law to be withheld as a result of such distribution, as determined by SBC. If you pay cash to exercise your options, any fractional share of SBC Stock payable to you may be withheld as additional Federal tax withholding, or, at the option of SBC, paid to you in cash. In our Cash Purchase example, the fractional share (.75) was withheld as additional tax withholding.

No SBC Stock will be issued until the grant price and tax withholding are paid to SBC.

SBC may establish additional rules for the exercise of options, including the method of exercise. The cashless method and its terms are offered only in the sole discretion of SBC.

Federal Income Tax Effects

SBC believes that, under present law, the following are the Federal income tax consequences of this grant. You should consult a qualified tax advisor to obtain current information as well as advice that is tailored to your particular circumstances.

Grant of Options: No income is recognized by you at the time the options are granted. If you do not exercise the options, you will not recognize any income.

Sale of SBC Stock: Any sale of SBC Stock acquired upon the exercise of options will be treated as capital gain (or loss).

Exercise of Option: Generally, when you exercise your options, you will realize taxable (ordinary) income equal to the difference between the total grant price and the total market price of SBC Stock at the time of exercise. In our $60 per share example above (using 150 options), $2,700 would be recognized as ordinary income (using the total market price of $9,000 for the SBC Stock less the total grant price of $6,300). SBC will report the ordinary income on your W-2 for the year the options are exercised, and will receive a tax deduction equal to the ordinary income reported on your W-2.

Other Terms

Administration: The Human Resources Committee of SBC (the ***“Committee”***) will administer the options and, in its sole discretion, may interpret and construe any provisions of this grant. The Committee may also establish, adopt or revise any rules and regulations as it may deem necessary or advisable. All decisions of the Committee shall be final and binding.

Applicable Law: Your options are governed by and construed in accordance with the substantive laws of the State of Texas, excluding any conflicts or choice of law rule or principle that might otherwise refer constructive interpretation of this grant to the substantive law of any jurisdiction other than the State of Texas.

Because the options are granted and administered in Texas, SBC and the holders of options irrevocably submit to the exclusive jurisdiction and venue of the appropriate federal or state court in Bexar County, Texas, and no other. To promote consistency in application of the law to the grants, claims arising out of the grant of options shall be heard and determined in federal or state court in Bexar County, Texas, and such court shall have exclusive jurisdiction over the person of such parties and over the subject matter of any dispute relating to the grant of options.

Change in Capitalization: In the event of a merger, reorganization, liquidation, consolidation, recapitalization, separation, stock split, stock dividend, share combination, or other change in SBC's corporate structure affecting shares of SBC Stock, the Committee shall adjust, as it determines in its sole discretion to be appropriate and equitable, the number and class of and/or price of shares of stock subject to outstanding options granted under this grant, and/or in the number of outstanding options, to prevent dilution or enlargement of rights.

Employment Status: You shall not consider any statements in this notice or any action taken hereunder as a contract of employment or as giving you any right to continued employment with an SBC company. Terms of your employment are covered by your IBEW Agreement.

Transferability: During your lifetime, your options may be exercised only by you or your guardian or legal representative. If you die after September 2, 2002, your options may only be transferred pursuant to a will or the laws of descent and distribution, as applicable. After you die, your options may be exercised only by the then owner (including, but not limited to, the executor or administrator of your estate) or the holder's guardian or legal representative. The new holder of your options will have 90 days after your death to exercise your options or until September 1, 2006, whichever occurs first. All other terms of your options will apply to the new holder.

When options have been transferred, SBC or its designated agent may require appropriate documentation that the person exercising the option has the right to exercise the option.

About SBC

SBC files annual, quarterly, and other reports and proxy statements with the Securities and Exchange Commission (***"SEC"***). This information, which is specifically identified in the registration statement filed with the SEC to register the SBC Stock to be offered under this grant, is incorporated in this prospectus by reference. Any information SBC files with the SEC after the date of the filing of the registration statement will automatically update and supersede this information.

SBC has registered 20,000,000 shares of SBC Stock with the SEC for issuance under the 2001 Stock Option Grant to Bargained-for and Certain Other Employees.

SBC will furnish without charge, upon written or oral request, a copy of these documents as well as exhibits specifically incorporated by reference in those documents. SBC will also provide a copy of the most recent annual report to shareowners upon request. Requests for copies should be directed to External Reporting, 175 E. Houston, 9th Floor, San Antonio, Texas 78205, telephone number 210-351-3049 (please do not call this number for questions about your options).

If You Have Questions

Please read this notice carefully. It contains all of the information you need regarding your stock options.

Further details about exercising your options will be provided at a later date, but prior to September 3, 2002 (the first date your options may be exercised).

Please read this notice carefully. Additional information about exercising options and who to contact with any questions will be distributed prior to September 3, 2002 (the first date your options may be exercised).

PROSPECTUS and GRANT NOTICE SUPPLEMENT This document constitutes part of a prospectus covering securities that have been registered under the Securities Act of 1933.

December 1, 2001

SBC 2001 Stock Option Grant to Bargained-for and Certain Other Employees

Employees Promoted to Management Before September 4, 2001

This document supplements and should be used with the base prospectus dated December 1, 2001. Capitalized terms used in this document are defined in the base prospectus.

As described in the Stock Option Grant Notice prospectus dated December 1, 2001, employees whose job title was subject to the IBEW Agreement as of September 4, 2001, and who met certain other criteria, were granted SBC stock options.

Employees who were not eligible for that grant because they were promoted after January 26, 2001, but met eligibility criteria described in this prospectus supplement, also received the same grant of stock options as follows:

Full-time employees were granted 150 options to purchase SBC Stock, and part-time employees were granted 75 options. *The stock options are subject to all of the same terms and conditions described in the base prospectus.*

You should keep this document for future reference.

Eligibility

You were eligible to receive SBC stock options under the 2001 Stock Option Grant to Bargained-for and Certain Other Employees if you met ***all*** of the following criteria:

- as of January 26, 2001, you held a job title that is subject to the IBEW Agreement, or you held a job title to which the compensation provisions of that Agreement were extended, or you were on an approved leave of absence from the foregoing, ***and***
- as of January 26, 2001, you were a Full-Time or Part-Time Employee (as those terms are used in the IBEW Agreement), ***and***
- you were an employee of a direct or indirect wholly-owned subsidiary of SBC from January 26, 2001, through September 4, 2001, and held a management position on any date from August 3, 2001, through September 4, 2001, that would have been eligible to receive options from the January 26, 2001, grant to managers, ***and***
- you were not granted options on January 26, 2001 (the date of the management grant), or pursuant to any other grant under the 2001 Stock Option Grant to Bargained-for and Certain Other Employees.

Type of Employee	Number of Options	Grant Price (Per Share)	Grant Date	First Day to Exercise (vesting date) (1)	L (
Full-Time	150				
Part-Time	75	$42.00	September 4, 2001	September 3, 2002	

(1) If your employment is terminated (because you die, retire, quit, or are no longer employed for any other reason) **before** this date, you will lose (forfeit) your options.

(2) If your employment is terminated (because you die, retire, quit, or are no longer employed for any other reason) on or after Sept. 3, 2002, but ***on or before Sept. 1, 2006,*** options may be exercised for no more than 90 days after the termination date ***(but under no circumstances may any options be exercised after Sept. 1, 2006).***

See section entitled "When Options May Not Be Exercised," on page 2 of the base prospectus.

Please read this notice carefully. Additional information about exercising options and who to contact with any questions will be distributed prior to April 1, 2002 (the first date your options may be exercised).

PROSPECTUS and SUPPLEMENT This document constitutes part of a prospectus covering securities that have been registered under the Securities Act of 1933.

January 8, 2002

<u>SBC Stock Option Grant Notice</u>
2001 Stock Option Grant to Bargained-for and Certain Other Employees

Employees Promoted to Management Before December 31, 2001

This document supplements and should be used with the base prospectus dated January 8, 2002. Capitalized terms used in this document are defined in the base prospectus.

As described in the Stock Option Grant Notice prospectus dated January 8, 2002, employees whose job title was subject to the CWA Agreement as of December 31, 2001, and who met certain other criteria, were granted SBC stock options.

Employees who were not eligible for that grant because they were promoted after November 19, 2001, but met eligibility criteria described in this prospectus supplement, also received the same grant of stock options as follows:

Full-time employees were granted 150 options to purchase SBC Stock, and part-time employees were granted 75 options. *The stock options are subject to all of the same terms and conditions described in the base prospectus.*

You should keep this document for future reference.

Eligibility

You were eligible to receive SBC stock options under the 2001 Stock Option Grant to Bargained-for and Certain Other Employees if you met ***all*** of the following criteria:

- as of November 19, 2001, you held a job title that is subject to the CWA Agreement, or you held a job title to which the compensation provisions of that Agreement were extended, or you were on an approved leave of absence from the foregoing, ***and***
- as of November 19, 2001, you were a Full-Time or Part-Time Employee (as those terms are used in the CWA Agreement), ***and***
- you were an employee of a direct or indirect wholly-owned subsidiary of SBC from November 19, 2001, through December 31, 2001, and held a management position on any date from December 20, 2001, through December 31, 2001, that would have been eligible to receive options from the November 19, 2001, grant to managers, ***and***
- you were not granted options on November 19, 2001 (the date of the management grant), or pursuant to any other grant under the 2001 Stock Option Grant to Bargained-for and Certain Other Employees.

Type of Employee	Number of Options	Grant Price (Per Share)	Grant Date	First Day to Exer (vesting date)
Full-Time	150	$39.17	December 31, 2001	April 1, 200
Part-Time	75			

(1) If your employment is terminated (because you die, retire, quit, or are no longer employed for any other reason) **before** this date, you will lose (forfeit) your options.

(2) If your employment is terminated (because you die, retire, quit, or are no longer employed for any other reason) ***on or after April 1, 2002,*** but ***on or before March 31, 2006*** options may be exercised for no more than 90 days after the termination date ***(but under no circumstances may any options be exercised after March 31, 2006***

See section entitled “When Options May Not Be Exercised,” on page 2 of the base prospectus.

Please read this notice carefully. You will receive additional information about exercising your options and who to contact with any questions prior to April 1, 2002 (the first date your options may be exercised).

PROSPECTUS and SUPPLEMENT This document constitutes part of a prospectus covering securities that have been registered under the Securities Act of 1933.

December 1, 2001

SBC Stock Option Grant Notice Supplement
2001 Stock Option Grant to Bargained-for and Certain Other Employees

Employees Promoted to Management Before April 2, 2001

This document supplements and should be used with the base prospectus dated December 1, 2001. Capitalized terms used in this document are defined in the base prospectus.

As described in the Stock Option Grant Notice prospectus dated December 1, 2001, employees whose job title was subject to the CWA Agreements as of April 2, 2001, and who met certain other criteria, were granted SBC stock options.

Employees who were not eligible for that grant because they were promoted after January 26, 2001, but met eligibility criteria described in

this prospectus supplement, also received the same grant of stock options as follows:

Full-time employees were granted 150 options to purchase SBC Stock, and part-time employees were granted 75 options. *The stock options are subject to all of the same terms and conditions described in the base prospectus.*

You should keep this document for future reference.

Eligibility

You were eligible to receive SBC stock options under the 2001 Stock Option Grant to Bargained-for and Certain Other Employees if you met ***all*** of the following criteria:

- as of January 26, 2001, you held a job title that is subject to the CWA Agreements, or you held a job title to which the compensation provisions of those Agreements is extended, or you were on an approved leave of absence from the foregoing, ***and***
- as of January 26, 2001, you were a Full-Time or Part-Time Employee (as those terms are used in the CWA Agreements), ***and***
- you were an employee of a direct or indirect wholly-owned subsidiary of SBC from January 26, 2001, through April 2, 2001, and held a management position on any date from March 15, 2001 through April 2, 2001, that would have been eligible to receive options from the January 26, 2001, grant to managers, ***and***
- you were not granted options on January 26, 2001 (the date of the management grant).

Type of Employee	Number of Options	Grant Price (Per Share)	Grant Date	First Day to Exercise (vesting date) (1)	L
Full-Time	150		April 2, 2001	April 1, 2002	
Part-Time	75	$43.76			

(1) If your employment is terminated (because you die, retire, quit, or are no longer employed for any other reason) ***before*** this date, you will lose (forfeit) your options.

(2) If your employment is terminated (because you die, retire, quit, or are no longer employed for any other reason) ***on or after April 1, 2002,*** but ***on or before March 31, 2006*** options may be exercised for no more than 90 days after the termination date ***(but under no circumstances may any options be exercised after March 31, 2006***

See section entitled “When Options May Not Be Exercised,” on page 3 of the base prospectus.

SBC Communications Inc.

1995 MANAGEMENT STOCK OPTION PLAN

Plan Effective: January 1, 1996
Revisions Effective: November 16, 2001

SBC COMMUNICATIONS INC.
1995 MANAGEMENT STOCK OPTION PLAN

ARTICLE 1. PURPOSE, DEFINITIONS AND EFFECTIVE DATE

1.1 Purpose . The purpose of the 1995 Management Stock Option Plan (“Plan”) is to promote the success and enhance the value of SBC Communications Inc. (the “Company”) by linking the personal interests of the Employees of the Company and its Subsidiaries to the interests of the Company’s shareowners, and by providing Employees with an additional incentive for outstanding performance.

1.2 Additional Definitions. In addition to definitions set forth elsewhere in the Plan, for purposes of the Plan:

(a) "Cause" shall mean willful and gross misconduct on the part of a Participant that is materially and demonstrably detrimental to the Company or any Subsidiary as determined by the Company in its sole discretion.

(b) "Disability" shall mean absence of an Employee from work under the relevant Company or Subsidiary disability plan.

(c) "Employee" shall mean any employee of the Company or of one of the Company's Subsidiaries. Directors who are not otherwise employed by the Company or one of its Subsidiaries shall not be considered Employees under the Plan.

(d) "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended, or any successor Act thereto.

(e) "Fair Market Value" shall mean the closing price on the New York Stock Exchange ("NYSE") for Shares on the relevant date, or if such date was not a trading day, the next preceding trading date, all as determined by the Company. A trading day is any day that the Shares are traded on the NYSE. In lieu of the foregoing, the Committee may select any other index or measurement to determine the Fair Market Value of Shares under the Plan.

(f) "Option" shall mean the right to purchase one or more shares of the common stock of SBC Communications Inc. on the terms and conditions contained in this Plan, the rules of the Committee, and the terms of the Option. "Awards" shall mean Options.

(g) "Participant" shall mean an Employee or former Employee that participates in this Plan.

(h) "Retirement" shall mean the termination of a Participant's employment with the Company or one of its Subsidiaries, for reasons other than death, Disability or for Cause, on or after the date Participant has attained one of the following combinations of age and service at termination of employment on or after April 1, 1997, except as otherwise indicated below:

Net Credited Service	Age
10 Years of more	65 or older
20 Years of more	55 or older
25 Years of more	50 or older
30 Years of more	Any age

With respect to a Participant who is granted an EMP Service Pension under and pursuant to the provisions of the SBC Pension Benefit Plan - Nonbargained Program upon termination of employment, the term “Retirement” shall include such Participant’s termination of employment.

In determining whether a Participant’s Termination of Employment under the Enhanced Pension and Retirement Program (“EPR”) is a Retirement as defined above, 5 years shall be added to each of Age and Net Credited Service.

(i) "Rotational Work Assignment Company"("RWAC") shall mean any entity with which SBC Communications Inc. or any of its Subsidiaries may enter into an agreement to provide an employee for a rotational work assignment.

(j) "Shares" or "Stock" or "Shares of Stock" shall mean the common stock of SBC Communications Inc.

(k) "Subsidiary" shall mean any corporation in which the Company owns directly, or indirectly through subsidiaries, more than fifty percent (50%) of the total combined voting power of all classes of Stock, or any other entity (including, but not limited to, partnerships and joint ventures) in which the Company owns more than fifty percent (50%) of the combined equity thereof.

1.3 Effective Date. The Plan shall be effective on the date it is approved by the Company's Board of Directors.

ARTICLE 2. ADMINISTRATION

2.1 The Committee. The Plan shall be administered by a committee (the "Committee") which shall be the Human Resources Committee or any other committee appointed by the Board of Directors (the "Board").

2.2 Authority of the Committee. The Committee shall have full power, except as limited by law and subject to the provisions herein, in its sole and exclusive discretion: to grant Awards; to select the recipients of Awards; to determine the eligibility of a person to participate in the Plan or to receive a particular Award; to determine the sizes and types of Awards; to determine the terms and conditions of such Awards in a manner consistent with the Plan; to construe and interpret the Plan and any agreement or instrument entered into under the Plan; to establish, amend, or waive rules and regulations for the Plan’s administration; and (subject to the provisions of Article 5 herein) to amend the terms and conditions of any outstanding Award to the extent such terms and conditions are within the discretion of the Committee as provided in the Plan. Further, the Committee shall make all other determinations in its discretion which may be necessary or advisable for the administration of the Plan.

References to determinations or other actions by the Company, herein, shall mean actions authorized by the Committee, the Chairman of the Board of the Company, the Senior Executive Vice President of the Company in charge of Human Resources or their respective successors or duly authorized delegates, in each case in the discretion of such person.

All determinations and decisions made by the Company pursuant to the provisions of the Plan, and all related orders and resolutions of the Board shall be final, conclusive, and binding on all persons, including the Company, its stockholders, Employees, Participants, and their estates and beneficiaries.

ARTICLE 3. SHARES SUBJECT TO THE PLAN

3.1 Number of Shares . Subject to adjustment as provided in Section 3.3 Adjustments in Authorized Shares , herein, the total number of Shares of Stock for which Options may be granted under the Plan may not exceed 160,000,000 Shares. These Shares may be either authorized but unissued or reacquired Shares. The Committee or the Board may amend this Plan to increase the number of authorized Shares.

3.2 Lapsed Options . If any Option granted under the Plan is canceled, terminates, expires, or lapses for any reason, any Shares subject to such Option again shall be available for the grant of an Option under the Plan.

3.2 Adjustments in Authorized Shares . In the event of a merger, reorganization, consolidation, recapitalization, separation, liquidation, stock dividend, stock split, share combination, or other change in the corporate structure of the Company affecting the Shares, such adjustment shall be made in the number and class of Shares which may be delivered under the Plan, and in the number and class of and/or price of Shares subject to outstanding Options granted under the Plan, as may be determined to be appropriate and equitable by the Committee, in its sole discretion, to prevent dilution or enlargement of rights; and provided that the number of Shares subject to any Option shall always be a whole number.

ARTICLE 4. STOCK OPTIONS

4.1 Grant of Options . Subject to the terms and provisions of the Plan, Options may be granted to such Employees, at such times and on such terms and conditions, as shall be determined by the Committee; provided, however, no Options may be granted after the 10th anniversary of the effective date of the Plan. The Committee or the Board shall have discretion in determining the number of Options and the number of Shares subject to each Option granted to each Participant. Without limiting the generality of the foregoing, the Committee shall have the authority to establish guidelines setting forth anticipated grant levels which correspond to various salary grades, salary ranges or the equivalent thereof.

4.2 Form of Issuance . Options may be issued in the form of a certificate or may be recorded on the books and records of the Company for the account of the Participant. If an Option is not issued in the form of a certificate, then the Option shall be deemed granted upon issuance of a notice of the grant addressed to the recipient. The terms and conditions of an Option shall be set forth in the certificate, in the notice of the issuance of the grant, or in such other documents as the Committee shall determine. The Committee may require a Participant to enter into a written agreement containing terms and conditions relating to the Option and its exercise.

4.3 Option Price . The Option Price for each grant of an Option shall be determined by the Committee; provided, however, that the minimum Option Price shall be one hundred percent (100%) of the Fair Market Value of a Share on the date the Option is granted. If the Committee does not specify an Option Price then the Option Price shall be the Fair Market Value of a Share on the date the Option is granted.

4.4 Duration of Options . Each Option shall expire at such time as the Committee shall determine at the time of grant provided, however, that no Option shall be exercisable later than the tenth (10th) anniversary date of its grant. In the event the Committee does not specify the expiration date of an Option, then such Option will expire on the tenth (10^{th}) anniversary date of its grant, except as otherwise provided herein. For options granted before June 29, 2001, the foregoing reference to "tenth (10^{th}) anniversary" shall be replaced with "fifth (5^{th}) anniversary".

4.5 Vesting of Options . Options shall vest at such times and under such terms and conditions as determined by the Committee provided, however, unless another vesting period is provided by the Committee at or before the grant of an Option, one-third of the Options will vest on each of the first three anniversaries of the grant; if one Option remains after equally dividing the grant by three, it will vest on the first anniversary of the grant, if two Options remain, then one will vest on each of the first two anniversaries. The Committee shall have the right to accelerate the vesting of any Option; however, the Chairman of the Board or the Senior Executive Vice President-Human Resources, or their respective successors, or such other persons designated by the Committee, shall have the authority to accelerate the vesting of Options for any Employee who is not at that time an officer, director or ten percent beneficial owner, as those terms are defined under Section 16 of the Exchange Act.

4.6 Exercise of Options. Options granted under the Plan shall be exercisable at such times and be subject to such restrictions and conditions as the Committee or the Board shall in each instance approve, which need not be the same for each grant or for each Participant. Exercises of Options may be effected only on days and during the hours that the New York Stock Exchange is open for regular trading. The Company may further change or limit the times or days Options may be exercised. If an Option expires on a day or at a time when exercises are not permitted, then the Options may be exercised no later than the immediately preceding date and time that the Options were exercisable.

Options shall be exercised by providing notice to the designated agent selected by the Company (if no such agent has been designated, then to the Company), in the manner and form determined by the Company, which notice shall be irrevocable, setting forth the exact number of Shares with respect to which the Option is being exercised and including with such notice payment of the Option Price. When Options have been transferred, the Company or its designated agent may require appropriate documentation that the person or persons exercising the Option, if other than the Participant, has the right to exercise the Option. No Option may be exercised with respect to a fraction of a Share.

4.7 Payment . The Option Price shall be paid in full at the time of exercise. No Shares shall be issued or transferred until full payment has been received therefor.

Payment may be made:

(a) in cash, or

(b) unless otherwise provided by the Committee at any time, and subject to such additional terms and conditions and/or modifications as the Committee or the Company may impose from time to time, and further subject to suspension or termination of this provision by the Committee or the Company at any time, by:

(i) delivery of Shares of Stock owned by the Participant in partial (if in partial payment, then together with cash) or full payment; provided, however, as a condition to paying any part of the Option Price in Stock, at the time of exercise of the Option, the Participant must establish to the satisfaction of the Company that the Stock tendered to the Company must have been held by the Participant for a minimum of six (6) months preceding the tender; or

(ii) if the Company has designated a stockbroker to act as the Company's agent to process Option exercises, issuance of an exercise notice to such stockbroker together with instructions irrevocably instructing the stockbroker: (A) to immediately sell (which shall include an exercise notice that becomes effective upon execution of a sell order) a sufficient portion of the Shares to pay the Option Price of the Options being exercised and the required tax withholding, and (B) to deliver on the settlement date the portion of the proceeds of the sale equal to the Option Price and tax withholding to the Company. In the event the stockbroker sells any Shares on behalf of a Participant, the stockbroker shall be acting solely as the agent of the Participant, and the Company disclaims any responsibility for the actions of the stockbroker in making any such sales. No Stock shall be issued until the settlement date and until the proceeds (equal to the Option Price and tax withholding) are paid to the Company.

If payment is made by the delivery of Shares of Stock, the value of the Shares delivered shall be equal to the Fair Market Value of the Shares on the day preceding the date of exercise of the Option.

Restricted Stock may not be used to pay the Option Price.

4.8 Termination of Employment. Unless otherwise provided by the Committee, the following limitations on exercise of Options shall apply upon termination of employment:

(a) Termination by Reason of Death or Disability . In the event the employment of a Participant is terminated by reason of death or Disability any outstanding Options granted to the Participant shall vest as of the date of termination of employment and may be exercised, if at all, no more than one (1) year following termination of employment, unless the Options, by their terms, expire earlier. For options granted on and after May 1, 1997, the above referenced exercise period of "one (1) year" shall be "three (3) years."

(b) Termination by Retirement. In the event the employment of a Participant is terminated by reason of Retirement:

(i) Upon the Participant's termination of employment, all outstanding unvested Options granted to the Participant shall vest as of the date of the Participant's termination of employment; provided, however, this provision shall not apply to a Participant who, as determined by SBC, is an officer level employee for compensation purposes unless the employee is age 55 or older at termination of employment, nor shall this provision apply to a Participant who is an EPR Terminee (as that term is defined in the SBC Pension Benefit Plan or the Ameritech Management Pension Plan); provided further, however, this vesting provision shall not apply to an Option granted prior to September 28, 2001, unless and except for those Options outstanding as of September 27, 2001, that have an Option Price equal to or more than the Fair Market Value of Stock on such date; and

(ii) Any outstanding Options granted to the Participant which are vested as of the date of termination of employment may be exercised, if at all, no more than three (3) years following termination of employment, unless the Options, by their terms, expire earlier. For options granted on and after May 1, 1997, the above referenced exercise period of “three (3) years” shall be “five (5) years.” If the Participant is Retirement eligible at the time the Participant terminates employment by reason of death or disability (as defined above) after March 31, 2000, then for purposes of this section, the Participant shall be deemed to have terminated employment by reason of Retirement.

(c) Termination of Employment for Other Reasons. If the employment of a Participant shall terminate for any reason other than the reasons set forth in (a) or (b), above, and other than for Cause, all outstanding Options granted to the Participant which are vested as of the date of termination of employment may be exercised by the Participant within the period beginning on the effective date of termination of employment and ending three (3) months after such date, unless the Options, by their terms, expire earlier. For options granted on and after May 1, 1997 but before January 26, 2001, the above referenced exercise period of "three (3) months" shall be "one (1) year."

(d) Termination for Cause. If the employment of a Participant shall terminate for Cause, all outstanding Options held by the Participant shall immediately terminate and be forfeited to the Company, and no additional exercise period shall be allowed.

(e) Options not Vested at Termination. Any outstanding Options not vested as of the effective date of termination of employment shall expire immediately and shall be forfeited to the Company.

4.9 Transfers . For purposes of the Plan, transfer of employment of a Participant between the Company and any one of its Subsidiaries (or between Subsidiaries) or between the Company or a Subsidiary and a RWAC, to the extent the term of employment at a RWAC is equal to or less than five (5) years, shall not be deemed a termination of employment under this Plan. Provided, however termination of employment with a RWAC without a concurrent transfer to the Company or any of its Subsidiaries shall be deemed a termination of

employment as that term is used in this Plan. Similarly, termination of an entity's status as a Subsidiary or as a RWAC shall be deemed a termination of employment of any Participants employed by such Subsidiary or RWAC.

4.10 Restrictions on Exercise and Transfer of Options. Unless otherwise provided by the Committee;

(a) During the Participant's lifetime, the Participant's Options shall be exercisable only by the Participant or by the Participant's guardian or legal representative. After the death of the Participant, except as otherwise provided by the Company's Rules for Employee Beneficiary Designations, as the same may be amended from time to time, an Option shall only be exercised by the holder thereof (including, but not limited to, an executor or administrator of a decedent's estate) or his or her guardian or legal representative.

(b) No Option shall be transferable except: (a) in the case of the Participant, only upon the Participant's death and in accordance with the Company's Rules for Employee Beneficiary Designations, as the same may be amended from time to time; and (b) in the case of any holder after the Participant's death, only by will or by the laws of descent and distribution.

4.11 Change in Control . Upon the occurrence of a Change in Control, unless otherwise determined by the Committee or the Board prior to such Change in Control, all Options held by Participants hereunder shall immediately become vested and exercisable, notwithstanding the provisions of Section 4.6 Exercise of Options to the contrary. A "Change in Control" shall be deemed to have occurred if (i) any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act), other than a trustee or other fiduciary holding securities under an employee benefit plan of the Company or a corporation owned directly or indirectly by the shareowners of the Company in substantially the same proportions as their ownership of stock of the Company, is or becomes the "beneficial owner" (as defined in Rule 13d-3 under said Act), directly or indirectly, of securities of the Company representing twenty percent (20%) or more of the total voting power represented by the Company's then outstanding voting securities, or (ii) during any period of two (2) consecutive years, individuals who at the beginning of such period constitute the Board of Directors of the Company and any new Director whose election by the Board of Directors or nomination for election by the Company's shareowners was approved by a vote of at least two-thirds (2/3) of the Directors then still in office who either were Directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority thereof, or (iii) the shareowners of the Company approve a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least eighty percent (80%) of the total voting power represented by the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation, or the shareowners of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all the Company's assets.

4.12 Competition and Solicitation. In the event a Participant directly or indirectly, engages in competitive activity, or has become associated with, employed by, controls, or renders service to any business that is engaged in competitive activity, with (i) the Company, (ii) any Subsidiary, or (iii) any business in which any of the foregoing have a substantial interest, or if the Participant attempts, directly or indirectly, to induce any employee of the Company or a Subsidiary to be employed or perform services elsewhere without the permission of the Company, then the Company may (i) cancel any Option granted to such Participant, whether or not vested, in whole or in part; and/or (ii) rescind any exercise of the Participant's Options that occurred on or after that date six months prior to engaging in such activity, in which case the Participant shall pay the Company the gain realized or received upon such exercise of Options. "Has become associated with" shall include, among other things, beneficial ownership of 1/10 of 1% or more of a business engaged in competitive activity. The determination of whether a Participant has engaged in any such activity and whether to cancel Options and/or rescind the exercise of Options shall be made by SBC, and in each case such determination shall be final, conclusive and binding on all persons.

ARTICLE 5. AMENDMENT, MODIFICATION, AND TERMINATION

5.1 Amendment, Modification, and Termination. The Committee or the Board, may at any time and from time to time, terminate, amend, or modify the Plan.

5.2 Awards Previously Granted . No termination, amendment, or modification of the Plan shall in any material manner adversely affect any Option previously granted under the Plan, without the written consent of the Participant holding such Option.

ARTICLE 6. WITHHOLDING

6.1 Tax Withholding . Upon exercise of an Option, the Company shall withhold Shares sufficient in value, using the Fair Market Value on the date determined by the Company to be used to value the Shares for tax purposes, to satisfy the minimum amount of Federal, state, and local taxes required by law to be withheld as a result of such exercise.

Any fractional share of Stock payable to a Participant shall be withheld as additional Federal withholding, or, at the option of the Company, paid in cash to the Participant.

Unless otherwise determined by the Committee, when the method of payment for the Option Price is from the sale by a stockbroker pursuant to Section 4.7(b)(ii), hereof, of the Stock acquired through the Option exercise, then the tax withholding shall be satisfied out of the proceeds. For administrative purposes in determining the amount of taxes due, the sale price of such Stock shall be deemed to be the Fair Market Value of the Stock.

ARTICLE 7. MISCELLANEOUS

7.1 Employment . Nothing in the Plan shall interfere with or limit in any way the right of the Company or any Subsidiary thereof to terminate any Participant's employment at any time, nor confer upon any Participant any right to continue in the employment of the Company or any Subsidiary thereof.

7.2 Participation . No Employee shall have the right to be selected to receive an Option under the Plan, or, having been so selected, to be selected to receive a future Option.

7.3 Successors . All obligations of the Company under the Plan shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business and/or assets of the Company.

7.4 Governing Law . To the extent not preempted by Federal law, the Plan, and all awards and agreements hereunder, and any and all disputes in connection therewith, shall be governed by and construed in accordance with the substantive laws of the State of Texas, without regard to conflict or choice of law principles which might otherwise refer the construction, interpretation or enforceability of this Plan to the substantive law of another jurisdiction.

Because awards under the Plan are granted in Texas, records relating to the Plan and awards thereunder are located in Texas, and the Plan and awards thereunder are administered in Texas, the Company and the Participant to whom an award under this Plan is granted, for themselves and their successors and assigns, irrevocably submit to the exclusive and sole jurisdiction and venue of the state or federal courts of Texas with respect to any and all disputes arising out of or relating to this Plan, the subject matter of this Plan or any awards under this Plan, including but not limited to any disputes arising out of or relating to the interpretation and enforceability of any awards or the terms and conditions of this Plan. To achieve certainty regarding the appropriate forum in which to prosecute and defend actions arising out of or relating to this Plan, and to ensure consistency in application and interpretation of the Governing Law to the Plan, the parties agree that (a) sole and exclusive appropriate venue for any such action shall be an appropriate federal or state court in Bexar County, Texas, and no other, (b) all claims with respect to any such action shall be heard and determined exclusively in such Texas court, and no other, (c) such Texas court shall have sole and exclusive jurisdiction over the person of such parties and over the subject matter of any dispute relating hereto and (d) that the parties waive any and all objections and defenses to bringing any such action before such Texas court, including but not limited to those relating to lack of personal jurisdiction, improper venue or *forum non conveniens* .

7.5 Gender and Number. Except where otherwise indicated by the context, any masculine term used herein also shall include the feminine; the plural shall include the singular and the singular shall include the plural.

7.6 Severability. In the event any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

7.7 Requirements of Law. The granting of Awards and the issuance of Shares under the Plan shall be subject to all applicable laws, rules, and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

7.8 Errors. At any time SBC may correct any error made under the Plan without prejudice to SBC. Such corrections may include, among other things, changing or revoking an issuance of an Award.

7.9 Elections and Notices. Notwithstanding anything to the contrary contained in this Plan, all elections and notices of every kind shall be made on forms prepared by SBC or the General Counsel, Secretary or Assistant Secretary, or their respective delegates or shall be made in such other manner as permitted or required by SBC or the General Counsel, Secretary or Assistant Secretary, or their respective delegates, including through electronic means, over the Internet or otherwise. An election shall be deemed made when received by SBC (or its designated agent, but only in cases where the designated agent has been appointed for the purpose of receiving such election), which may waive any defects in form. SBC may limit the time an election may be made in advance of any deadline.

Where any notice or filing required or permitted to be given to SBC under the Plan, it shall be delivered to the principal office of SBC, directed to the attention of the Senior Executive Vice President-Human Resources of SBC or his or her successor. Such notice shall be deemed given on the date of delivery.

Notice to the Participant shall be deemed given when mailed (or sent by telecopy) to the Participant's work or home address as shown on the records of SBC or, at the option of SBC, to the Participant's e-mail address as shown on the records of SBC. It is the Participant's responsibility to ensure that the Participant's addresses are kept up to date on the records of SBC. In the case of notices affecting multiple Participants, the notices may be given by general distribution at the Participants' work locations.

Exhibit 12

SBC COMMUNICATIONS INC.
COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES
Dollars in Millions

	2002	2001	2000	1999	1998
Income Before Income Taxes, Extraordinary Loss and Cumulative Effect of Accounting Changes*	**$ 8,871**	$ 10,223	$ 12,095	$ 10,382	$ 11,859
Add: Interest Expense	**1,382**	1,599	1,592	1,430	1,605
Dividends on Preferred Securities	**10**	57	118	118	114
1/3 Rental Expense	**195**	266	252	236	228
Adjusted Earnings	**$ 10,458**	$ 12,145	$ 14,057	$ 12,166	$ 13,806
Total Interest Charges	**$ 1,440**	$ 1,718	$ 1,693	$ 1,511	$ 1,691
Dividends on Preferred Securities	**10**	57	118	118	114
1/3 Rental Expense	**195**	266	252	236	228
Adjusted Fixed Charges	**$ 1,645**	$ 2,041	$ 2,063	$ 1,865	$ 2,033
Ratio of Earnings to Fixed Charges	**6.36**	5.95	6.81	6.52	6.79

*Undistributed earnings on investments accounted for under the equity method have been excluded. The 2001 and 2000 results have been restated for our adoption of the fair value recognition provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (FAS 123) as amended by Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure" (FAS 148). The years 1999 and 1998 were not restated for our adoption of FAS 148, as allowed by the standard.

