

SBC COMMUNICATIONS INC
Form 11-K
June 27, 2002
EX 99-b
Form 10-K for 2001
File No. 1-8610

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 11-K

ANNUAL REPORT

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

For the fiscal year ended December 31, 2001

Commission File Number 1-8610

SBC SAVINGS AND SECURITY PLAN

SBC COMMUNICATIONS INC.

175 E. Houston, San Antonio, Texas 78205

Financial Statements, Supplemental Schedule and Exhibit

Table of Contents

	Page
Report of Independent Auditors.....	1
Financial Statements:	
Statements of Net Assets Available for Benefits as of December 31, 2001 and 2000.....	2
Statement of Changes in Net Assets Available for Benefits for the Year Ended December 31, 2001.....	3
Notes to Financial Statements.....	4
Supplemental Schedule:	
Schedule H, Line 4i - Schedule of Assets (Held at End of Year).....	9
Exhibit:	

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23-a Consent of Ernst & Young LLP

REPORT OF INDEPENDENT AUDITORS

SBC Communications Inc., Plan Administrator
for the SBC Savings and Security Plan

We have audited the accompanying statements of net assets available for benefits of the SBC Savings and Security Plan as of December 31, 2001 and 2000, and the related statement of changes in net assets available for benefits for the year ended December 31, 2001. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with 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 financial statements referred to above present fairly, in all material respects, the net assets available for benefits at December 31, 2001 and 2000, and the changes in its net assets available for benefits for the year ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental schedule of assets (held at end of year) as of December 31, 2001 is presented for purposes of additional analysis and is not a required part of the financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to auditing procedures applied in our audits of the financial statements, and in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

ERNST & YOUNG LLP

San Antonio, Texas
June 21, 2002

SBC SAVINGS AND SECURITY PLAN

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

	December 31,	
	2001	2000
ASSETS		
Investments (See Note 3)	\$ 3,999,240	\$ 4,634,699
Cash	115	-
Participant contributions receivable	-	7
Dividends and interest receivable	116	437
Receivable for investments sold	371	224
Other receivables	73	52
	-----	-----
Total Assets	3,999,915	4,635,419
	-----	-----
LIABILITIES		
Administrative expenses payable	1,408	1,054
Long-term debt:		
SBC Communications Inc.	-	644
	-----	-----
Total Liabilities	1,408	1,698
	-----	-----
Net Assets Available for Benefits	\$ 3,998,507	\$ 4,633,721
	=====	=====

See Notes to Financial Statements.

SBC SAVINGS AND SECURITY PLAN
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
FOR THE YEAR ENDED DECEMBER 31, 2001
(Dollars in Thousands)

Net Assets Available for Benefits, December 31, 2000	\$ 4,633,721
Additions to Net Assets:	
Contributions and transfers:	
Participant contributions	215,993
Employer contributions	110,917
Transfers from other plans (See Note 1)	6,012

	332,922
Investment Income:	
Dividends on SBC common shares	67,139

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Interest	44,627

	111,766
Total Net Additions	444,688

Deductions from Net Assets:	
Net depreciation in fair value of investments	637,835
Administrative expenses	4,422
Distributions	430,339
Transfers to other plans (See Note 1)	7,306

Total Deductions	1,079,902

Net Assets Available for Benefits, December 31, 2001	\$ 3,998,507
	=====

See Notes to Financial Statements.

**SBC SAVINGS AND SECURITY PLAN
NOTES TO FINANCIAL STATEMENTS
(Dollars in Thousands)**

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

Participants can invest their contributions in one or more of the following funds in 1% increments: the SBC Shares Fund, the Bond Fund, the Diversified Equity Portfolio, the Interest Income Fund, the Asset Allocation Fund and the Global Equity Fund.

Company matching contributions are made solely in the form of shares of SBC's common stock held in a leveraged Employee Stock Ownership Plan (ESOP) which is a separate investment account of this Plan.

The Plan prefunded the ESOP by borrowing Guaranteed Non-Salaried Employees' ESOP Notes that were due in 2005, the repayment of which is guaranteed by SBC. The notes were paid in full during 2001. Funds borrowed by the Plan

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were used to purchase shares of SBC's common stock held in the open market (Financed Shares), which act as collateral for reimbursement to SBC for any payments made under its guarantee of the ESOP Notes. The interest rate on the notes at December 31, 2000 was 7.78%.

