SABRE HOLDINGS CORP
Form 10-Q
May 15, 2003

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

ý **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the Quarterly Period Ended March 31, 2003.

OR

o **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 1-12175.

SABRE HOLDINGS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**75-2662240**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3150 Sabre Drive, Southlake, Texas	**76092**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code **(682) 605-1000**

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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 periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o

Indicate by checkmark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ý No o

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class A Common Stock, $.01 par value 143,277,617 as of May 9, 2003

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SABRE HOLDINGS CORPORATION

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

SABRE HOLDINGS CORPORATION
CONSOLIDATED BALANCE SHEETS
(Unaudited) (In thousands)

	March 31, 2003	December 31, 2002

	March 31, 2003	December 31, 2002
Assets		
Current assets		
Cash	$ 30,436	$ 21,176
Marketable securities	896,433	890,584
Accounts receivable, net	372,982	298,498
Prepaid expenses and other current assets	94,898	85,657
Deferred income taxes	17,964	15,728
Total current assets	1,412,713	1,311,643
Property and equipment		
Buildings and leasehold improvements	153,731	156,034
Furniture, fixtures and equipment	44,555	43,578
Computer software and equipment	256,351	236,639
	454,637	436,251
Less accumulated depreciation and amortization	(212,129)	(196,179)
Total property and equipment	242,508	240,072
Investments in joint ventures	187,389	196,725
Goodwill and intangible assets, net	842,869	855,683
Other assets, net	144,115	152,408
Total assets	$ 2,829,594	$ 2,756,531
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	$ 168,872	$ 181,934
Accrued compensation and related benefits	37,877	54,770
Accrued subscriber incentives	63,154	69,132
Deferred revenues	52,263	46,252
Other accrued liabilities	167,087	147,826
Total current liabilities	489,253	499,914
Deferred income taxes	20,734	13,755
Pensions and other postretirement benefits	124,528	116,305
Other liabilities	38,830	38,914
Minority interests	10,927	10,300
Notes payable	435,916	435,765
Commitments and contingencies		
Stockholders' equity		
Preferred stock: $0.01 par value; 20,000 shares authorized; no shares issued		
Class A common stock, $0.01 par value; 250,000 shares authorized; 145,841 and 145,164 shares issued at March 31, 2003 and December 31, 2002, respectively	1,458	1,451
Additional paid-in capital	1,280,519	1,276,662
Retained earnings	507,009	442,130
Accumulated other comprehensive loss	(17,922)	(16,024)
Less treasury stock at cost: 2,441 and 2,480 shares, respectively	(61,658)	(62,641)
Total stockholders' equity	1,709,406	1,641,578
Total liabilities and stockholders' equity	$ 2,829,594	$ 2,756,531

	March 31, 2003	December 31, 2002

See Notes to Consolidated Financial Statements

SABRE HOLDINGS CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited) (In thousands, except per share amounts)

	Three Months Ended March 31, 2003	Three Months Ended March 31, 2002
Revenues	$ 543,833	$ 549,358
Operating expenses		
Cost of revenues	311,779	293,830
Selling, general and administrative	115,673	121,904
Amortization of intangible assets	12,487	13,630
Total operating expenses	439,939	429,364
Operating income	103,894	119,994
Other income (expense)		
Interest income	4,406	7,002
Interest expense	(5,472)	(5,684)
Other, net	434	19,888
Total other income (expense)	(632)	21,206
Minority interests	(627)	847
Income before provision for income taxes	102,635	142,047
Provision for income taxes	37,756	54,660
Net earnings	$ 64,879	$ 87,387
Earnings per common share		
Basic	$ .46	$ .66
Diluted	$ .45	$ .64

See Notes to Consolidated Financial Statements

SABRE HOLDINGS CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

THREE MONTHS ENDED MARCH 31, 2003
(Unaudited) (In thousands)

	Class A Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
Balance at December 31, 2002	$ 1,451	$ 1,276,662	$ 442,130	$ (16,024)	$ (62,641)	$ 1,641,578
Issuance of 677 shares of Class A common stock pursuant to stock option, restricted stock incentive and stock purchase plans	7	(884)			983	106
Tax benefit from exercise of employee stock options		93				93
Stock based compensation for employees		4,648				4,648
Comprehensive income:						
Net earnings			64,879			64,879
Unrealized loss on foreign currency forward contracts, net of deferred income taxes				(1,637)		(1,637)
Unrealized loss on investments, net of deferred income taxes				(453)		(453)
Unrealized foreign currency translation gain				192		192
Total comprehensive income						62,981
Balance at March 31, 2003	$ 1,458	$ 1,280,519	$ 507,009	$ (17,922)	$ (61,658)	$ 1,709,406

See Notes to Consolidated Financial Statements.