Selected Financial and Operating Data

Dollars in millions except per share amounts At December 31 or for the year ended:	2002	2001	2000	1999	1998
Financial Data [1]					
Operating revenues	**$ 43,138**	$ 45,908	$ 51,374	$ 49,531	$ 46,241
Operating expenses	**$ 34,515**	$ 35,400	$ 40,904	$ 37,933	$ 35,018
Operating income	**$ 8,623**	$ 10,508	$ 10,470	$ 11,598	$ 11,223
Interest expense	**$ 1,382**	$ 1,599	$ 1,592	$ 1,430	$ 1,605
Equity in net income of affiliates	**$ 1,921**	$ 1,595	$ 897	$ 912	$ 613
Other income (expense) - net	**$ 734**	$ (208)	$ 2,562	$ (354)	$ 1,702
Income taxes	**$ 2,984**	$ 3,952	$ 4,816	$ 4,280	$ 4,380
Income before extraordinary items and cumulative effect of accounting change	**$ 7,473**	$ 7,026	$ 7,800	$ 6,573	$ 7,735
Net income [2]	**$ 5,653**	$ 7,008	$ 7,800	$ 8,159	$ 7,690
Earnings per common share:					
Income before extraordinary items and cumulative effect of accounting change	**$ 2.24**	$ 2.09	$ 2.30	$ 1.93	$ 2.27
Net income [2]	**$ 1.70**	$ 2.08	$ 2.30	$ 2.39	$ 2.26
Earnings per common share - assuming dilution:					
Income before extraordinary items and cumulative effect of accounting change	**$ 2.23**	$ 2.07	$ 2.27	$ 1.90	$ 2.24
Net income [2]	**$ 1.69**	$ 2.07	$ 2.27	$ 2.36	$ 2.23
Total assets	**$ 95,057**	$ 96,322	$ 98,651	$ 83,215	$ 74,966
Long-term debt	**$ 18,536**	$ 17,133	$ 15,492	$ 17,475	$ 17,170
Construction and capital expenditures	**$ 6,808**	$ 11,189	$ 13,124	$ 10,304	$ 8,882
Dividends declared per common share [3]	**$ 1.08**	$ 1.025	$ 1.015	$ 0.975	$ 0.935
Book value per common share	**$ 10.01**	$ 9.82	$ 9.09	$ 7.87	$ 6.69
Ratio of earnings to fixed charges	**6.36**	5.95	6.81	6.52	6.79
Debt ratio	**39.9%**	44.3%	45.0%	42.9%	47.3%
Weighted average common shares outstanding (000,000)	**3,330**	3,366	3,392	3,409	3,406
Weighted average common shares outstanding with dilution (000,000)	**3,348**	3,396	3,433	3,458	3,450
End of period common shares outstanding (000,000)	**3,318**	3,354	3,386	3,395	3,406
Operating Data					
Network access lines in service (000)	**57,083**	59,532	61,250	60,697	58,980
Access minutes of use (000,000)	**269,440**	283,164	281,581	264,010	247,597
Wireless customers (000) - Cingular/SBC [4]	**21,925**	21,596	19,681	11,151	8,686
Number of employees	**175,980**	193,420	220,090	204,530	200,380

1 Amounts in the above table have been prepared in accordance with accounting principles generally accepted in the United States. The 2001 and 2000 results have been restated for our adoption of the fair value recognition provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (FAS 123) as amended by Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure" (FAS 148). This adoption reduced our 2002 net income $261, or $0.08 per share assuming dilution, 2001 net income $234, or $0.06 per share assuming dilution, and 2000 net income $167, or $0.05 per share assuming dilution. The years 1999 and 1998 were not restated for our adoption of FAS 148, as allowed by the standard; however, had our results for 1999 and 1998 been restated, net income for 1999 would have been reduced by $189, or $0.05 per share assuming dilution, and 1998 net income would have been reduced by $153, or $0.04 per share assuming dilution.

2 Amounts include the following extraordinary items and cumulative effect of accounting change: 2002, charges related to the January 1, 2002 adoption of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets"; 2001, loss related to the early extinguishment of our corporation-obligated mandatorily redeemable preferred securities of subsidiary trusts; 1999, gain on the sale of overlapping cellular properties and change in directory accounting at Ameritech; 1998, early retirement of debt and change in directory accounting at SNET.

3 Dividends declared by SBC's Board of Directors; these amounts do not include dividends declared and paid by Ameritech in 1999 or 1998 or SNET in 1998 prior to their respective mergers.

4 All periods exclude customers from the overlapping Ameritech wireless properties sold in 1999. Beginning in 2000, the number presented is the total customers served by Cingular Wireless, in which we own a 60% equity interest.

Management's Discussion and Analysis of Financial Condition and Results of Operations
Dollars in millions except per share amounts

Throughout this document, SBC Communications Inc. is referred to as "we" or "SBC". We are a holding company whose subsidiaries and affiliates operate in the communications services industry. Our subsidiaries and affiliates provide wireline and wireless telecommunications services and equipment and directory advertising services both domestically and worldwide.

You should read this discussion in conjunction with the consolidated financial statements and the accompanying notes. A reference to a Note in this section refers to the accompanying Notes to the Consolidated Financial Statements.

Results of Operation

Consolidated Results Our financial results are summarized in the table below. We then discuss factors affecting our overall results for the past three years. These factors are discussed in more detail in our segment results. We also discuss our expected revenue and expense trends for 2003 in the "Operating Environment and Trends of the Business" section.

				Percent Change	
	2002	2001	2000	**2002 vs. 2001**	2001 vs. 2000
Operating revenues	**$ 43,138**	$ 45,908	$ 51,374	**(6.0)%**	(10.6)%
Operating expenses	**34,515**	35,400	40,904	**(2.5)**	(13.5)
Operating income	**8,623**	10,508	10,470	**(17.9)**	0.4
Income before income taxes	**10,457**	10,978	12,616	**(4.7)**	(13.0)
Income before extraordinary items and cumulative effect of accounting change	**7,473**	7,026	7,800	**6.4**	(9.9)
Extraordinary items [1]	**-**	(18)	-	**-**	-
Cumulative effect of accounting change [2]	**(1,820)**	-	-	**-**	-
Net income	**5,653**	7,008	7,800	**(19.3)**	(10.2)
Diluted earnings per share	**1.69**	2.07	2.27	**(18.4)**	(8.8)

1 2001 includes an extraordinary loss related to the early redemption of $1,000 of our corporation-obligated mandatorily redeemable preferred securities of subsidiary trusts (TOPrS).

2 2002 includes a cumulative effect of accounting change related to the adoption of a new accounting standard, Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" (FAS 142).

Accounting Changes Prior to January 1, 2002, we accounted for stock options for senior and other management and nonmanagement employees and nonemployee directors using the intrinsic value-based method of accounting as allowed by Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (FAS 123). Using this method meant that in our previously reported results, no compensation cost was recognized in our Consolidated Statements of Income when options were issued with exercise prices at or above market value on the date of issuance. Effective January 1, 2002, we adopted the fair value recognition provisions of FAS 123. Under the retroactive restatement method of adoption we selected in accordance with the provisions of Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure" (FAS 148), our 2001 and 2000 results have been restated to reflect the compensation costs that would have been recognized had the recognition provisions of FAS 123 been applied to all awards granted to employees after January 1, 1995. The adoption of FAS 123 as amended by FAS 148 reduced our 2002 net income $261, or $0.08 per share assuming dilution, 2001 net income $234, or $0.06 per share assuming dilution, and 2000 net income $167, or $0.05 per share assuming dilution. Compensation costs of $390, $380 and $273 for 2002, 2001 and 2000 were charged to operating expense for our stock option plans. As permitted by FAS 148, we did not restate 1999 or 1998. (See Note 12)

The years 2001 and 2000 included amortization expense related to goodwill and Federal Communications Commission (FCC) wireless licenses now owned by Cingular Wireless (Cingular). Beginning in 2002, goodwill and these wireless licenses are no longer being amortized under FAS 142. If FAS 142 had been in effect during 2001 and 2000, operating expenses would have decreased approximately $209 in 2001, and $322 in 2000, equity in net income of affiliates would have increased approximately $354 in 2001, and $251 in 2000, and net income would have increased approximately $459, or $0.13 per share, in 2001, and $445, or $0.13 per share, in 2000. See the "Cumulative Effect of Accounting Change" section for a discussion of this accounting change.

Overview Our operating income declined in 2002 due primarily to the loss of revenues from retail access lines caused by providing below-cost Unbundled Network Element-Platform (UNE-P) wholesale lines, which was greater than the expense reductions in response to UNE-P, the weak U.S. economy, and increased competition, including technology substitution. Increased expenses in 2002 from special items, discussed under "Segment Results" below, also contributed to the operating income decline in 2002. Our income before income taxes declined in 2002, but the decline was less than the decline in operating income due to increased gains on sales of international investments in 2002. In addition, a lower effective tax rate and a decline in our weighted average common shares outstanding favorably affected our diluted earnings per share in 2002, but we do not expect this trend to continue in 2003.

Our operating income was basically flat in 2001 as compared to 2000. Increased revenues from data communications and long-distance products and services were mostly offset by declines in equipment revenues and increased costs associated with the rollout of these products and services. The contribution of our wireless properties to Cingular, our joint venture with BellSouth Corporation (BellSouth), contributed to the declines in revenues, expenses and operating income in 2001. However, decreased expenses in 2001 from special items, discussed under "Segment Results" below, partially offset the decline in operating income in 2001. Our income before income taxes declined in 2001 due to greater gains on sales of international investments in 2000. In addition, a lower effective tax rate and a decline in our weighted average common shares outstanding favorably affected our diluted earnings per share in 2001.

Operating revenues Our operating revenues decreased $2,770, or 6.0%, in 2002 and $5,466, or 10.6%, in 2001. The decline in 2002 was primarily due to a significant increase in retail access lines lost to UNE-P wholesale lines, the weak U.S. economy and increased competition including technology substitution. UNE-P requires us to sell our lines and the end-to-end services provided over those lines to competitors at below cost while still absorbing the costs of deploying, provisioning, maintaining and repairing those lines. See "Regulatory Developments" for further discussion of UNE-P. Operating revenues decreased in 2001 approximately $5,900, primarily due to the contribution of our wireless properties to Cingular. This contribution changed the way we record Cingular's revenues and expenses in our reported income; we now include Cingular's results under equity in net income of affiliates rather than under operating results (see Note 6). Partially offsetting the decreased revenues in 2001, our wireline segment data revenues increased $1,450, primarily related to growth in our high-capacity data transport services. In addition, sales of our Ameritech Corporation (Ameritech) security monitoring and cable operations decreased operating revenues approximately $199 in 2002 and $480 in 2001.

Operating expenses Our operating expenses decreased $885, or 2.5%, in 2002 and $5,504, or 13.5%, in 2001. Operating expenses decreased in 2002 due to the decline in our wireline work force (down over 15,000 employees from 2001) and a lower volume of equipment sales; these largely occurred in the wireline segment and are discussed in that segment's results. 2002 operating expenses also decreased due to our adoption of FAS 142, whereby we stopped amortizing goodwill, and is discussed in Note 1. Operating expenses decreased in 2001 approximately $3,800, primarily due to the contribution of our wireless properties to Cingular in the fourth quarter of 2000. In addition, the sale of our Ameritech security monitoring and cable operations reduced operating expenses approximately $231 in 2002 and $579 in 2001. As discussed below, the decreases in 2002 were mostly offset by combined charges of $872 for enhanced pension benefits, lower pension settlement gains, severance costs and real estate costs related to work force-reduction programs as well as by a significant decline in our combined net pension and postretirement benefit.

Combined Net Pension and Postretirement Benefit Reported operating expenses include our combined net pension and postretirement benefit of $82, $436 and $134 in 2002, 2001 and 2000. A decrease in our combined net pension and postretirement benefit causes our net operating expense to increase. The decrease of approximately $354 in 2002 was primarily due to a decreased asset base of our employee pension and postretirement benefit plans from net investment losses and previous recognition of pension settlement gains (discussed below) reducing the amount of unrealized gains recognized in 2002. In addition, the reduction in the discount rate used to calculate 2002 service cost and interest cost from 7.75% to 7.5% caused our combined net pension and postretirement benefit to decrease approximately $58. Also, increased medical and prescription drug claim costs contributed approximately $80 to the decrease in our combined net benefit in 2002. See Note 10 for further detail of our actuarial estimates of pension and postretirement benefit expense and actuarial assumptions.

Early Retirement Offers Reported operating expenses also include expenses for enhanced pension and postretirement benefits of approximately $486, $173 and $1,175 in 2002, 2001 and 2000 in connection with voluntary enhanced retirement programs offered to certain management and nonmanagement employees as part of work force-reduction programs.

Pension Settlement Gains/Losses Under U.S. generally accepted accounting principles (GAAP), on a plan-by-plan basis, if lump sum benefit payments made to employees upon termination or retirement exceed required thresholds, we recognize a portion of previously unrecognized pension gains or losses attributable to that plan's assets and liabilities. Until 2002, we had an unrecognized net gain, primarily because our actual investment returns exceeded our expected investment returns. During 2002, 2001 and 2000, we made lump sum benefit payments in excess of the GAAP thresholds, resulting in the recognition of net gains, referred to as "pension settlement gains". Due to U.S. securities market conditions, our plans experienced investment losses during 2002 and 2001 resulting in a decline in pension assets. We recognized net pension settlement gains of approximately $29, $1,363 and $2,172 in 2002, 2001 and 2000. Net settlement gains in 2002 include settlement losses during the latter part of the year, reflecting the continued investment losses sustained by the plan. Settlement gains for 2001 were primarily related to a voluntary enhanced pension and retirement program implemented in October 2000. We anticipate that additional lump sum pension payments will be made in early 2003 in connection with our planned work force-reductions. We cannot estimate at this time whether these payments will result in the recognition of settlement losses in 2003.

Medical Cost Controls As a result of the 2002 decrease in our combined net pension and postretirement benefit and the net cost expected in 2003 discussed below in "Operating Environment and Trends of the Business", we have taken steps to implement additional cost controls. To reduce the increased medical costs mentioned above, in mid-2002, we implemented cost-saving design changes in our management medical and dental plans including increased participant contributions for medical and dental coverage and increased prescription drug co-payments effective beginning in January 2003. These changes reduced our postretirement cost approximately $96 in 2002. In 2003, we expect cost savings of approximately $194 from these design changes.

Interest expense decreased $217, or 13.6%, in 2002 and increased $7, or 0.4%, in 2001. The 2002 decrease was due to lower composite rates, a lower outstanding balance of commercial paper and the 2001 netting of our payable with our receivables from Cingular. The 2001 increase was due to interest expense on debt issued to redeem the TOPrS, the interest on which was reported as other income (expense) - net; higher commercial paper borrowings that were offset by lower composite rates; and the reversal of an accrual of approximately $23 related to items resolved by June 2001 Illinois legislation. Prior to the fourth quarter of 2000, we recorded interest expense on notes payable with our wireless properties that was eliminated in the consolidation process. For the operations contributed to Cingular this interest expense was no longer eliminated. This did not have a material impact on our net income as the interest expense was mostly offset when we recorded our share of equity income in Cingular. The interest accrued in 2001 on these payables of approximately $2,500 increased interest expense in 2001 and subsequently contributed to the decrease in 2002. By agreement, these payables were netted with our notes receivable from Cingular late in the second quarter of 2001.

Interest income decreased $121, or 17.7%, in 2002 and increased $403 in 2001. These fluctuations were primarily due to our 2000 contribution of substantially all of our wireless properties to the Cingular joint venture. Prior to the fourth quarter of 2000, we recorded interest income on notes receivable with our wireless properties that was eliminated in the consolidation process. For operations contributed to Cingular, this interest income is no longer eliminated. However, this does not have a material impact on our net income because the interest income is mostly offset when we record our share of equity income in Cingular. The 2001 increase was primarily due to the income accrued from Cingular, prior to our 2001 netting agreement discussed above, which subsequently resulted in the decrease in 2002.

Equity in net income of affiliates increased $326, or 20.4%, in 2002 and $698, or 77.8%, in 2001. The 2002 increase was primarily due to income from our international holdings. Income increased approximately $371 from our proportionate share of the gains at TDC A/S (TDC) and Belgacom S.A. (Belgacom) related to the disposition of their Netherlands wireless operations. Also contributing to the 2002 increase was the prior-year charge of approximately $197 related to TDC's decision to discontinue nonwireless operations of its Talkline subsidiary and our impairment of goodwill we allocated to Talkline at the time of our initial investment in TDC. This increase was partially offset by a charge of approximately $58 related to TDC's investments in Poland, Norway and the Czech Republic and a charge of approximately $101 representing our proportionate share of restructuring costs at Belgacom. Other increases in 2002 of approximately $126 are discussed in detail in "International Segment Results".

A decline in wireless results, which is discussed in detail in "Wireless Segment Results", partially offset the increased equity in net income of affiliates from our international segment. We account for our 60% economic interest in Cingular under the equity method of accounting and therefore include Cingular's results in our equity in net income of affiliates line item, on a reported basis. (Our accounting is described in more detail in Note 6.) Cingular's results decreased our 2002 equity in net income of affiliates approximately $270.

The increase in 2001 was primarily due to the contribution of our wireless operations to Cingular, our joint venture with BellSouth. Prior to the fourth-quarter 2000 contribution of substantially all of our wireless properties to Cingular, we included the results from these wireless operations in our consolidated operating results. This change in our accounting method, as a result of the joint venture agreement, increased equity in net income of affiliates approximately $949 in 2001. The 2001 increase also reflects the absence of approximately $110 in one-time costs incurred in 2000 for a restructuring of agreements with Prodigy Communications Corporation (Prodigy).

These 2001 increases in equity in net income of affiliates were partially offset by a decrease of approximately $376 relating to special items in our international operations. This $376 decrease included: (1) a charge of approximately $49 to reduce the indirect book value of our investment in Telecom Américas Ltd. (Telecom Américas) to the value indicated by a sales transaction pending at December 31, 2001; (2) a charge of $197 related to TDC's decision to discontinue nonwireless operations of its Talkline subsidiary and our impairment of goodwill we had previously allocated to Talkline, and (3) approximately $26 of other 2001 items discussed in "International Segment Results".

Other income (expense) - net increased $942 in 2002 and decreased $2,770 in 2001. Results for 2002 include gains of approximately $603 on the redemption of our interest in Bell Canada Holdings Inc. (Bell Canada) and gains of $191 on the sale of shares in equity investments, consisting of the sale of shares of Teléfonos de Mexico, S.A. de C.V. (Telmex), América Móvil S.A. de C.V. (América Móvil) and Amdocs Limited (Amdocs). Also related to the Bell Canada redemption, we recorded dividend income of approximately $34 from our investment in Bell Canada after our second-quarter 2002 change to the cost method of accounting and income of $28 related to market adjustments on Canadian dollar foreign-currency contracts. The redemption of our interest in Bell Canada is also discussed in Note 2.

These gains and income in 2002 were partially offset by a charge of approximately $75 related to the decrease in value of our investment in Williams Communication Group Inc. (Williams) combined with a loss on the sale of our webhosting operations, and a charge of $12 related to the other-than-temporary declines in the value of cost investments. Additionally, we recorded a charge of approximately $32 for the reduction in the value of wireless properties that may be received as a settlement of a receivable and expenses of $10 for dividends paid on preferred securities issued by Ameritech subsidiaries.

Results for 2001 included gains on the full or partial sale of investments of approximately $476, including our investments in TransAsia Telecommunications, Smith Security, Amdocs shares and other investments. An additional increase of $120 resulted from a reduction of a valuation allowance on a note receivable related to the sale of SBC Ameritech's SecurityLink business. Also included in 2001 are net gains of approximately $23 recognized for mark-to-market adjustments on shares of Amdocs, which were granted to executives as deferred compensation. An offsetting deferred compensation expense was recorded in operations and support expense. Also included in 2001 was approximately $32, which represents consideration for modifications to our agreement with SpectraSite Communications Inc. (SpectraSite).

The income and gains in 2001 were more than offset by charges and losses, including combined expenses of approximately $401 related to valuation adjustments of Williams and certain other cost investments accounted for under Financial Accounting Standards Board Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (FAS 115). These valuation adjustments resulted from an evaluation that the decline was other than temporary. We also recognized a charge of $341 indicated by a transaction pending as of December 31, 2001, to reduce the direct book value of our investment in Telecom Américas. The transaction closed in early 2002. Additionally, during 2001, we recognized a loss of approximately $61 on the sale of Ameritech New Media, expenses of $33 for dividends paid on preferred securities issued by Ameritech subsidiaries, and $16 for minority interest. The amount of our 2001 minority interest expense significantly declined from 2000 due to the contribution of most of our wireless properties to Cingular in the fourth quarter of 2000. Additionally, in 2001, we recognized an expense of approximately $581 related to an endowment of Amdocs shares to the SBC Foundation and income of approximately $575 from the related mark-to-market adjustment on the Amdocs shares, for a net expense of $6.

Results for 2000 included gains of approximately $1,818 related to the sale of direct and indirect investments in MATÁV and Netcom GSM, two international equity affiliates, and from the contribution of our investment in ATL - Algar Telecom Leste S.A. (ATL), a Brazilian telecommunications company, to Telecom Américas. Also included were gains of approximately $295 on the sales of our interests in Wer Liefert Was, the Aurec companies in Israel and certain cost investments. We also recorded gains of $238 on the sale of Telmex L shares associated with our private purchase of a note receivable with characteristics that essentially offset future mark-to-market adjustments on the Debt Exchangeable for Common Stock (DECS). Additionally, we sold our remaining Telmex L shares not related to the DECS for a gain, which was partially offset by appreciation in the market value of Telmex L shares underlying the DECS, for a net gain of approximately $117. Also included in 2000 were gains of approximately $87 that were recognized for mark-to-market adjustments on shares of Amdocs used for deferred compensation. An offsetting deferred compensation expense was recorded in operations and support expense. These gains were partially offset by combined charges of $242 related to valuation adjustments of SecurityLink and certain cost investments accounted for under FAS 115 and by lower income from our wireless minority interest and dividends paid on preferred securities issued by Ameritech subsidiaries of approximately $208.

Income taxes decreased $968, or 24.5%, in 2002 and $864, or 17.9%, in 2001. Income taxes were lower in 2002 than in 2001 primarily due to lower income and a decrease in our effective tax rate. The lower effective tax rate is primarily related to lower state taxes, including reductions due to one-time changes in the legal forms of various entities, increased realization of foreign tax credits, adoption of FAS 142, which eliminates the amortization of goodwill, and tax benefits of $280 from a restructuring to manage certain investments (see Note 9). Income taxes in 2001 were lower than 2000 primarily due to contributions to the SBC Foundation in the first quarter of 2001, which was the primary reason for the decrease in the effective tax rate for 2001.

Extraordinary item in 2001 included an extraordinary loss of $18, net of taxes of $10, related to the early redemption of $1,000 of the TOPrS.

Cumulative Effect of Accounting Change of $1,820 (net of tax benefit of $5) in 2002 was related to our January 1 adoption of FAS 142, which means that we stopped amortizing goodwill, and at least annually we will test the remaining book value of goodwill for impairment. Any impairments subsequent to adoption will be recorded in operating expenses. We also stopped amortizing goodwill recorded on our equity investments. We will continue to test this embedded goodwill under the accounting rules for equity investments, which are based on comparisons between fair value and carrying value.

During the first quarter of 2002, in accordance with FAS 142, we determined that goodwill related to our investment in Sterling Commerce Inc. (Sterling) was impaired by $1,791. This impairment is recorded as a cumulative effect of accounting change on the income statement as of January 1, 2002. During the second quarter of 2002, Cingular determined that an impairment existed upon adopting FAS 142. Our portion of Cingular's impairment was $19, with no income tax effect. As required by FAS 142, we recorded this amount retroactive to January 1, 2002. During the fourth quarter of 2002, América Móvil completed its analysis of the impact of adopting FAS 142 on its investment in CompUSA and determined the amount of an impairment that existed. Our portion of América Móvil's impairment was $10, net of an income tax benefit of $5. As required by FAS 142, we recorded this amount retroactive to January 1, 2002. Our other international holdings have completed their FAS 142 impairment analyses; we did not record any additional cumulative effect as a result. (See Note 1)

Segment Results

Our operating segments represent strategic business units that offer different products and services and are managed accordingly. As required by GAAP, our operating segment results presented in Note 4 and discussed below for each segment follow our internal management reporting. Our internal management reporting generally follows our reported results with two exceptions. First, we exclude special items from our segment results and analyze them separately. Second, while Cingular's results are included in our reported results under equity in net income of affiliates, we continue to manage the wireless business as a separate segment. Accordingly, we continue to analyze our wireless segment's results by including 60% of Cingular's revenues and expenses, an amount which equals our economic ownership percentage. Our decision to include 60% of Cingular's revenues and expenses in our wireless segment's results (rather than in equity in net income of affiliates) will change our segment revenues, expenses, operating income and nonoperating items, but will not change our reported net income.

In each of the following segments are the explanations of the special items. These items are discussed in the segment most closely associated with the legal entity affected by each special item. As noted above, these special items are not part of our operating segment results discussed below and reported in Note 4.

Under GAAP segment reporting rules, we analyze our various operating segments based on segment income and, as noted above, we exclude special items and analyze them separately. Interest expense, interest income and other income (expense) – net are managed only on a total company basis and are, accordingly, reflected in the other segment. Therefore, these items are not included in the calculation of each segment's percentage of our consolidated segment income discussed below.

Beginning with the release of our first-quarter 2003 results, we will be providing expanded information for our segments. To that end, we expect to revise each segment's "operations and support expenses" line item to include separate discussions on individual components. While we are currently determining these components, we expect them to include selling, general and administrative expenses and cost of sales. We will also provide the expanded information for our segment results for 2002 and 2001.

The ***wireline segment,*** which accounted for approximately 74% of our consolidated segment operating revenues and 58% of our consolidated segment income in 2002, operates as both a retail and wholesale seller of communications services. We provide landline telecommunications services, including local and long-distance voice, switched access, messaging service, and data.

Prior to the fourth quarter of 2000, the ***wireless segment,*** which accounted for approximately 17% of our consolidated segment operating revenues and 12% of our consolidated segment income in 2002, included our consolidated businesses that provided wireless telecommunications services and sold wireless equipment. In October 2000, we contributed substantially all of our wireless businesses to Cingular and began reporting results from Cingular's operations as equity in net income of affiliates in our reported results (see our consolidated financial statements). However, when analyzing our operating segment results, we continue to evaluate Cingular's performance in our wireless segment. This means that we include 60% of Cingular's revenues and expenses, which equals our economic ownership percentage, in our wireless segment. Cingular offers both wireless voice and data communications services across most of the United States, providing cellular and PCS services.

The ***directory segment,*** which accounted for approximately 9% of our consolidated segment operating revenues and 21% of our consolidated segment income in 2002, includes all directory operations, including Yellow and White Pages advertising and electronic publishing. All investments with primarily international operations are included in the ***international segment,*** which accounted for less than 1% of our consolidated segment operating revenues and 7% of our consolidated segment income in 2002.

The following tables show components of results of operations by segment. A discussion of significant segment results is also presented following each table. Capital expenditures for each segment are discussed in "Liquidity and Capital Resources".

Wireline
Segment Results

				Percent Change	
	2002	2001	2000	**2002 vs. 2001**	2001 vs. 2000
Segment operating revenues					
Voice	**$ 24,716**	$ 26,676	$ 26,950	**(7.3)%**	(1.0)%
Data	**9,639**	9,631	8,181	**0.1**	17.7
Long-distance voice	**2,324**	2,436	2,525	**(4.6)**	(3.5)
Other	**1,713**	1,947	2,235	**(12.0)**	(12.9)
Total Segment Operating Revenues	**38,392**	40,690	39,891	**(5.6)**	2.0
Segment operating expenses					
Operations and support	**23,008**	24,315	23,659	**(5.4)**	2.8
Depreciation and amortization	**8,442**	8,383	7,869	**0.7**	6.5
Total Segment Operating Expenses	**31,450**	32,698	31,528	**(3.8)**	3.7
Segment Operating Income	**6,942**	7,992	8,363	**(13.1)**	(4.4)
Equity in Net Income of Affiliates	**-**	-	(12)	**-**	-
Segment Income	**$ 6,942**	$ 7,992	$ 8,351	**(13.1)%**	(4.3)%

Excluded from the above segment income are the following special items:

	2002		2001		2000
A	**$ 859**	C	$ (959)	G	$ (444)
B	**125**	D	6	H	1,070
		E	197		
		F	600		

A. On a total company basis, we had combined charges of $872 (recorded in reported operating expenses) for enhanced pension benefits, pension settlements, severance costs and real estate costs related to work force-reduction programs; $859 of this related to wireline entities.

B. Additional bad debt reserves of $125 (recorded in reported operating expenses) as a result of the July 2002 WorldCom Inc. (WorldCom) bankruptcy filing, related to wireline entities.

C. On a total company basis, we had pension settlement gains of $(1,097) (recorded in reported operating expenses) related to management employees, primarily resulting from a fourth-quarter 2000 voluntary retirement program net of costs associated with that program; $(959) of this related to wireline entities.
D. On a total company basis, we had combined charges of $316 (recorded in reported operating expenses) related to impairment of our cable operations; $6 of this related to wireline entities.
E. A charge of $197 (recorded in reported operating expenses) representing a proposed settlement agreement with the Illinois Commerce Commission (ICC) related to a provision of the Ameritech merger, related to wireline entities. The amount represents an estimate of all future savings to be shared with our Illinois customers.
F. On a total company basis, we had combined charges of $619 (recorded in reported operating expenses) associated with our comprehensive review of operations in the fourth quarter of 2001, which resulted in decisions to reduce work force, terminate certain real estate leases and shut down certain operations (see Note 2); $600 of this related to wireline entities.
G. On a total company basis, we had pension settlement gains of $(512) (recorded in reported operating expenses and equity in net income of affiliates) associated with pension litigation, first-quarter payments primarily related to employees who terminated employment during 1999 and gains resulting from a voluntary retirement program net of enhanced pension and postretirement benefits associated with that program (see Note 10); $(444) of this related to wireline entities.
H. On a total company basis, we had costs of $1,183 (recorded in reported operating expenses) associated with strategic initiatives and other adjustments resulting from the merger integration process with Ameritech; $1,070 of this related to wireline entities.

In the second quarter of 2002, we began reporting product-based revenue categories for this segment. The new categories, voice, data and long-distance voice, are more closely aligned with how we currently manage the business. Our wireline segment operating income margin was 18.1% in 2002, compared to 19.6% in 2001 and 21.0% in 2000. The declines in our wireline segment operating income margin were due primarily to the loss of revenues from retail access lines caused by providing below-cost UNE-Ps to competitors. This revenue decline was greater than our expense reductions in response to UNE-P pricing, the weak U.S. economy, and increased competition, including technology substitution. The overall effect was a decline of 13.1% in wireline segment income. See below for further discussion of the details of our wireline segment revenue and expense.

Voice revenues decreased $1,960, or 7.3%, in 2002 and $274, or 1.0%, in 2001 due primarily to the loss of retail access lines caused by providing below-cost UNE-P, the weak U.S. economy, and increased competition, including technology substitution. See further discussion on the impacts of UNE-P in "Operating Environment and Trends of the Business". During 2002, as compared to 2001, our retail consumer and business access lines decreased by 9.1% and 6.7% respectively, and our total access lines declined by 4.1%. During 2001, as compared to the prior year, our retail consumer and business access lines decreased by 4.3% and 4.5% respectively, and our total access lines declined by 2.8%. The revenue decreases associated with these continued access-line declines were approximately $1,117 in 2002 and $634 in 2001. In 2002, vertical services revenues (e.g., Caller ID and voice mail) decreased approximately $168, also due in part to access-line declines.

Equipment sales declined approximately $248, and continued declines in our payphone business decreased revenue by approximately $130 in 2002. Voice revenues decreased $86 due to the July 2000 Coalition for Affordable Local and Long Distance Service (CALLS) order which capped prices for certain services. Revenue also decreased approximately $212 due to usage-based pricing (versus fixed fees) and other pricing responses to competitors' offerings. Revenue was also lower in 2002 by approximately $117 due to June 2001 Illinois legislation which increased 2001 revenues. The June 2001 Illinois legislation imposed new requirements on Illinois telecommunications companies relating to service standards, service offerings and competitive access to our network. Revenue in 2002 was also lower by approximately $66 due to the reversal of an accrual related to an FCC rate-related issue which increased 2001 revenue. The remainder of the decrease in 2002 was due to various demand-related declines. Partially offsetting these revenue declines, wholesale revenues increased approximately $200. The 2002 degree of increase was less than the increase for 2001, reflecting a shift from resale lines (which have higher rates compared to UNE-P) to UNE-P lines provided to competitors.

In 2001, in addition to the decline in access-line revenues discussed above, revenues from equipment sales decreased approximately $114 and revenue from our payphone business decreased $155. Voice revenues also decreased approximately $283 during 2001 due to the impact of CALLS. Partially offsetting these revenue declines, wholesale revenues increased approximately $455 and revenue from vertical services increased approximately $127; however, the sequential quarterly growth rate for vertical services during the year steadily declined. Revenue in 2001 also increased approximately $247 due to the June 2001 Illinois legislation and $66 due to the FCC rate-related issue mentioned above.

Data revenues increased $8, or 0.1%, in 2002 and $1,450, or 17.7%, in 2001, due primarily to increased data transport services revenues. Overall data growth continued to slow throughout 2002 due to the weak U.S. economy and, in particular, by cutbacks at internet service providers (ISPs) and wholesale (long-distance and competitive local service providers) customers.

Data transport services represented about 75% of our total data revenues in both 2002 and 2001 and increased 5.2% in 2002 and 20.6% in 2001. DSL, our broadband internet-access service, increased data transport revenues by approximately $326 in 2002 and $319 in 2001. DSL lines grew to approximately 2,199,000 in 2002 compared to 1,333,000 at the end of 2001 and 767,000 at the end of 2000. We expect DSL to make a positive contribution to wireline segment income in the next 12 to 18 months. Continued demand for certain high-capacity services such as DS3s, SONET (a dedicated high-speed solution for multi-site businesses), and ATM increased by approximately $109 in 2002 and $980 in 2001. The impact of CALLS decreased data transport revenue approximately $78 in 2002 and $76 in 2001. Revenue from our e-commerce offerings showed a net increase in revenue of approximately $152 in 2002 and $131 in 2001. The 2002 increase in e-commerce revenue was primarily due to our acquisition of Prodigy in late 2001.

The increases in data transport and e-commerce services were virtually offset in 2002 by a decrease of approximately $537 in revenues from data equipment sales and network integration services. In 2001, revenue from data equipment sales and network integration services increased approximately $114; however, revenue declined sequentially during the second half of the year primarily due to our efforts in the third quarter of 2001 to de-emphasize low-margin equipment sales.

Long-distance voice revenues decreased $112, or 4.6%, in 2002 and $89, or 3.5%, in 2001 reflecting declines in retail local toll revenues primarily due to competition in all 13 states only partially offset by increases in long-distance revenues in the states where we were authorized to offer it. During 2002, retail intraLATA long-distance (local toll) revenues decreased approximately $381, caused partially by a decline in minutes of use during the year of approximately 19.6%, which decreased revenues by approximately $171. IntraLATA revenues also decreased approximately $85 resulting from access line losses. As we have already opened our markets to competition, which is a requirement to gain approval to offer interLATA long-distance (traditional long-distance) in our entire 13-state area, we expect further losses in intraLATA revenues. Partially offsetting the intraLATA revenue decline, retail interLATA revenues increased approximately $155, resulting from our 2001 entries into the Arkansas, Kansas, Missouri and Oklahoma long-distance markets in addition to our previous entries into the Texas and Connecticut markets. Future interLATA revenues will reflect our December 2002 entry into the California market. The status of our interLATA long-distance entry into our six remaining in-region states is discussed in "Expected Growth Areas".

Revenue of approximately $114 from wholesale long-distance services provided to Cingular under a 2002 related-party agreement also offset the decrease in total long-distance voice revenue during 2002. However, this did not have a material impact on our net income as the long-distance revenue was mostly offset when we recorded our share of equity income in Cingular. Excluding the revenues generated from our agreement with Cingular, long-distance voice revenues decreased approximately $226, or 9.3%, in 2002.

In 2001, long-distance service revenues decreased approximately $245 due to competitive losses resulting from competitors' customers no longer being required to dial special access codes for local toll calls and $146 attributable to competitive pricing actions in the Ameritech region. These losses were partially offset by an increase of approximately $322 resulting from our entries into the long-distance markets mentioned above.

Other operating revenues decreased $234, or 12.0%, in 2002 and $288, or 12.9%, in 2001. Demand for directory and operator assistance, carrier billing and collection, and other miscellaneous products and services decreased approximately $127 in 2002 and $88 in 2001. Partially offsetting these decreases, price increases added revenue of approximately $63 in 2002. Pricing actions decreased revenues approximately $113 in 2001. In addition, adjustments to our deferred activation revenues decreased revenues in 2002, but increased revenues in 2001.

Operations and support expenses decreased $1,307, or 5.4%, in 2002 and increased $656, or 2.8%, in 2001. Costs associated with equipment sales and related network integration services decreased approximately $711 in 2002, compared to an increase of $70 in 2001, primarily due to previous efforts to de-emphasize low-margin equipment sales. Primarily in response to below-cost UNE-P pricing, we have continued to reduce our work force, consequently decreasing expenses approximately $571 in 2002. We do not experience any significant reduction in expenses for retail access lines lost to UNE-P pricing as we must provide the network support for those lines marketed by our competitors. Other nonemployee-related expenses such as contract services, agent commissions and materials and supplies costs decreased approximately $288 in 2002 as we responded to the current regulatory and economic environment. Termination of most management vacation carry-over policies and reductions in other employee-related expenses such as travel, training and conferences decreased expenses approximately $300 in 2002. Reciprocal compensation expense increased approximately $44 in 2002 primarily due to growth in wireless and competitive local exchange carrier minutes of use on our network, partially offset by lower rates in effect during the year. This compares to an increase in reciprocal compensation of approximately $185 in 2001. Approximately $134 of the decrease in 2002 was primarily due to one-time expenses incurred in 2001 to implement Illinois legislation discussed in "Voice" revenues above. Our provision for uncollectible accounts decreased approximately $138 in 2002, which included a reversal of approximately $36 related to a change in our estimate of how long it takes to collect a delinquent account. Our methodology is discussed under "Accounting Policies and Standards".

The cost of providing our pension and health-care benefits increased approximately $682 in 2002 primarily due to a decreased asset base of our employee pension benefit plans from net investment losses and previous recognition of pension settlement gains reducing the amount of unrealized gains recognized in the current year. Increased medical and prescription drug claim costs and the reduction in the discount rate used for determining our pension and postretirement projected benefit obligations also contributed to increased personnel benefit costs in 2002. These matters are more fully discussed above under "Consolidated Results - Operating expenses".

Our provision for uncollectible accounts increased approximately $540 in 2001, as we experienced greater losses on receivables due to the weak U.S. economic environment. Costs to restore the quality of service in our midwest region, along with our entry into the traditional long-distance market in four states, increased expenses approximately $580 in 2001. Costs associated with the launch of our DSL service and our acquisition of Prodigy late in 2001 increased expenses approximately $170 in 2001. Expenses decreased approximately $635 in 2001 due to work force-reductions, early retirements, lower personnel benefit costs and gains from certain employee postretirement plans.