Dividends on Financed Shares and employer cash contributions were used by the Plan to make the required principal and interest payments on the ESOP Notes. As the ESOP Notes were paid down, the Financed Shares were released from the collateral. The Financed Shares were allocated to participants' accounts in the form of a company matching contribution. In lieu of dividends on Financed Shares previously allocated to participants, additional Financed Shares were allocated to participants' accounts.

To the extent insufficient shares had been released through payments on outstanding notes net of amounts refinanced, additional employer contributions were made to the ESOP to purchase shares necessary to meet any shortfall in the company match or in the shares issued in lieu of dividends. Dividends on these shares were used to acquire additional shares, which were allocated to participants' accounts in the ESOP. Should shares released exceed the required company matching contribution, the excess was considered an additional employer contribution and was allocated to participants' accounts based on each participant's proportionate share of actual plan year ESOP contributions.

Dividends on shares in the SBC Shares Fund are paid into a separate fund known as a Dividend Fund Account (DFA). At the end of the year, dividends held in the DFA are paid out to the participant. The participant may elect reinvestment and have the special Deferred-Tax Allotment offset the payout through the purchase of additional units. Interest earned on dividends held in the DFA will be paid into the SBC Shares Fund. During 2001, Plan participants elected to receive \$18,800 in dividend distributions. This amount is included in distributions on the statement of changes in net assets.

On November 5, 2001, the Woodbury Telephone Company Union 401(k) Plan (Woodbury Plan) was merged into the SBC Savings and Security Plan. Approximately \$6,012 from the Woodbury Plan merger is included in transfers from other plans on the statement of changes in net assets available for benefits.

In 2000, SBC entered into the Cingular Wireless (Cingular) joint venture agreement with BellSouth Corporation. As a result of this agreement, certain SBC employees were leased to Cingular. In December 2001 these employees became Cingular employees and on December 3, 2001 the Plan distributed approximately \$7,306 to State Street Bank and Trust related to those former employees that were transferred to Cingular.

Although it has not expressed any intent to do so, SBC has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event that the Plan is terminated, subject to the conditions set forth by ERISA, the account balances of all participants shall be 100% vested.

2. Accounting Policies - The values of investments are determined as follows: SBC common shares on the basis of the closing price as reported on the New York Stock Exchange; contracts with insurance companies and other financial institutions at principal plus reinvested interest which approximates fair value; common collective trust funds at values obtained from fund managers; and temporary cash investments at cost which approximates fair value. Purchases and sales of securities are reflected as of the trade date. Dividend income is recognized on the ex-dividend date. Interest earned on investments is recognized on the accrual basis.

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

In June 1998, the Financial Accounting Standards Board issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" (FAS 133), which requires all derivatives to be recorded on the statement of net assets available for benefits at fair value, and requires changes in the fair value of the derivatives to be recorded on the statement of changes in net assets available for benefits. The Plan adopted FAS 133 on January 1, 2001, as a one-time, noncash cumulative effect of accounting change. However, because of the Plan's minimal use of derivatives, the adoption of this standard did not have a significant effect on the Plan's financial position or results of operations

3. Investments - Investments representing 5% or more of Plan net assets at either December 31, 2001 or 2000 were:

	2001	2000
	-----	-----
Employee Stock Ownership Plan *		

SBC common shares:		
Allocated	\$ 1,028,960	\$ 1,209,908
Unallocated	\$ 9	\$ 3
 SBC Shares Fund		

SBC common shares	\$ 1,530,316	\$ 1,941,683
 Diversified Equity Portfolio		

Barclays Global Investors Equity		
Index Fund F	\$ 434,521	\$ 516,372

* Nonparticipant-directed

During 2001, the Plan's investments (including gains and losses on investments bought and sold, as well as held during the year) depreciated in value as follows:

Common Stock	\$ (561,179)
Common Collective Trusts	(76,656)

Total	\$ (637,835)
	=====

The Interest Income Fund consists of contracts with various financial institutions and insurance companies that promise to repay principal plus accrued income at contract maturity, subject to the creditworthiness of the issuer. Interest crediting rates are generally established when the contract is purchased and are not reset. For the years ended December 31, 2001 and 2000, the average interest rates earned on these contracts were 6.13% and 6.15%. At December 31, 2001, the fixed crediting interest rates on these contracts ranged from 3.76% to 8.00%. At December 31, 2000, the fixed crediting interest rates on these contracts ranged from 5.18% to 8.00%. No valuation reserves were recorded to adjust contract amounts as of December 31, 2001 or 2000.