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SABRE HOLDINGS CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited) (In thousands)

	Three Months Ended March 31,	
	2003	2002
Operating Activities		
Net earnings	$ 64,879	$ 87,387
Adjustments to reconcile net earnings to cash provided by operating activities:		
Depreciation and amortization	31,043	29,055
Stock compensation	4,648	2,723
Deferred income taxes	7,621	27,137
Tax benefit from exercise of stock options	93	1,919
Minority interests	627	(847)
Gain on sale of former headquarters building		(18,308)
Other	9,858	15,334
Changes in operating assets and liabilities:		
Accounts receivable	(74,484)	(71,866)

	Three Months Ended March 31,	
Prepaid expenses	(11,700)	(26,883)
Other assets	3,676	17,225
Accrued compensation and related benefits	(16,893)	(17,773)
Accounts payable and other accrued liabilities	17,403	34,861
Pensions and other postretirement benefits	8,223	15,725
Other liabilities	(84)	(14,977)
Cash provided by operating activities	44,910	80,712
Investing Activities		
Additions to property and equipment	(23,971)	(12,132)
Business combinations, net of cash acquired	(10,161)	(35,907)
Proceeds from sale of former headquarters building		80,000
Proceeds from sale of minority interest in Sabre Pacific		23,466
Purchases of marketable securities	(1,611,913)	(660,350)
Sales of marketable securities	1,605,996	508,359
Other investing activities, net	5,303	24,930
Cash used for investing activities	(34,746)	(71,634)
Financing Activities		
Proceeds from issuance of common stock	106	6,915
Other financing activities, net	(1,010)	(14,529)
Cash used for financing activities	(904)	(7,614)
Increase in cash	9,260	1,464
Cash at beginning of period	21,176	18,855
Cash at end of period	$ 30,436	$ 20,319

See Notes to Consolidated Financial Statements

SABRE HOLDINGS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. General Information

Sabre Holdings Corporation ("Sabre Holdings") is a Delaware holding company. Sabre Inc. is the principal operating subsidiary and sole direct subsidiary of Sabre Holdings Corporation. Sabre Inc. or its direct or indirect subsidiaries conduct all of our businesses. In this Quarterly Report on Form 10-Q, references to the "company", "we", "our", "ours" and "us" refer to Sabre Holdings Corporation and its consolidated subsidiaries unless otherwise stated or the context otherwise requires.

We are a world leader in travel commerce, retailing travel products and providing distribution and technology solutions for the travel industry. Through our *Sabre*® distribution system ("*Sabre* system" or "*Sabre* GDS") subscribers can access information about, and can book reservations for, airline trips, hotel stays, car rentals, cruises and tour packages, among other things. Our Sabre Travel Network business operates the *Sabre* GDS and markets and distributes travel-related products and services through the travel agency channel. We engage in consumer direct and business direct travel services and distribution through Travelocity and GetThere, respectively. In addition, our Sabre Airline Solutions business is a leading provider of technology and services, including development and consulting services, to airlines and other travel providers that support their businesses using technology. Disaggregated information relating to our business segments is presented in Note 6 to the Consolidated Financial Statements.

2. Summary of Significant Accounting Policies

Basis of Presentation The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, these financial statements contain all adjustments, consisting of normal recurring accruals, necessary to present fairly the financial position, results of operations and cash flows for the periods indicated. The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Operating results for the three months ended March 31, 2003 are not necessarily indicative of results that may be expected for any other interim period or for the year ended December 31, 2003. Our quarterly financial data should be read in conjunction with our consolidated financial statements for the year ended December 31, 2002 (including the notes thereto), set forth in Sabre Holdings Corporation's Annual Report on Form 10-K/A filed with the Securities and Exchange Commission on March 17, 2003.

We consolidate all of our majority-owned subsidiaries and companies over which we exercise control through majority voting rights. No entities are currently consolidated due to control through operating or financing agreements.