Depreciation and amortization expenses increased $59, or 0.7%, in 2002 and increased $514, or 6.5%, in 2001. The increase in 2002 is primarily due to higher plant levels although the rate of increase was limited by our reduced capital expenditures. This increase was partially offset by approximately $161 in 2002, as goodwill is no longer amortized in accordance with FAS 142 (see Note 1). The majority of the increase in 2001 was related to higher plant levels from the build-out of our broadband network and launch of new products and services, including DSL and internet data centers.

Wireless
Segment Results

				Percent Change	
	2002	2001	2000	**2002 vs. 2001**	2001 vs. 2000
Segment operating revenues					
Subscriber revenues	**$ 7,745**	$ 7,307	$ 6,480	**6.0%**	12.8%
Other	**1,091**	1,340	1,462	**(18.6)**	(8.3)
Total Segment Operating Revenues	**8,836**	8,647	7,942	**2.2**	8.9
Segment operating expenses					
Operations and support	**6,093**	5,957	5,348	**2.3**	11.4
Depreciation and amortization	**1,240**	1,232	1,083	**0.6**	13.8
Total Segment Operating Expenses	**7,333**	7,189	6,431	**2.0**	11.8
Segment Operating Income	**1,503**	1,458	1,511	**3.1**	(3.5)
Equity in Net Income of Affiliates	**(4)**	(11)	12	**63.6**	-
Segment Income	**$ 1,499**	$ 1,447	$ 1,523	**3.6%**	(5.0)%

Excluded from the above segment income in 2002 is the following special item:

- A charge of $142 in 2002 (recorded in equity in net income of affiliates for reported results) for our proportionate share of impairments, severance and restructuring costs at Cingular. The impairments included, among other items, write-downs related to Cingular interactive paging and transmission equipment in markets with complete system conversions.

We account for our 60% economic interest in Cingular under the equity method of accounting in our consolidated financial statements since we share control equally (i.e. 50/50) with our 40% economic partner in the joint venture. We have equal voting rights and representation on the board of directors that controls Cingular. This means that our reported results include Cingular's results in the "Equity in Net Income of Affiliates" line. However, when analyzing our segment results, we evaluate Cingular's results as part of the wireless segment. Accordingly, in the segment table above, we include 60% of the Cingular revenues and expenses under "Segment operating revenues" and "Segment operating expenses", excluding $142 of expenses noted in the special item above. Including 60% of Cingular's results in our segment operations (rather than in equity in net income of affiliates) changes our wireless segment's revenues, expenses, operating income and nonoperating items, but does not change our wireless segment income, consolidated segment net income, or reported net income. We also include our proportionate share of depreciation and amortization expense from the Cingular-T-Mobile USA, Inc. (T-Mobile) (formerly known as VoiceStream Wireless Corporation) network sharing agreement, which Cingular accounts for on the equity method of accounting. The results in the table above also include our residual wireless properties that we hold which have not been contributed to Cingular.

Our wireless segment operating income margin was 17.0% in 2002, 16.9% in 2001 and 19.0% in 2000. Cingular's addition of quality postpaid customers and ability to reduce system costs per minute of use in 2002, as compared to 2001, have helped to maintain the stable segment operating income margin for those years. See further discussion of the details of our wireless segment revenues and expenses below.

Subscriber revenues increased $438, or 6.0%, in 2002 and $827, or 12.8%, in 2001. The 2002 increase was primarily driven by Cingular's continued focus on quality postpaid customer growth, which increased 4.9% in 2002. However, these postpaid customer additions are increasing at a lesser rate than in prior periods. Also contributing to the increased revenues were handset guaranty premiums paid by customers to a new Cingular insurance subsidiary. Although not yet a significant part of Cingular's business, data revenues increased 48.2%.

Partially offsetting these increases were decreased long-distance and incollect roaming revenues, which will continue as Cingular continues to market rate plans that include these features for no additional charge. During 2002, Cingular experienced a 45.1% decrease in subscribers served through reseller agreements. Reseller customers comprise approximately 3% of Cingular's customer base and contributed to the decreased subscriber revenues. On average, Cingular has four to five other wireless competitors in each of its markets. At December 31, 2002, Cingular had approximately 21,925,000 cellular/PCS customers, as compared to 21,596,000 at December 31, 2001.

The 2001 increase was primarily related to growth in customer base accompanied by existing customers shifting to higher monthly rate plans, increased minutes of use and the sale of higher access rate plans to new customers. During 2001, Cingular focused on policies that had the effect of shifting subscribers from analog plans to digital plans.

Other revenues decreased $249, or 18.6%, in 2002 and $122, or 8.3%, in 2001. The 2002 decrease was primarily due to reductions in roaming rates with major roaming partners to support all-inclusive rate plans and decreased minutes of use on Cingular's network caused by the continued build-out of competitors' networks. Also contributing to the decline in other revenues were decreased equipment revenues, reflecting the decrease in customer additions, which was partially offset by revenues associated with a 2002 equipment upgrade promotion.

The 2001 decrease was due to a decline in roaming revenues from other carriers, reflecting the continued build-out of competitors' networks, which resulted in fewer of their customers' minutes on Cingular's network and lower negotiated rates with other carriers. Equipment revenues also declined due to a lower customer growth rate in 2001.

Operations and support expenses increased $136, or 2.3%, in 2002 and $609, or 11.4%, in 2001. The 2002 increase was primarily due to significant increases in minutes of use on the network, and increased incollect roaming and long-distance costs, which were driven by customer migrations to rate plans that include these services for no additional charge. Minutes of use increased approximately 34% over the prior year, which was primarily caused by demand for digital plans with more included minutes and off-peak promotions, which allow for a large number of free minutes.

The 2001 increase was primarily due to increased minutes of use on the network, increased long-distance expenses as more plans included free long-distance, and the Cingular national branding campaign that was completed in 2001. These increases were partially offset by new long-distance rates with BellSouth and SBC that became effective June 2001 and administrative cost savings gained through the formation of Cingular.

Depreciation and amortization expenses increased by $8, or 0.6%, in 2002 and $149, or 13.8%, in 2001. The 2002 increase was due to higher plant levels that were mostly offset by a decrease of approximately $182, as goodwill and FCC licenses are no longer amortized in accordance with FAS 142 (see Note 1). The 2001 increase was due to higher plant levels.

Directory
Segment Results

				Percent Change	
	2002	2001	2000	**2002 vs. 2001**	2001 vs. 2000
Segment Operating Revenues	**$ 4,451**	$ 4,468	$ 4,340	**(0.4)%**	2.9%
Segment operating expenses					
Operations and support	**1,928**	1,907	2,017	**1.1**	(5.5)
Depreciation and amortization	**30**	36	32	**(16.7)**	12.5
Total Segment Operating Expenses	**1,958**	1,943	2,049	**0.8**	(5.2)
Segment Income	**$ 2,493**	$ 2,525	$ 2,291	**(1.3)%**	10.2%

Excluded from the above segment income are the following special items:

	2002		2001		2000
A	**$ 3**	B	$ (24)	D	$ (17)
		C	19	E	30

A. On a total company basis, we had combined charges of $872 (recorded in reported operating expenses) for enhanced pension benefits, pension settlements, severance costs and real estate costs related to work force-reduction programs; $3 of this related to directory entities.

B. On a total company basis, we had pension settlement gains of $(1,097) (recorded in reported operating expenses) related to management employees, primarily resulting from a fourth-quarter 2000 voluntary retirement program net of costs associated with that program; $(24) of this related to directory entities.

C. On a total company basis, we had combined charges of $619 (recorded in reported operating expenses) associated with our comprehensive review of operations in the fourth quarter of 2001, which resulted in decisions to reduce work force, terminate certain real estate leases and shut down certain operations (see Note 2); $19 of this related to directory entities.

D. On a total company basis, we had pension settlement gains of $(512) (recorded in reported operating expenses and equity in net income of affiliates) associated with pension litigation, first-quarter payments primarily related to employees who terminated employment during 1999 and gains resulting from a voluntary retirement program net of enhanced pension and postretirement benefits associated with that program (see Note 10); $(17) of this related to directory entities.

E. On a total company basis, we had costs of $1,183 (recorded in reported operating expenses) associated with strategic initiatives and other adjustments resulting from the merger integration process with Ameritech; $30 of this related to directory entities.

Our directory segment income margin was 56.0% in 2002, compared to 56.5% in 2001 and 52.8% in 2000. Directory revenues decreased and expenses increased in 2002, reflecting increased competition and a weak U.S. economy. Revenues increased in 2001 due to demand and expenses decreased due to merger efficiencies and cost-containment efforts. Occasionally, from period to period, we change the timing of our directory book publication dates. The timing of these directory publication dates is changed for various reasons, including maximizing the efficiency of the sales force and responding to competitors' offerings.

Segment operating revenues decreased $17, or 0.4%, in 2002 and increased $128, or 2.9%, in 2001. The decreased revenues in 2002 primarily related to a decrease in demand of approximately $47 while the increased revenues in 2001 were related to increased demand of approximately $49. The decreased revenues in 2002 were partially offset by a net change in the timing of directory publications of approximately $30 in 2002 and $79 in 2001. The change in timing is the result of a decrease of approximately $110 in 2002 and $47 in 2001 related to books that were published one less time than in the previous year. This was partially offset by an increase of $13 in 2002 and $2 in 2001 due to books published in that calendar year but not the previous calendar year. Finally, the change in timing included an increase of approximately $127 in 2002 and $124 in 2001 from extensions of book publication dates within the same calendar year.

Operations and support expenses increased $21, or 1.1%, in 2002 and decreased $110, or 5.5%, in 2001. The increased expenses for 2002 were due to higher pension and benefit-related costs. The increased expenses were partially offset by an approximately $26 decrease in expenses associated with changes in publications dates. The decrease in expense in 2001 was primarily related to lower compensation related expenses, as a result of merger initiatives, a 2000 pension and retirement program, and cost-containment efforts. This 2001 decrease was partially offset by an approximately $37 increase from expenses associated with shifts in directory publication dates.

International
Segment Results

				Percent Change	
	2002	2001	2000	**2002 vs. 2001**	2001 vs. 2000
Segment Operating Revenues	**$ 35**	$ 185	$ 328	**(81.1)%**	(43.6)%
Segment Operating Expenses	**85**	243	476	**(65.0)**	(48.9)
Segment Operating Income (Loss)	**(50)**	(58)	(148)	**13.8**	60.8
Equity in Net Income of Affiliates	**926**	800	862	**15.8**	(7.2)
Segment Income	**$ 876**	$ 742	$ 714	**18.1%**	3.9%

Excluded from the above segment income are the following special items:

	2002		2001		2000
A	**$ (326)**	C	$ (2)	F	$ (68)
B	**101**	D	49	G	3
		E	197		

A. Income of $(326) (recorded in reported equity in net income of affiliates) related to international entities and consisting of 1) income of $(371) from our proportionate share of the gains at TDC and Belgacom related to the disposition of their Netherlands wireless operations as a result of a call by a subsidiary of Deutsche Telekom A.G. (Deutsche Telekom). The components of this amount included a gain at Belgacom of $(75) on the disposition and a direct and indirect gain at TDC of $(296); 2) a gain of $(13) for a reduction in a previously recorded restructuring accrual at a TDC affiliate; and 3) a charge of $58 related to impairments on TDC's investments in Poland, Norway and the Czech Republic.

B. A charge of $101 (recorded in reported equity in net income of affiliates) related to international entities and representing our proportionate share of restructuring costs at Belgacom. These costs were primarily related to a work force-reduction initiative.

C. On a total company basis, we had pension settlement gains of $(1,097) (recorded in reported operating expenses) related to management employees, primarily resulting from a fourth-quarter 2000 voluntary retirement program net of costs associated with that program; $(2) of this related to international entities.

D. A charge of $49 (recorded in reported equity in net income of affiliates) indicated by a transaction pending as of December 31, 2001, to reduce the indirect book value of our investment in Telecom Americas, related to international entities.
E. A charge of $197 (recorded in reported equity in net income of affiliates) for costs related to TDC's decision to discontinue nonwireless operations of its Talkline subsidiary and our impairment of the goodwill we allocated to Talkline, related to international entities.
F. Gains of $(68) (recorded in reported equity in net income of affiliates) related to the sale of our indirect investment in Netcom GSM, an international equity affiliate.
G. On a total company basis, we had pension settlement gains of $(512) (recorded in reported operating expenses and equity in net income of affiliates) associated with pension litigation, first-quarter payments primarily related to employees who terminated employment during 1999 and gains resulting from a voluntary retirement program net of enhanced pension and postretirement benefits associated with that program (see Note 10); $3 of this related to international entities.

Our international segment consists almost entirely of equity investments in international companies, the income from which we report as equity in net income of affiliates. Revenues from direct international operations are less than 1% of our consolidated revenues. Results for 2002 largely reflect the January 1, 2002 adoption of FAS 142 by our international holdings, which eliminated the amortization of goodwill embedded in our equity investments, and lower operating expenses. As discussed below, this adoption had the effect of increasing segment income. Partially offsetting this increase was the prior sale of an international investment resulting in decreased 2002 long-distance revenues. We discuss our annual results first and then summarize in a table the individual results for our significant equity holdings.

Our earnings from foreign affiliates are sensitive to exchange-rate changes in the value of the respective local currencies. See Note 8 for a discussion of how we manage foreign-exchange risk. Our foreign investments are recorded under GAAP, which include adjustments for the purchase method of accounting and exclude certain adjustments required for local reporting in specific countries.

Segment operating revenues decreased $150, or 81.1%, in 2002 and $143, or 43.6%, in 2001. Revenues declined due to the September 2001 disposition of Ameritech Global Gateway Services (AGGS), our international long-distance subsidiary, and lower management-fee revenues. Lower long-distance activity prior to our disposition of AGGS also contributed to the 2001 decrease.

Segment operating expenses decreased $158, or 65.0%, and $233, or 48.9%, in 2001. The decrease was primarily due to the disposition of AGGS. Also contributing to the 2001 decrease was lower long-distance activity prior to the AGGS disposition and reduced depreciation expense due to certain property, plant and equipment being fully depreciated during the first quarter of 2001.

Equity in net income of affiliates increased $126, or 15.8%, in 2002 and decreased $62, or 7.2%, in 2001. The 2002 increase includes approximately $220 resulting from the January 1, 2002 adoption of FAS 142, which eliminated the amortization of goodwill embedded in our investments in equity affiliates. Excluding the effects of adopting FAS 142, our equity in net income of affiliates would have decreased $94, or 11.8%, in 2002.

Increases in equity in net income of affiliates for 2002 consisted of a gain of approximately $145 from Belgacom's sale of a portion of its Netherlands wireless operations to an unaffiliated special purpose entity (SPE). The 2002 gain was approximately $81 higher than a similar gain in 2001 of approximately $64. As part of the original transaction, the SPE had the right to put the investment to a subsidiary of Deutsche Telekom. During September 2002, the remaining shares of the Netherlands wireless operations that were held by Belgacom and TDC were called, noted in special item A above. Equity in net income of affiliates in 2002 also increased due to the 2001 loss of approximately $32 on Belgacom's sale of its French internet business, Infonie.

Decreasing 2002 equity in net income of affiliates were restructuring charges of approximately $58 taken in 2002 by Bell Canada and the prior-year one-time gain of approximately $49 on Bell Canada's 2001 sale of Sympatico-Lycos, partially offset by a one-time gain of approximately $28 from Bell Canada's partial sale of Telebec in 2002. Our equity income from Bell Canada was also lower as compared to 2001 by approximately $101 as a result of our May 2002 change from the equity method to the cost method of accounting for that investment. Our removal from day-to-day management and the progression of negotiations to sell our interest in Bell Canada resulted in this change (see Note 2). A 2001 gain on the sale of AOL France by Cegetel S.A. (Cegetel) decreased 2002 equity in net income of affiliates approximately $53.

The 2001 decrease includes a decrease of approximately $295 from Belgacom and TDC, primarily related to decreased earnings from their foreign affiliates and the inclusion in 2000 results of the gain on the sale of Telenordia, partially offset by the gain of approximately $64 related to Belgacom's fourth-quarter 2001 sale of a portion of its Netherlands wireless operations to an unaffiliated SPE. The third-quarter 2000 sale of our investment in MATÁV reduced earnings approximately $65 in 2001 as compared to 2000. Lower income from South American wireless companies held by América Móvil, certain true-up adjustments in 2000 at Telmex and our smaller ownership percentage at these affiliates resulted in a decrease of approximately $26.

Offsetting these 2001 decreases were increases of approximately $92 resulting from wireless subscriber growth, higher average revenue per customer and Cegetel's second-quarter 2001 sale of AOL France. Bell Canada's first-quarter 2001 gain on their disposition of an ISP subsidiary and improved operating results contributed approximately $74 to the increase in 2001. Also offsetting the decrease was the elimination of losses, on a comparative basis, of approximately $139 resulting from the first-quarter 2001 disposition of diAx A.G. (diAx), a Swiss mobile and landline operator, and the exchange of our equity investment in ATL for a cost investment in Telecom Américas.

Our equity in net income of affiliates by major investment at December 31, are listed below:

	2002	2001	2000
América Móvil	**$ 60**	$ 10	$ -
Belgacom	**215**	85	125
Bell Canada	**53**	176	102
Cegetel	**88**	94	2
TDC	**258**	40	295
Telkom South Africa	**31**	54	30
Telmex	**219**	325	361
Other	**2**	16	(53)
International Equity in Net Income of Affiliates	**$ 926**	$ 800	$ 862

America Movil was spun-off from Telmex in 2001.

Other
Segment Results

				Percent Change	
	2002	2001	2000	**2002 vs. 2001**	2001 vs. 2000
Segment Operating Revenues	**$ 389**	$ 586	$ 1,098	**(33.6)%**	(46.6)%
Segment Operating Expenses	**146**	450	994	**(67.6)**	(54.7)
Segment Operating Income	**$ 243**	$ 136	$ 104	**78.7**%	30.8%

Excluded from the above segment operating income are the following special items:

	2002		2001		2000
A	**$ 10**	B	$ (112)	D	$ (54)
		C	310	E	83
				F	132
				G	619

A. On a total company basis, we had combined charges of $872 (recorded in reported operating expenses) for enhanced pension benefits, pension settlements, severance costs and real estate costs related to work force-reduction programs; $10 of this related to other entities.
B. On a total company basis, we had pension settlement gains of $(1,097) (recorded in reported operating expenses) related to management employees, primarily resulting from a fourth-quarter 2000 voluntary retirement program net of costs associated with that program; $(112) of this related to other entities.
C. On a total company basis, we had combined charges of $316 (recorded in reported operating expenses) related to impairment of our cable operations; $310 of this related to other entities.
D. On a total company basis, we had pension settlement gains of $(512) (recorded in reported operating expenses and equity in net income of affiliates) associated with pension litigation, first-quarter payments primarily related to employees who terminated employment during 1999 and gains resulting from a voluntary retirement program net of enhanced pension and postretirement benefits associated with that program (see Note 10); $(54) of this related to other entities.
E. On a total company basis, we had costs of $1,183 (recorded in reported operating expenses) associated with strategic initiatives and other adjustments resulting from the merger integration process with Ameritech; $83 of this related to other entities.
F. A charge of $132, related to other entities (recorded in reported operating expenses) related to in-process research and development from the March 2000 acquisition of Sterling (see Note 2).
G. Combined charges of $619, related to other entities (recorded in reported operating expenses) related to valuation adjustments of SecurityLink and the restructure of agreements with Prodigy (see Note 2).

Our other segment results in 2002 primarily consist of corporate and other operations. The 2001 results primarily include our Ameritech cable television operations, which we sold in November 2001. The 2000 results include our Ameritech security monitoring business, which we sold in January 2001. See Note 2 for further details on these dispositions.

Operating Environment and Trends of the Business

2003 Revenue Trends For 2003, we expect current economic and competitive trends to continue. We expect continued losses in access-lines, and associated revenues due to the effects of UNE-P and competition. We expect these losses to be partially offset later in the year by interLATA long-distance entry into our remaining in-region states and marketing of new combinations of our products (bundling). We expect modest growth in data transport revenues, reflecting the weak economy and continued cutbacks by our wholesale customers. We expect modest subscriber and revenue growth at Cingular. Overall, we expect total consolidated revenue to decline slightly in 2003.

2003 Pension and Retiree Medical Cost Expense Trends As a result of rising medical and prescription drug costs, economic impacts and assumption changes discussed below, we expect combined net pension and postretirement cost of between $1,800 and $2,000 ($0.36 to $0.40 per share) in 2003, compared to our combined net pension and postretirement benefit of $82 in 2002. Approximately 10% of these costs will be capitalized as part of construction labor, providing a small reduction in the net expense recorded. Certain factors, such as investment returns, depend largely on trends in the U.S. securities market and the general U.S. economy. Our ability to improve the performance of those factors is limited. In particular, a continued weakness in the securities markets and U.S. economy could result in investment losses and a decline in plan assets, which under GAAP we will recognize over the next several years. Should the securities markets continue to decline and medical and prescription drug costs continue to increase significantly, we would expect increasing annual combined net pension and postretirement cost for the next several years. Additionally, should actual experience differ from actuarial assumptions, combined net pension and postretirement cost would be affected in future years.

The weighted average expected return on assets assumption, which reflects our view of long-term returns, is one of the most significant of the weighted average assumptions used to determine our actuarial estimates of pension and postretirement benefit expense. Based on our long-term expectations of market returns in future years, we lowered our long-term rate of return on plan assets from 9.5% to 8.5% for 2003. If all other factors were to remain unchanged, we expect a 1% decrease in the expected long-term rate of return would cause 2003 combined pension and postretirement cost to increase approximately $342 over 2002 (analogous change would result from a 1% increase). Also, rising medical and prescription drug costs caused us to increase our assumed medical expense trend rate for 2003 from 8.0% to 9.0% for retirees 64 and under and from 9.0% to 10.0% for retirees 65 and over, trending to an expected increase of 5.0% in 2009 for all retirees.

Under GAAP, the expected long-term rate of return is calculated on the market-related value of assets (MRVA). GAAP requires that actual gains and losses on pension and postretirement plan assets be recognized in the MRVA equally over a period of not more than five years. We use a methodology, allowed under GAAP, under which we hold the MRVA to within 20% of the actual fair value of plan assets, which can have the effect of accelerating the recognition of excess actual gains and losses into the MRVA to less than five years. Due to investment losses on plan assets experienced in the last several years, we expect this methodology to contribute approximately $605 to our combined net pension and postretirement cost in 2003 as compared with not using this methodology. This methodology did not have a significant effect on our 2002, 2001 or 2000 combined net pension and postretirement benefit as the MRVA was almost equal to the fair value of plan assets.

For the majority of our nonmanagement labor contracts that contain an annual dollar value cap for the purpose of determining contributions required from retirees, we have waived the cap during the relevant contract periods and thus not collected contributions from those nonmanagement retirees. Therefore, in accordance with the substantive plan provisions required in accounting for postretirement benefits under GAAP, we do not account for the cap in the value of our accumulated postretirement benefit obligation (i.e., we assume the cap will be waived for all future contract periods). If we were able to account for the cap as written in the contracts, our postretirement benefit cost would have been reduced by $606, $476 and $571 in 2002, 2001 and 2000. We expect that not accounting for the cap as written in the contracts will result in approximately $900 of postretirement benefit cost during 2003.

Other 2003 Expense Trends We expect total operating expenses to increase significantly in 2003, due primarily to increases in our pension and postretirement benefit costs as noted above. In addition, to support interLATA long-distance entry into our remaining in-region states and our bundling marketing initiatives, we expect our advertising expense to increase along with increases in our sales force. We expect the increase in our sales force numbers to be offset by declines in other areas of our work force.

Operating Environment Overview Passage of the Telecommunications Act of 1996 (Telecom Act) was intended to promote competition and reduce regulation in U.S. telecommunications markets. Despite passage of the Telecom Act, the telecommunications industry, particularly incumbent local exchange carriers such as our wireline subsidiaries, and advanced services including DSL, continue to be subject to significant regulation. The expected transition from an industry extensively regulated by multiple regulatory bodies to a market-driven industry monitored by state and federal agencies has not occurred as anticipated.

Our wireline subsidiaries remain subject to extensive regulation by state regulatory commissions for intrastate services and by the FCC for interstate services. For example, certain state commissions, including those in California, Illinois, Michigan, Ohio and Indiana, have significantly lowered the wholesale rates we are allowed to charge competitors, including AT&T and WorldCom, for leasing parts of our network (unbundled network elements, or UNEs). These mandated rates, which are below our cost, are significantly contributing to continuing declines in our access-line revenues and profitability. When UNEs are combined by incumbent local exchange carriers into a complete set capable of providing total local service to a customer, then they are referred to as UNE-P. Under UNE-P, our competitors market the lines and collect revenue from the customer, but we still incur the network costs. At December 31, 2002 we had lost approximately 5 million customer lines to competitors who obtained UNE-P lines from us, with approximately 2.6 million lost during 2002. These UNE-P regulations are also contributing to decreases in our switched access revenue and universal service fees and other fees, which have in the past substantially contributed financial support for the operation of the network for all customers.

During 2002, primarily in response to the impact of UNE-P, the sluggish economy, increased competition and substitution, we eliminated approximately 20,000 full-time employee and contractor positions (9,000 in the fourth quarter of 2002) and we reduced our 2003 capital expenditure budget to between $5,000 and $6,000, from the $6,808 actual expenditures in 2002 (reflecting a reduction from the original total 2002 budget, which was between $9,200 and $9,700). In February 2003, the FCC completed its triennial review of UNE regulations. The FCC review included a wide range of UNE issues, including UNE-P, dark fiber (unused fiber that does not have a communications signal) and unbundled transmittal of communications services. Several state commissions are also reviewing UNE-P regulations. If current UNE-P regulations remain in place or are revised to be even more detrimental to our business, we could experience additional and more significant declines in access-line revenues, which, in turn, could reduce returns on our invested capital and result in further reductions in capital expenditures and employment levels. The text of the FCC's triennial review decision was not available as of the deadline for printing this Annual Report. A discussion of the FCC's triennial review will be included in our 2002 Form 10-K. Additionally, as discussed in "Data/Broadband" below, broadband regulations have also caused us to reduce capital expenditures.

This continuing difficult and uncertain regulatory environment combined with the continued weakness in the U.S. economy and increasing local competition from multiple wireline and wireless providers in various markets presents significant challenges for our business.

Expected Growth Areas We expect the wireline segment to remain the most significant portion of our business and have also discussed trends affecting this segment (see "Wireline Segment Results"). Over the next few years we expect an increasing percentage of our revenues to come from two areas within the wireline segment, data/broadband and interLATA long-distance, and from our wireless segment. Whether, or the extent to which, growth in these areas will offset declines in other areas of our business is not known.

Data/Broadband In October 1999, we announced plans to upgrade our network to make broadband services available to approximately 80% of our U.S. wireline customers over the four years through 2003 (Project Pronto). Due to the weakening U.S. economy and an adverse regulatory environment, in October 2001 we announced a scale-back in our broadband deployment plans. Specifically, burdensome FCC and state commission regulations regarding our DSL network have added significantly to our costs and delayed our ability to earn a profit on DSL service. Our cable modem competitors are not subject to these regulations. This adverse regulatory environment was the primary reason we decided to slow the build-out of our broadband network. We expect to spend significantly less on capital expenditures due to this scale-back. Despite this scale-back, our DSL lines continue to grow and were approximately 2,199,000 at December 31, 2002, compared to 1,333,000 at the end of 2001 and we expect to achieve profitability in early 2004. Our addressable broadband market included 66% of our consumer and small-business locations at December 31, 2002.

The FCC began its review of the rules for the provision of domestic broadband services by incumbent local carriers or their affiliates in December 2001. The FCC is reviewing broadband services offered over cable, satellite and wireless platforms in addition to traditional wireline offerings. In February 2002, the FCC issued a notice of proposed rulemaking tentatively concluding that wireline broadband access services are information services rather than telecommunications services, which would result in less regulation. The FCC also is considering eliminating the requirement that wireline telephone companies provide the transmission component of broadband internet access services as stand-alone telecommunications services and whether it should adopt an alternative broadband access requirement for ISPs. Cable operators have no obligation to provide third-party ISPs access to their broadband networks at this time, although the FCC has initiated a proceeding to consider the issue.

In December 2002, the FCC ruled that advanced services, such as DSL, provided through one of our advanced services subsidiaries, are not subject to tariff regulations and cost study requirements. However, we are still required to retain cost data and offer our retail advanced services for resale at a discount. This ruling should allow us to respond more quickly to offerings by unregulated competitors. The FCC is expected to complete its broadband review in mid-2003 and the effect of the review on our results of operations and financial position cannot be determined at this time.

Long-Distance We offer landline interLATA (traditional) long-distance services to customers in selected areas outside our wireline subsidiaries' operating areas. Further, we offer interLATA wireline long-distance services to customers in Texas, Kansas, Oklahoma, Arkansas, Missouri and Connecticut. The FCC approved our application to provide wireline interLATA long-distance for California customers effective in December 2002, and we launched service in California under the SBC brand on December 30, 2002. Additionally, in December 2002, the Public Utilities Commission of Nevada approved our Nevada wireline subsidiary's application to enter the interLATA long-distance market in Nevada and we filed for approval from the FCC on January 14, 2003. In January 2003, the Michigan Public Service Commission approved our Michigan wireline subsidiary's application to enter the interLATA long-distance market in Michigan and we filed for approval from the FCC on January 16, 2003. The FCC must issue its decision within 90 days of our filings, if it deems our filings complete. Finally, we continue to seek long-distance approval in our remaining in-region states and have filed applications with state commissions in Illinois, Indiana, Ohio and Wisconsin.

Wireless Cingular, our wireless joint venture with BellSouth, began operations in October 2000 (see Note 6). Cingular serves approximately 21,925,000 wireless cellular and PCS subscribers and is the second-largest provider of mobile wireless voice and data communications services in the United States, based on the number of wireless subscribers. Cingular has access to licenses to provide cellular or PCS wireless communications services covering an aggregate population of potential subscribers, referred to as "POPs", of approximately 231 million, or approximately 81% of the U.S. population, including 45 of the 50 largest U.S. metropolitan areas.

Cingular's priorities for 2003 include promotion of the Cingular brand to expand its customer base profitably; continued realization of revenue and cost synergies offered by its formation; increasing the capacity, speed and functionality of its network through the continued rollout of wireless data services by overlaying Global System for Mobile Communications (GSM) voice, which is the standard digital cellular phone technology used in Europe and other countries around the world, and General Packet Radio Service (GPRS) high-speed data technology over its existing networks; development and promotion of advanced wireless data applications over multiple communications devices; and continued expansion of its existing footprint and network capacity by obtaining access to additional spectrum, primarily through spectrum exchanges, purchases, mergers or acquisitions.

In January 2002, Cingular and AT&T Wireless Services Inc. (AT&T Wireless) agreed to form a joint venture to build out a GSM/GPRS/Enhanced Data Rates for Global Evolution (EDGE) network along a number of major highways in order to reduce incollect roaming expenses paid to other carriers when customers travel on those highways. Cingular and AT&T Wireless will buy roaming services from the venture. Cingular is obligated to contribute licenses and cash or other assets having a value equal to the cash or assets contributed by AT&T Wireless. Cingular expects this venture to be formed in the first half of 2003 and does not expect its investment to exceed $85.

In December 2002, Cingular announced an agreement with AT&T Wireless to transfer to AT&T Cingular's license and operations in Kauai, Hawaii and wireless licenses in Alabama, Idaho, Oklahoma, Mississippi and Washington. In return, Cingular will receive wireless licenses in Alabama, Arkansas, Georgia, Kentucky, Louisiana, Mississippi, Tennessee and Texas. Cingular expects this transaction to close in the first half of 2003.

In May 2001, Cingular and VoiceStream Wireless, now T-Mobile, exchanged spectrum. Through this action, Cingular gained access to a license covering over 20 million additional POPs in the northeast. In November 2001, Cingular entered into a joint infrastructure venture with T-Mobile to allow the companies to share network infrastructures in California, Nevada and the New York City metropolitan area markets. Cingular and T-Mobile's existing networks in these markets were contributed to the venture. Cingular and T-Mobile will have access to the venture's network infrastructure and will buy network services from it, while each retaining ownership and control of its own licenses. Funding for capital investments and cash operating expenses of the venture will generally be made by Cingular and T-Mobile on a pro rata basis based on network traffic. Cingular will independently market services to customers using its own brand name and utilizing its own sales, marketing, billing and customer care operations.

Cingular also invested in Salmon PCS (Salmon), a participant in a December 2000/January 2001 FCC auction of wireless spectrum licenses. Salmon was awarded 45 licenses at the conclusion of this process. Thirty-four additional licenses Salmon won at the auction were wireless licenses of carriers in bankruptcy reclaimed by the FCC and were not issued pending completion of United States Supreme Court (Supreme Court) proceedings concerning the validity of the FCC's spectrum reclamation process. In April 2002, the FCC returned 85% of the auction deposits pertaining to the auction of licenses held by the companies in bankruptcy. Salmon received a refund of approximately $358 and prepaid the same amount on the principal of their note payable to Cingular. In December 2002, the FCC approved the dismissal of Salmon's applications to buy the licenses, released it from any further obligations and returned its remaining $63 deposit. In January 2003, the Supreme Court ruled that the FCC's actions in reclaiming licenses from carriers in bankruptcy violated bankruptcy law and invalidated the auction of these licenses. This decision does not affect the 45 licenses previously awarded to Salmon.

As noted above in the discussion of Cingular's 2003 priorities, although data revenues are not currently a significant portion of Cingular's total revenues, Cingular plans to accelerate the development of this growing business. By the end of 2002, Cingular had launched GSM/GPRS technology over approximately half of its POPs including in New York, California, Connecticut, Kentucky and Ohio. Cingular also plans to upgrade its network to third generation (3G) wireless data technology by introducing EDGE and began testing EDGE in late 2002. EDGE technology is Cingular's choice for a 3G wireless communications standard that will allow customers to access the Internet from their wireless devices at higher speeds than even GPRS. Cingular expects the GSM/GPRS/EDGE network overlay to be fully complete by the end of 2004. During 2003, Cingular expects to spend approximately $1,200 for overlaying its existing network with GSM voice, GPRS data and EDGE data technology.

Regulatory Developments

Wireline

Federal Regulation A summary of significant 2002 federal regulatory developments follows.

Long-Distance Under the Telecom Act, before being permitted to offer interLATA wireline long-distance service in any state within the 12-state region encompassed by the regulated operating areas of Southwestern Bell Texas Holdings Inc. (SWBell), Pacific Bell Telephone Company (PacBell), Ameritech and Nevada Bell (these areas with the addition of Southern New England Telecommunications Corp.'s (SNET) area are referred to as our 13-state area), we are required to apply for and obtain state-specific approval from the FCC. The FCC's approval, which involves FCC consultation with the United States Department of Justice and the appropriate state commission, requires favorable determinations that our wireline subsidiaries have entered into interconnection agreement(s) that satisfy a 14-point "competitive checklist" or, alternatively, the subsidiaries have a statement of terms and conditions effective in that state under which they offer the "competitive checklist" items. The FCC also must make favorable public interest determinations in connection with each application. The status of our interLATA wireline long-distance approvals is discussed above under "Expected Growth Areas".

Unbundled Network Elements In May 2002, the Supreme Court upheld FCC UNE pricing rules that govern the rates incumbent local exchange carriers, such as our wireline subsidiaries, charge competitors for interconnection and for leasing portions of the incumbents' telephone networks. The FCC rules require incumbents to charge competitors rates based on hypothetical costs that competitors would incur for building a new, most efficient telephone network rather than on incumbents' actual historical, incurred costs. The Supreme Court also upheld FCC rules requiring incumbents to perform the functions necessary to combine unbundled network elements for competitors when they are unable to perform the combination themselves or unaware that they need to combine elements to provide a telecommunications service.

In May 2002, the United States Court of Appeals for the District of Columbia (D.C. Court of Appeals) vacated the FCC's UNE Remand and Line Sharing Orders. The UNE Remand Order expanded the definition of UNEs and required incumbents, such as our wireline subsidiaries, to lease a variety of UNEs to competitors. As discussed in "Operating Environment Overview" above, this Order required incumbents to provide below-cost UNE-P. It also required incumbents to provide below-cost combinations, in lieu of charging market rates for data transport services, to competitors that provide a "significant amount" of local service. Such combinations of unbundled loops and transport elements are often referred to as "enhanced extended links" (EELs). (Data transport services are a component of our wireline revenues.) The Line Sharing Order required incumbents to share the high-frequency portion of local telephone lines with competitors so that competitors could offer DSL services on a national basis. The D.C. Court of Appeals overturned the FCC's unbundling and line sharing rules. Specifically, the Court found that the FCC failed to properly apply the statutory "necessary and impair" requirement in deciding which UNEs needed to be unbundled and did not consider the costs of overly expansive unbundling requirements and the relevance of competition for broadband services from cable and, to a lesser extent, satellite offerings. The D.C. Court of Appeals delayed the effective date of its decision until February 20, 2003. In October 2002, the D.C. Court of Appeals upheld the FCC's decision that limited the availability of EELs to competitors providing a significant amount of local service.

As noted above in "Operating Environment Overview", in February 2003, the FCC completed its triennial review of UNE regulations, the text of which was not available at the deadline for printing this Annual Report. This FCC review reopened the question of which network elements must be made available on an unbundled basis under the Telecom Act and revisited the unbundling decisions made in the overturned UNE Remand and Line Sharing Orders discussed in the preceding paragraph. The FCC was also expected to address other pending issues relating to UNEs, including under what circumstances we must provide below-cost UNE-Ps and EELs to competitors.