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The Interest Income Fund invests in both guaranteed investment contracts (GICs) and synthetic investment contracts (SICs). SICs differ from GICs in that the assets supporting the SICs are owned by the Plan. A bank or insurance company issues a wrapper contract that allows participant directed transactions to be made at contract value. Wrapper contracts are valued as the difference between the fair value of the supporting assets and the contract value. The assets supporting the SICs generally consist of high quality fixed income securities.

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

	2001 -----	2000 -----
Assets -----		
SBC common shares:		
Allocated	\$ 1,028,960	\$ 1,209,908
Unallocated	9	3
Temporary cash investments	2,958	2,300
Dividends and interest receivable	3	24
Receivable for investments sold	370	224
Other receivables	2	1
	-----	-----
Total Assets	1,032,302	1,212,460
	-----	-----
Liabilities -----		
Administrative expenses payable	368	248
Long-term debt	-	644
	-----	-----
Total Liabilities	368	892
	-----	-----
Net Assets Available for Benefits	\$ 1,031,934	\$ 1,211,568
	=====	=====
		2001 -----
Net Assets Available for Benefits, December 31, 2000		\$ 1,211,568
Employer contributions		110,917
Interest income		90
Dividends		26,114
Net depreciation in fair value of investments		(220,877)
Administrative expenses		(1,086)
Distributions		(92,314)
Transfers to other plans		(2,478)

		(179,634)

Net Assets Available for Benefits, December 31, 2001		\$ 1,031,934
		=====

5. Long-Term Debt - Long-term debt consists of the ESOP Notes issued in connection with the ESOP and the refinancing notes (as discussed in Note

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1). The remaining balance due on the notes was paid off in 2001. The carrying amount and the estimated fair value of the ESOP and refinancing notes as of December 31, 2000 was:

	2000
Carrying Amount	\$ 644
Fair Value	\$ 644

At December 31, 2000, the fair value of the ESOP Note was estimated based on quoted prices.

6. Tax Status - The Internal Revenue Service issued a determination letter on March 10, 1997, stating that the Plan and related trust are designed in accordance with applicable sections of the Internal Revenue Code (IRC). The Plan has been amended since the determination letter was received. The Plan Administrator believes that the Plan is currently designed and is operating in compliance with the applicable requirements of the IRC.

On February 28, 2002, the Plan filed for, but has not yet received, a new tax determination letter from the IRS to reflect legally required changes and other changes made to the Plan since the previous determination letter was issued.

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

	2001	2000
Net Assets Available for Benefits per the financial statements	\$ 3,998,507	\$ 4,633,721
Less: Distribution payable to participants	369	1,583
Net Assets Available for Benefits per the Form 5500	\$ 3,998,138	\$ 4,632,138

The following is a reconciliation of benefits paid to participants per the financial statements to the Form 5500 for the year ended December 31, 2001:

	2001
Distributions to participants per the financial statements	\$ 430,339
Add: Distributions payable to participants at December 31, 2001	369
Less: Distributions payable to participants at December 31, 2000	1,583
Distributions to participants per the Form 5500	\$ 429,125

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

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7. Subsequent Events - Effective January 1, 2002, the Plan was amended to change the vesting schedule from five years to three years, increase the maximum employee contributions from 16% to 30%, allow dividends from the SBC Shares Fund and the LESOP to be made available for cash payment to the participant or reinvested in the SBC Shares Fund and allow employees immediate eligibility to make contributions. Additionally, the Mid and Small Cap Stock Fund and the International Stock Fund were added as investment options effective January 1, 2002.