We voluntarily committed to maintain our affected line sharing offerings at least until February 15, 2003. During this period, we indicated a willingness to work with our wholesale customers to develop mutually acceptable market-based offerings and prices related to line sharing. These actions were intended to provide certainty to our wholesale line sharing customers while preserving our rights. Our long-term success requires a balanced regulatory environment that encourages investment and results in sustainable, facilities-based competition, including the elimination of rules that require us to sell our lines and related services to competitors below our cost.

Reciprocal Compensation fees are billed to our wireline subsidiaries by competitors for the termination of certain local exchange traffic to competitors' customers and vice versa. In April 2001, the FCC ruled that calls to ISPs are interstate access and not subject to reciprocal compensation. These calls are primarily from our customers to third-party ISPs. However, instead of immediately eliminating all reciprocal compensation fees charged to us and other wireline providers, the FCC established an optional transition plan for local exchange carriers. To date, none of our wireline subsidiaries have opted into the transition plan as they continue to negotiate their own contractual rates with competitors. Appeals of reciprocal compensation decisions are currently pending before various federal and state courts. We have fully accrued expenses for fees sought by competitors for the termination of internet traffic to ISPs.

In April 2001, the FCC also launched a broad examination of all forms of inter-carrier compensation as well as proposed to eliminate all reciprocal compensation when the three-year transition plan expires. This proceeding may involve numerous rounds of comments before a final decision is reached, and a ruling is not expected for several years.

Collocation Equipment The Telecom Act requires incumbent local exchange carriers, such as our wireline subsidiaries, to co-locate in the incumbents' buildings, competitors' switching equipment necessary for interconnection or access to the incumbents' networks. We provide physical space and facilities for the equipment and services to connect to our network, which we call collocation services. At December 31, 2002, we had $520 recorded in Property, Plant and Equipment – Net, representing equipment we use to provide these collocation services. Due to industry consolidation and bankruptcies, the number of overall competitors requesting access to our buildings has decreased; consequently, the use of our collocation services has decreased. Because of this decreased utilization, we do not expect our future revenues from these collocation services will be sufficient to recover the cost of this equipment; however, we may seek further recovery from the state utility commissions. The amount of further recovery, if any, cannot be determined at this time.

Coalition for Affordable Local and Long Distance Service (CALLS) In September 2001, the United States Court of Appeals for the Fifth Circuit (5th Circuit) ruled on appeal of the FCC's May 2000 CALLS order restructuring federal price cap regulation. Although the 5th Circuit upheld the order in most key respects, it reversed and remanded to the FCC two specific aspects of the order.

- The 5th Circuit held that the FCC failed to sufficiently justify an incremental $650 in universal service funding and remanded to the FCC for further explanation of the amount; and
- held that the FCC failed to show a rational basis for how it derived the 6.5% transitional mechanism, i.e., the productivity factor used to reduce access rates until a targeted average rate is achieved, and remanded to the FCC for an explanation of how the percentage was derived.

The current universal service fund amount and transitional mechanism will remain in effect pending FCC response. The effect of any future FCC order on our results of operations and financial position cannot be determined at this time.

Ameritech Merger In association with its approval of the October 1999 Ameritech merger, the FCC set specific performance and reporting requirements and enforcement provisions that mandate approximately $2,000 in potential payments through June 2004 if certain goals are not met. Associated with these conditions, we incurred approximately $20, $94 and $355 in 2002, 2001 and 2000 in additional expenses, including payments for failing to meet certain performance measurements, specifically, the"Opening Local Markets to Competition" condition. At December 31, 2002, $195 in remaining potential payments could be triggered if the"Opening Local Markets to Competition" condition discussed below is not met. The following briefly summarizes all the major conditions:

- **Out-of-Region Competition** In accordance with this condition, we were required to complete initial entry requirements in 30 new markets across the country as a provider of local services or be subject to penalties of up to $40 per market. In August 2002, we notified the FCC that we timely fulfilled all the requirements of this merger condition.

- **Opening Local Markets to Competition** We are required to file data measuring our performance with the FCC and relevant state commissions. We currently file on a monthly basis with the FCC 20 different categories of data for each of the six states in which we are prohibited from offering interLATA (traditional) long-distance. The FCC reporting requirements will cease on a state-by-state basis as we receive interLATA long-distance approval. Our reporting obligations to the state commissions will continue after we receive interLATA long-distance approval.

  These performance measurements address functions that the FCC believes may have a particularly direct effect on our local service competitors and their customers, such as our response to competitors' requests for information and interconnection. In order to satisfy these performance standards, we developed and deployed, with competitor input, uniform electronic operational support systems throughout our 13-state area that support the pre-ordering, ordering, provisioning, maintenance, repair and billing of resold local services and unbundled network elements. We are also developing uniform business rules for completing competitor service requests across our 13-state area. We do not expect to make any future material payments for failure to satisfy conditions regarding deployment of these systems and business rules.

- **Improving Residential Service** We will offer residential customers a plan with no minimum monthly long-distance fees until at least April 2004. In addition, we offer a low-income Lifeline Universal Service plan to low-income residential customers in the six states in our 13-state area where the state commissions have accepted our offer to provide such service.

- **Promoting Advanced Services** We established separate subsidiaries to provide advanced services, such as DSL, in order that the subsidiaries be exempt from a Telecom Act provision requiring them to make the services available for resale to competitors. These subsidiaries are required to use the same processes for the ordering and provisioning of our wireline services as competitors, pay an equivalent price for facilities and services and locate at least 10% of their DSL service facilities in low-income areas.

  In January 2001, the D.C. Court of Appeals struck down the FCC merger condition that granted our separate affiliates an exemption from the Telecom Act requirement to offer retail DSL transport and other retail advanced services for resale at a discount. Although the merger condition allows us to partially integrate the affiliates into our telephone companies under such circumstances, we are continuing to maintain the advanced services affiliates as separate companies. We believe this is currently in the best interest of our customers although we continue to evaluate our operations and customer needs. We do not expect, at this time, that this issue will have a material effect on our results of operations or financial position. See "Data/Broadband" under "Expected Growth Areas" above for further discussion.

The effects of the FCC decisions on the above topics are dependent on many factors including, but not limited to, the ultimate resolution of the pending appeals; the number and nature of competitors requesting interconnection, unbundling or resale; and the results of the state regulatory commissions' review and handling of related matters within their jurisdictions. Accordingly, we are not able to assess the total potential impact of the FCC orders and proposed rulemakings.

State Regulation A summary of significant 2002 state regulatory developments follows.

Texas Rate Reclassification In October 2002, the Texas Public Utility Commission (TPUC) approved our Texas wireline subsidiary's tariffs reclassifying 32 telephone exchanges (including Dallas, Fort Worth and Austin) to a higher rate group effective November 15, 2002. The higher tariffs are expected to increase annual revenues approximately $20. We also are entitled to retroactive recovery of fees, estimated at approximately $130, including interest, at December 31, 2002. Based on the present value of this gross amount, discounted for collectibility, we recorded revenue of $47 in the second quarter of 2002. Our method of recovery is subject to approval by the TPUC.

Michigan Legislation In July 2000, the Michigan legislature eliminated the monthly intrastate end-user common line (EUCL) charge and implemented price caps for certain telecommunications services. In July 2001, the United States Court of Appeals for the 6th Circuit (6th Circuit) ruled that we had demonstrated a substantial likelihood of ultimately showing that the price cap and the EUCL charge elimination were unconstitutional and stayed both provisions pending completion of the litigation. In December 2002, our Michigan wireline subsidiary and the state of Michigan settled this case by agreeing to reduce the intrastate EUCL charge. The settlement is expected to result in an annual revenue decrease of approximately $20.

California Long-Distance In conjunction with its September 2002 order that approved sending our long-distance application to the FCC, the California Public Utilities Commission (CPUC) did not decide whether state law intrastate long-distance (local toll) requirements were satisfied. In December 2002, the CPUC decided that state law intrastate long-distance requirements were satisfied and we launched intrastate and interstate wireline long-distance service in California on December 30, 2002.

California Payments In August 2002, we paid approximately $15 from operating funds to the CPUC associated with its September 2001 marketing practices ruling. In a separate matter, in settlement of a complaint and CPUC investigation regarding the billing practices of our California wireline subsidiary and advanced services affiliates, in November 2002, our subsidiaries paid the state of California approximately $27 from operating funds and agreed to improve billing practices and provide customers with service credits for future billing errors.

California Audit In February 2002, consultants hired by the CPUC issued a report on their 1997-1999 audit of our California wireline subsidiary. The report concluded that we understated regulated net operating income reported to the CPUC and should issue refunds, i.e., service credits, to customers for 1997 and 1998 totaling approximately $350. We do not agree with the report's conclusions and are contesting them in proceedings before the CPUC. In addition, the CPUC will consider the results of the audit, and the February 2003 proposed expansion of its scope, as it continues its triennial review of our regulatory framework during 2003. It is uncertain at this time what effect the report or changes to our regulatory framework might have on our future results of operations and financial position.

Ohio Service Quality Resolution In July 2002, the Public Utilities Commission of Ohio (PUCO) concluded its investigation of our Ohio wireline subsidiary, restoring the subsidiary's ability to pay dividends to the parent company without prior PUCO approval.

The effects of state regulatory commission decisions on the above and other potential issues are dependent on many factors. Accordingly, we are not able to assess the total potential impact.

Competition

Competition continues to increase for telecommunications and information services. Changes in regulations, such as UNE-P rules, have increased the opportunities for alternative communications service providers. Technological advances have expanded the types and uses of services and products available. As a result, we face increasing competition as well as new opportunities in significant portions of our business.

Wireline
Our wireline subsidiaries expect increased competitive pressure in 2003 and beyond from multiple providers in various markets, including facilities-based local competitors, interexchange carriers and resellers. In some markets, we compete with large cable companies such as Comcast Corporation, Cox Communications, Inc. and AOL Time Warner Inc. for local and high-speed internet services customers and long-distance companies such as AT&T and WorldCom for both long-distance and local services customers. Substitution of wireless and internet services for traditional local service lines also continues to increase. At this time, we are unable to assess the effect of competition on the industry as a whole, or financially on us, but we expect both losses of market share in local service and gains resulting from new business initiatives, bundling of products and services, and new long-distance service areas.

Our wireline subsidiaries remain subject to extensive regulation by state regulatory commissions for intrastate services and by the FCC for interstate services. State legislative and regulatory developments over the last several years allow increased competition for local exchange services. Under the Telecom Act, companies seeking to interconnect to our wireline subsidiaries' networks and exchange local calls must enter into interconnection agreements with us. These agreements are then subject to approval by the appropriate state commission. As noted in the "Operating Environment Overview" section above, certain state commissions, including those in California, Illinois, Michigan, Ohio and Indiana, have significantly lowered the wholesale rates we are allowed to charge competitors, including AT&T and WorldCom, for leasing parts of our network. These mandated rates, which are below our cost, are significantly contributing to continuing declines in our access-line revenues and profitability. As of December 31, 2002 and 2001, we had approximately 913,000 and 1,371,000 access lines (approximately 1.6% and 2.0% of our total access lines) supporting services of resale competitors throughout our 13-state area, primarily in Texas, California and Illinois. If current UNE-P regulations remain in place, we would expect our resale access lines to continue to decrease as UNE-P lines replace resale lines.

In addition to these wholesale rate and service regulations noted above, all of our wireline subsidiaries operate under state-specific elective "price cap regulation" for retail services (also referred to as "alternative regulation") that was either legislatively enacted or authorized by the appropriate state regulatory commission. Prior to price cap regulation, our wireline subsidiaries were under "rate of return regulation". Under rate of return regulation, the state regulatory commissions determined an allowable rate of return we could earn on plant in service and set tariff rates to recover the associated revenues required to earn that return. Under price cap regulation, price caps are set for regulated services and are not tied to the cost of providing the services or to rate of return requirements. Price cap rates may be subject to or eligible for annual decreases or increases and also may be eligible for deregulation or greater pricing flexibility if the associated service is deemed competitive under some state regulatory commission rules. Minimum customer service standards may also be imposed and payments required if we fail to meet the standards.

One of our responses to the multiple competitive pressures discussed above was our fourth-quarter 2002 launch of a single-brand packaging strategy that rewards customers who consolidate their services (e.g., local and long-distance telephone, DSL and wireless) with us. Called "SBC Connections", the new initiative delivers integrated bundles using a single bill. During 2003, we expect to focus on bundling wireline and wireless services, including combined packages of minutes.

Wireless
Cingular faces substantial competition in all aspects of its business as competition continues to increase in the wireless communications industry. Under current FCC rules, six or more PCS licensees, two cellular licensees and one or more enhanced specialized mobile radio licensees may operate in each of Cingular's markets. On average, Cingular has four to five other wireless competitors in each of its markets and competes for customers based principally on price, service offerings, call quality, coverage area and customer service.

Cingular's competitors are principally five national (Verizon Wireless, AT&T Wireless, Sprint PCS, Nextel Communications and T-Mobile) and a larger number of regional providers of cellular, PCS and other wireless communications services. Cingular also competes with resellers and wireline service providers. Moreover, Cingular may experience significant competition from companies that provide similar services using other communications technologies and services. While some of these technologies and services are now operational, others are being developed or may be developed in the future. See discussion of EDGE technology in "Wireless" under "Expected Growth Areas" above.

Directory
Our directory subsidiaries face competition from over 100 publishers of printed directories in their operating areas. Direct and indirect competition also exists from other advertising media, including newspapers, radio, television and direct-mail providers, as well as from directories offered over the Internet.

Accounting Policies and Standards

Significant Policies Because of the size of the financial statement elements they relate to, some of our accounting policies and estimates have a more significant impact on our financial statements than others:

- How we depreciate assets, including use of composite group depreciation and estimates of useful lives, are described in Notes 1 and 5. We assign useful lives based on periodic studies of actual asset lives. Changes in those lives with significant impact on the financial statements must be disclosed, but no such changes have occurred in the three years ended December 31, 2002. Effective January 1, 2003, as required by FAS 143, we will decrease our depreciation rates to exclude costs of removal in certain circumstances. This change is discussed further under "New Accounting Standards" below.
- Our recording of revenue is described in Note 1, and the associated estimate of bad debts is based on analysis of history and future expectations. In 2002, we performed an analysis which demonstrated a reduction in how long it takes to collect a delinquent account; this resulted in a reversal of approximately $36 in our allowances for uncollectibles.
- Our actuarial estimates of retiree benefit expense and the associated significant weighted-average assumptions are discussed in Note 10. One of the most significant of these is the return on assets assumption, which was 9.5% for the year ending December 31, 2002. Based on our long-term expectations of market returns in future years, we lowered our long-term rate of return on plan assets from 9.5% in 2002 to 8.5% for 2003. If all other factors were to remain unchanged, we expect a 1% decrease in the expected long-term rate of return would cause 2003 combined pension and postretirement cost to increase approximately $342 over 2002 (analogous change would result from a 1% increase). While the 10-year returns on our pension plan were 9% through 2002 and in double digits for the two years prior, including the adverse effects of the past three years in each figure, we do not expect these returns to continue. Under GAAP, the expected long-term rate of return is calculated on the market-related value of assets (MRVA). GAAP requires that actual gains and losses on pension and postretirement plan assets be recognized in the MRVA equally over a period of not more than five years. We use a methodology, allowed under GAAP, under which we hold the MRVA to within 20% of the actual fair value of plan assets, which can have the effect of accelerating the recognition of excess actual gains and losses into the MRVA to less than five years. Due to investment losses on plan assets experienced in the last several years, we expect this methodology to contribute approximately $605 to our combined net pension and postretirement cost in 2003 as compared with not using this methodology. This methodology did not have a significant effect on our 2002, 2001 or 2000 combined net pension and postretirement benefit as the MRVA was almost equal to the fair value of plan assets. Note 10 also discusses the effects of certain changes in assumptions related to medical trend rates on retiree health care costs. In response to increasing medical and prescription drug costs, we increased our medical trend rate in 2002.
- Our estimates of income taxes and the significant items giving rise to the deferred assets and liabilities are shown in Note 9. These reflect our assessment of actual future taxes to be paid on items reflected in the financial statements, giving consideration to both timing and probability of these estimates. Actual income taxes could vary from these estimates due to future changes in income tax law or on results from final Internal Revenue Service review of our tax returns.
- Our use of estimates to accrue probable liabilities is noted in Note 1, and significant individual accruals are discussed within the affected area. Included in these items are those special items that are described in Note 4 and in the "Segment Results" section of our Results of Operations discussion.
- Our policy on valuation of intangible assets is described in Note 1. In addition, for cost investments, we evaluate whether mark-to-market declines are temporary and reflected in other comprehensive income, or other than temporary and recorded as an expense in the income statement; this evaluation is based on the length of time and the severity of decline in the investment's value. Significant asset and investment valuation adjustments we have made are discussed in Notes 2 and 4.

- Our policy for stock options for senior and other management and nonmanagement employees and nonemployee directors has changed. Prior to January 1, 2002, we accounted for these plans using the intrinsic value-based method of accounting as allowed by FAS 123. In our previously reported results, no compensation cost was recognized in our Consolidated Statements of Income when options were issued at market value on the date of issuance. Effective January 1, 2002, we adopted the fair value recognition provisions of FAS 123. Under the retroactive restatement method of adoption we selected in accordance with the provisions of FAS 148, our 2001 and 2000 results have been restated to reflect the compensation costs that would have been recognized had the recognition provisions of FAS 123 been applied to all awards granted to employees after January 1, 1995. Compensation costs of $390, $380 and $273 for 2002, 2001 and 2000 were charged to operating expense for our stock option plans. The fair value of options was estimated using a Black-Scholes option pricing model. Two of the more significant assumptions used in this estimate are the expected option life and the expected volatility, which we estimate based on historical information. (See Note 12)

New Accounting Standards

On January 1, 2003, we adopted Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" (FAS 143). FAS 143 sets forth how companies must account for the costs of removal of long-lived assets when those assets are no longer used in a company's business, but only if a company is legally required to remove such assets. FAS 143 requires that companies record the fair value of the costs of removal in the period in which the obligations are incurred and capitalize that amount as part of the book value of the long-lived asset. To determine whether we have a legal obligation to remove our long-lived assets, we reviewed state and federal law and regulatory decisions applicable to our subsidiaries, primarily our wireline subsidiaries, which have long-lived assets. Based on this review, we concluded that we are not legally required to remove our long-lived assets, except in a few minor instances.

However, in November 2002 we were informed that the Securities and Exchange Commission (SEC) staff concluded that certain provisions of FAS 143 require that we exclude costs of removal from depreciation rates and accumulated depreciation balances in certain circumstances upon adoption, even where no legal removal obligations exist. In our case, this means that for plant accounts where our estimated costs of removal exceed the estimated salvage value, we are prohibited from accruing removal costs in those depreciation rates and accumulated depreciation balances in excess of the salvage value. For our other long-lived assets, where our estimated costs of removal are less than the estimated salvage value, we will continue to accrue the costs of removal in those depreciation rates and accumulated depreciation balances.

Therefore, in connection with the adoption of FAS 143 on January 1, 2003, we will reverse existing accrued costs of removal to the extent that it exceeds the estimated salvage value for those plant accounts. The noncash gain resulting from adoption will be recorded as a cumulative effect of accounting change on the income statement as of January 1, 2003. We currently estimate that the noncash gain will be approximately $4,000 to $6,000, before deferred taxes.

Beginning in 2003, for those plant accounts where our estimated costs of removal previously exceeded the estimated salvage value, we will now expense costs of removal only as we incur them (previously those costs had been recorded in our depreciation rates). As a result, our depreciation expense will decrease immediately and our operations and support expense will increase as these assets are removed from service. This change will affect both our consolidated results and our wireline segment. We currently estimate that the net impact of this change will be to increase consolidated pre-tax income and our wireline segment income in 2003 by approximately $200 to $300. However, over the life of the assets, total operating expenses recognized under this new accounting method will be approximately the same as under the previous method (assuming the cost of removal would be the same under both methods).

As noted in "Significant Accounting Policies" above, effective January 1, 2002, we adopted the fair value recognition provisions of FAS 123. In December 2002, the Financial Accounting Standards Board issued FAS 148 as an amendment to FAS 123, providing alternative methods of transition for an entity that voluntarily changes to the fair value method of accounting for stock-based employee compensation. As noted above, under the retroactive restatement method of adoption we selected in accordance with the provisions of FAS 148, our 2001 and 2000 results have been restated to reflect the compensation costs that would have been recognized had the recognition provisions of FAS 123 been applied to all awards granted to employees after January 1, 1995.

Statement of Financial Accounting Standards No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections," is effective January 1, 2003. The standard, among other changes, rescinds FASB Statement No. 4, "Reporting Gains and Losses from Extinguishment of Debt, an amendment of APB Opinion No. 30," which required all gains and losses from extinguishment of debt to be aggregated and, if material, classified as an extraordinary item, net of the related income tax effect. As a result, the criteria in APB Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," now will be used to classify those gains and losses. We are currently evaluating the standard but do not expect it to have a material effect on our results of operations or financial position.

Other Business Matters

WorldCom Bankruptcy On July 21, 2002, WorldCom and more than 170 related entities filed petitions for reorganization under Chapter 11 of the United States Bankruptcy Code. Our receivables from WorldCom as of the bankruptcy filing were approximately $320. At December 31, 2002, we had reserves of approximately $165 related to that filing. In addition to the reserves, we are withholding payments on amounts we owed WorldCom as of the filing date that equal or exceed the remaining $155. These withholdings relate primarily to amounts collected from WorldCom's long-distance customers in our role as billing agent and other general payables. The bankruptcy court has recognized that some providers, including our subsidiaries, have certain rights to offset such pre-bankruptcy amounts they owe WorldCom against unpaid pre-bankruptcy charges WorldCom owes these providers. The court has also directed WorldCom to negotiate post-petition offset arrangements with these providers. We estimate our post-petition billing to WorldCom to be approximately $160 per month. To date, WorldCom has paid its post-petition obligations to us on a timely basis. WorldCom has not yet filed a plan of reorganization; therefore, the effect on our financial position or results of operations cannot be determined at this time. On January 22, 2003, we filed with the court claims against WorldCom totaling $637. Our claims include $320 in receivables and an estimate of $317 related to several issues that are the subject of litigation or otherwise contingent plus claims for a variety of contingent and unliquidated items. Since $317 is only an estimate, our actual aggregate claims could be greater or less than $637, depending on, for example, offsets allowed and claims disallowed.

Antitrust Litigation Following the decision in Law Offices of Curtis V. Trinko v. Bell Atlantic Corp., 294 F.3d 307 (2d Cir. N.Y. 2002), petition for certiorari pending, eight consumer antitrust class actions were filed against SBC Communications Inc. in the United States District Court for the District of Connecticut. The primary claim in these suits is that SBC companies have, in violation of federal and state law, maintained monopoly power over local telephone service in all 13 states in which SBC subsidiaries are incumbent local exchange companies. The suits seek relief on behalf of a class broadly described as including all persons who purchased local telephone services in Arkansas, California, Connecticut, Illinois, Indiana, Kansas, Michigan, Missouri, Nevada, Ohio, Oklahoma, Texas and Wisconsin from August 8, 1996, and continuing to the present date.

Plaintiffs' motion for class certification is to be filed by March 21, 2003. SBC will oppose class certification and move for dismissal of the complaints.

In addition to the Connecticut class actions described above, the plaintiff in the lead Connecticut case has also filed a consumer antitrust class action in the United States District Court for the Southern District of New York against SBC, Verizon Communications Inc., BellSouth and Qwest Communications International Inc. alleging that they have violated federal and state antitrust laws by agreeing not to compete with one another and acting together to impede competition for local telephone services. We will also oppose class certification and move for dismissal of the complaints.

We believe that the possibility of an adverse outcome having a material effect on our financial statements in any of these cases is unlikely. However, we will continue to evaluate the potential impact of these suits on our financial results in light of appellate decisions that may impact the outcome of these cases and rulings by the courts in which these suits are pending on motions to dismiss and for class certification.

Liquidity and Capital Resources

We had $3,567 in cash and cash equivalents available at December 31, 2002.

In October 2002, we entered into a 364-day credit agreement totaling $4,250 with a syndicate of banks replacing pre-existing credit agreements of approximately $3,700. Advances under this agreement may be used for general corporate purposes, including support of commercial paper borrowings and other short-term borrowings. Under the terms of the agreement, repayment of advances up to $1,000 may be extended two years from the termination date of the agreement. Repayment of advances up to $3,250 may be extended to one year from the termination date of the agreement. There is no material adverse change provision governing the drawdown of advances under this credit agreement. We had no borrowings outstanding under committed lines of credit as of December 31, 2002.

Our consolidated commercial paper borrowings decreased $4,890 during 2002, and at December 31, 2002, totaled $1,148, of which $1,078 had an original maturity of 90 days or less, and $70 had an original maturity of more than 90 but less than 365 days. In the first quarter of 2002, SBC International Inc. initiated a commercial paper borrowing program in order to simplify intercompany borrowing arrangements. Our total commercial paper borrowings include borrowings under this program of $1,128 at December 31, 2002.

Cash from Operating Activities
During 2002, 2001 and 2000, our primary source of funds continued to be cash generated from operations, as shown in the Consolidated Statements of Cash Flows.

Substantially all of our capital expenditures are made in the wireline segment. We expect to fund these expenditures using cash from operations, depending on interest rate levels and overall market conditions, and incremental borrowings. The wireless and international segments should be self-funding as they are predominantly equity investments and not direct Company operations. We expect to fund any directory segment capital expenditures using cash from operations.

Cash from Investing Activities
To provide high-quality communications services to our customers we must make significant investments in property, plant and equipment. The amount of capital investment is influenced by demand for services and products, continued growth and regulatory commitments.

Our capital expenditures totaled $6,808, $11,189 and $13,124 for 2002, 2001, and 2000. Capital expenditures in the wireline segment, which represented substantially all of our total capital expenditures, decreased by 38.9% in 2002 compared to 2001, due to continued pressure from the U.S. economic and regulatory environments and our resulting lower revenue expectations. The wireline segment capital expenditures decreased by 8.5% in 2001 compared to 2000. We reduced deployment of our national broadband network because of burdensome regulations surrounding our DSL network.

In response to continued pressure from the U.S. economic and regulatory environments and our resulting lower revenue expectations, management expects total capital spending to be approximately $5,000 to $6,000, excluding Cingular, in 2003. We expect these expenditures to relate primarily to our wireline subsidiaries' networks, our broadband initiative (DSL) and support systems for our long-distance service.

In 2002 and 2001, our cash receipts from dispositions exceeded cash expended on acquisitions. In 2000, cash expended on acquisitions exceeded receipts from dispositions. (See Note 2)

In the second quarter of 2002, we entered into two agreements with Bell Canada: (1) to redeem a portion of our ownership in Bell Canada, representing approximately 4% of the company and (2) to give BCE the right to purchase our remaining interest in Bell Canada, during the fourth quarter of 2002. BCE exercised its right to purchase our remaining interest in Bell Canada at a price of 4,990 Canadian Dollars (CAD). In the fourth quarter of 2002, we received proceeds of $3,158, consisting of approximately 8.9 million shares of BCE stock and the remainder of $2,997 in cash and recognized a pre-tax gain of approximately $455 (see Note 2). We expect to use the proceeds from this transaction to reduce debt.

BCE also has the right to redeem notes held by us, at face value, for 314 CAD ($199 at December 31, 2002 exchange rates), plus accrued interest. Otherwise, the notes will mature on December 31, 2004. Our carrying value of the notes at December 31, 2002, was approximately $184.

In October 2002, we agreed to sell our 15% interest in Cegetel to Vodafone for approximately $2,270 in cash. The transaction closed in January 2003, and we recorded a pre-tax gain of approximately $1,574. We anticipate using the net proceeds from this transaction for general corporate purposes.

Cash from Financing Activities
Dividends declared by the Board of Directors of SBC and paid quarterly totaled $1.08 per share in 2002, $1.025 per share in 2001 and $1.015 per share in 2000. The total dividends declared were $3,591 in 2002, $3,448 in 2001 and $3,443 in 2000. Our dividend policy considers both the expectations and requirements of shareowners, internal requirements of SBC and long-term growth opportunities.

In November 2001, our Board of Directors authorized the repurchase of up to 100 million shares of SBC common stock. This was in addition to the January 2000 authorization to repurchase 100 million shares. In 2002, we spent $1,456 on these stock repurchases. As of December 31, 2002, we have repurchased a total of approximately 140 million shares of the 200 million that are authorized. We do not expect to repurchase significant additional shares under these authorizations in 2003.

During the first quarter of 2002, we reclassified $1,000 of 20-year annual Puttable Reset Securities (PURS) from debt maturing within one year to long-term debt. The PURS, a registered trademark, contain a 20-year series of simultaneous annual put and call options at par. These options are exercisable on June 5 of each year until June 5, 2021. At the time of issuance, we sold to an investment banker the 20-year option to call the PURS on each annual reset date of June 5. If the call option is exercised, each PURS holder will be deemed to have sold its PURS to the investment banker. The investment banker will then have the right to remarket the PURS at a new interest rate for an additional 12-month period. The new annual interest rate will be determined according to a pre-set mechanism based on the then prevailing London Interbank Offer Rate (LIBOR). If the call option is not exercised on any given June 5, the put option will be deemed to have been exercised, resulting in the redemption of the PURS on that June 5. The proceeds of the PURS were used to retire short-term debt and for general corporate purposes. There are no special covenants or other provisions applicable to the PURS. The company supports this long-term classification based on its intent and ability to refinance the PURS on a long-term basis.

In February 2002, we issued a ten-year $1,000 global bond. The bond pays interest semi-annually at a rate of 5.875%. Proceeds from this debt issuance were used for general corporate purposes.

In March 2002, we issued $1,000 in one-year notes. The notes pay interest quarterly. The interest rate is based on LIBOR, which is determined two London business days preceding the settlement date. Proceeds from this debt issuance were used to refinance debt.

In August 2002, we issued ten-year $1,000 global notes. The notes pay interest semi-annually at a rate of 5.875%. Proceeds from this debt issuance were used primarily to repay a portion of our commercial paper borrowings and for general corporate purposes.

In December 2002, we redeemed, prior to maturity, approximately $50 of debt with a yield of 7.0%. The debt obligation was originally scheduled to mature in December 2020. In November 2002, we redeemed, prior to maturity, approximately $350 of multiple debt obligations that were originally scheduled to mature between October 2005 and April 2007. These notes carried interest rates ranging between 4.75% and 5.5%, with an average yield of 5.3%. We also redeemed, prior to maturity, approximately $55 of debt obligations during June 2002.

In the fourth quarter of 2002, we restructured our holdings in certain investments, including Sterling. As part of this restructuring, a newly created subsidiary issued a note for approximately $244, with an interest rate of 4.79%. The note is scheduled to mature in December 2007. In addition to this note, a newly created subsidiary issued approximately $43 of preferred stock. The preferred stock will accumulate dividends at an annual rate of 5.79% and can be converted, at the option of the holder, to common stock (but not a controlling interest) of the subsidiary at any time. (See Note 2)

We have approximately $750 of debt that is scheduled to mature in February 2003, $1,000 of floating short-term notes scheduled to mature in March 2003 and an anticipated net settlement of deferred tax liabilities requiring a potential payment of approximately $1,000 during the first half of 2003. We expect to use funds from operations to repay these obligations.

We expect to fund ongoing capital expenditures with cash provided by operations and incremental borrowings.

Other
Our total capital consists of debt (long-term debt and debt maturing within one year) and shareowners' equity. Our capital structure does not include debt issued by our international equity investees or Cingular. Total capital decreased $3,845 in 2002 and increased $1,232 in 2001. Total capital decreased in 2002 as compared to 2001 because of a significant reduction in our debt levels which was partially offset by lower net income and the repurchase of common shares through our stock repurchase programs. Our debt ratio was 39.9%, 44.3% and 45.0% at December 31, 2002, 2001 and 2000. The debt ratio is affected by the same factors that affect total capital.

Contractual Obligations, Commitments and Contingencies

Current accounting standards require us to disclose our material obligations and commitments to make future payments under contracts, such as debt and lease agreements, and under contingent commitments, such as debt guarantees. We occasionally enter into third-party debt guarantees, but they are not, nor are they reasonably likely to become, material. We disclose our contractual long-term debt repayment obligations in Note 7 and our operating lease payments in Note 5. In the ordinary course of business we routinely enter into commercial commitments for various aspects of our operations, such as plant additions and office supplies. However, we do not believe that the commitments will have a material effect on our financial condition, results of operations or cash flows.

Below is a table of our contractual obligations as of December 31, 2002. The purchase obligations listed below are those that we have guaranteed funds for, and will be funded with cash provided by operations or through incremental borrowings. Approximately 99% of the purchase obligations are in our wireline segment. Due to the immaterial value of our capital lease obligations, they have been included with long-term debt. Our total capital lease obligations are $143, with approximately $84 to be paid in less than one year. The table does not include our other long-term liabilities because it is not certain when those liabilities will become due. Our other long-term liabilities are: deferred income taxes (see Note 9) of $10,726; postemployment benefit obligations (see Note 10) of $14,094; unamortized investment tax credits of $244; and other noncurrent liabilities of $3,575, consisting primarily of supplemental retirement plans (see Note 10) and deferred lease revenue from our agreement with SpectraSite (see Note 5).

	Payments Due By Period				
Contractual Obligations	Total	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
Long-term debt obligations	$ 20,093	$ 1,354	$ 1,961	$ 3,556	$ 13,222
Other short-term debt obligations	1,003	1,003	-	-	-
Commercial paper obligations	1,148	1,148	-	-	-
Operating lease obligations	1,726	385	651	380	310
Purchase obligations	827	408	337	32	50
Total Contractual Obligations	$ 24,797	$ 4,298	$ 2,949	$ 3,968	$ 13,582

Market Risk

We are exposed to market risks primarily from changes in interest rates and foreign currency exchange rates. In managing exposure to these fluctuations, we may engage in various hedging transactions that have been authorized according to documented policies and procedures. We do not use derivatives for trading purposes, to generate income or to engage in speculative activity. Our capital costs are directly linked to financial and business risks. We seek to manage the potential negative effects from market volatility and market risk. The majority of our financial instruments are medium- and long-term fixed rate notes and debentures. Fluctuations in market interest rates can lead to significant fluctuations in the fair value of these notes and debentures. It is our policy to manage our debt structure and foreign exchange exposure in order to manage capital costs, control financial risks and maintain financial flexibility over the long term. Where appropriate, we will take actions to limit the negative effect of interest and foreign exchange rates, liquidity and counterparty risks on shareowner value.

Quantitative Information About Market Risk

Interest Rate Sensitivity The principal amounts by expected maturity, average interest rate and fair value of our liabilities that are exposed to interest rate risk are described in Notes 7 and 8. Following are our interest rate derivatives subject to interest rate risk as of December 31, 2002. The interest rates illustrated in the interest rate swaps section of the table below refer to the average expected rates we would receive and the average expected rates we would pay based on the contracts. The notional amount is the principal amount of the debt subject to the interest rate swap contracts. The fair value represents the amount we would receive if we exited the contracts as of December 31, 2002.

	Maturity							
	2003	2004	2005	2006	2007	After 2007	Total	Fair Value 12/31/02
Interest Rate Derivatives								
Interest Rate Swaps:								
Receive Fixed/Pay Variable Notional Amount	-	-	-	$1,000	-	-	$1,000	$84
Variable Rate Payable [1]	2.1%	3.0%	4.1%	4.6%	-	-		
Weighted Average Fixed Rate Receivable	5.7%	5.7%	5.7%	5.7%	-	-		
Lease Obligations								
Variable Rate Leases [2]	-	$81	-	-	-	-	$81	$81
Average Interest Rate [2]	1.7%	2.3%	-	-	-	-		

1 Interest payable based on Three Month London Interbank Offer Rate (LIBOR) plus or minus a spread.

2 Average interest rate as of December 31, 2002 based on current and implied forward rates for One Month LIBOR plus 30 basis points. The lease obligations require interest payments only until maturity.

The fair value of our interest rate swap contracts was $5 at December 31, 2001. In 2002, we entered into $500 in variable interest rate swap contracts. Of the $575 in variable rate contracts held at December 31, 2001, $75 were canceled during 2002 with no premium or penalty. We also held $5 in fixed interest rate swap contracts at December 31, 2001, all of which matured in 2002.

Qualitative Information About Market Risk

Foreign Exchange Risk From time to time, we make investments in businesses in foreign countries, are paid dividends, receive proceeds from sales or borrow funds in foreign currency. Before making an investment, or in anticipation of a foreign currency receipt, we often will enter into forward foreign exchange contracts. The contracts are used to provide currency at a fixed rate. Our policy is to measure the risk of adverse currency fluctuations by calculating the potential dollar losses resulting from changes in exchange rates that have a reasonable probability of occurring. We cover the exposure that results from changes that exceed acceptable amounts. We do not speculate in foreign exchange markets.

Interest Rate Risk We issue debt in fixed and floating rate instruments. Interest rate swaps are used for the purpose of controlling interest expense by managing the mix of fixed and floating rate debt. We do not seek to make a profit from changes in interest rates. We manage interest rate sensitivity by measuring potential increases in interest expense that would result from a probable change in interest rates. When the potential increase in interest expense exceeds an acceptable amount, we reduce risk through the issuance of fixed rate (in lieu of variable rate) instruments and purchasing derivatives.