SBC SAVINGS AND SECURITY PLAN
EIN 43-1301883, PLAN NO. 004

SCHEDULE H, LINE 4i - SCHEDULE OF ASSETS (HELD AT END OF YEAR)
December 31, 2001
(Dollars in Thousands)

Identity of Issue	Description of Investment	Cost	Current Value
Employee Stock Ownership Plan			

* SBC common shares:			
Allocated	26,269,092 shares	\$ 568,425	\$ 1,028,960
Unallocated	233 shares	6	9
* Boston Safe Deposit and Trust Company	Temporary cash investment	2,958	2,958
		571,389	1,031,927
Total Employee Stock Ownership Plan			
SBC Shares Fund			

* SBC common shares	39,068,579 shares		1,530,316
* Boston Safe Deposit and Trust Company	Temporary cash investment		30,409
		**	1,560,725
Bond Fund			

* Barclays Global Investors Intermediate Government/Credit Bond Index Fund F	5,830,257 units	**	81,332
Diversified Equity Portfolio			

* Barclays Global Investors Equity Index Fund F	28,381,525 units	**	434,521
Interest Income Fund			

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Allstate Life Insurance Company	7.10%, 10/15/03	11,980
Bank of America National Association	Synthetic contract wrapper #99-086, 5.03%, ***	(1,117)
Federal Home Loan Mortgage Corporation	Agency Debenture	7,816
Providian Master Trust	Monoline Credit Card	5,119
AmeriCredit Auto Receivables Trust	Sub Prime Auto	3,231
Capital One Master Trust	Monoline Credit Card	6,859
Federal National Mortgage Association	Agency Debenture	5,602
Prime Credit Card Master Trust	Retail Credit Card	5,298
Federal National Mortgage Association	PAC	5,218
WFS Financial Owners Trust	Sub Prime Auto	3,218
Nordstrom Private Label Credit Card Master	Monoline Credit Card	4,911
Commercial Mortgage Asset Trust	Conduit	4,352
TIAA Retail Commercial Trust	Conduit	3,753
WFS Financial Owners Trust	Sub Prime Auto	3,045
Federal National Mortgage Association	FHA/VA Reperforming Pas	2,877
HomeEq Asset Backed Certificates	Home Equity Senior Sub	2,530
Bank of America National Association	Cash on Hand	197

		62,909
Business Men's Assurance Company of America	7.44%, 7/29/03	6,104
CDC Financial Products Inc.	7.00% - 7.01%, 8/29/05 - 10/17/05	8,085
JPMorgan Chase Bank	Synthetic contract wrapper #401792-L2, 6.09%, ***	(115)
INVESCO Group Trust for Retirement Savings	Group Trust: Lambda II	2,826

		2,711
JPMorgan Chase Bank	Synthetic contract wrapper #426424-T, 5.61%, ***	(1,877)
Federal Home Loan Mortgage Company	Agency Debenture	3,928
United States Treasury	Treasury Note	6,645
American Express Credit Account	Monoline Credit Card	3,308
Fleet Credit Card Master Trust	Bank Credit Card	2,799
CIT Equipment Collateral	Small Equipment Lease	6,453
AmeriCredit Automobile Receivables Trust	Sub Prime Auto	7,070
Credit Suisse First Boston Mortgage Sec.	Conduit	5,904
Nissan Auto Receivables Owners Trust	Prime Auto	5,602
Ford Credit Auto Owners Trust	Prime Auto	5,394
Ford Credit Auto Owners Trust	Prime Auto	4,034
Chase Credit Card Master Trust	Bank Credit Card	3,675
Honda Auto Receivables Owner Trust	Prime Auto	3,632

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Caterpillar Financial Asset Trust	Large Equipment Loan	3,273
JPMorgan Chase Bank	Cash on Hand	258

		60,098
Continental Assurance Company	Synthetic contract wrapper #630-05574, 5.43%, ***	(91)
INVESCO Group Trust for Retirement Sav.	Group Trust Beta	3,511