Cautionary Language Concerning Forward-Looking Statements

Information set forth in this report contains forward-looking statements that are subject to risks and uncertainties. We claim the protection of the safe harbor for forward-looking statements provided by the Private Securities Litigation Reform Act of 1995.

The following factors could cause our future results to differ materially from those expressed in the forward-looking statements:

- Adverse economic changes in the markets served by SBC or in countries in which SBC has significant investments.
- Changes in available technology and the effects of such changes including product substitutions and deployment costs.
- Continued weakness in the U.S. securities market and adverse medical cost trends.
- The final outcome of Federal Communications Commission proceedings, including rulemakings, and judicial review, if any, of such proceedings, including issues relating to jurisdiction and unbundled network elements and platforms (UNE-Ps).
- The final outcome of state regulatory proceedings in SBC's 13-state area, and judicial review, if any, of such proceedings, including proceedings relating to interconnection terms, access charges, universal service, UNE-Ps and resale rates, SBC’s broadband initiative known as Project Pronto, service standards and reciprocal compensation.
- Enactment of additional state, federal and/or foreign regulatory laws and regulations pertaining to our subsidiaries and foreign investments.
- Our ability to absorb revenue losses caused by UNE-P requirements and maintain capital expenditures.
- The timing of entry and the extent of competition in the local and intraLATA toll markets in SBC’s 13-state area and the resulting pressure on access line totals and operating margins.
- Our ability to develop attractive and profitable product/service offerings to offset increasing competition in our wireline and wireless markets.
- The ability of our competitors to offer product/service offerings at lower prices due to adverse regulatory decisions, including state regulatory proceedings relating to UNE-Ps.
- Additional delays in our entry into the in-region long-distance market.
- The issuance by the Financial Accounting Standards Board or other accounting oversight bodies of new accounting standards or changes to existing standards.
- The impact of the Ameritech transaction, including performance with respect to regulatory requirements, and merger integration efforts.
- The timing, extent and cost of deployment of Project Pronto, its effect on the carrying value of the existing wireline network and the level of consumer demand for offered services.
- The impact of the wireless joint venture with BellSouth, known as Cingular, including marketing and product-development efforts, access to additional spectrum, technological advancements and financial capacity.
- Decisions by federal and state regulators and courts relating to bankruptcies of industry participants.

Readers are cautioned that other factors discussed in this report, although not enumerated here, also could materially impact our future earnings.

SBC Communications Inc.
Consolidated Statements of Income
Dollars in millions except per share amounts

	2002	2001	2000
Operating Revenues			
Voice	**$ 24,752**	$ 26,694	$ 26,875
Data	**9,639**	9,631	8,181
Wireless subscriber	**-**	155	4,945
Long-distance voice	**2,324**	2,530	2,726
Directory advertising	**4,504**	4,518	4,439
Other	**1,919**	2,380	4,208
Total operating revenues	**43,138**	45,908	51,374
Operating Expenses			
Operations and support (exclusive of depreciation and amortization shown separately below)	**25,937**	26,323	31,156
Depreciation and amortization	**8,578**	9,077	9,748
Total operating expenses	**34,515**	35,400	40,904
Operating Income	**8,623**	10,508	10,470
Other Income (Expense)			
Interest expense	**(1,382)**	(1,599)	(1,592)
Interest income	**561**	682	279
Equity in net income of affiliates	**1,921**	1,595	897
Other income (expense) - net	**734**	(208)	2,562
Total other income (expense)	**1,834**	470	2,146
Income Before Income Taxes	**10,457**	10,978	12,616
Income taxes	**2,984**	3,952	4,816
Income Before Extraordinary Items and Cumulative Effect of Accounting Change	**7,473**	7,026	7,800
Extraordinary items, net of tax	**-**	(18)	-
Cumulative effect of accounting change, net of tax	**(1,820)**	-	-
Net Income	**$ 5,653**	$ 7,008	$ 7,800
Earnings Per Common Share:			
Income Before Extraordinary Items and Cumulative Effect of Accounting Change	**$ 2.24**	$ 2.09	$ 2.30
Net Income	**$ 1.70**	$ 2.08	$ 2.30
Earnings Per Common Share-Assuming Dilution:			
Income Before Extraordinary Items and Cumulative Effect of Accounting Change	**$ 2.23**	$ 2.07	$ 2.27
Net Income	**$ 1.69**	$ 2.07	$ 2.27

The accompanying notes are an integral part of the consolidated financial statements.

SBC Communications Inc.
Consolidated Balance Sheets
Dollars in millions except per share amounts

	December 31,	
	2002	2001
Assets		
Current Assets		
Cash and cash equivalents	**$ 3,567**	$ 703
Accounts receivable - net of allowances for uncollectibles of $1,427 and $1,257	**8,540**	9,376
Prepaid expenses	**687**	932
Deferred income taxes	**704**	713
Other current assets	**591**	856
Total current assets	**14,089**	12,580
Property, Plant and Equipment - Net	**48,490**	49,827
Goodwill	**1,643**	3,577
Investments in Equity Affiliates	**10,470**	11,967
Notes Receivable From Cingular Wireless	**5,922**	5,924
Other Assets	**14,443**	12,447
Total Assets	**$ 95,057**	$ 96,322
Liabilities and Shareowners' Equity		
Current Liabilities		
Debt maturing within one year	**$ 3,505**	$ 9,033
Accounts payable and accrued liabilities	**9,413**	11,459
Accrued taxes	**870**	2,598
Dividends payable	**895**	858
Total current liabilities	**14,683**	23,948
Long-Term Debt	**18,536**	17,133
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	**10,726**	8,150
Postemployment benefit obligation	**14,094**	9,839
Unamortized investment tax credits	**244**	274
Other noncurrent liabilities	**3,575**	4,059
Total deferred credits and other noncurrent liabilities	**28,639**	22,322
Shareowners' Equity		
Preferred shares ($1 par value, 10,000,000 authorized: none issued)	**-**	-
Common shares ($1 par value, 7,000,000,000 authorized: issued 3,433,124,836 at December 31, 2002 and 2001)	**3,433**	3,433
Capital in excess of par value	**12,999**	12,820
Retained earnings	**23,802**	21,737
Treasury shares (115,483,544 at December 31, 2002 and 78,908,896 at December 31, 2001, at cost)	**(4,584)**	(3,482)
Additional minimum pension liability adjustment	**(1,473)**	-
Accumulated other comprehensive income	**(978)**	(1,589)
Total shareowners' equity	**33,199**	32,919
Total Liabilities and Shareowners' Equity	**$ 95,057**	$ 96,322

The accompanying notes are an integral part of the consolidated financial statements.

SBC Communications Inc.
Consolidated Statements of Cash Flows

Dollars in millions, increase (decrease) in cash and cash equivalents

	2002	2001	2000
Operating Activities			
Net Income	**$ 5,653**	$ 7,008	$ 7,800
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**8,578**	9,077	9,748
Undistributed earnings from investments in equity affiliates	**(1,586)**	(755)	(521)
Provision for uncollectible accounts	**1,407**	1,384	885
Amortization of investment tax credits	**(30)**	(44)	(71)
Deferred income tax expense	**2,470**	1,971	1,059
Gain on sales of investments	**(794)**	(498)	(2,902)
Extraordinary items, net of tax	**-**	18	-
Cumulative effect of accounting change, net of tax	**1,820**	-	-
Changes in operating assets and liabilities:			
Accounts receivable	**(571)**	(672)	(1,892)
Other current assets	**486**	(61)	(446)
Accounts payable and accrued liabilities	**(1,943)**	(2,364)	1,405
Other - net	**(280)**	(259)	(999)
Total adjustments	**9,557**	7,797	6,266
Net Cash Provided by Operating Activities	**15,210**	14,805	14,066
Investing Activities			
Construction and capital expenditures	**(6,808)**	(11,189)	(13,124)
Investments in affiliates - net	**(139)**	1,482	139
Purchase of short-term investments	**-**	-	(539)
Proceeds from short-term investments	**-**	510	-
Dispositions	**4,349**	1,254	4,476
Acquisitions	**(731)**	(445)	(5,121)
Other	**1**	1	(1)
Net Cash Used in Investing Activities	**(3,328)**	(8,387)	(14,170)
Financing Activities			
Net change in short-term borrowings with original maturities of three months or less	**(1,791)**	(2,733)	5,169
Issuance of other short-term borrowings	**4,618**	7,481	-
Repayment of other short-term borrowings	**(7,718)**	(4,170)	-
Issuance of long-term debt	**2,251**	3,732	1,087
Repayment of long-term debt	**(1,499)**	(4,036)	(1,128)
Early extinguishment of corporation-obligated mandatorily redeemable preferred securities of subsidiary trusts	**-**	(1,000)	-
Purchase of treasury shares	**(1,456)**	(2,068)	(2,255)
Issuance of treasury shares	**147**	323	732
Redemption of preferred shares of subsidiaries	**-**	(470)	-
Issuance of preferred shares of subsidiaries	**43**	-	-
Dividends paid	**(3,557)**	(3,456)	(3,418)
Other	**(56)**	39	65
Net Cash (Used in) Provided by Financing Activities	**(9,018)**	(6,358)	252
Net increase in cash and cash equivalents	**2,864**	60	148
Cash and cash equivalents beginning of year	**703**	643	495
Cash and Cash Equivalents End of Year	**$ 3,567**	$ 703	$ 643

The accompanying notes are an integral part of the consolidated financial statements.

SBC Communications Inc.
Consolidated Statements of Shareowners' Equity
Dollars and shares in millions except per share amounts

	2002		2001		2000	
	Shares	**Amount**	Shares	Amount	Shares	Amount
Common Stock						
Balance at beginning of year	**3,433**	**$ 3,433**	3,433	$ 3,433	3,433	$ 3,433
Balance at end of year	**3,433**	**$ 3,433**	3,433	$ 3,433	3,433	$ 3,433
Capital in Excess of Par Value						
Balance at beginning of year		**$ 12,820**		$ 12,611		$ 12,453
Transition effect of adoption of FAS 123		**-**		-		272
Issuance of shares		**(165)**		(281)		(678)
Stock option expense, net of tax		**368**		342		214
Other		**(24)**		148		350
Balance at end of year		**$ 12,999**		$ 12,820		$ 12,611
Retained Earnings						
Balance at beginning of year		**$ 21,737**		$ 18,174		$ 13,798
Net income ($1.70, $2.08 and $2.30 per share)		**5,653**		7,008		7,800
Dividends to shareowners ($1.08, $1.025 and $1.015 per share)		**(3,591)**		(3,448)		(3,443)
Other		**3**		3		19
Balance at end of year		**$ 23,802**		$ 21,737		$ 18,174
Treasury Shares						
Balance at beginning of year	**(79)**	**$(3,482)**	(46)	$(2,071)	(38)	$(1,717)
Purchase of shares	**(44)**	**(1,456)**	(47)	(2,068)	(49)	(2,255)
Issuance of shares	**8**	**354**	14	657	41	1,901
Balance at end of year	**(115)**	**$(4,584)**	(79)	$(3,482)	(46)	$(2,071)
Additional Minimum Pension Liability Adjustment						
Balance at beginning of year		**$ -**		$ -		$ -
Required charge (net of taxes of $904)		**(1,473)**		-		-
Balance at end of year		**$(1,473)**		$ -		$ -
Accumulated Other Comprehensive Income, net of tax						
Balance at beginning of year		**$(1,589)**		$(1,307)		$(1,062)
Foreign currency translation adjustment, net of taxes of $309, $(172) and $(234)		**628**		(320)		(435)
Reclassification adjustment to net income for cumulative translation adjustment on securities sold		**-**		-		329
Unrealized gains (losses) on available-for-sale securities, net of taxes of $(19), $(35) and $(21)		**(38)**		(64)		(40)
Less reclassification adjustment for net (gains) losses included in net income		**7**		5		(99)
Less reclassification adjustment for loss included in deferred revenue		**14**		97		-
Other comprehensive income (loss)		**611**		(282)		(245)
Balance at end of year		**$ (978)**		$(1,589)		$(1,307)
Total Comprehensive Income						
Net income		**$ 5,653**		$ 7,008		$ 7,800
Additional minimum pension liability adjustment per above		**(1,473)**		-		-
Other comprehensive income per above		**611**		(282)		(245)
Total Comprehensive Income		**$ 4,791**		$ 6,726		$ 7,555

The accompanying notes are an integral part of the consolidated financial statements.

Notes to Consolidated Financial Statements
Dollars in millions except per share amounts

Note 1. Summary of Significant Accounting Policies

Basis of Presentation – Throughout this document, SBC Communications Inc. is referred to as "we" or "SBC". The consolidated financial statements include the accounts of SBC and our majority-owned subsidiaries. Our subsidiaries and affiliates operate in the communications services industry both domestically and worldwide providing wireline and wireless telecommunications services and equipment as well as directory advertising and publishing services.

All significant intercompany transactions are eliminated in the consolidation process. Investments in partnerships, joint ventures, including Cingular Wireless (Cingular), and less than majority-owned subsidiaries where we have significant influence are accounted for under the equity method. We account for our 60% economic interest in Cingular under the equity method since we share control equally (i.e., 50/50) with our 40% economic partner in the joint venture. We have equal voting rights and representation on the board of directors that controls Cingular. Earnings from certain foreign investments accounted for using the equity method are included for periods ended within up to three months of our year end (see Note 6).

The preparation of financial statements in conformity with accounting principles generally accepted in the United States (GAAP) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes, including estimates of probable losses and expenses. Actual results could differ from those estimates. We have reclassified certain amounts in prior-period financial statements to conform to the current year's presentation.

Income Taxes – Deferred income taxes are provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. We provide valuation allowances against the deferred tax asset for amounts when the realization is uncertain.

Investment tax credits earned prior to their repeal by the Tax Reform Act of 1986 are amortized as reductions in income tax expense over the lives of the assets which gave rise to the credits.

Cash Equivalents – Cash and cash equivalents include all highly liquid investments with original maturities of three months or less, and the carrying amounts approximate fair value.

Revenue Recognition – Revenues and associated expenses related to nonrefundable, upfront wireline service activation fees are deferred and recognized over the average customer life of five years. Expenses, though exceeding revenue, are only deferred to the extent of revenue.

Certain revenues derived from local telephone, long-distance and wireless services (principally fixed fees) are billed monthly in advance and are recognized the following month when services are provided. Other revenues derived from telecommunications services, principally long-distance and wireless airtime usage (in excess or in lieu of fixed fees) and network access, are recognized monthly as services are provided.

We recognize revenues and expenses related to publishing directories on the "issue basis" method of accounting, which recognizes the revenues and expenses at the time the related directory is published, fulfilling our contractual obligation to our customers. The issue basis method is generally followed in the publishing industry. A change in the timing of the publication of a directory could change the period in which the related revenues and expenses will be recognized. These changes can have a material effect on quarterly revenues.

In 2002, we began reporting product-based revenue categories in our wireline segment for all periods presented. The new categories, voice, data and long-distance voice, provide a presentation of our wireline revenues that is more closely aligned with how we currently manage the business.

Cumulative Effect of Accounting Change – On January 1, 2002, we adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" (FAS 142). Adoption of FAS 142 means that we stopped amortizing goodwill, and at least annually we will test the remaining book value of goodwill for impairment. Any impairments subsequent to adoption will be recorded in operating expenses. We also stopped amortizing goodwill recorded on our equity investments. This embedded goodwill will continue to be tested for impairment under the accounting rules for equity investments, which are based on comparisons between fair value and carrying value.

With respect to our equity investments, Cingular stopped amortizing the Federal Communications Commission (FCC) wireless licenses they own as they determined that the licenses have an indefinite useful life because cash flows are expected to continue, and historical practice has shown that Cingular has been able to renew the licenses at each expiration date. During the second quarter of 2002, Cingular determined that an impairment existed upon adopting FAS 142. Our portion of Cingular's impairment was $19, with no income tax effect. As required by FAS 142, we recorded this amount retroactive to January 1, 2002.

During the fourth quarter of 2002, América Móvil S.A. de C.V. (América Móvil) completed its analysis of the impact of adopting FAS 142 on its investment in CompUSA and determined that an impairment existed. Our portion of América Móvil's impairment was $10, net of an income tax benefit of $5. As required by FAS 142, we recorded this amount retroactive to January 1, 2002. Our other international holdings have completed their FAS 142 impairment analyses; we did not record any additional cumulative effect as a result.

During the first quarter of 2002, in accordance with FAS 142, we completed our analysis of Sterling Commerce Inc. (Sterling), which is included in our wireline segment. This process included obtaining an independent appraisal of the fair value of Sterling as a whole and of its individual assets. Fair value was determined from the same cash flow forecasts used in December 2001 for the evaluation of Sterling's carrying value under Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" (FAS 121). FAS 121 was the accounting rule for impairment of goodwill that preceded FAS 142 and was effective through December 31, 2001. The valuation was then benchmarked against other guideline companies; however, because of its diversity in the e-commerce industry, Sterling has no truly comparable public companies. The valuation methodology required by FAS 142 is different than that required by FAS 121, in that it is more likely to result in an impairment because it requires the discounting of forecasted cash flows as compared to the undiscounted cash flow valuation method under FAS 121.

The allocation of fair values to identifiable tangible and intangible assets resulted in an implied valuation of the goodwill associated with Sterling of $646. This included a reclassification of the previously identified intangible asset of assembled work force into goodwill as required by FAS 142. Comparing this fair value to the carrying value resulted in an impairment of $1,791, with no income tax effect. This impairment was recorded as a cumulative effect of accounting change on the income statement as of January 1, 2002.

Our total cumulative effect of accounting change from the three items discussed above was a noncash charge of $1,820, net of an income tax benefit of $5, recorded as of January 1, 2002.

As required by FAS 142, the following table shows our 2001 and 2000 results, which are presented on a basis comparable to the 2002 results, adjusted to exclude amortization expense related to goodwill and FCC wireless licenses. The amortization of these FCC licenses was included in the equity method amortization line beginning in October 2000, since these amounts were recorded by Cingular, a joint venture accounted for under the equity method.

Year Ended December 31,	**2002**	2001	2000
Income before extraordinary item and cumulative effect of accounting change - as reported	**$ 7,473**	$ 7,026	$ 7,800
Add back: Goodwill amortization, net of tax	**-**	201	188
Add back: FCC wireless licenses, net of tax (prior to October 2000)	**-**	-	65
Add back: Equity method amortization, net of tax	**-**	258	192
Income before extraordinary item and cumulative effect of accounting change - as adjusted	**$ 7,473**	$ 7,485	$ 8,245
Net income - as reported	**$ 5,653**	$ 7,008	$ 7,800
Add back: Goodwill amortization, net of tax	**-**	201	188
Add back: FCC wireless licenses, net of tax (prior to October 2000)	**-**	-	65
Add back: Equity method amortization, net of tax	**-**	258	192
Net income - as adjusted	**$ 5,653**	$ 7,467	$ 8,245
Basic earnings per share:			
Net income - as reported	**$ 1.70**	$ 2.08	$ 2.30
Goodwill amortization	**-**	0.06	0.05
FCC wireless licenses (prior to October 2000)	**-**	-	0.02
Equity method amortization	**-**	0.08	0.06
Net income - as adjusted	**$ 1.70**	$ 2.22	$ 2.43
Diluted earnings per share:			
Net income - as reported	**$ 1.69**	$ 2.07	$ 2.27
Goodwill amortization	**-**	0.05	0.05
FCC wireless licenses (prior to October 2000)	**-**	-	0.02
Equity method amortization	**-**	0.08	0.06
Net income - as adjusted	**$ 1.69**	$ 2.20	$ 2.40

Property, Plant and Equipment – Property, plant and equipment is stated at cost. The cost of additions and substantial improvements to property, plant and equipment is capitalized. The cost of maintenance and repairs of property, plant and equipment is charged to operating expenses. Property, plant and equipment is depreciated using straight-line methods over their estimated economic lives. Certain subsidiaries follow composite group depreciation methodology; accordingly, when a portion of their depreciable property, plant and equipment is retired in the ordinary course of business, the gross book value is reclassified to accumulated depreciation; no gain or loss is recognized on the disposition of this plant.

On January 1, 2003, we adopted Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" (FAS 143). FAS 143 sets forth how companies must account for the costs of removal of long-lived assets when those assets are no longer used in a company's business, but only if a company is legally required to remove such assets. FAS 143 requires that companies record the fair value of the costs of removal in the period in which the obligations are incurred and capitalize that amount as part of the book value of the long-lived asset. To determine whether we have a legal obligation to remove our long-lived assets, we reviewed state and federal law and regulatory decisions applicable to our subsidiaries, primarily our wireline subsidiaries, which have long-lived assets. Based on this review, we concluded that we are not legally required to remove our long-lived assets, except in a few minor instances.

However, in November 2002 we were informed that the Securities and Exchange Commission (SEC) staff concluded that certain provisions of FAS 143 require that we exclude costs of removal from depreciation rates and accumulated depreciation balances in certain circumstances upon adoption, even where no legal removal obligations exist. In our case, this means that for plant accounts where our estimated costs of removal exceed the estimated salvage value, we are prohibited from accruing removal costs in those depreciation rates and accumulated depreciation balances in excess of the salvage value. For our other long-lived assets, where our estimated costs of removal are less than the estimated salvage value, we will continue to accrue the costs of removal in those depreciation rates and accumulated depreciation balances.

Therefore, in connection with the adoption of FAS 143 on January 1, 2003, we will reverse existing accrued costs of removal to the extent that it exceeds the estimated salvage value for those plant accounts. The noncash gain resulting from adoption will be recorded as a cumulative effect of accounting change on the income statement as of January 1, 2003. We currently estimate that the noncash gain will be approximately $4,000 to $6,000, before deferred taxes.

Beginning in 2003, for those plant accounts where our estimated costs of removal previously exceeded the estimated salvage value, we will now expense costs of removal only as we incur them (previously those costs had been recorded in our depreciation rates). As a result, our depreciation expense will decrease immediately and our operations and support expense will increase as these assets are removed from service. This change will affect both our consolidated results and our wireline segment. We currently estimate that the net impact of this change will be to increase consolidated pre-tax income and our wireline segment income in 2003 by approximately $200 to $300. However, over the life of the assets, total operating expenses recognized under this new accounting method will be approximately the same as under the previous method (assuming the cost of removal would be the same under both methods).

Software Costs – It is our policy to capitalize certain costs incurred in connection with developing or obtaining internal use software. Capitalized software costs are included in Property, Plant and Equipment and are being amortized over three years.

Goodwill – Goodwill represents the excess of consideration paid over net assets acquired in business combinations. Beginning in 2002, goodwill is not amortized, but is tested annually for impairment (see above discussion under Cumulative Effect of Accounting Change).

The changes in the carrying amount of goodwill are as follows:

	Wireline Segment	All Other	Total
Balance, December 31, 2001	$ 3,027	$ 550	$ 3,577
Sterling FAS 142 impairment	(1,791)	-	(1,791)
Deferred tax adjustment	(140)	-	(140)
Sterling transfer to Parent	(349)	349	-
Other	7	(10)	(3)
Balance, December 31, 2002	$ 754	$ 889	$ 1,643

For our reported results, the FAS 142 impairments recorded by Cingular and América Móvil are not shown in the table above but reduce the investment in equity affiliates line item on our Consolidated Balance Sheets.

In the fourth quarter of 2002, we internally restructured our ownership in several investments, including Sterling. As part of this restructuring, we transferred $349 of goodwill from Sterling to the SBC parent legal entity. (See Note 2)

Advertising Costs – Costs for advertising products and services or promoting our corporate image are expensed as incurred.

Foreign Currency Translation – Our foreign investments generally report their earnings in their local currencies. We translate our share of their foreign assets and liabilities at exchange rates in effect at the balance sheet dates. We translate our share of their revenues and expenses using average rates for the year. The resulting foreign currency translation adjustments are recorded as a separate component of accumulated other comprehensive income in the accompanying Consolidated Balance Sheets. Gains and losses resulting from exchange rate changes on transactions denominated in a currency other than the local currency are included in earnings as incurred.

Derivative Financial Instruments – We record derivatives on the balance sheet at fair value, and changes in the fair value are recorded in net income. We do not invest in derivatives for trading purposes. We use derivatives from time to time as part of our strategy to manage risks associated with our contractual commitments. For example, we use interest rate swaps to limit exposure to changes in interest rates on our debt obligations and foreign currency forward-exchange contracts to limit exposure to changes in foreign currency rates for transactions related to our foreign investments (see Note 8). We include gains or losses from interest rate swaps when paid or received in interest expense on our Consolidated Statements of Income. We include gains or losses from foreign currency forward exchange contracts as part of the transaction to which the forward exchange contract relates.

Stock-Based Compensation – As discussed more fully in Note 12, under various plans, senior and other management and nonmanagement employees and nonemployee directors have received stock options, performance stock units, and other nonvested stock units. Prior to January 1, 2002, we accounted for these plans using the intrinsic value-based method of accounting as allowed by Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (FAS 123). In our previously reported results, no compensation cost was recognized in our Consolidated Statements of Income when options were issued with exercise prices at or above market value on the date of issuance. Effective January 1, 2002, we adopted the fair value recognition provisions of FAS 123. Under the retroactive restatement method of adoption we selected in accordance with the provisions of Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure" (FAS 148), our 2001 and 2000 results have been restated to reflect the compensation costs that would have been recognized had the recognition provisions of FAS 123 been applied to all awards granted to employees after January 1, 1995. The adoption of FAS 123 as amended by FAS 148 reduced our 2002 net income $261, or $0.08 per share assuming dilution, 2001 net income $234, or $0.06 per share assuming dilution, and 2000 net income $167, or $0.05 per share assuming dilution. The fair value of options was estimated using a Black-Scholes option pricing model. Two of the more significant assumptions used in this estimate are the expected option life and the expected volatility, which we estimate based on historical information.

Pension and Postretirement Benefits – As discussed more fully in Note 10, our pension and postretirement benefit expense is measured, in part, based on certain actuarial assumptions. The weighted average expected return on assets assumption, which reflects our view of long-term returns, is one of the most significant of the weighted average assumptions used to determine our actuarial estimates of pension and postretirement benefit expense. Based on our long-term expectations of market returns in future years, we lowered our long-term rate of return on plan assets from 9.5% to 8.5% for 2003. If all other factors were to remain unchanged, we expect a 1% decrease in the expected long-term rate of return would cause 2003 combined pension and postretirement cost to increase approximately $342 over 2002 (analogous change would result from a 1% increase).

Under GAAP, the expected long-term rate of return is calculated on the market-related value of assets (MRVA). GAAP requires that actual gains and losses on pension and postretirement plan assets be recognized in the MRVA equally over a period of not more than five years. We use a methodology, allowed under GAAP, under which we hold the MRVA to within 20% of the actual fair value of plan assets, which can have the effect of accelerating the recognition of excess actual gains and losses into the MRVA to less than five years. Due to investment losses on plan assets experienced in the last several years, we expect this methodology to contribute approximately $605 to our combined net pension and postretirement cost in 2003 as compared with not using this methodology. This methodology did not have a significant effect on our 2002, 2001 or 2000 combined net pension and postretirement benefit as the MRVA was almost equal to the fair value of plan assets.

Note 2. Acquisitions, Dispositions, and Valuation and Other Adjustments

Restructuring of Investments – In the fourth quarter of 2002, we internally restructured our ownership in several investments, including Sterling. As part of this restructuring, a newly created subsidiary borrowed $244 from an independent party at an annual interest rate of 4.79%, repayable in five years (see Note 7). Additionally, a total of $43 of preferred securities in subsidiaries was sold to independent parties. The preferred interests receive preferred dividends at a 5.79% annual rate, paid quarterly (see Note 8). As we remain the primary beneficiary after the restructuring, the preferred securities are classified as "Other noncurrent liabilities" on our Consolidated Balance Sheets, and no gain or loss was recorded on the transaction. As a result, we recognized in net income $280 of tax benefits on certain financial expenses and losses that were not previously eligible for deferred tax recognition (see Note 9).

Acquisitions – In November 2001, we acquired the shares of Prodigy Communications Corporation (Prodigy) that we did not already own through a cash tender offer followed by a merger of a subsidiary into Prodigy. We paid approximately $470 and assumed debt of $105. This transaction resulted in approximately $589 in goodwill, which was not amortized in 2001. The majority of the shares we bought in the cash tender offer were from persons or entities affiliated with Teléfonos de México, S.A. de C.V. (Telmex), of which we own approximately 7.6%. In the fourth quarter of 2000, in connection with a change to our agreements with Prodigy, including an extension of a line of credit to Prodigy, we recognized a charge of approximately $143 ($89 net of tax). Approximately $110 of the charge was recorded in equity in net income of affiliates reflecting previously unrecognized equity losses from our investment in Prodigy. We had previously ceased recording losses when the cumulative losses had exceeded our basis of investment.

In August 2000, we acquired wireless properties in Washington and Texas from GTE Corporation for approximately $1,349. These properties were included in the contribution to Cingular.

In March 2000, we acquired Sterling, a provider of electronic business integration solutions, in an all-cash tender offer valued at approximately $3,576. The assets acquired include certain intangible assets such as developed technology, trade name, assembled work force, customer relationships and goodwill, which were assigned amortization lives of between 3 and 20 years. We expensed the acquired in-process research and development of approximately $132 in March 2000. In January 2002, in accordance with FAS 142, we determined that the fair value of our investment in Sterling was less than the carrying value at January 1, 2002. The allocation of fair values to identifiable tangible and intangible assets resulted in an implied valuation of the goodwill associated with Sterling of $646. This included a reclassification of the previously identified intangible asset of assembled work force into goodwill as required by FAS 142. Comparing this fair value to the carrying value resulted in an impairment of $1,791, with no income tax effect. This impairment is recorded as a cumulative effect of accounting change on the Consolidated Income Statement for 2002.

These acquisitions were accounted for under the purchase method of accounting. The purchase prices in excess of the underlying fair value of identifiable net assets acquired were assigned amortization lives not to exceed 40 years. However, beginning in 2002, this goodwill amount will not be amortized and goodwill will be tested annually for impairment (see Note 1). Results of operations of the properties acquired have been included in the consolidated financial statements from their respective dates of acquisition.

Dispositions – In the fourth quarter of 2002, we agreed to sell our 15% interest in Cegetel S.A. (Cegetel) to Vodafone Group PLC (Vodafone). The pending sale removed our significant influence and required us to change our accounting for Cegetel to the cost method from the equity method. With this change, the value of our investment is reflected in the "Other Assets" line on our December 31, 2002, Consolidated Balance Sheet. The sale was completed in January of 2003, and we received proceeds of $2,270 in cash and recorded a pre-tax gain of approximately $1,574.

In the second quarter of 2002, we entered into two agreements with Bell Canada Holdings Inc. (Bell Canada): (1) to redeem a portion of our ownership in Bell Canada and (2) to give BCE, Inc. (BCE) the right to purchase our remaining interest in Bell Canada. In June 2002, we entered into an agreement to redeem a portion of our ownership in Bell Canada, representing approximately 4% of the company, for an $873 short-term note, resulting in a pre-tax gain of approximately $148. Under the terms of the agreement, on July 15, 2002 when we received the proceeds from the short-term note, we purchased approximately 9 million shares of BCE, the majority shareholder of Bell Canada, for approximately 250 Canadian dollars (CAD) ($164 at July 15, 2002 exchange rates). The resale of these shares is restricted for a period of nine months from the date of issue. In May 2002, a BCE employee replaced our employee as chief financial officer of Bell Canada. Our removal from significant influence on day-to-day operations and the progression of negotiations to sell our interest in Bell Canada required us to change our accounting for Bell Canada to the cost method from the equity method. With this change, the value of our investment was moved to the "Other Assets" line on our Consolidated Balance Sheet.

In the fourth quarter of 2002, BCE exercised its right to purchase our remaining 16% interest in Bell Canada at a price of 4,990 CAD. We received proceeds of $3,158, consisting of approximately 8.9 million shares of BCE stock and the remainder of $2,997 in cash and recognized a pre-tax gain of approximately $455. For a detailed discussion on the foreign currency hedge transaction relating to this disposition see Note 8.

In November 2001, we sold the assets of Ameritech New Media, a cable television operation, for approximately $205, resulting in a pre-tax loss of $61. In the first quarter of 2001, in anticipation of the disposal of these cable operations and in accordance with FAS 121, we evaluated these operations for impairment. We estimated that the future undiscounted cash flows of these operations were insufficient to recover their related carrying values. The impairment was measured by comparing the book value to fair value of the assets as indicated by prevailing market prices. The resulting adjustment of approximately $316 ($205 net of tax) to reduce the book value of these assets, primarily writing down property, plant and equipment, was recorded in the first quarter of 2001 as a charge to operating expenses.

In January 2001, we sold SecurityLink, our electronic security services operations, for approximately $479. As a result of the pending sale, as well as a general decline in the market value of companies in the security industry, we reviewed the carrying value of our investment in SecurityLink at December 31, 2000. This review included estimating remaining useful lives and cash flows. As this review indicated impairment, fair market values, including in some cases discounted cash flows as an estimate of fair value related to those assets, were analyzed to determine the amount of the impairment. Those fair market values also were compared to market values of comparable publicly traded companies. As a result of this review, we recognized impairments to the carrying value of SecurityLink of approximately $614 ($454 net of tax) in the fourth quarter of 2000. Approximately $430 of that charge was a write-off of goodwill.

Due to our wireless property contribution to Cingular in October 2000, we were required to sell our overlapping properties, which included selected wireless properties in Louisiana and Indiana. This resulted in a pre-tax gain of $357.

In August 2000, we sold our interest and TDC A/S (TDC), an equity investee, also sold its interest in Netcom GSM, a wireless telecommunications provider in Norway, which resulted in a direct and indirect pre-tax gain of approximately $546. In August 2000, we also sold our interest in MATÁV, a Hungarian telecommunications company, to Deutsche Telekom A. G. (Deutsche Telekom), our partner in the investment, for approximately $2,199, resulting in a pre-tax gain of approximately $1,153.

Valuation Adjustments – In January 2002, we purchased from América Móvil its approximately 50% interest in Cellular Communications of Puerto Rico (CCPR) for cash and a note redeemable for our investment in Telecom Américas Ltd. (Telecom Américas). We retained the right to settle the note by delivering Telecom Américas shares. This represented a forward sale of our interest in Telecom Américas. In connection with this transaction, we reviewed the values at which we would carry CCPR and our interest in Telecom Américas and recognized a charge of $390 ($262 net of tax) for the reduction of our direct and indirect book values to the value indicated by the transaction. We based this valuation on a contemporaneous transaction involving CCPR and an independent third party. The charges were recorded in both other income (expense) – net ($341) and equity in net income of affiliates ($49). América Móvil exercised its option to acquire our shares of Telecom Américas in July 2002.

As discussed in more detail in Note 5, in the third quarter of 2001, we recognized an other-than-temporary decline of $162 ($97 net of tax) in the value of SpectraSite Communications Inc. (SpectraSite) shares we received as payment of future rents on land and wireless towers and related equipment. As we were required to hold the shares, we determined that we needed to adjust the value of the total consideration received from SpectraSite for entering into the tower leases to reflect actual realizable value. Accordingly, we reduced the amount of deferred revenue that was recorded when these shares were originally received. This adjustment will have the effect of reducing revenue recognized on the leases in the future. In June 2002, with SpectraSite stock trading at approximately $0.18 per share, we recorded another other-than-temporary decline of $40 ($24 net of tax).

We had cost investments in Williams Communications Group Inc. (Williams) and alternative providers of DSL services accounted for under Statement of Financial Accounting Standards No. 115, “Accounting for Certain Investments in Debt and Equity Securities” (FAS 115). We periodically review the investments to determine whether an investment’s decline in value is other than temporary. If so, the cost basis of the investment is written down to fair value, which is the new cost basis.

In the second quarter of 2001, we concluded that the continued depressed market values for certain of our investments in other telecommunications companies, as well as difficulties experienced by many similar companies, indicated the decline in value of our investments was other than temporary. As a result of these reviews, we recognized a combined charge of $401 ($261 net of tax) in the second quarter of 2001 in other income (expense) – net, primarily related to our investment in Williams.

In the fourth quarter of 2000, we concluded that the precipitous decline of the market values of the alternative providers of DSL, as well as difficulties experienced by many companies in that industry, indicated the decline in value of our investments was other than temporary. As a result of these reviews, we recognized a combined charge of $214 ($134 net of tax) in the fourth quarter of 2000 in other income (expense) - net.

Comprehensive Review of Operations – During the fourth quarter of 2001, we performed a comprehensive review of operations that resulted in decisions to reduce our work force, terminate certain real estate leases and shut down certain operations. The charges related to those decisions, which we recorded as expense in 2001 are as follows:

- **Work force-reduction charges** Our review of staffing needs led to decisions to reduce our number of management and nonmanagement employees. We recorded a charge of approximately $377 ($244 net of tax), related to severance costs under our existing plans and an enhanced retirement benefit for certain nonmanagement employees (see Note 11).
- **Lease termination charges** As part of a review of real estate needs for our adjusted work force, all company-leased facilities were evaluated for probability of future usefulness. For each lease having no substantive future use or benefit to us, an accrual was made which represented either the buyout provisions of the lease, a negotiated lease termination or future required payments under the lease, net of anticipated sublease rentals. We recorded a charge of approximately $138 ($90 net of tax) in relation to these leases.
- **Asset impairments and other charges** A review of certain nonstrategic operations indicated the need, in some cases, for either impairment or shutdown. We recorded asset impairment and shutdown costs and other charges of approximately $104 ($91 net of tax) for operations including exiting operations at InQuent Technologies Inc., the parent company of Webhosting.com.

Note 3. Earnings Per Share

A reconciliation of the numerators and denominators of basic earnings per share and diluted earnings per share for income before extraordinary item and cumulative effect of accounting change for the years ended December 31, 2002, 2001 and 2000 are shown in the table below:

Year Ended December 31,		**2002**		2001		2000
Numerators						
Numerator for basic earnings per share:						
Income before extraordinary items and cumulative effect of accounting change	**$**	**7,473**	$	7,026	$	7,800
Dilutive potential common shares:						
Other stock-based compensation		**7**		6		6
Numerator for diluted earnings per share	**$**	**7,480**	$	7,032	$	7,806
Denominators						
Denominator for basic earnings per share:						
Weighted average number of common shares outstanding (000,000)		**3,330**		3,366		3,392
Dilutive potential common shares (000,000):						
Stock options		**8**		21		33
Other stock-based compensation		**10**		9		8
Denominator for diluted earnings per share		**3,348**		3,396		3,433
Basic earnings per share						
Income before extraordinary items and cumulative effect of accounting change	**$**	**2.24**	$	2.09	$	2.30
Extraordinary items		**-**		(0.01)		-
Cumulative effect of accounting change		**(0.54)**		-		-
Net income	**$**	**1.70**	$	2.08	$	2.30
Diluted earnings per share						
Income before extraordinary items and cumulative effect of accounting change	**$**	**2.23**	$	2.07	$	2.27
Extraordinary items		**-**		-		-
Cumulative effect of accounting change		**(0.54)**		-		-
Net income	**$**	**1.69**	$	2.07	$	2.27

At December 31, 2002, 2001 and 2000, we had issued options to purchase approximately 229 million, 207 million and 156 million SBC shares. Approximately 180 million, 62 million and 22 million shares, respectively, were not used to determine the dilutive potential common shares as the exercise price of these options was greater than the average market price of SBC common stock during the specified periods.

Note 4. Segment Information

Our operating segments represent strategic business units that offer different products and services and are managed accordingly. Under GAAP segment reporting rules, we analyze our various operating segments based on segment income, and, as noted below, we exclude special items and analyze them separately. Interest expense, interest income and other income (expense) – net are managed only on a total company basis and are, accordingly, reflected in the other segment. Therefore, these items are not included in the calculation of each segment's percentage of our consolidated segment income.

Beginning with the release of our first quarter 2003 results, we will be providing expanded information for our segments. To that end, we expect to revise each segment's "operations and support expenses" line item to include separate discussions on individual components. While we are currently determining these components, we expect them to include selling, general and administrative expenses and cost of sales. We have five reportable segments that reflect the current management of our business: (1) wireline; (2) wireless; (3) directory; (4) international; and (5) other.

The wireline segment provides landline telecommunications services, including local and long-distance voice, switched access, messaging service and data.

The wireless segment provides wireless telecommunications services and equipment and substantially all of these operations were contributed to Cingular in October 2000. Our historical wireless operations represented approximately three-fourths of the wireless segment results for the year ended December 31, 2000. Results from Cingular's operations are reported as equity in net income of affiliates in our consolidated financial statements. However, when we analyze our operating segment results, we evaluate the performance of the wireless segment based on the proportion of Cingular's results equal to our economic ownership (60%), along with our wireless properties that were not contributed to Cingular. This means that we include 60% of Cingular's revenues and expenses in our wireless segment operating revenues and operating expenses. While including 60% of Cingular's results in the wireless segment results will change revenues, expenses, operating income and nonoperating items for the wireless segment, it will not change our wireless segment income, consolidated segment net income, or reported net income.

The directory segment includes all directory operations, including Yellow and White Pages advertising and electronic publishing. Our international segment includes all investments with primarily international operations.

The other segment includes all corporate and other operations.

Consolidated segment results for 2002, 2001 and 2000 excluded the following special items. As supplemental information, we have indicated in brackets the name of the segment most closely associated with the legal entity affected by each special item. As noted above, these special items are not part of our operating segment results.

Special items for 2002:

- Combined charges of $872 ($541 net of tax) (recorded in operating expenses) for enhanced pension benefits, pension settlements, severance costs and real estate costs related to work force-reduction programs. [Wireline, Directory and Other]
- A charge of $142 ($88 net of tax) (recorded in equity in net income of affiliates for Consolidated results and recorded in operating expenses for Consolidated Segment results) for our proportionate share of impairments, severance and restructuring costs at Cingular. The impairments included, among other items, write-downs related to Cingular interactive paging and transmission equipment in markets with complete system conversions. [Wireless]
- A gain of $603 ($543 net of tax) (recorded in other income (expense) - net) on the redemption of our interest in Bell Canada. [International]
- A tax benefit of $280 resulting from an internal restructuring of our ownership of several investments, including Sterling (see Note 2). [Consolidated Segments only]

- Income of $326 ($212 net of tax) (recorded in equity in net income of affiliates) consisting of 1) income of $371 ($257 net of tax) from our proportionate share of the gains at TDC and Belgacom related to the disposition of their Netherlands wireless operations as a result of a call by a subsidiary of Deutsche Telekom. The components of this amount included a gain at Belgacom of $75 ($49 net of tax) on the disposition and a direct and indirect gain at TDC of $296 ($208 net of tax); 2) a gain of $13 (with no tax effect) for a reduction in a previously recorded restructuring accrual at a TDC affiliate; and 3) a charge of $58 (with no tax effect) related to impairments on TDC's investments in Poland, Norway and the Czech Republic. [International]
- A charge of $101 ($68 net of tax) (recorded in equity in net income of affiliates) representing our proportionate share of restructuring costs at Belgacom. These costs were primarily related to a work force-reduction initiative. [International]
- Additional bad debt reserves of $125 ($84 net of tax) (recorded in operating expenses) as a result of the July 2002 WorldCom, Inc. (WorldCom) bankruptcy filing. [Wireline]

Special items for 2001:

- Pension settlement gains of $1,097 ($688 net of tax) (recorded in operating expenses) related to management employees, primarily resulting from a fourth-quarter 2000 voluntary retirement program net of costs associated with that program. [Wireline, Directory, International and Other]
- Combined charges of $401 ($261 net of tax) (recorded in other income (expense) - net) primarily related to valuation adjustments of Williams as well as certain other cost investments accounted for under FAS 115. The charges resulted from an evaluation that the decline was other than temporary. [Other]
- Reduction of a valuation allowance of $120 ($78 net of tax) (recorded in other income (expense) - net) on a note receivable related to the sale of SecurityLink. The note was collected in July 2001. [Other]
- Combined charges of $316 ($205 net of tax) (recorded in operating expenses) related to impairment of our cable operations. [Wireline and Other]
- A charge of $390 ($262 net of tax) (recorded in equity in net income of affiliates and other income (expense) - net) indicated by a transaction pending as of December 31, 2001, to reduce the direct and indirect book value of our investment in Telecom Americas. [International]
- A charge of $197 (with no tax effect) (recorded in equity in net income of affiliates) for costs related to TDC's decision to discontinue nonwireless operations of its Talkline subsidiary and our impairment of the goodwill we allocated to Talkline. [International]
- A charge of $197 ($128 net of tax) (recorded in operating expenses) representing a proposed settlement agreement with the Illinois Commerce Commission (ICC) related to a provision of the Ameritech Corporation (Ameritech) merger. The amount represents an estimate of all future savings to be shared with our Illinois customers. [Wireline]
- Combined charges of $619 ($425 net of tax) (recorded in operating expenses) associated with our comprehensive review of operations in the fourth quarter of 2001, which resulted in decisions to reduce work force, terminate certain real estate leases and shut down certain operations (see Note 2). [Wireline, Directory and Other]

Special items for 2000:

- Gains of $1,886 ($1,248 net of tax) (recorded in equity in net income of affiliates and other income (expense) - net) related to the sale of direct and indirect investments in MATAV and Netcom GSM, two international equity affiliates, and from the contribution of our investment in ATL - Algar Telecom Leste S.A. (ATL), a Brazilian telecommunications company, to Telecom Americas. [International]
- Gains of $238 ($155 net of tax) (recorded in other income (expense) - net) on the sale of Telmex L shares associated with our private purchase of a note receivable with characteristics that essentially offset future mark-to-market adjustments on the Debt Exchangeable for Common Stock (DECS). [International]
- Pension settlement gains of $512 ($328 net of tax) (recorded in operating expenses and equity in net income of affiliates) associated with pension litigation, first-quarter payments primarily related to employees who terminated employment during 1999 and gains resulting from a voluntary retirement program net of enhanced pension and postretirement benefits associated with that program (see Note 10). [Wireline, Directory, International and Other]
- Costs of $1,205 ($800 net of tax) (recorded in operating expenses and other income (expense) – net) associated with strategic initiatives and other adjustments resulting from the merger integration process with Ameritech. [Wireline, Directory and Other]
- A charge of $132 (with no tax effect) (recorded in operating expenses) related to in-process research and development from the March 2000 acquisition of Sterling (see Note 2). [Other]
- Combined charges of $971 ($677 net of tax) (recorded in operating expenses, equity in net income of affiliates and other income (expense) - net) related to valuation adjustments of SecurityLink and certain cost investments accounted for under FAS 115, and the restructure of agreements with Prodigy, including the extension of a credit facility and recognition of previously unrecognized equity losses from our investment (see Note 2). [Other]
- Gains of $357 ($99 net of tax) (recorded in other income (expense) - net) primarily related to our required disposition of overlapping wireless properties in connection with our contribution of operations to Cingular. [Other]

In the tables below, we show how our segment results are reconciled in three steps to our consolidated results reported in accordance with GAAP. The Wireline, Wireless, Directory, International and Other columns represent the results of each such operating segment. First, we use the elimination column (Elim.) to eliminate any intercompany transactions included in each segment’s results and to eliminate 60% of our intercompany transactions with Cingular. Second, we use the Cingular De-consolidation column to remove 60% of Cingular’s results from the wireless segment and include these results in the “Equity in net income of affiliates” line item in accordance with GAAP. Last, the Reconciling Adjustments column adds back the impact of the special items listed above in order to reconcile our segment results to our consolidated results as reported in accordance with GAAP. In the balance sheet section of the tables below, our investment in Cingular is included in the “Investment in equity method investees” line item in the Other column.

Segment results, including a reconciliation to SBC consolidated results, for 2002, 2001 and 2000 are as follows:

At December 31, 2002 or for the year ended

	Wireline	Wireless	Directory	Inter-national	Other	Elim.	Consolidated Segment Results	Cingular De-consol-idation	Reconciling Adjustments	As Reported
Revenues from external customers	**$ 38,362**	**$ 8,836**	**$ 4,371**	**$ 35**	**$ 370**	**$ (219)**	**$ 51,755**	**$ (8,617)**	**$ -**	**$ 43,138**
Intersegment revenues	**30**	**-**	**80**	**-**	**19**	**(129)**	**-**	**-**	**-**	**-**
Total segment operating revenues	**38,392**	**8,836**	**4,451**	**35**	**389**	**(348)**	**51,755**	**(8,617)**	**-**	**43,138**
Operations and support expenses	**23,008**	**6,093**	**1,928**	**85**	**26**	**(348)**	**30,792**	**(5,994)**	**1,139**	**25,937**
Depreciation and amortization expenses	**8,442**	**1,240**	**30**	**-**	**120**	**-**	**9,832**	**(1,254)**	**-**	**8,578**
Total segment operating expenses	**31,450**	**7,333**	**1,958**	**85**	**146**	**(348)**	**40,624**	**(7,248)**	**1,139**	**34,515**
Segment operating income	**6,942**	**1,503**	**2,493**	**(50)**	**243**	**-**	**11,131**	**(1,369)**	**(1,139)**	**8,623**
Interest expense	**-**	**-**	**-**	**-**	**1,664**	**-**	**1,664**	**(282)**	**-**	**1,382**
Interest income	**-**	**-**	**-**	**-**	**314**	**-**	**314**	**247**	**-**	**561**
Equity in net income of affiliates	**-**	**(4)**	**-**	**926**	**15**	**-**	**937**	**759**	**225**	**1,921**
Other income (expense) - net	**-**	**-**	**-**	**-**	**56**	**-**	**56**	**75**	**603**	**734**
Segment income before income taxes	**6,942**	**1,499**	**2,493**	**876**	**(1,036)**	**-**	**10,774**	**(6)**	**(311)**	**10,457**
Segment assets	**66,117**	**15,197**	**2,839**	**8,352**	**56,982**	**(39,957)**	**N/A**	**(14,473)**	**N/A**	**95,057**
Investment in equity method investees	**124**	**1,580**	**28**	**5,668**	**4,460**	**-**	**N/A**	**(1,390)**	**N/A**	**10,470**
Expenditures for additions to long-lived assets	**6,736**	**2,366**	**11**	**-**	**61**	**-**	**N/A**	**(2,366)**	**N/A**	**6,808**

At December 31, 2001 or for the year ended

	Wireline	Wireless	Directory	Inter-national	Other	Elim.	Consolidated Segment Results	Cingular De-consol-idation	Reconciling Adjustments	As Reported
Revenues from external customers	$ 40,660	$ 8,647	$ 4,382	$ 152	$ 532	$ (72)	$ 54,301	$ (8,393)	$ -	$ 45,908
Intersegment revenues	30	-	86	33	54	(203)	-	-	-	-
Total segment operating revenues	40,690	8,647	4,468	185	586	(275)	54,301	(8,393)	-	45,908
Operations and support expenses	24,315	5,957	1,907	240	245	(275)	32,389	(5,713)	(353)	26,323
Depreciation and amortization expenses	8,383	1,232	36	3	205	-	9,859	(1,170)	388	9,077
Total segment operating expenses	32,698	7,189	1,943	243	450	(275)	42,248	(6,883)	35	35,400
Segment operating income	7,992	1,458	2,525	(58)	136	-	12,053	(1,510)	(35)	10,508
Interest expense	-	-	-	-	1,758	-	1,758	(159)	-	1,599
Interest income	-	-	-	-	374	-	374	308	-	682
Equity in net income of affiliates	-	(11)	-	800	14	-	803	1,038	(246)	1,595
Other income (expense) - net	-	-	-	-	413	-	413	1	(622)	(208)
Segment income before income taxes	7,992	1,447	2,525	742	(821)	-	11,885	(4)	(903)	10,978
Segment assets	71,037	14,234	2,777	9,456	57,423	(45,087)	N/A	(13,518)	N/A	96,322
Investment in equity method investees	120	1,403	21	8,196	3,441	-	N/A	(1,214)	N/A	11,967
Expenditures for additions to long-lived assets	11,032	2,079	24	-	93	-	N/A	(2,039)	N/A	11,189

At December 31, 2000 or for the year ended	Wireline	Wireless	Directory	Inter-national	Other	Elim.	Consolidated Segment Results	Cingular De-consol-idation	Reconciling Adjustments	As Reported
Revenues from external customers	$ 39,709	$ 7,941	$ 4,251	$ 320	$ 1,012	$ (22)	$ 53,211	$ (1,814)	$ (23)	$ 51,374
Intersegment revenues	182	1	89	8	86	(366)	-	-	-	-
Total segment operating revenues	39,891	7,942	4,340	328	1,098	(388)	53,211	(1,814)	(23)	51,374
Operations and support expenses	23,659	5,348	2,017	459	644	(388)	31,739	(1,338)	755	31,156
Depreciation and amortization expenses	7,869	1,083	32	17	350	-	9,351	(253)	650	9,748
Total segment operating expenses	31,528	6,431	2,049	476	994	(388)	41,090	(1,591)	1,405	40,904
Segment operating income	8,363	1,511	2,291	(148)	104	-	12,121	(223)	(1,428)	10,470
Interest expense	-	-	-	-	1,638	-	1,638	(46)	-	1,592
Interest income	-	-	-	-	187	-	187	92	-	279
Equity in net income of affiliates	(12)	12	-	862	(1)	-	861	72	(36)	897
Other income (expense) - net	-	-	-	-	397	-	397	16	2,149	2,562
Segment income before income taxes	8,351	1,523	2,291	714	(951)	-	11,928	3	685	12,616
Segment assets	66,087	14,478	2,820	12,284	57,667	(42,483)	N/A	(12,202)	N/A	98,651
Investment in equity method investees	(5)	232	20	9,394	2,777	-	N/A	(40)	N/A	12,378
Expenditures for additions to long-lived assets	12,093	1,467	35	-	140	-	N/A	(611)	N/A	13,124

Geographic Information

Our investments outside of the United States are primarily accounted for under the equity method of accounting. Accordingly, we do not include in our operating revenues and expenses the revenues and expenses of these individual investees. Therefore, less than 1% of our total operating revenues for all years presented are from outside the United States.

Long-lived assets consist primarily of net property, plant and equipment; goodwill; and the book value of our equity investments, and are shown in the table below:

December 31,	**2002**	2001
United States	**$ 54,934**	$ 57,174
Canada	**-**	3,429
Denmark	**2,689**	1,959
Belgium	**1,122**	876
Mexico	**945**	1,008
France	**-**	478
South Africa	**623**	415
Other foreign countries	**290**	32
Total	**$ 60,603**	$ 65,371

Note 5. Property, Plant and Equipment

Property, plant and equipment is summarized as follows at December 31:

	Lives (years)	**2002**	2001
Land	-	**$ 627**	$ 601
Buildings	35-45	**11,168**	10,645
Central office equipment	3-10	**54,774**	52,164
Cable, wiring and conduit	10-50	**50,665**	49,008
Other equipment	5-15	**9,997**	10,277
Software	3	**3,016**	2,044
Under construction	-	**1,508**	2,785
		131,755	127,524
Accumulated depreciation and amortization		**83,265**	77,697
Property, plant and equipment - net		**$ 48,490**	$ 49,827

Our depreciation expense was $8,379, $8,596 and $8,480 for 2002, 2001 and 2000.

Certain facilities and equipment used in operations are leased under operating or capital leases. Rental expenses under operating leases for 2002, 2001 and 2000 were $586, $799 and $755. At December 31, 2002, the future minimum rental payments under noncancelable operating leases for the years 2003 through 2007 were $385, $385, $266, $205 and $175 with $310 due thereafter. Capital leases are not significant.

SpectraSite Agreement

In August 2000, SBC and SpectraSite reached an agreement under which we granted the exclusive rights to lease space on up to approximately 3,900 communications towers to SpectraSite. These leases were scheduled to close over a period ending in 2002. SpectraSite also agreed to build or buy an estimated 800 new towers for Cingular over the next five years. Cingular will sublease space on the towers from SpectraSite and will have expansion rights on a majority of the existing towers. Cingular's sublease payments to SpectraSite reduce Cingular's net income and should partially offset the income (described below) we receive from SpectraSite. As a result, we do not expect this agreement to have a material effect on our net income.

Under terms of the original agreement, if all communications towers were leased by SpectraSite, we would receive total consideration of approximately $1,300 in a combination of cash of $983 and SpectraSite common stock valued at $325, or $22.659 per share. The consideration represents prepayments on the operating leases with SpectraSite, is initially recorded as deferred revenue, and will be recognized in income as revenue over the life of the leases and is subject to future adjustment depending on changes in the stock price of SpectraSite. The SpectraSite shares we received were subject to restrictions on later sale by us. In addition, the agreement specified that we would receive additional shares of SpectraSite stock in the event of a decline in price of SpectraSite, up to a maximum of three-fourths of one share for each share held by us at the end of an initial three-year holding period.

During 2001, we received cash of $495 and SpectraSite stock in exchange for leasing 2,665 communication towers to SpectraSite. Also during the third quarter of 2001, we recognized an other-than-temporary decline of $162 ($97 net of tax) in the value of SpectraSite shares we received as payment of future rents on land and wireless towers and related equipment. This amount reflected the decline in the stock market price of SpectraSite shares below our carrying value. As we were required to hold the shares, we determined that we needed to adjust the value of the total consideration received from entering into the leases to reflect actual realizable value. Accordingly, we reduced the amount of deferred revenue that was recorded when these shares were originally received. This adjustment will have the effect of reducing revenue recognized on the leases in the future.

In November 2001, we amended our agreement with SpectraSite. We agreed to reduce the maximum number of communication towers to be leased to SpectraSite to 3,600 and to extend the schedule for closing on tower subleases until the first quarter of 2004. As consideration for those modifications, we received $35.

In June 2002, with SpectraSite stock trading at approximately $0.18 per share, we recorded another other-than-temporary decline of $40 ($24 net of tax). The potential maximum number of additional shares we could receive under terms of the agreement for our holdings as of December 31, 2002, was 7.4 million.

In November 2002, SpectraSite and certain of its senior debt holders agreed to restructure its debt. To effect the restructuring, SpectraSite filed a “pre-arranged” plan of reorganization under Chapter 11 of the United States Bankruptcy Code. We agreed with SpectraSite, subject to completion of its Chapter 11 reorganization, to decrease to approximately 3,300 the number of towers to be leased to SpectraSite and to extend the schedule for closing on tower subleases until the third quarter of 2004. It is not known at this time what effect the Chapter 11 filing will have on the value of our holdings in SpectraSite.

Note 6. Equity Investments

We account for investments in equity affiliates under the equity method of accounting. Our equity investments include our nationwide wireless joint venture, Cingular, and various international investments.

The following table is a reconciliation of our investments in equity affiliates:

	2002	2001	2000
Beginning of year	**$ 11,967**	$ 12,378	$ 10,648
Additional investments	**268**	184	783
Cingular contributions	**299**	506	2,688
Equity in net income	**1,921**	1,595	897
Dividends received	**(335)**	(840)	(376)
Currency translation adjustments	**962**	(528)	(849)
Dispositions	**(867)**	(113)	(811)
Other adjustments	**(3,745)**	(1,215)	(602)
End of year	**$ 10,470**	$ 11,967	$ 12,378

The currency translation adjustment for 2002 primarily reflects the effect of exchange rate fluctuations on our investments in TDC, Belgacom S.A. (Belgacom) and Telkom S.A. Limited (Telkom). Dispositions for 2002 reflect the sale of shares of Bell Canada of $719 (see Note 2), Telmex L shares of $98, América Móvil L shares of $40 and Amdocs shares of $10. Other adjustments for 2002 include adjustments of $2,887 and $696 resulting from our change from the equity method to the cost method of accounting for investments in Bell Canada and Cegetel, respectively (see Note 2). Other adjustments for 2002 also included a dividend from TDC that was treated as a return of capital due to TDC's insufficient undistributed earnings.

The currency translation adjustment for 2001 primarily reflects the effect of exchange rate fluctuations on our investments in Bell Canada, Telkom, Telmex and América Móvil. Dispositions for 2001 reflect our sale of TransAsia Telecommunications, Amdocs shares and diAx A.G. (diAx). Other adjustments for 2001 include the return of capital in Cingular and a dividend from TDC that was treated as a return of capital due to the nature of our investment in TDC, where we appoint six of twelve Board members, including the tie-breaking vote.

The currency translation adjustment for 2000 primarily reflects the effect of exchange rate fluctuations on our investments in TDC, Telmex, Telkom and Bell Canada. Dispositions for 2000 include the sale of our investment in MATÁV and the sale of Telmex L shares. Other adjustments for 2000 primarily consist of our contribution of ATL to Telecom Américas.

Undistributed earnings from equity affiliates were $3,929 and $2,858 at December 31, 2002 and 2001, including $1,868 and $1,109 from Cingular.

Wireless

We account for our 60% economic interest in Cingular under the equity method of accounting in our consolidated financial statements since we share control equally (i.e., 50/50) with our 40% economic partner in the joint venture. We have equal voting rights and representation on the board of directors that controls Cingular. Cingular serves approximately 22 million wireless customers, is the second-largest wireless operator in the United States and has approximately 231 million potential customers in 45 states, the District of Columbia, Puerto Rico and the U.S. Virgin Islands.

The following table presents summarized financial information for Cingular at December 31, or for the period then ended:

Income Statements	**2002**	2001	2000 (3 months)
Operating revenues	**$ 14,727**	$ 14,108	$ 3,060
Operating income	**2,280**	2,518	381
Net income	**1,207**	1,692	127
Balance Sheets			
Current assets	**$ 2,731**	$ 2,557	
Noncurrent assets	**21,391**	19,973	
Current liabilities	**2,787**	3,224	
Noncurrent liabilities	**13,794**	13,456	

Our initial contributions to Cingular in October 2000 included current assets of $2,100, noncurrent assets of $10,100, current liabilities of $1,400 and noncurrent liabilities of $8,100.

In 2002, we entered into a related-party agreement with Cingular to provide wholesale long-distance services to Cingular. Revenue from these long-distance services was approximately $123 in 2002.

At December 31, 2002, we had notes receivable from Cingular of $5,922 bearing interest at the annual rate of 7.5%. In November 2002, we extended the maturity of the advances from March 31, 2004, to March 31, 2005. We may continue to extend the maturity of the advances to the extent required in connection with Cingular's external credit facility. This interest income does not have a material impact on our net income as it is mostly offset when we record our share of equity income in Cingular. The interest income from Cingular was approximately $441 in 2002 and $555 in 2001.

In October 2001, Cingular announced it plans to begin upgrading its network to EDGE (Enhanced Data Rates for Global Evolution) third-generation wireless data technology. Cingular targets completion of the upgrade for the end of 2004 and approximates capital expenditures of $2,600 to $2,800 for the entire upgrade project. We expect funding for this upgrade to be provided by Cingular.

International

Our investments in equity affiliates include a 7.6% interest in Telmex, Mexico's national telecommunications company; a 7.6% interest in América Móvil, primarily a wireless provider in Mexico, with telecommunications investments in the United States and Latin America; a 41.6% interest in TDC, the national communications provider in Denmark; a 17.5% interest in Belgacom, the national communications provider in Belgium; and an 18% interest in Telkom, the state-owned telecommunications company of South Africa. TDC also holds a 16.5% interest in Belgacom, bringing our effective interest to 24.4%.

In the second quarter of 2002, we entered into two agreements with Bell Canada: (1) to redeem a portion of our ownership in Bell Canada, representing approximately 4% of the company and (2) to give BCE the right to purchase our remaining interest in Bell Canada. BCE exercised its right to purchase our remaining interest in Bell Canada during the fourth quarter of 2002. See Note 2 for a more detailed discussion on this divestiture.

In 2002, we agreed to sell to Vodafone our 15% equity interest in Cegetel, a joint venture that owns 80% of the second-largest wireless provider in France. The pending sale removed our significant influence and required us to change our accounting for Cegetel to the cost method from the equity method. With this change, the value of our investment is reflected in the "Other Assets" line on our December 31, 2002 Consolidated Balance Sheet. This transaction closed in the first quarter of 2003. (See Note 2)

The following table presents summarized financial information of our significant international investments accounted for using the equity method, taking into account all adjustments necessary to conform to GAAP but excluding our purchase adjustments, including goodwill, at December 31 or for the year then ended:

Income Statements	**2002**	2001	2000
Operating revenues	**$ 29,450**	$ 44,662	$ 40,190
Operating income	**13,010**	11,598	11,911
Net income	**6,380**	5,838	5,714
Balance Sheets			
Current assets	**$ 7,668**	$ 12,491	
Noncurrent assets	**27,636**	47,395	
Current liabilities	**7,631**	17,495	
Noncurrent liabilities	**17,105**	25,539	

At December 31, 2002, we had goodwill of approximately $1,682 related to our international investments in equity affiliates.

Based on the December 31, 2002 quoted market price of TDC stock, the aggregate market value of our investment in TDC was approximately $2,142. The fair value of our investment in Telmex, based on the equivalent value of Telmex L shares at December 31, 2002, was approximately $1,555. The fair value of our investment in América Móvil, based on the equivalent value of América Móvil L shares at December 31, 2002, was approximately $707. Belgacom and Telkom were not publicly traded at December 31, 2002, and thus do not have a readily available market value. Our weighted average share of operating revenues shown above was 16% in 2002 and 17% in 2001 and 2000.

Note 7. Debt

Long-term debt of SBC and its subsidiaries, including interest rates and maturities, is summarized as follows at December 31:

		2002		2001
Notes and debentures				
0.00% - 5.98% 2002 - 2038 [1]	**$**	**6,666**	$	5,800
6.03% - 7.85% 2002 - 2048 [2]		**13,118**		14,006
8.85% - 10.50% 2005 - 2016		**166**		240
		19,950		20,046
Unamortized discount - net of premium		**(203)**		(170)
Total notes and debentures		**19,747**		19,876
Capitalized leases		**143**		248
Total long-term debt, including current maturities		**19,890**		20,124
Current maturities of long-term debt		**(1,354)**		(2,991)
Total long-term debt	**$**	**18,536**	$	17,133

1 Includes $1,000 of 4.295% PURS maturing in 2021 with a put option by holder in 2003 and $250 of 5.95% debentures maturing in 2038 with a put option by holder in 2005.

2 Includes $125 of 6.35% debentures maturing in 2026 with a put option by holder in 2006.

At December 31, 2002, the aggregate principal amounts of long-term debt and weighted average interest rate scheduled for repayment for the years 2003 through 2007 were $1,354 (6.0%), $861 (6.5%), $1,100 (6.8%), $2,623 (5.9%) and $933 (6.3%) with $13,222 (6.5%) due thereafter. As of December 31, 2002, we were in compliance with all covenants and conditions of instruments governing our debt. Substantially all of our outstanding long-term debt is unsecured.

Financing Activities

During 2002, approximately $895 in long-term notes matured. In addition to these maturities, we redeemed notes totaling approximately $456 and issued approximately $3,244 of new notes whose proceeds were used primarily to pay down short-term borrowings and for general corporate purposes.

During the first quarter of 2002, we reclassified $1,000 of 20-year annual Puttable Reset Securities (PURS) from debt maturing within one year to long-term debt. The PURS, a registered trademark, contain a 20-year series of simultaneous annual put and call options at par. These options are exercisable on June 5 of each year until June 5, 2021. At the time of issuance, we sold to an investment bank the 20-year option to call the PURS on each annual reset date of June 5. If the call option is exercised, each PURS holder will be deemed to have sold its PURS to the investment banker. The investment banker will then have the right to remarket the PURS at a new interest rate for an additional 12-month period. The new annual interest rate will be determined according to a pre-set mechanism based on the then prevailing London Interbank Offer Rate (LIBOR). If the call option is not exercised on any given June 5, the put option will be deemed to have been exercised, resulting in the redemption of the PURS on that June 5. The proceeds of the PURS were used to retire short-term debt and for general corporate purposes. There are no special covenants or other provisions applicable to the PURS. The company supports this long-term classification based on its intent and ability to refinance the PURS on a long-term basis.

In February 2002, we issued a $1,000 global bond. The bond pays interest semi-annually at a rate of 5.875%. The bond will mature on February 1, 2012. Proceeds from this debt issuance were used for general corporate purposes.

In March 2002, we issued two $500 one-year notes. The notes pay interest quarterly. The interest rate is based on LIBOR, which is determined two London business days preceding the settlement date. Proceeds from this debt issuance were used to refinance debt.

In August 2002, we issued $1,000 global notes. The notes pay interest semi-annually at a rate of 5.875%. The notes will mature on August 15, 2012. Proceeds from this debt issuance were used primarily to repay a portion of our commercial paper borrowings and for general corporate purposes.

In the fourth quarter of 2002, we restructured our holdings in certain investments, including Sterling. As part of this restructuring, a newly created subsidiary issued a note for approximately $244, with an interest rate of 4.79%. The note is scheduled to mature in December 2007. (See Note 2)

In December 2002, we redeemed, prior to maturity, approximately $50 of debt with a yield of 7.0%. The debt obligation was originally scheduled to mature in December 2020. In November 2002, we redeemed, prior to maturity, approximately $350 of multiple debt obligations that were originally scheduled to mature between October 2005 and April 2007. These notes carried interest rates ranging between 4.75% and 5.5%, with an average yield of 5.3%. We also redeemed, prior to maturity, approximately $55 of debt obligations during June 2002.

Debt maturing within one year consists of the following at December 31:

		2002		2001
Commercial paper	**$**	**1,148**	$	6,039
Current maturities of long-term debt		**1,354**		2,991
Other short-term debt		**1,003**		3
Total	**$**	**3,505**	$	9,033

The weighted average interest rate on commercial paper debt at December 31, 2002 and 2001 was 1.43% and 2.07%. In October 2002, we entered into a 364-day credit agreement totaling $4,250 with a syndicate of banks replacing pre-existing credit agreements of approximately $3,700. Advances under this agreement may be used for general corporate purposes, including support of commercial paper borrowings and other short-term borrowings. Under the terms of the agreement, repayment of advances up to $1,000 may be extended two years from the termination date of the agreement. Repayment of advances up to $3,250 may be extended to one year from the termination date of the agreement. There is no material adverse change provision governing the drawdown of advances under this credit agreement. We had no borrowings outstanding under committed lines of credit as of December 31, 2002 or 2001.

Note 8. Financial Instruments

The carrying amounts and estimated fair values of our long-term debt, including current maturities and other financial instruments, are summarized as follows at December 31:

	2002		2001	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Notes and debentures	**$ 19,747**	$ **20,992**	$ 19,876	$ 20,315
Preferred stock of subsidiaries	**393**	**393**	350	350

The fair values of our notes and debentures were estimated based on quoted market prices, where available, or on the net present value method of expected future cash flows using current interest rates. The carrying amount of commercial paper debt approximates fair value. Our short-term investments and customer deposits are recorded at amortized cost, and the carrying amounts approximate fair values. Our notes receivable from Cingular are recorded at face value, and the carrying amounts approximate fair values.

Preferred Stock Issuances by Subsidiaries – In the fourth quarter of 2002, we restructured our holdings in certain investments, including Sterling. As part of this restructuring, a newly created subsidiary issued approximately $43 of preferred stock. The preferred stock will accumulate dividends at an annual rate of 5.79% and can be converted, at the option of the holder, to common stock (but not a controlling interest) of the subsidiary at any time. (See Note 2)

In June 1997 and December 1999, a subsidiary issued $250 and $100 of preferred stock in private placements. The holders of the preferred stock may require SBC's subsidiary to redeem the shares after May 20, 2004. Holders receive quarterly dividends based on a rolling three-month LIBOR. The dividend rate for the December 31, 2002, payment was 2.57%.

The preferred stock of subsidiaries discussed above is included in "Other noncurrent liabilities" on the Consolidated Balance Sheets.

Derivatives – We use interest rate swaps to manage interest rate risk. The notional amounts, carrying amounts and estimated fair values of our derivative financial instruments are summarized as follows at December 31:

	2002			2001		
	Notional Amount	**Carrying Amount**	**Fair Value**	Notional Amount	Carrying Amount	Fair Value
Interest rate swaps	**$ 1,000**	**$ 0**	**$ 84**	$ 580	$ 0	$ 5

As discussed in Note 2, we disposed of our interest in Bell Canada during 2002. Because we were to receive CAD as proceeds for this redemption, we entered into a series of foreign currency exchange contracts to provide us with a fixed rate of conversion of these CAD proceeds into U.S. dollars. We entered into a series of forward contracts to sell 1,500 CAD on January 3, 2003, at an average exchange rate of 1.53. There was no initial upfront cost to enter into these contracts. As the amount of the remaining proceeds that we would receive in CAD was uncertain, we entered into two put option contracts, which gave us the right to sell up to 3,192 CAD on January 3, 2003, at an average exchange rate of 1.57. We paid fees of approximately $28 to enter into these contracts. During the fourth quarter of 2002, we closed on the sale of our remaining 16% interest in Bell Canada. Coinciding with that close, we sold the put option contracts and recovered the initial option fee of $28. Additionally, we purchased forward contracts for January 2003 in an amount equaling our obligation under the forward sale contracts listed above. With these trades, our effective foreign exchange forward obligation as of December 31, 2002, was zero.

Note 9. Income Taxes

Significant components of our deferred tax liabilities and assets are as follows at December 31:

		2002		2001
Depreciation and amortization	**$**	**9,231**	$	6,749
Equity in foreign affiliates		**643**		586
Deferred directory expenses		**493**		498
Other		**4,611**		3,777
Deferred tax liabilities		**14,978**		11,610
Employee benefits		**3,078**		2,046
Currency translation adjustments		**519**		871
Allowance for uncollectibles		**456**		286
Unamortized investment tax credits		**93**		106
Other		**1,285**		1,329
Deferred tax assets		**5,431**		4,638
Deferred tax assets valuation allowance		**148**		140
Net deferred tax liabilities	**$**	**9,695**	$	7,112

The increase in the valuation allowance is the result of an evaluation of the uncertainty associated with the realization of certain deferred tax assets. The valuation allowance is maintained in deferred tax assets for certain unused federal and state loss carryforwards.

The components of income tax expense are as follows:

		2002		2001		2000
Federal:						
Current	**$**	**377**	$	1,803	$	3,249
Deferred - net		**2,251**		1,587		961
Amortization of investment tax credits		**(30)**		(44)		(71)
		2,598		3,346		4,139
State and local:						
Current		**116**		206		575
Deferred - net		**219**		385		98
Foreign		**51**		15		4
		386		606		677
Total	**$**	**2,984**	$	3,952	$	4,816

In the fourth quarter of 2002, we internally restructured our ownership in several investments, including Sterling (see Note 2). The restructuring, included the issuance of external debt (see Note 7), and the issuance and sale of preferred securities in subsidiaries (see Note 8). As we remain the primary beneficiary after the restructuring, the preferred securities are classified as "Other noncurrent liabilities" on our Consolidated Balance Sheet, and no gain or loss was recorded on the transaction. As a result of the sale of preferred securities, we recognized in net income $280 of tax benefits on certain financial expenses and losses that were not previously eligible for deferred tax recognition.