		3,420
GE Life and Annuity Assurance Company	7.45% - 8.00%, 12/17/01 - 7/7/04	7,764
Jackson National Life Insurance Company	7.50%, 1/5/04	8,080
John Hancock Life Insurance Company	3.76% - 6.28%, 2/1/02 - 2/3/03	22,733
Metropolitan Life Insurance Company	5.25% - 6.16%, 4/1/02 - 5/13/02	14,523
Monumental Life Insurance Company	7.17%, 7/25/05	4,872
Monumental Life Insurance Company	Synthetic contract wrapper #00292TR, 4.94%, ***	(1,340)
Federal National Mortgage Association	FHA/VA Reperforming Pass	4,401
Household Automotive Trust	Sub Prime Auto	10,299
Federal Home Loan Mortgage Corporation	Agency Debenture	9,379
United States Treasury	Treasury Note	1,279
Copelco Capital Funding Corp	Small Equipment Lease	535
First USA Credit Card Master Trust	Bank Credit Card	1,037
American Express Credit Account Master Trust	Monoline Credit Card	870
Federal Home Loan Mortgage Corporation	Agency Debenture	8,424
United States Treasury	Treasury Note	5,537
Residential Asset Securities Corporation	Home Equity Senior Sub	5,110
Residential Asset Securities Corporation	Home Equity Senior Sub	5,084
Onyx Acceptance Grantor Trust	Sub Prime Auto	4,255
AmeriCredit Automobile Receivables Trust	Sub Prime Auto	4,199
WFS Financial Owners Trust	Sub Prime Auto	2,145
Federal National Mortgage Association	Agency Debenture	1,569
Honda Auto Receivables Owner Trust	Prime Auto	1,292
Sears Credit Account Master Trust	Retail Credit Card	1,037
Monumental Life Insurance Company	Cash on Hand	317

		65,429
New York Life Insurance Company	5.28% - 6.06%,	

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	6/28/02 - 2/2/04	18,632
Pruco Life Insurance Company	6.99% - 7.48%, 9/7/04 - 11/30/05	22,349
Security Life of Denver Insurance Company	7.39% - 7.65%, 2/11/03 - 10/4/04	12,193
State Street Bank and Trust Company	Synthetic contract wrapper #99035-LB1, 5.22%, ***	(36)
INVESCO Group Trust for Retirement Savings	Group Trust: Lambda I	1,739
		----- 1,703
State Street Bank and Trust Company	Synthetic contract wrapper #99039, 6.61%, ***	(2,249)
MBNA Master Credit Card Trust USA	Monoline Credit Card	3,827
Delta Funding Home Equity Loan Trust	Home Equity Monoline	5,168
Federal National Mortgage Association	FHA/VA Reperforming Pas	5,075
American Express Credit Account Master Trust	Monoline Credit Card	5,239
Fleet Credit Card Master Trust II	Bank Credit Card	4,306
Federal Home Loan Mortgage Corporation	Agency Debenture	4,169
Sears Credit Account Master Trust	Retail Credit Card	4,235
Sears Credit Account Master Trust	Retail Credit Card	2,208
Sears Credit Account Master Trust	Retail Credit Card	4,273
Citibank Credit Card Master Trust II	Bank Credit Card	4,279
Citibank Credit Card Master Trust II	Bank Credit Card	3,141
Federal Home Loan Mortgage Corporation	Agency Hybrid ARM	3,043
Capital One Master Trust	Bank Credit Card	2,023
United States Treasury	Treasury Note	15,437
Keycorp	Conduit	5,977
Honda Auto Receivables Owner Trust	Prime Auto	1,002
United States Treasury	Treasury Note	448
State Street Bank and Trust Company	Cash on Hand	358
	Pending Settlements	(15,451)
		----- 56,508
SunAmerica Life Insurance Company	7.14%, - 7.57% 1/2/04 - 9/22/05	9,334
* Boston Safe Deposit and Trust Company	Temporary cash investment	43,195
Total Interest Income Fund	**	----- 442,622 -----

Asset Allocation Fund

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* Barclays Global Investors U.S.
Tactical Asset

Allocation Fund F	10,950,685 units	**	----- 176,197 -----
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Global Equity Fund

* Barclays Global Investors U.S. Equity Market Fund F	1,622,924 units		43,089
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* Barclays Global Investors EAFE Equity Index Fund E	761,716 unit		11,921
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Total Global Equity Fund		**	----- 55,010 -----
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Loan Fund

* Loans to Plan Participants	5.75% - 10.00%	**	----- 216,906 -----
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TOTAL			\$ 3,999,240 =====
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* Party-in-Interest.

** Participant-directed investment, cost not required.

*** Synthetic Insurance Contracts, no stated maturity.

SIGNATURE

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

SBC SAVINGS AND SECURITY PLAN

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

By /s/ Karen E. Jennings
Karen E. Jennings
Senior Executive Vice
President-
Human Resources

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Date: June 27, 2002

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EXHIBIT INDEX

Exhibit identified below, is filed herein as exhibit hereto.

Exhibit
Number

23 Consent of Independent Auditors Ernst & Young LLP.