A reconciliation of income tax expense and the amount computed by applying the statutory federal income tax rate (35%) to income before income taxes, extraordinary items and cumulative effect of accounting change is as follows:

	2002	2001	2000
Taxes computed at federal statutory rate	**$ 3,660**	$ 3,842	$ 4,416
Increases (decreases) in income taxes resulting from:			
State and local income taxes - net of federal income tax benefit	**251**	394	440
Restructuring/sale of preferred interest	**(280)**	-	-
Effects of international operations	**(354)**	(22)	(207)
Goodwill amortization	**-**	86	124
Tax settlements	**(171)**	-	-
Contributions of appreciated investments	**-**	(208)	-
Other - net	**(122)**	(140)	43
Total	**$ 2,984**	$ 3,952	$ 4,816

Effects of international operations include items such as foreign tax credits and the effects of undistributed earnings from international operations. Deferred taxes are not provided on the undistributed earnings of subsidiaries operating outside the United States that have been or are intended to be permanently reinvested.

Note 10. Pension and Postretirement Benefits

Pensions – Substantially all of our employees are covered by one of various noncontributory pension and death benefit plans. At December 31, 2002, management employees participated in either cash balance or defined lump sum pension plans with a minimum based upon a stated percentage of employees' adjusted career income. The pension benefit formula for most nonmanagement employees is based on a flat dollar amount per year according to job classification. Most employees can elect to receive their pension benefits in either a lump sum payment or annuity.

Our objective in funding the plans, in combination with the standards of the Employee Retirement Income Security Act of 1974, as amended (ERISA), is to accumulate assets sufficient to meet the plans' obligations to provide benefits to employees upon their retirement. Required funding is based on the present value of future benefits, which is similar to the projected benefit obligation discussed below. Any plan contributions, as determined by ERISA regulations, are made to a pension trust for the benefit of plan participants. No significant cash contributions to the trust will be required under ERISA regulations during 2003; however, we reserve the right to make contributions in excess of minimum funding requirements. During 2004, we expect that we will be required to make contributions of approximately $25. Plan assets consist primarily of private and public equity, government and corporate bonds, index funds and real estate.

Per our joint venture agreement with BellSouth, our employees who were previously leased to Cingular became Cingular employees on or before December 31, 2001. The pension assets and liabilities related to those former employees were transferred to Cingular during 2001, with an immaterial true-up amount based on final valuations transferred from Cingular during 2002. The amounts that follow reflect the impacts of the transfer of employees to Cingular.

GAAP requires that we disclose the reconciliation of the beginning and ending balances of the benefit obligation. For defined benefit pension plans, the benefit obligation is the "projected benefit obligation", the actuarial present value as of a date of all benefits attributed by the pension benefit formula to employee service rendered to that date. The following table presents this reconciliation and shows the change in the projected benefit obligation for the years ended December 31:

		2002		2001
Benefit obligation at beginning of year	**$**	**25,060**	$	25,577
Service cost - benefits earned during the period		**645**		550
Interest cost on projected benefit obligation		**1,780**		1,847
Amendments		**(33)**		317
Actuarial loss		**2,534**		1,512
Special termination benefits		**456**		164
Transfer to Cingular		**-**		(167)
Benefits paid		**(4,294)**		(4,740)
Benefit obligation at end of year	**$**	**26,148**	$	25,060

The following table presents the change in the value of pension plan assets for the years ended December 31 and the pension plans' funded status at December 31:

		2002		2001
Fair value of plan assets at beginning of year	**$**	**32,715**	$	40,814
Actual return on plan assets		**(3,442)**		(2,798)
Transfer (to) from Cingular		**6**		(290)
Benefits paid		**(4,280)**		(5,011)
Fair value of plan assets at end of year [1]	**$**	**24,999**	$	32,715
(Unfunded) funded status (fair value of plan assets less benefit obligation) [2]	**$**	**(1,149)**	$	7,655
Unrecognized prior service cost		**1,642**		1,946
Unrecognized net (gain) loss		**7,777**		(1,852)
Unamortized transition asset		**(218)**		(412)
Net amount recognized	**$**	**8,052**	$	7,337

1 Plan assets include SBC common stock of $8 at December 31, 2002, and $14 at December 31, 2001.

2 (Unfunded) funded status is not indicative of our ability to pay ongoing pension benefits. As noted above, required pension funding is determined in accordance with ERISA regulations.

Amounts recognized in our Consolidated Balance Sheets at December 31 are listed below and are discussed in the second paragraph following these tables:

		2002		2001
Prepaid pension cost [1]	**$**	**8,052**	$	7,337
Additional minimum pension liability [2]		**(3,455)**		-
Intangible asset [1]		**1,078**		-
Accumulated other comprehensive income		**1,473**		-
Deferred tax asset		**904**		-
Net amount recognized	**$**	**8,052**	$	7,337

1 Included in "Other Assets".

2 Included in "Postemployment benefit obligation".

The following table presents the components of net pension benefit recognized in our Consolidated Statements of Income (gains are denoted with brackets and losses are not):

		2002		2001		2000
Service cost - benefits earned during the period	**$**	**645**	$	550	$	525
Interest cost on projected benefit obligation		**1,780**		1,847		1,927
Expected return on plan assets		**(3,429)**		(3,515)		(3,149)
Amortization of prior service cost and transition assets		**100**		81		43
Recognized actuarial gain		**(233)**		(413)		(491)
Net pension benefit	**$**	**(1,137)**	$	(1,450)	$	(1,145)

In determining the projected benefit obligation and the net pension benefit, we used the following significant weighted-average assumptions:

	2002	2001	2000
Discount rate for determining projected benefit obligation	**6.75%**	7.50%	7.75%
Long-term rate of return on plan assets	**9.50%**	9.50%	8.50%
Composite rate of compensation increase	**4.25%**	4.25%	4.25%

As noted above, the projected benefit obligation is the actuarial present value of all benefits attributed by the pension benefit formula to previously rendered employee service. While the calculation of this obligation is very complex, the process generally consists of estimating the amount of retirement income payments in future years after the employee retires or terminates service and calculating the present value at the measurement date. The amount of benefit to be paid depends on a number of future events incorporated into the pension benefit formula, including estimates of average life of employees/survivors and average years of service rendered. It is measured based on assumptions concerning future interest rates and future employee compensation levels. In accordance with GAAP, our assumed discount rate of 6.75% at December 31, 2002, reflects the hypothetical rate at which the projected benefit obligation could be effectively settled, or paid out to participants, on that date. We determined our discount rate based on a range of factors including the rates of return on high-quality, fixed-income investments available at the time of measurement. The reduction in the discount rate at December 31, 2002 and 2001, by 0.75% and by 0.25%, respectively, resulted in an increase in our pension plan benefit obligation of approximately $1,480 and $471 at December 31, 2002 and 2001. Should actual experience differ from actuarial assumptions, the projected benefit obligation and net pension benefit would be affected.

In contrast to the projected benefit obligation, the accumulated benefit obligation represents the actuarial present value of benefits based on employee service and compensation as of a certain date and does not include an assumption about future compensation levels. Under GAAP, on a plan-by-plan basis, if the accumulated benefit obligation exceeds plan assets and at least this amount has not been accrued, an additional minimum liability must be recognized, partially offset by an intangible asset for unrecognized prior service cost, with the remainder a direct charge to equity net of deferred tax benefits. These items are included in the third table above that presents the amounts recognized in our Consolidated Balance Sheets at December 31. For three of our plans, the accumulated benefit obligation at December 31, 2002 (aggregate balance of $13,289) exceeded plan assets at December 31, 2002 (aggregate balance of $11,525) and we were required to record an additional minimum liability of $3,455 and a direct charge to equity of $1,473 (net of deferred taxes of $904) during the fourth quarter of 2002. This direct charge, while reducing equity and comprehensive income, will not affect our future results of operations or cash flows.

During 2002 and 2001, as part of our work force-reduction programs, an enhanced retirement program was offered to eligible Pacific Telesis Group (PTG) nonmanagement employees. This program offered eligible employees who voluntarily decided to terminate employment an enhanced pension benefit and increased eligibility for postretirement medical, dental and life insurance benefits. Approximately 3,600 and 1,400 employees accepted this offer and terminated employment before the end of December 31, 2002 and 2001. Also, approximately 200 additional employees accepted the offer during 2002 and terminated employment in January 2003. In addition to the net pension benefit reported in the table above, enhanced pension benefits related to this program were recognized as an expense of $456 in 2002 and $164 in 2001.

In October 2000, we implemented a voluntary enhanced pension and retirement program (EPR) to reduce the number of management employees. Approximately 7,000 of the employees who accepted this offer terminated employment before December 31, 2000; however, under the program, approximately 2,400 employees were retained for up to one year. In addition to the net pension benefit reported in the table above, enhanced pension benefits related to this program were recognized as an expense of $1,104 in 2000. We also recognized $976 in settlement gains and $80 in curtailment losses in 2000 and $940 in settlement gains in 2001 primarily associated with the EPR program.

Also, in addition to the net pension benefit reported in the table above and the aforementioned EPR settlement/curtailment gains, we recognized $29 in net settlement gains in 2002, $423 in 2001 and $1,196 in 2000. Net settlement gains in 2002 include settlement losses during the latter part of the year, reflecting the continued investment losses sustained by the plan. We anticipate that additional lump sum payments will be made in 2003 in connection with our planned work force-reductions. We cannot estimate at this time if these payments will require the recognition of settlement losses in 2003.

In December 2001, under the provisions of Section 420 of the Internal Revenue Code, we transferred $286 in pension assets to a health care benefit account for the reimbursement of certain retiree health care benefits paid by us.

Postretirement Benefits – We provide certain medical, dental and life insurance benefits to substantially all retired employees under various plans and accrue actuarially determined postretirement benefit costs as active employees earn these benefits. While many companies do not, we maintain Voluntary Employee Beneficiary Association trusts to partially fund these postretirement benefits; however, there are no ERISA or other regulations requiring these postretirement benefit plans to be funded annually. Trust assets consist principally of private and public equity, government and corporate bonds and index funds. The amounts that follow reflect the impacts of the 2001 transfer of employees to Cingular discussed above in “Pensions”.

For postretirement benefit plans, the benefit obligation is the "accumulated postretirement benefit obligation", the actuarial present value as of a date of all future benefits attributed under the terms of the postretirement benefit plan to employee service rendered to that date. The following table presents a reconciliation of the beginning and ending balances of the benefit obligation and shows the change in the accumulated postretirement benefit obligation for the years ended December 31:

		2002		2001
Benefit obligation at beginning of year	**$**	**20,140**	$	17,802
Service cost - benefits earned during the period		**293**		256
Interest cost on accumulated postretirement benefit obligation		**1,430**		1,316
Amendments		**(1,110)**		(605)
Actuarial loss		**4,932**		2,395
Special termination benefits		**30**		9
Transfer to Cingular		**-**		(36)
Benefits paid		**(1,151)**		(997)
Benefit obligation at end of year;	**$**	**24,564**	$	20,140

The following table sets forth the change in the value of plan assets for the years ended December 31, the plans' funded status at December 31 and the accrued postretirement benefit obligation liability recognized in our Consolidated Balance Sheets at December 31:

		2002		2001
Fair value of plan assets at beginning of year	**$**	**6,275**	$	7,220
Actual return on plan assets		**(802)**		(641)
Employer contribution		**3**		-
Benefits paid		**(559)**		(304)
Fair value of plan assets at end of year [1]	**$**	**4,917**	$	6,275
Unfunded status (fair value of plan assets less benefit obligation) [2]	**$**	**(19,647)**	$	(13,865)
Unrecognized prior service cost (benefit)		**(1,109)**		(28)
Unrecognized net loss		**10,335**		3,962
Accrued postretirement benefit obligation	**$**	**(10,421)**	$	(9,931)

1 Plan assets include SBC common stock of $5 at December 31, 2002, and $13 at December 31, 2001.

2 (Unfunded) funded status is not indicative of our ability to pay ongoing postretirement benefits. As noted above, while many companies do not, we maintain trusts to partially fund these postretirement benefits; however, there are no ERISA or other regulations requiring these postretirement benefit plans to be funded annually.

The following table presents the components of postretirement benefit cost recognized in our Consolidated Statements of Income (gains are denoted with brackets and losses are not):

	2002	2001	2000
Service cost - benefits earned during the period	**$ 293**	$ 256	$ 245
Interest cost on accumulated postretirement benefit obligation	**1,430**	1,316	1,201
Expected return on assets	**(689)**	(665)	(549)
Amortization of prior service cost	**(28)**	94	147
Recognized actuarial (gain) loss	**49**	13	(33)
Postretirement benefit cost	**$ 1,055**	$ 1,014	$ 1,011

The fair value of plan assets restricted to the payment of life insurance benefits was $516 and $968 at December 31, 2002 and 2001. At December 31, 2002 and 2001, the accrued life insurance benefits included in the accrued postretirement benefit obligation were $943 and $614.

In addition to the postretirement benefit cost reported in the table above, enhanced benefits related to the PTG nonmangement program were recognized as an expense of $30 and $9 in 2002 and 2001. Also, in 2000, we recognized $71 in expense for enhanced benefits and $107 in curtailment losses associated with EPR.

In response to rising medical and prescription drug claim costs, we increased the assumed medical cost trend rate in 2003 from 8.0% to 9.0% for retirees 64 and under and from 9.0% to 10.0% for retirees 65 and over, trending to an expected increase of 5.0% in 2009 for all retirees, prior to adjustment for cost-sharing provisions of the medical and dental plans for certain retired employees. The assumed dental cost trend rate in 2003 is 5.0%. A one percentage-point change in the assumed combined medical and dental cost trend rate would have the following effects:

	One Percentage-Point Increase	One Percentage-Point Decrease
Increase (decrease) in total of service and interest cost componenets	$ 244	$ (194)
Increase (decrease) in accumulated postretirement benefit obligation	2,968	(2,431)

We used the same significant assumptions for the discount rate, long-term rate of return on plan assets and composite rate of compensation increase used in developing the accumulated postretirement benefit obligation and related postretirement benefit costs that we used in developing the pension information. The reduction in the discount rate at December 31, 2002 and 2001 resulted in an increase in our postretirement benefit obligation of approximately $2,062 and $599 at December 31, 2002 and 2001. Should actual experience differ from the actuarial assumptions, the accumulated postretirement benefit obligation and postretirement benefit cost would be affected in future years.

For the majority of our nonmanagement labor contracts that contain an annual dollar value cap for the purpose of determining contributions required from retirees, we have waived the cap during the relevant contract periods and thus not collected contributions from those nonmanagement retirees. Therefore, in accordance with the substantive plan provisions required in accounting for postretirement benefits under GAAP, we do not account for the cap in the value of our accumulated postretirement benefit obligation (i.e., we assume the cap will be waived for all future contract periods). If we were able to account for the cap as written in the contracts, our postretirement benefit cost would have been reduced by $606, $476 and $571 in 2002, 2001 and 2000. We expect that not accounting for the cap as written in the contracts will result in approximately $900 of postretirement benefit cost during 2003.

Combined Net Pension and Postretirement (Benefit) Cost – The following table combines net pension benefit with postretirement benefit cost (gains are denoted with brackets and losses are not):

		2002		2001		2000
Net pension benefit	**$**	**(1,137)**	$	(1,450)	$	(1,145)
Postretirement benefit cost		**1,055**		1,014		1,011
Combined net pension and postretirement (benefit) cost	**$**	**(82)**	$	(436)	$	(134)

Our combined net pension and postretirement benefit decreased in 2002 primarily due to a decreased asset base from net investment losses and previous recognition of pension settlement gains reducing the amount of unrealized gains recognized in the current year. The reduction in the discount rate from 7.75% to 7.5% used to calculate 2002 service and interest cost caused our combined net pension and postretirement benefit to decrease approximately $58. Increased medical and prescription drug claim costs also contributed to the decrease in combined net benefit in 2002.

As a result of this decrease in our combined net pension and postretirement benefit, we have taken steps to implement additional cost controls. To offset some of the increases in medical costs mentioned above, in mid-2002, we implemented cost-saving design changes in our management medical and dental plans including increased participant contributions for medical and dental coverage and increased prescription drug co-payments effective beginning in January 2003. These changes reduced our postretirement cost approximately $96 in 2002. In 2003, we expect cost savings of approximately $194 from these design changes.

While we will continue our cost-cutting efforts discussed above, certain factors mentioned above, such as investment returns, depend largely on trends in the U.S. securities market and the general U.S. economy. Our ability to improve the performance of those factors is limited. In particular, a continued weakness in the securities markets and U.S. economy could result in investment losses and a decline in plan assets, which under GAAP we will recognize over the next several years. As a result of these economic impacts and assumption changes discussed below, we will have a net pension and postretirement expense in 2003. We expect combined net pension and postretirement cost of between $1,800 and $2,000 ($0.36 to $0.40 per share) in 2003. Approximately 10% of these costs will be capitalized as part of construction labor, providing a small reduction in the net expense recorded. Should the securities markets continue to decline and medical and prescription drug costs continue to increase significantly, we would expect increasing annual combined net pension and postretirement cost for the next several years. Additionally, should actual experience differ from actuarial assumptions, combined net pension and postretirement cost would be affected in future years.

The weighted average expected return on assets assumption, which reflects our view of long-term returns, is one of the most significant of the weighted average assumptions used to determine our actuarial estimates of pension and postretirement benefit expense. Based on our long-term expectations of market returns in future years, we lowered our long-term rate of return on plan assets from 9.5% to 8.5% for 2003. If all other factors were to remain unchanged, we expect a 1% decrease in the expected long-term rate of return would cause 2003 combined pension and postretirement cost to increase approximately $342 over 2002 (analogous change would result from a 1% increase).

As mentioned in Note 1, under GAAP, the expected long-term rate of return is calculated on the MRVA. GAAP requires that actual gains and losses on pension and postretirement plan assets be recognized in the MRVA equally over a period of not more than five years. We use a methodology, allowed under GAAP, under which we hold the MRVA to within 20% of the actual fair value of plan assets, which can have the effect of accelerating the recognition of excess actual gains and losses into the MRVA to less than five years. Due to investment losses on plan assets experienced in the last several years, we expect this methodology to contribute approximately $605 to our combined net pension and postretirement cost in 2003 as compared with not using this methodology. This methodology did not have a significant effect on our 2002, 2001 or 2000 combined net pension and postretirement benefit as the MRVA was almost equal to the fair value of plan assets.

Supplemental Retirement Plans – We also provide senior- and middle-management employees with nonqualified, unfunded supplemental retirement and savings plans. These plans include supplemental defined pension benefits as well as compensation deferral plans, some of which include a corresponding match by us based on a percentage of the compensation deferral. Expenses related to these plans were $142, $166 and $195 in 2002, 2001 and 2000. Liabilities of $1,629 and $1,479 related to these plans have been included in “Other noncurrent liabilities” on our Consolidated Balance Sheets at December 31, 2002 and 2001.

Note 11. Employee Stock Ownership Plans (ESOP)

We maintain contributory savings plans that cover substantially all employees. Under the savings plans, we match a stated percentage of eligible employee contributions, subject to a specified ceiling.

As a result of past mergers, we had six leveraged ESOPs as part of our existing savings plans. Five of the ESOPs were funded with notes issued by the savings plans to various lenders, the proceeds of which were used to purchase shares of SBC’s common stock in the open market. The original principal amounts were paid off in 2000 with our contributions to the savings plans, dividends paid on SBC shares and interest earned on funds held by the ESOPs. We extended the terms of certain ESOPs through previous internal refinancing of the debt, resulting in unallocated shares remaining in one of those ESOPs at December 31, 2002 and 2001 (unallocated shares at December 31, 2002 were significantly less than one million and are not included in the table below). This internal refinancing of the debt was paid off in December 2002 with our contributions to the savings plan, dividends paid on SBC shares and interest earned on funds help by the ESOPs.

One ESOP purchased Pacific Telesis (PAC) treasury shares in exchange for a promissory note from the plan to PAC. All PAC shares were exchanged for SBC shares effective with the merger April 1, 1997. The provisions of the ESOP were unaffected by this exchange. This promissory note from the plan to PAC was paid off in 2001.

Our match of employee contributions to the savings plans is fulfilled with shares of stock allocated from the ESOPs (through December 2002) and with purchases of SBC’s stock in the open market. Shares held by the ESOPs were released for allocation to the accounts of employees as employer-matching contributions were earned. Benefit cost is based on a combination of the contributions to the savings plans and the cost of shares allocated to participating employees’ accounts. Both benefit cost and interest expense on the notes are reduced by dividends on SBC’s shares held by the ESOPs and interest earned on the ESOPs’ funds.

Information related to the ESOPs and the savings plans is summarized below:

	2002	2001	2000
Benefit expense - net of dividends and interest income	**$ 216**	$ 185	$ 134
Interest expense - net of dividends and interest income	**-**	-	5
Total expense	**$ 216**	$ 185	$ 139
Company contributions for ESOPs	**$ 165**	$ 177	$ 47
Dividends and interest income for debt service	**$ 8**	$ 58	$ 93

SBC shares held by the ESOPs are summarized as follows at December 31 (in millions):

	2002	2001
Unallocated	**-**	4
Allocated to participants	**75**	76
Total	**75**	80

Note 12. Stock-Based Compensation

Under our various plans, senior and other management and nonmanagement employees and nonemployee directors have received stock options, performance stock units and other nonvested stock units. Stock options issued through December 31, 2002, carry exercise prices equal to the market price of the stock at the date of grant and have maximum terms ranging from five to ten years. Beginning in 1994 and ending in 1999, certain Ameritech employees were awarded grants of nonqualified stock options with dividend equivalents. Depending upon the grant, vesting of stock options may occur up to five years from the date of grant, with most options vesting on a graded basis over three years (1/3 of the grant vests after one year, another 1/3 vests after two years and the final 1/3 vests after three years from the grant date). Performance stock units are granted to key employees based upon the common stock price at the date of grant and are awarded in the form of common stock and cash at the end of a two- or three-year period, subject to the achievement of certain performance goals. Nonvested stock units are valued at the market price of the stock at the date of grant and vest over a three- to five-year period. As of December 31, 2002, we were authorized to issue up to 97 million shares of stock (in addition to shares that may be issued upon exercise of outstanding options or upon vesting of performance stock units or other nonvested stock units) to officers, employees and directors pursuant to these various plans.

Prior to January 1, 2002, we accounted for these plans using the intrinsic value-based method of accounting as allowed by FAS 123. Effective January 1, 2002, we adopted the fair value recognition provisions of FAS 123. Under the retroactive restatement method of adoption we selected in accordance with the provisions of FAS 148, our 2001 and 2000 results have been restated to reflect the compensation costs that would have been recognized had the recognition provisions of FAS 123 been applied to all awards granted to employees after January 1, 1995. We use an accelerated method of recognizing compensation cost for fixed awards with graded vesting, which essentially treats the grant as three separate awards, with vesting periods of 12, 24 and 36 months for those that vest over three years. As noted above, a majority of our options vest over three years and for those we recognize approximately 61% of the associated compensation expense in the first year, 28% in the second year and the remaining 11% in the third year. As allowed by FAS 123, we accrue compensation cost as if all options granted subject only to a service requirement are expected to vest. The effects of actual forfeitures of unvested options are recognized (as a reversal of expense) as they occur.

The compensation cost that has been charged against income for these plans and our other stock-based compensation plans is as follows:

	2002	2001	2000
Stock option expense under FAS 123	**$ 390**	$ 380	$ 273
Mark-to-market effect on dividend equivalents	**(36)**	(33)	(23)
Other	**19**	33	42
Total	**$ 373**	$ 380	$ 292

The estimated fair value of the options granted is amortized to expense over the options' vesting period. The fair value for these options was estimated at the date of grant, using a Black-Scholes option pricing model with the following weighted-average assumptions used for grants in 2002, 2001 and 2000: risk-free interest rate of 4.33%, 4.51% and 6.67%; dividend yield of 3.04%, 2.37% and 2.19%; expected volatility factor of 23%, 24% and 16%; and expected option life of 4.4, 4.0 and 4.6 years.

Information related to options is summarized below (shares in millions):

	Number	Weighted-Average Exercise Price
Outstanding at January 1, 2000	149	30.24
Granted	51	39.62
Exercised	(30)	24.22
Forfeited/Expired	(14)	41.05
Outstanding at December 31, 2000		
(101 exercisable at weighted-average price of $29.22)	156	33.53
Granted	76	43.41
Exercised	(13)	24.41
Forfeited/Expired	(12)	43.09
Outstanding at December 31, 2001		
(109 exercisable at weighted-average price of $32.36)	207	37.21
Granted	36	35.50
Exercised	(7)	20.80
Forfeited/Expired	(7)	41.20
Outstanding at December 31, 2002		
(154 exercisable at weighted-average price of $36.48)	**229**	**$37.31**

Information related to options outstanding at December 31, 2002:

Exercise Price Range	$14.03-$17.49	$17.50-$29.99	$30.00-$35.49	$35.50-$58.88
Number of options (in millions):				
Outstanding	5	46	8	170
Exercisable	5	46	7	96
Weighted-average exercise price:				
Outstanding	$15.40	$24.36	$33.97	$41.56
Exercisable	$15.40	$24.36	$34.16	$43.41
Weighted-average remaining contractual life	1.70 years	3.50 years	6.08 years	7.78 years

The weighted-average, grant-date fair value of each option granted during 2002, 2001 and 2000 was $6.57, $8.37 and $8.31.

As of December 31, additional shares available under stock options with dividend equivalents were approximately 1 million in 2002, 2001 and 2000. During 2002, 2001 and 2000, performance stock units and other nonvested units of 937,094, 727,046 and 859,447 were issued with a weighted-average, grant-date fair value of $35.30, $46.63 and $40.41.

Note 13. Shareowners' Equity

From time to time, we repurchase shares of common stock for distribution through our employee benefit plans or in connection with certain acquisitions. In November 2001, the Board of Directors authorized the repurchase of up to 100 million shares of SBC common stock. This is in addition to the authorization to repurchase 100 million shares in January 2000. As of December 31, 2002, we have repurchased a total of approximately 140 million shares of our common stock of the 200 million authorized to be repurchased. We do not expect to repurchase significant additional shares under these authorizations in 2003.

In 2000 and 2001, we entered into a series of put options on SBC stock which allowed institutional counterparties to sell us SBC shares at agreed-upon prices. The put options were exercisable only at maturity, and we had the right to settle the put options by physical settlement of the options or by net share settlement using shares of SBC common stock. At December 31, 2001, we had a maximum potential obligation to purchase nine million shares of our common stock at a weighted average exercise price of $37.45 per share. We received cash of $38 in 2001 and $65 in 2000 from these transactions, which was credited to capital in excess of par value in shareowners' equity. During 2002, put options representing three million shares expired unexercised. Additionally in 2002, six million shares of our common stock were put to us under these options at a weighted average price of $39.14 per share, which was approximately $9 per share over the then-market price of our stock. As settlement of the obligation, we elected to purchase the shares instead of using net share settlement. The excess cash paid of approximately $55 was debited to capital in excess of par value in shareowners' equity. We had no put options outstanding at December 31, 2002.

Note 14. Subsidiary Financial Information

We have fully and unconditionally guaranteed certain outstanding debt securities of Pacific Bell Telephone Company (PacBell) and Southwestern Bell Telephone, L.P. (SBLP), which is a wholly owned subsidiary of Southwestern Bell Texas Holdings, Inc. (SWBell). On December 30, 2001, Southwestern Bell Telephone Company merged with and into Southwestern Bell Texas, Inc. and the survivor converted to SBLP. SWBell holds a 99% limited partner interest in SBLP and a 100% interest in SWBT Texas LLC, the 1% owner and general partner of SBLP.

In accordance with SEC rules, we are providing the following condensed consolidating financial information. The Parent column presents investments in all subsidiaries under the equity method of accounting. We have listed PacBell and SWBell separately because we have guaranteed securities that are legal obligations of PacBell and SWBell that would otherwise require SEC periodic reporting. All other wholly owned subsidiaries are presented in the Other column. The consolidating adjustments column (Adjs.) eliminates the intercompany balances and transactions between our subsidiaries.

Condensed Consolidating Statements of Income
For the Twelve Months Ended December 31, 2002

	Parent	PacBell	SWBell	Other	Adjs.	Total
Total operating revenues	**$ -**	**$ 10,210**	**$ 11,248**	**$ 24,294**	**$ (2,614)**	**$ 43,138**
Total operating expenses	**(146)**	**7,796**	**8,637**	**20,842**	**(2,614)**	**34,515**
Operating Income	**146**	**2,414**	**2,611**	**3,452**	**-**	**8,623**
Interest expense	**424**	**300**	**265**	**768**	**(375)**	**1,382**
Equity in net income of affiliates	**4,695**	**-**	**-**	**1,936**	**(4,710)**	**1,921**
Royalty income (expense)	**118**	**(399)**	**(449)**	**730**	**-**	**-**
Other income (expense) - net	**589**	**(3)**	**11**	**1,059**	**(361)**	**1,295**
Income Before Income Taxes	**5,124**	**1,712**	**1,908**	**6,409**	**(4,696)**	**10,457**
Income taxes	**(529)**	**696**	**691**	**2,126**	**-**	**2,984**
Income Before Cumulative Effect of Accounting Change	**5,653**	**1,016**	**1,217**	**4,283**	**(4,696)**	**7,473**
Cumulative effect of accounting change, net of tax	**-**	**-**	**-**	**(1,820)**	**-**	**(1,820)**
Net Income	**$ 5,653**	**$ 1,016**	**$ 1,217**	**$ 2,463**	**$ (4,696)**	**$ 5,653**

Condensed Consolidating Statements of Income
For the Twelve Months Ended December 31, 2001

	Parent	PacBell	SWBell	Other	Adjs.	Total
Total operating revenues	$ -	$ 10,842	$ 11,802	$ 24,766	$ (1,502)	$ 45,908
Total operating expenses	(78)	7,448	8,775	20,757	(1,502)	35,400
Operating Income	78	3,394	3,027	4,009	-	10,508
Interest expense	528	365	362	928	(584)	1,599
Equity in net income of affiliates	6,501	-	-	1,593	(6,499)	1,595
Royalty income (expense)	471	(414)	(471)	414	-	-
Other income (expense) - net	424	6	-	631	(587)	474
Income Before Income Taxes	6,946	2,621	2,194	5,719	(6,502)	10,978
Income taxes	(62)	1,064	809	2,141	-	3,952
Income Before Extraordinary Item	7,008	1,557	1,385	3,578	(6,502)	7,026
Extraordinary item	-	-	-	(18)	-	(18)
Net Income	$ 7,008	$ 1,557	$ 1,385	$ 3,560	$ (6,502)	$ 7,008

Condensed Consolidating Statements of Income
For the Twelve Months Ended December 31, 2000

	Parent	PacBell	SWBell	Other	Adjs.	Total
Total operating revenues	$ -	$ 10,356	$ 11,580	$ 30,778	$ (1,340)	$ 51,374
Total operating expenses	(161)	7,477	8,675	26,253	(1,340)	40,904
Operating Income	161	2,879	2,905	4,525	-	10,470
Interest expense	504	391	383	1,379	(1,065)	1,592
Equity in net income of affiliates	7,274	-	-	961	(7,338)	897
Royalty income (expense)	460	(407)	(460)	407	-	-
Other income (expense) - net	728	2	10	3,105	(1,004)	2,841
Income Before Income Taxes	8,119	2,083	2,072	7,619	(7,227)	12,616
Income taxes	319	830	762	2,905	-	4,816
Net Income	$ 7,800	$ 1,253	$ 1,310	$ $4,714	$ (7,277)	$ 7,800

Condensed Consolidating Balance Sheets
December 31, 2002

	Parent	PacBell	SWBell	Other	Adjs.	Total
Cash and cash equivalents	**$ 3,406**	**$ 3**	**$ 10**	**$ 148**	**$ -**	**$ 3,567**
Accounts receivable - net	**1,257**	**2,060**	**1,928**	**18,164**	**(14,869)**	**8,540**
Other current assets	**319**	**309**	**451**	**903**	**-**	**1,982**
Total current assets	**4,982**	**2,372**	**2,389**	**19,215**	**(14,869)**	**14,089**
Property, plant and equipment - net	**126**	**12,915**	**14,846**	**20,603**	**-**	**48,490**
Goodwill	**349**	**-**	**-**	**1,294**	**-**	**1,643**
Investments in equity affiliates	**33,953**	**-**	**-**	**8,308**	**(31,791)**	**10,470**
Other assets	**10,166**	**2,054**	**332**	**8,589**	**(776)**	**20,365**
Total Assets	**$ 49,576**	**$ 17,341**	**$ 17,567**	**$ 58,009**	**$ (47,436)**	**$ 95,057**
Debt maturing within one year	**$ 1,052**	**$ 1,287**	**$ 2,686**	**$ 8,341**	**$ (9,861)**	**$ 3,505**
Other current liabilities	**798**	**3,073**	**3,199**	**9,116**	**(5,008)**	**11,178**
Total current liabilities	**1,850**	**4,360**	**5,885**	**17,457**	**(14,869)**	**14,683**
Long-term debt	**7,513**	**3,676**	**2,608**	**5,471**	**(732)**	**18,536**
Postemployment benefit obligation	**3,534**	**3,064**	**3,331**	**4,165**	**-**	**14,094**
Other noncurrent liabilities	**3,480**	**2,474**	**1,722**	**6,913**	**(44)**	**14,545**
Total shareowners' equity	**33,199**	**3,767**	**4,021**	**24,003**	**(31,791)**	**33,199**
Total Liabilities and Shareowners' Equity	**$ 49,576**	**$ 17,341**	**$ 17,567**	**$ 58,009**	**$ (47,436)**	**$ 95,057**

Condensed Consolidating Balance Sheets
December 31, 2001

	Parent	PacBell	SWBell	Other	Adjs.	Total
Cash and cash equivalents	$ 445	$ 4	$ 99	$ 155	$ -	$ 703
Accounts receivable - net	4,945	2,223	1,919	13,438	(13,149)	9,376
Other current assets	305	381	838	977	-	2,501
Total current assets	5,695	2,608	2,856	14,570	(13,149)	12,580
Property, plant and equipment - net	118	13,522	15,588	20,599	-	49,827
Goodwill	-	-	-	3,577	-	3,577
Investments in equity affiliates	34,889	-	-	14,894	(37,816)	11,967
Other assets	8,196	2,382	428	11,083	(3,718)	18,371
Total Assets	$ 48,898	$ 18,512	$ 18,872	$ 64,723	$ (54,683)	$ 96,322
Debt maturing within one year	$ 8,094	$ 2,594	$ 3,914	$ 2,654	$ (8,223)	$ 9,033
Other current liabilities	690	3,711	3,735	11,705	(4,926)	14,915
Total current liabilities	8,784	6,305	7,649	14,359	(13,149)	23,948
Long-term debt	4,137	3,673	2,868	10,125	(3,670)	17,133
Postemployment benefit obligation	57	2,860	2,996	3,926	-	9,839
Other noncurrent liabilities	3,001	1,761	1,320	6,449	(48)	12,483
Total shareowners' equity	32,919	3,913	4,039	29,864	(37,816)	32,919
Total Liabilities and Shareowners' Equity	$ 48,898	$ 18,512	$ 18,872	$ 64,723	$ (54,683)	$ 96,322

Condensed Consolidating Statements of Cash Flows
Twelve Months Ended December 31, 2002

	Parent	PacBell	SWBell	Other	Adjs.	Total
Net cash from operating activities	**$ 11,550**	**$ 3,783**	**$ 4,309**	**$ 7,206**	**$ (11,638)**	**$ 15,210**
Net cash from investing activities	**6**	**(1,312)**	**(1,673)**	**(2,446)**	**2,097**	**(3,328)**
Net cash from financing activities	**(8,595)**	**(2,472)**	**(2,725)**	**(4,767)**	**9,541**	**(9,018)**
Net Increase (Decrease) in Cash	**$ 2,961**	**$ (1)**	**$ (89)**	**$ (7)**	**$ -**	**$ 2,864**

Condensed Consolidating Statements of Cash Flows
Twelve Months Ended December 31, 2001

	Parent	PacBell	SWBell	Other	Adjs.	Total
Net cash from operating activities	$ 1,150	$ 3,395	$ 3,285	$ 12,880	$ (5,905)	$ 14,805
Net cash from investing activities	1,328	(2,397)	(2,996)	(5,416)	1,094	(8,387)
Net cash from financing activities	(2,469)	(1,003)	(242)	(7,455)	4,811	(6,358)
Net Increase (Decrease) in Cash	$ 9	$ (5)	$ 47	$ 9	$ -	$ 60

Condensed Consolidating Statements of Cash Flows
Twelve Months Ended December 31, 2000

	Parent	PacBell	SWBell	Other	Adjs.	Total
Net cash from operating activities	$ 3,853	$ 3,197	$ 4,152	$ 5,311	$ (2,447)	$ 14,066
Net cash from investing activities	(4,154)	(2,679)	(3,630)	(3,873)	166	(14,170)
Net cash from financing activities	637	(521)	(519)	(1,626)	2,281	252
Net Increase (Decrease) in Cash	$ 336	$ (3)	$ 3	$ (188)	$ -	$ 148

Note 15. Additional Financial Information

	December 31,	
Balance Sheets	**2002**	2001
Accounts payable and accrued liabilities:		
Accounts payable	**$ 3,407**	$ 3,959
Advance billing and customer deposits	**1,240**	1,317
Compensated future absences	**858**	1,017
Accrued interest	**446**	486
Accrued payroll	**514**	669
Other	**2,948**	4,011
Total	**$ 9,413**	$ 11,459

Statements of Income	**2002**	2001	2000
Advertising expense	**$ 432**	$ 363	$ 774
Interest expense incurred	**$ 1,440**	$ 1,718	$ 1,693
Capitalized interest	**(58)**	(119)	(101)
Total interest expense	**$ 1,382**	$ 1,599	$ 1,592

Statements of Cash Flows	**2002**	2001	2000
Cash paid during the year for:			
Interest	**$ 1,480**	$ 1,546	$ 1,681
Income taxes, net of refunds	**1,315**	2,696	3,120

No customer accounted for more than 10% of consolidated revenues in 2002, 2001 or 2000.

Note 16. Related Party Transactions

We made advances to Cingular that totaled $5,922 at December 31, 2002 and $5,924 at December 31, 2001. The advances bear interest at an annual rate of 7.5%. In November 2002, we extended the maturity of the advances from March 31, 2004 to March 31, 2005. We may continue to extend the maturity of the advances to the extent required in connection with Cingular's external credit facility. During 2002, 2001 and 2000, we earned $441, $555 and $154 of interest income on these advances. In addition, for access and long-distance services sold to Cingular on a wholesale basis, we generated revenue of $365, $120 and $37 in 2002, 2001 and 2000.

Note 17. Contingent Liabilities

In addition to issues specifically discussed elsewhere, we are party to numerous lawsuits, regulatory proceedings and other matters arising in the ordinary course of business. In our opinion, although the outcomes of these proceedings are uncertain, they should not have a material adverse effect on the company's financial position, results of operations or cash flows.

Note 18. Quarterly Financial Information (Unaudited)

Calendar Quarter	Total Operating Revenues	Operating Income	Net Income	Basic Earnings Per Share	Diluted Earnings Per Share	Stock Price High	Stock Price Low	Stock Price Close
2002								
First	**$ 10,522**	**$ 2,182**	**$ (193)**	**$ (0.06)**	**$ (0.06)**	**$ 40.99**	**$ 34.29**	**$ 38.24**
Second	**10,843**	**2,164**	**1,782**	**0.53**	**0.53**	**38.40**	**27.85**	**30.50**
Third	**10,556**	**2,029**	**1,709**	**0.51**	**0.51**	**31.96**	**19.57**	**20.10**
Fourth	**11,217**	**2,248**	**2,355**	**0.71**	**0.71**	**29.10**	**19.80**	**27.11**
Annual	**$ 43,138**	**$ 8,623**	**$ 5,653**	**1.70**	**1.69**			
2001								
First	$ 11,190	$ 2,574	$ 1,801	$ 0.53	$ 0.53	$ 53.06	$ 39.50	$ 44.63
Second	11,477	2,984	2,015	0.60	0.59	45.68	38.20	40.06
Third	11,338	2,716	2,006	0.60	0.59	47.50	39.74	47.12
Fourth	11,903	2,234	1,186	0.35	0.35	47.25	36.50	39.17
Annual	$ 45,908	$ 10,508	$ 7,008	2.08	2.07			

The income and earnings per share data in the table above have been restated for our adoption of FAS 123, as amended by FAS 148 (see Note 1). This restatement decreased our previously reported operating income, net income, basic earnings per share and diluted earnings per share for the first three quarters of 2002 and for all four quarters of 2001. The following table summarizes these quarterly impacts:

Calendar Quarter	Operating Income	Net Income	Basic Earnings Per Share	Diluted Earnings Per Share
2002				
First	**$ (124)**	**$ (83)**	**$ (0.03)**	**$ (0.03)**
Second	**(93)**	**(63)**	**(0.02)**	**(0.02)**
Third	**(92)**	**(61)**	**(0.02)**	**(0.02)**
2001				
First	$ (85)	$ (53)	$ (0.02)	$ (0.01)
Second	(93)	(56)	(0.02)	(0.02)
Third	(106)	(66)	(0.02)	(0.02)
Fourth	(96)	(59)	(0.02)	(0.02)

The first quarter of 2002 includes a cumulative effect of accounting change of $1,820, or $0.54 per share, from the adoption of FAS 142 (see Note 1). The first and second quarters of 2001 include extraordinary losses of $10 and $8 for a total of $18, or $0.01 per share, related to the early redemption of $1,000 of our corporation-obligated mandatorily redeemable preferred securities of subsidiary trusts (TOPrS). There were also special items which are included in the information above but are excluded from the information that management uses to evaluate the performance of each segment of the business. For detail regarding the specific income statement impact of each item as well as the affected segment(s), (see Note 4).

The quarterly impact of the year 2002 special items was as follows:

- A tax benefit of $280 in the fourth quarter resulting from an internal restructuring of our ownership of several investments, including Sterling (see Note 2).
- Income of $326 ($212 net of tax) in the third quarter consisting of 1) income of $371 ($257 net of tax) from our proportionate share of the gains at TDC and Belgacom related to the disposition of their Netherlands wireless operations as a result of a call by a subsidiary of Deutsche Telekom. The components of this amount included a gain at Belgacom of $75 ($49 net of tax) on the disposition and a direct and indirect gain at TDC of $296 ($208 net of tax); 2) a gain of $13 (with no tax effect) for a reduction in a previously recorded restructuring accrual at a TDC affiliate; and 3) a charge of $58 (with no tax effect) related to impairments on TDC’s investments in Poland, Norway and the Czech Republic.
- Combined charges of $228 ($152 net of tax) in the second quarter, $185 ($113 net of tax) in the third quarter and $459 ($276 net of tax) in the fourth quarter for enhanced pension benefits, pension settlements, severance costs and real estate costs related to work force-reduction programs.
- A charge of $19 ($12 net of tax) in the third quarter for our proportionate share of severance and restructuring costs at Cingular and charges of $123 ($76 net of tax) in the fourth quarter for our proportionate share of impairments, severance and restructuring costs at Cingular. The impairments included, among other items, write-downs related to Cingular interactive paging and transmission equipment in markets with complete system conversions.
- A charge of $101 ($68 net of tax) in the second quarter representing our proportionate share of restructuring costs at Belgacom. These costs were primarily related to a work force-reduction initiative.
- A gain of $148 ($118 net of tax) in the second quarter and $455 ($425 net of tax) in the fourth quarter on the redemption of our interest in Bell Canada.
- Additional bad debt reserves of $125 ($84 net of tax) in the second quarter as a result of the July 2002 WorldCom bankruptcy filing.

The quarterly impact of the year 2001 special items was as follows:

- Pension settlement gains of $526 ($329 net of tax) in the first quarter, $315 ($189 net of tax) in the second quarter, $123 ($72 net of tax) in the third quarter and $133 ($98 net of tax) in the fourth quarter related to management employees, primarily resulting from a fourth-quarter 2000 voluntary retirement program net of costs associated with that program.
- Combined charges of $401 ($261 net of tax) in the second quarter primarily related to valuation adjustments of Williams as well as certain other cost investments accounted for under FAS 115. The charges resulted from an evaluation that the decline was other than temporary.
- Reduction of a valuation allowance of $120 ($78 net of tax) in the second quarter on a note receivable related to the sale of SecurityLink. The note was collected in July 2001.
- Combined charges of $316 ($205 net of tax) in the first quarter related to impairment of our cable operations.
- A charge of $390 ($262 net of tax) indicated by a transaction pending as of December 31, 2001, to reduce the direct and indirect book value of our investment in Telecom Americas.
- A charge of $197 (with no tax effect) in the fourth quarter for costs related to TDC’s decision to discontinue nonwireless operations of its Talkline subsidiary and our impairment of the goodwill we allocated to Talkline.
- A charge of $197 ($128 net of tax) in the fourth quarter representing a proposed settlement agreement with the ICC related to a provision of the Ameritech merger. The amount represents an estimate of all future savings to be shared with our Illinois customers.
- Combined charges of $619 ($425 net of tax) in the fourth quarter associated with our comprehensive review of operations, which resulted in decisions to reduce work force, terminate certain real estate leases and shut down certain operations (see Note 2).

Report of Management

The consolidated financial statements have been prepared in conformity with generally accepted accounting principles in the United States. The integrity and objectivity of the data in these financial statements, including estimates and judgments relating to matters not concluded by year end, are the responsibility of management, as is all other information included in the Annual Report, unless otherwise indicated.

The financial statements of SBC Communications Inc. (SBC) have been audited by Ernst & Young LLP, independent auditors. Management has made available to Ernst & Young LLP all of SBC's financial records and related data, as well as the minutes of shareowners' and directors' meetings. Furthermore, management believes that all representations made to Ernst & Young LLP during its audit were valid and appropriate.

Management has established and maintains a system of internal accounting controls that provides reasonable assurance as to the integrity and reliability of the financial statements, the protection of assets from unauthorized use or disposition and the prevention and detection of fraudulent financial reporting. The concept of reasonable assurance recognizes that the costs of an internal accounting controls system should not exceed, in management's judgment, the benefits to be derived.

Management maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed by SBC is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission's rules and forms.

Management also seeks to ensure the objectivity and integrity of its financial data by the careful selection of its managers, by organizational arrangements that provide an appropriate division of responsibility and by communication programs aimed at ensuring that its policies, standards and managerial authorities are understood throughout the organization. Management regularly monitors the system of internal accounting controls for compliance. SBC maintains an internal auditing program that independently assesses the effectiveness of the internal accounting controls and recommends improvements thereto.

The Audit Committee of the Board of Directors meets periodically with management, the internal auditors and the independent auditors to review the manner in which they are performing their respective responsibilities and to discuss auditing, internal accounting controls and financial reporting matters. Both the internal auditors and the independent auditors periodically meet alone with the Audit Committee and have access to the Audit Committee at any time.

/s/ Edward E. Whitacre Jr.
Edward E. Whitacre Jr.
Chairman of the Board and
Chief Executive Officer

/s/ Randall Stephenson
Randall Stephenson
Senior Executive Vice President and
Chief Financial Officer

Report of Independent Auditors

The Board of Directors and Shareowners
SBC Communications Inc.

We have audited the accompanying consolidated balance sheets of SBC Communications Inc. (the Company) as of December 31, 2002 and 2001, and the related consolidated statements of income, shareowners' equity, and cash flows for each of the three years in the period ended December 31, 2002. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the 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, 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of SBC Communications Inc. at December 31, 2002 and 2001, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States.

As discussed in Note 1 to the financial statements, in 2002 the Company changed its method of accounting for stock-based compensation and retroactively, restated the 2001 and 2000 financial statements for the change. Also, as discussed in Note 1 to the financial statements, in 2002 the Company changed its method of accounting for goodwill and other intangibles.

/s/ Ernst &Young LLP San Antonio, Texas
February 7, 2003

Exhibit 21

PRINCIPAL SUBSIDIARIES OF SBC COMMUNICATIONS INC. AS OF DECEMBER 31, 2001

Name	State of Incorporation	Conducts Business Under
Ameritech Corporation	Delaware	Same
Illinois Bell Telephone Company	Illinois	Same
Indiana Bell Telephone Company, Incorporated	Indiana	Same
Michigan Bell Telephone Company	Michigan	Same
Nevada Bell Telephone Company	Nevada	Same
Pacific Bell Telephone Company	California	Same
Pacific Telesis Group	Nevada	Same
Prodigy Communications Corporation	Delaware	Same
SBC International, Inc.	Delaware	Same
Southern New England Telecommunications Corporation	Connecticut	Same
Southwestern Bell Communications Services, Inc.	Delaware	Same
Southwestern Bell Telephone, L.P.	Texas	Same
Southwestern Bell Yellow Pages, Inc.	Missouri	Same
Sterling Commerce, Inc.	Delaware	Same
The Ohio Bell Telephone Company	Ohio	Same
The Southern New England Telephone Company	Connecticut	Same
The Woodbury Telephone Company	Connecticut	Same
Wisconsin Bell, Inc.	Wisconsin	Same

Exhibit 23

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in this Annual Report (Form 10-K) of SBC Communications Inc. (SBC) of our report dated February 7, 2003, included in the 2002 Annual Report to the Shareowners of SBC.

Our audits also included the financial statement schedules of SBC listed in Item 14(a). These schedules are the responsibility of SBC's management. Our responsibility is to express an opinion based on our audits. In our opinion, the financial statement schedules referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

We consent to the incorporation by reference in the Registration Statements (Form S-8) pertaining to the SBC Savings Plan and the SBC Savings and Security Plan and other certain plans (No. 333-101433), the Stock Savings Plan (Nos. 33-54291 and 333-34062), the 1992 Stock Option Plan (No. 33-49855), the 1995 Management Stock Option Plan (Nos. 33-61715, 333-49343 and 333-95887), the 1996 Stock and Incentive Plan and the 2001 Incentive Plan (Nos. 333-30669 (1996 Plan only) and 333-54398), the 2001 Stock Option Grant to Bargained-for and Certain Other Employees (No. 333-58332), and in the Registration Statements (Form S-3) pertaining to SBC Communications Inc. (No. 333-36926) and in the related prospectuses, of our report dated February 7, 2003, with respect to the consolidated financial statements incorporated herein by reference, and our report included in the preceding paragraph with respect to the financial statement schedules included in this Annual Report (Form 10-K) for the year ended December 31, 2002.

Ernst & Young LLP
San Antonio, Texas
March 13, 2003

Exhibit 24

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS:

THAT, WHEREAS, SBC COMMUNICATIONS INC., a Delaware corporation, hereinafter referred to as the “Corporation,” proposes to file with the Securities and Exchange Commission, under the provisions of the Securities Exchange Act of 1934, as amended, an annual report on Form 10-K; and

WHEREAS, the undersigned is an officer and a director of the Corporation;

NOW, THEREFORE, the undersigned hereby constitutes and appoints James D. Ellis, Randall L. Stephenson, John J. Stephens, Michael J. Viola, or any one of them, all of the City of San Antonio and State of Texas, his attorneys for him and in his name, place and stead, and in each of his offices and capacities in the Corporation, to execute and file such annual report, and thereafter to execute and file any amendment or amendments thereto, hereby giving and granting to said attorneys full power and authority to do and perform each and every act and thing whatsoever requisite and necessary to be done in and concerning the premises, as fully to all intents and purposes as the undersigned might or could do if personally present at the doing thereof, hereby ratifying and confirming all that said attorneys may or shall lawfully do, or cause to be done, by virtue hereof.

IN WITNESS WHEREOF, the undersigned executed this Power of Attorney the 31st day of January 2003.

/s/ Edward E. Whitacre, Jr.
Edward E. Whitacre, Jr.
Chairman of the Board, Director
and Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS:

THAT, WHEREAS, SBC COMMUNICATIONS INC., a Delaware corporation, hereinafter referred to as the "Corporation," proposes to file with the Securities and Exchange Commission, under the provisions of the Securities Exchange Act of 1934, as amended, an annual report on Form 10-K; and

WHEREAS, the undersigned is an officer of the Corporation;

NOW, THEREFORE, the undersigned hereby constitutes and appoints Edward E. Whitacre, Jr., James D. Ellis, John J. Stephens, Michael J. Viola, or any one of them, all of the City of San Antonio and State of Texas, his attorneys for him and in his name, place and stead, and in his office and capacity in the Corporation, to execute and file such annual report, and thereafter to execute and file any amendment or amendments thereto, hereby giving and granting to said attorneys full power and authority to do and perform each and every act and thing whatsoever requisite and necessary to be done in and concerning the premises, as fully to all intents and purposes as the undersigned might or could do if personally present at the doing thereof, hereby ratifying and confirming all that said attorneys may or shall lawfully do, or cause to be done, by virtue hereof.

IN WITNESS WHEREOF, the undersigned executed this Power of Attorney the 31st day of January 2003.

/s/ Randall L. Stephenson
Randall L. Stephenson
Senior Executive Vice President
and Chief Financial Officer

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS:

THAT, WHEREAS, SBC COMMUNICATIONS INC., a Delaware corporation, hereinafter referred to as the "Corporation," proposes to file with the Securities and Exchange Commission, under the provisions of the Securities Exchange Act of 1934, as amended, an annual report on Form 10-K; and

WHEREAS, the undersigned is a director of the Corporation;

NOW, THEREFORE, the undersigned hereby constitutes and appoints Edward E. Whitacre, Jr., James D. Ellis, Randall L. Stephenson, John J. Stephens, Michael J. Viola, or any one of them, all of the City of San Antonio and State of Texas, the attorneys for the undersigned and in the undersigned's name, place and stead, and in the undersigned's office and capacity in the Corporation, to execute and file such annual report, and thereafter to execute and file any amendment or amendments thereto, hereby giving and granting to said attorneys full power and authority to do and perform each and every act and thing whatsoever requisite and necessary to be done in and concerning the premises, as fully to all intents and purposes as the undersigned might or could do if personally present at the doing thereof, hereby ratifying and confirming all that said attorneys may or shall lawfully do, or cause to be done, by virtue hereof.

IN WITNESS WHEREOF, the undersigned executed this Power of Attorney the 31st day of January 2003.

/s/ Gilbert F. Amelio
Gilbert F. Amelio
Director

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS:

THAT, WHEREAS, SBC COMMUNICATIONS INC., a Delaware corporation, hereinafter referred to as the "Corporation," proposes to file with the Securities and Exchange Commission, under the provisions of the Securities Exchange Act of 1934, as amended, an annual report on Form 10-K; and

WHEREAS, the undersigned is a director of the Corporation;

NOW, THEREFORE, the undersigned hereby constitutes and appoints Edward E. Whitacre, Jr., James D. Ellis, Randall L. Stephenson, John J. Stephens, Michael J. Viola, or any one of them, all of the City of San Antonio and State of Texas, the attorneys for the undersigned and in the undersigned's name, place and stead, and in the undersigned's office and capacity in the Corporation, to execute and file such annual report, and thereafter to execute and file any amendment or amendments thereto, hereby giving and granting to said attorneys full power and authority to do and perform each and every act and thing whatsoever requisite and necessary to be done in and concerning the premises, as fully to all intents and purposes as the undersigned might or could do if personally present at the doing thereof, hereby ratifying and confirming all that said attorneys may or shall lawfully do, or cause to be done, by virtue hereof.

IN WITNESS WHEREOF, the undersigned executed this Power of Attorney the 31st day of January 2003.

/s/ Clarence C. Barksdale
Clarence C. Barksdale
Director

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS:

THAT, WHEREAS, SBC COMMUNICATIONS INC., a Delaware corporation, hereinafter referred to as the "Corporation," proposes to file with the Securities and Exchange Commission, under the provisions of the Securities Exchange Act of 1934, as amended, an annual report on Form 10-K; and

WHEREAS, the undersigned is a director of the Corporation;

NOW, THEREFORE, the undersigned hereby constitutes and appoints Edward E. Whitacre, Jr., James D. Ellis, Randall L. Stephenson, John J. Stephens, Michael J. Viola, or any one of them, all of the City of San Antonio and State of Texas, the attorneys for the undersigned and in the undersigned's name, place and stead, and in the undersigned's office and capacity in the Corporation, to execute and file such annual report, and thereafter to execute and file any amendment or amendments thereto, hereby giving and granting to said attorneys full power and authority to do and perform each and every act and thing whatsoever requisite and necessary to be done in and concerning the premises, as fully to all intents and purposes as the undersigned might or could do if personally present at the doing thereof, hereby ratifying and confirming all that said attorneys may or shall lawfully do, or cause to be done, by virtue hereof.

IN WITNESS WHEREOF, the undersigned executed this Power of Attorney the 31st day of January 2003.

/s/ James E. Barnes
James E. Barnes
Director

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS:

THAT, WHEREAS, SBC COMMUNICATIONS INC., a Delaware corporation, hereinafter referred to as the "Corporation," proposes to file with the Securities and Exchange Commission, under the provisions of the Securities Exchange Act of 1934, as amended, an annual report on Form 10-K; and

WHEREAS, the undersigned is a director of the Corporation;

NOW, THEREFORE, the undersigned hereby constitutes and appoints Edward E. Whitacre, Jr., James D. Ellis, Randall L. Stephenson, John J. Stephens, Michael J. Viola, or any one of them, all of the City of San Antonio and State of Texas, the attorneys for the undersigned and in the undersigned's name, place and stead, and in the undersigned's office and capacity in the Corporation, to execute and file such annual report, and thereafter to execute and file any amendment or amendments thereto, hereby giving and granting to said attorneys full power and authority to do and perform each and every act and thing whatsoever requisite and necessary to be done in and concerning the premises, as fully to all intents and purposes as the undersigned might or could do if personally present at the doing thereof, hereby ratifying and confirming all that said attorneys may or shall lawfully do, or cause to be done, by virtue hereof.

IN WITNESS WHEREOF, the undersigned executed this Power of Attorney the 31st day of January 2003.

/s/ August A. Busch III
August A. Busch III
Director

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS:

THAT, WHEREAS, SBC COMMUNICATIONS INC., a Delaware corporation, hereinafter referred to as the "Corporation," proposes to file with the Securities and Exchange Commission, under the provisions of the Securities Exchange Act of 1934, as amended, an annual report on Form 10-K; and

WHEREAS, the undersigned is a director of the Corporation;

NOW, THEREFORE, the undersigned hereby constitutes and appoints Edward E. Whitacre, Jr., James D. Ellis, Randall L. Stephenson, John J. Stephens, Michael J. Viola, or any one of them, all of the City of San Antonio and State of Texas, the attorneys for the undersigned and in the undersigned's name, place and stead, and in the undersigned's office and capacity in the Corporation, to execute and file such annual report, and thereafter to execute and file any amendment or amendments thereto, hereby giving and granting to said attorneys full power and authority to do and perform each and every act and thing whatsoever requisite and necessary to be done in and concerning the premises, as fully to all intents and purposes as the undersigned might or could do if personally present at the doing thereof, hereby ratifying and confirming all that said attorneys may or shall lawfully do, or cause to be done, by virtue hereof.

IN WITNESS WHEREOF, the undersigned executed this Power of Attorney the 31st day of January 2003.

/s/ William P. Clark
William P. Clark
Director

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS:

THAT, WHEREAS, SBC COMMUNICATIONS INC., a Delaware corporation, hereinafter referred to as the "Corporation," proposes to file with the Securities and Exchange Commission, under the provisions of the Securities Exchange Act of 1934, as amended, an annual report on Form 10-K; and

WHEREAS, the undersigned is a director of the Corporation;

NOW, THEREFORE, the undersigned hereby constitutes and appoints Edward E. Whitacre, Jr., James D. Ellis, Randall L. Stephenson, John J. Stephens, Michael J. Viola, or any one of them, all of the City of San Antonio and State of Texas, the attorneys for the undersigned and in the undersigned's name, place and stead, and in the undersigned's office and capacity in the Corporation, to execute and file such annual report, and thereafter to execute and file any amendment or amendments thereto, hereby giving and granting to said attorneys full power and authority to do and perform each and every act and thing whatsoever requisite and necessary to be done in and concerning the premises, as fully to all intents and purposes as the undersigned might or could do if personally present at the doing thereof, hereby ratifying and confirming all that said attorneys may or shall lawfully do, or cause to be done, by virtue hereof.

IN WITNESS WHEREOF, the undersigned executed this Power of Attorney the 31st day of January 2003.

/s/ Martin K. Eby, Jr.
Martin K. Eby, Jr.
Director

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS:

THAT, WHEREAS, SBC COMMUNICATIONS INC., a Delaware corporation, hereinafter referred to as the "Corporation," proposes to file with the Securities and Exchange Commission, under the provisions of the Securities Exchange Act of 1934, as amended, an annual report on Form 10-K; and

WHEREAS, the undersigned is a director of the Corporation;

NOW, THEREFORE, the undersigned hereby constitutes and appoints Edward E. Whitacre, Jr., James D. Ellis, Randall L. Stephenson, John J. Stephens, Michael J. Viola, or any one of them, all of the City of San Antonio and State of Texas, the attorneys for the undersigned and in the undersigned's name, place and stead, and in the undersigned's office and capacity in the Corporation, to execute and file such annual report, and thereafter to execute and file any amendment or amendments thereto, hereby giving and granting to said attorneys full power and authority to do and perform each and every act and thing whatsoever requisite and necessary to be done in and concerning the premises, as fully to all intents and purposes as the undersigned might or could do if personally present at the doing thereof, hereby ratifying and confirming all that said attorneys may or shall lawfully do, or cause to be done, by virtue hereof.

IN WITNESS WHEREOF, the undersigned executed this Power of Attorney the 31st day of January 2003.

/s/ Herman E. Gallegos
Herman E. Gallegos
Director

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS:

THAT, WHEREAS, SBC COMMUNICATIONS INC., a Delaware corporation, hereinafter referred to as the "Corporation," proposes to file with the Securities and Exchange Commission, under the provisions of the Securities Exchange Act of 1934, as amended, an annual report on Form 10-K; and

WHEREAS, the undersigned is a director of the Corporation;

NOW, THEREFORE, the undersigned hereby constitutes and appoints Edward E. Whitacre, Jr., James D. Ellis, Randall L. Stephenson, John J. Stephens, Michael J. Viola, or any one of them, all of the City of San Antonio and State of Texas, the attorneys for the undersigned and in the undersigned's name, place and stead, and in the undersigned's office and capacity in the Corporation, to execute and file such annual report, and thereafter to execute and file any amendment or amendments thereto, hereby giving and granting to said attorneys full power and authority to do and perform each and every act and thing whatsoever requisite and necessary to be done in and concerning the premises, as fully to all intents and purposes as the undersigned might or could do if personally present at the doing thereof, hereby ratifying and confirming all that said attorneys may or shall lawfully do, or cause to be done, by virtue hereof.

IN WITNESS WHEREOF, the undersigned executed this Power of Attorney the 31st day of January 2003.

/s/ Jess T. Hay
Jess T. Hay
Director

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS:

THAT, WHEREAS, SBC COMMUNICATIONS INC., a Delaware corporation, hereinafter referred to as the "Corporation," proposes to file with the Securities and Exchange Commission, under the provisions of the Securities Exchange Act of 1934, as amended, an annual report on Form 10-K; and

WHEREAS, the undersigned is a director of the Corporation;

NOW, THEREFORE, the undersigned hereby constitutes and appoints Edward E. Whitacre, Jr., James D. Ellis, Randall L. Stephenson, John J. Stephens, Michael J. Viola, or any one of them, all of the City of San Antonio and State of Texas, the attorneys for the undersigned and in the undersigned's name, place and stead, and in the undersigned's office and capacity in the Corporation, to execute and file such annual report, and thereafter to execute and file any amendment or amendments thereto, hereby giving and granting to said attorneys full power and authority to do and perform each and every act and thing whatsoever requisite and necessary to be done in and concerning the premises, as fully to all intents and purposes as the undersigned might or could do if personally present at the doing thereof, hereby ratifying and confirming all that said attorneys may or shall lawfully do, or cause to be done, by virtue hereof.

IN WITNESS WHEREOF, the undersigned executed this Power of Attorney the 31st day of January 2003.

/s/ James A. Henderson
James A. Henderson
Director

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS:

THAT, WHEREAS, SBC COMMUNICATIONS INC., a Delaware corporation, hereinafter referred to as the "Corporation," proposes to file with the Securities and Exchange Commission, under the provisions of the Securities Exchange Act of 1934, as amended, an annual report on Form 10-K; and

WHEREAS, the undersigned is a director of the Corporation;

NOW, THEREFORE, the undersigned hereby constitutes and appoints Edward E. Whitacre, Jr., James D. Ellis, Randall L. Stephenson, John J. Stephens, Michael J. Viola, or any one of them, all of the City of San Antonio and State of Texas, the attorneys for the undersigned and in the undersigned's name, place and stead, and in the undersigned's office and capacity in the Corporation, to execute and file such annual report, and thereafter to execute and file any amendment or amendments thereto, hereby giving and granting to said attorneys full power and authority to do and perform each and every act and thing whatsoever requisite and necessary to be done in and concerning the premises, as fully to all intents and purposes as the undersigned might or could do if personally present at the doing thereof, hereby ratifying and confirming all that said attorneys may or shall lawfully do, or cause to be done, by virtue hereof.

IN WITNESS WHEREOF, the undersigned executed this Power of Attorney the 31st day of January 2003.

/s/ Carlos Slim Helú
Carlos Slim Helú
Director

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS:

THAT, WHEREAS, SBC COMMUNICATIONS INC., a Delaware corporation, hereinafter referred to as the "Corporation," proposes to file with the Securities and Exchange Commission, under the provisions of the Securities Exchange Act of 1934, as amended, an annual report on Form 10-K; and

WHEREAS, the undersigned is a director of the Corporation;

NOW, THEREFORE, the undersigned hereby constitutes and appoints Edward E. Whitacre, Jr., James D. Ellis, Randall L. Stephenson, John J. Stephens, Michael J. Viola, or any one of them, all of the City of San Antonio and State of Texas, the attorneys for the undersigned and in the undersigned's name, place and stead, and in the undersigned's office and capacity in the Corporation, to execute and file such annual report, and thereafter to execute and file any amendment or amendments thereto, hereby giving and granting to said attorneys full power and authority to do and perform each and every act and thing whatsoever requisite and necessary to be done in and concerning the premises, as fully to all intents and purposes as the undersigned might or could do if personally present at the doing thereof, hereby ratifying and confirming all that said attorneys may or shall lawfully do, or cause to be done, by virtue hereof.

IN WITNESS WHEREOF, the undersigned executed this Power of Attorney the 31st day of January 2003.

/s/ Bobby R. Inman
Bobby R. Inman
Director

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS:

THAT, WHEREAS, SBC COMMUNICATIONS INC., a Delaware corporation, hereinafter referred to as the "Corporation," proposes to file with the Securities and Exchange Commission, under the provisions of the Securities Exchange Act of 1934, as amended, an annual report on Form 10-K; and

WHEREAS, the undersigned is a director of the Corporation;

NOW, THEREFORE, the undersigned hereby constitutes and appoints Edward E. Whitacre, Jr., James D. Ellis, Randall L. Stephenson, John J. Stephens, Michael J. Viola, or any one of them, all of the City of San Antonio and State of Texas, the attorneys for the undersigned and in the undersigned's name, place and stead, and in the undersigned's office and capacity in the Corporation, to execute and file such annual report, and thereafter to execute and file any amendment or amendments thereto, hereby giving and granting to said attorneys full power and authority to do and perform each and every act and thing whatsoever requisite and necessary to be done in and concerning the premises, as fully to all intents and purposes as the undersigned might or could do if personally present at the doing thereof, hereby ratifying and confirming all that said attorneys may or shall lawfully do, or cause to be done, by virtue hereof.

IN WITNESS WHEREOF, the undersigned executed this Power of Attorney the 31st day of January 2003.

/s/ Charles F. Knight
Charles F. Knight
Director

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS:

THAT, WHEREAS, SBC COMMUNICATIONS INC., a Delaware corporation, hereinafter referred to as the "Corporation," proposes to file with the Securities and Exchange Commission, under the provisions of the Securities Exchange Act of 1934, as amended, an annual report on Form 10-K; and

WHEREAS, the undersigned is a director of the Corporation;

NOW, THEREFORE, the undersigned hereby constitutes and appoints Edward E. Whitacre, Jr., James D. Ellis, Randall L. Stephenson, John J. Stephens, Michael J. Viola, or any one of them, all of the City of San Antonio and State of Texas, the attorneys for the undersigned and in the undersigned's name, place and stead, and in the undersigned's office and capacity in the Corporation, to execute and file such annual report, and thereafter to execute and file any amendment or amendments thereto, hereby giving and granting to said attorneys full power and authority to do and perform each and every act and thing whatsoever requisite and necessary to be done in and concerning the premises, as fully to all intents and purposes as the undersigned might or could do if personally present at the doing thereof, hereby ratifying and confirming all that said attorneys may or shall lawfully do, or cause to be done, by virtue hereof.

IN WITNESS WHEREOF, the undersigned executed this Power of Attorney the 31st day of January 2003.

/s/ Lynn M. Martin
Lynn M. Martin
Director

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS:

THAT, WHEREAS, SBC COMMUNICATIONS INC., a Delaware corporation, hereinafter referred to as the "Corporation," proposes to file with the Securities and Exchange Commission, under the provisions of the Securities Exchange Act of 1934, as amended, an annual report on Form 10-K; and

WHEREAS, the undersigned is a director of the Corporation;

NOW, THEREFORE, the undersigned hereby constitutes and appoints Edward E. Whitacre, Jr., James D. Ellis, Randall L. Stephenson, John J. Stephens, Michael J. Viola, or any one of them, all of the City of San Antonio and State of Texas, the attorneys for the undersigned and in the undersigned's name, place and stead, and in the undersigned's office and capacity in the Corporation, to execute and file such annual report, and thereafter to execute and file any amendment or amendments thereto, hereby giving and granting to said attorneys full power and authority to do and perform each and every act and thing whatsoever requisite and necessary to be done in and concerning the premises, as fully to all intents and purposes as the undersigned might or could do if personally present at the doing thereof, hereby ratifying and confirming all that said attorneys may or shall lawfully do, or cause to be done, by virtue hereof.

IN WITNESS WHEREOF, the undersigned executed this Power of Attorney the 31st day of January 2003.

/s/ John B. McCoy
John B. McCoy
Director

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS:

THAT, WHEREAS, SBC COMMUNICATIONS INC., a Delaware corporation, hereinafter referred to as the "Corporation," proposes to file with the Securities and Exchange Commission, under the provisions of the Securities Exchange Act of 1934, as amended, an annual report on Form 10-K; and

WHEREAS, the undersigned is a director of the Corporation;

NOW, THEREFORE, the undersigned hereby constitutes and appoints Edward E. Whitacre, Jr., James D. Ellis, Randall L. Stephenson, John J. Stephens, Michael J. Viola, or any one of them, all of the City of San Antonio and State of Texas, the attorneys for the undersigned and in the undersigned's name, place and stead, and in the undersigned's office and capacity in the Corporation, to execute and file such annual report, and thereafter to execute and file any amendment or amendments thereto, hereby giving and granting to said attorneys full power and authority to do and perform each and every act and thing whatsoever requisite and necessary to be done in and concerning the premises, as fully to all intents and purposes as the undersigned might or could do if personally present at the doing thereof, hereby ratifying and confirming all that said attorneys may or shall lawfully do, or cause to be done, by virtue hereof.

IN WITNESS WHEREOF, the undersigned executed this Power of Attorney the 31st day of January 2003.

/s/ Mary S. Metz
Mary S. Metz
Director

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS:

THAT, WHEREAS, SBC COMMUNICATIONS INC., a Delaware corporation, hereinafter referred to as the "Corporation," proposes to file with the Securities and Exchange Commission, under the provisions of the Securities Exchange Act of 1934, as amended, an annual report on Form 10-K; and

WHEREAS, the undersigned is a director of the Corporation;

NOW, THEREFORE, the undersigned hereby constitutes and appoints Edward E. Whitacre, Jr., James D. Ellis, Randall L. Stephenson, John J. Stephens, Michael J. Viola, or any one of them, all of the City of San Antonio and State of Texas, the attorneys for the undersigned and in the undersigned's name, place and stead, and in the undersigned's office and capacity in the Corporation, to execute and file such annual report, and thereafter to execute and file any amendment or amendments thereto, hereby giving and granting to said attorneys full power and authority to do and perform each and every act and thing whatsoever requisite and necessary to be done in and concerning the premises, as fully to all intents and purposes as the undersigned might or could do if personally present at the doing thereof, hereby ratifying and confirming all that said attorneys may or shall lawfully do, or cause to be done, by virtue hereof.

IN WITNESS WHEREOF, the undersigned executed this Power of Attorney the 31st day of January 2003.

/s/ Toni Rembe
Toni Rembe
Director

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS:

THAT, WHEREAS, SBC COMMUNICATIONS INC., a Delaware corporation, hereinafter referred to as the "Corporation," proposes to file with the Securities and Exchange Commission, under the provisions of the Securities Exchange Act of 1934, as amended, an annual report on Form 10-K; and

WHEREAS, the undersigned is a director of the Corporation;

NOW, THEREFORE, the undersigned hereby constitutes and appoints Edward E. Whitacre, Jr., James D. Ellis, Randall L. Stephenson, John J. Stephens, Michael J. Viola, or any one of them, all of the City of San Antonio and State of Texas, the attorneys for the undersigned and in the undersigned's name, place and stead, and in the undersigned's office and capacity in the Corporation, to execute and file such annual report, and thereafter to execute and file any amendment or amendments thereto, hereby giving and granting to said attorneys full power and authority to do and perform each and every act and thing whatsoever requisite and necessary to be done in and concerning the premises, as fully to all intents and purposes as the undersigned might or could do if personally present at the doing thereof, hereby ratifying and confirming all that said attorneys may or shall lawfully do, or cause to be done, by virtue hereof.

IN WITNESS WHEREOF, the undersigned executed this Power of Attorney the 31st day of January 2003.

/s/ S. Donley Ritchey
S. Donley Ritchey
Director

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS:

THAT, WHEREAS, SBC COMMUNICATIONS INC., a Delaware corporation, hereinafter referred to as the "Corporation," proposes to file with the Securities and Exchange Commission, under the provisions of the Securities Exchange Act of 1934, as amended, an annual report on Form 10-K; and

WHEREAS, the undersigned is a director of the Corporation;

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IN WITNESS WHEREOF, the undersigned executed this Power of Attorney the 31st day of January 2003.

/s/ Joyce M. Roché
Joyce M. Roché
Director

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS:

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IN WITNESS WHEREOF, the undersigned executed this Power of Attorney the 31st day of January 2003.

/s/ Laura D'Andrea Tyson
Laura D'Andrea Tyson
Director

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS:

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WHEREAS, the undersigned is a director of the Corporation;

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IN WITNESS WHEREOF, the undersigned executed this Power of Attorney the 31st day of January 2003.

/s/ Patricia P. Upton
Patricia P. Upton
Director

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