The consolidated financial statements include our accounts after elimination of all significant intercompany balances and transactions. We account for our interests in joint ventures and investments in common stock of other companies which we do not control but over which we exert significant influence using the equity method. Investments in the common stock of other companies over which we do not exert significant influence are accounted for at cost. We

periodically evaluate equity and debt investments in entities accounted for at cost for impairment by reviewing updated financial information provided by the investee, including valuation information from new financing transactions by the investee and information relating to competitors of investees when available. If we determine that a cost method investment is impaired, the carrying value of the investment is reduced to its estimated fair value. To date, writedowns of investments carried at cost have been insignificant to our results of operations. See "Long-Lived Assets and Goodwill" discussion below.

Reclassifications Certain reclassifications have been made to the 2002 financial statements to conform to the 2003 presentation.

Accounts Receivable We generate a significant portion of our revenues and corresponding accounts receivable from services provided to the commercial air travel industry. As of March 31, 2003, approximately 70% of our accounts receivable were attributable to these customers. Our other accounts receivable are generally due from other participants in the travel and transportation industry.

We evaluate the collectibility of our accounts receivable based on a combination of factors. In circumstances where we are aware of a specific customer's inability to meet its financial obligations to us (e.g., bankruptcy filings, failure to pay amounts due to us or others), we record a specific reserve for bad debts against amounts due to reduce the net recognized receivable to the amount we reasonably believe will be collected. For all other customers, we recognize reserves for bad debts based on past write-off history (average percentage of receivables written off historically) and the length of time the receivables are past due.

From 2001 through the first quarter 2003, the commercial air travel industry in particular, and the travel and transportation industry in general, was adversely affected by a decline in travel resulting from a softening economy and the aftermath of the terrorist attacks in the United States on September 11, 2001. Our airline customers are negatively affected by the continuing lower levels of travel activity. Several major domestic air carriers are experiencing liquidity problems. Some airlines have sought bankruptcy protection and others may consider bankruptcy relief. We believe that we have appropriately considered the effects of these factors, as well as any other known customer liquidity issues, on the ability of our customers to pay amounts owed to us. However, if demand for commercial air travel softens due to economic conditions in the United States, economic and political issues in Latin America, further ongoing travel security concerns due to the war in Iraq, and the possibility of future hostilities and terrorist attacks, the resulting security measures at airports, the financial instability of many air carriers, and by the travelers' fear of exposure to contagious diseases such as severe acute respiratory syndrome (SARS), the financial condition of our customers may be adversely impacted. If we begin, or estimate that we will begin, to experience higher than expected defaults on amounts due us, our estimates of the amounts which we will ultimately collect could be reduced by a material amount. Our allowance for bad debts was $33.8 million at March 31, 2003 and $34.5 million at December 31, 2002.

Booking Fee Cancellation Reserve We record revenue for airline travel reservations processed through the *Sabre* system at the time of the booking of the reservation. However, if the booking is canceled in a later month, the booking fee must be refunded to the customer (less a small cancellation fee). Therefore we record revenue net of an estimated amount reserved to account for future cancellations. This reserve is calculated based on historical cancellation rates. In estimating the amount of future cancellations that will require us to refund a booking fee, we assume that a significant percentage of cancellations are followed by an immediate re-booking, without loss of revenue. This assumption is based on historical rates of cancellations/re-bookings and has a significant impact on the amount reserved. If circumstances change, such as higher than expected cancellation rates or changes in booking behavior, our estimates of future cancellations could be

increased by a material amount and our revenue decreased by a corresponding amount. At March 31, 2003 and December 31, 2002 our booking fee cancellation reserves were approximately $17.6 million and $18.4 million, respectively. During the first quarter of 2003, the cancellation reserve declined by $0.8 million due to declining booking levels. This reserve is sensitive to changes in booking levels. For example, if first quarter 2003 booking volumes had been 10% lower, the reserve balance would have been reduced by an additional $1.8 million.

Business Combinations During the past several years we completed a number of acquisitions of other companies using the purchase method of accounting. The amounts assigned to the identifiable assets and liabilities acquired in connection with these acquisitions were based on estimated fair values as of the date of the acquisition, with the remainder recorded as goodwill. The fair values were determined by our management, generally based upon information supplied by the management of the acquired entities and valuations prepared by independent appraisal experts. The valuations have been based primarily upon future cash flow projections for the acquired assets, discounted to present value using a risk-adjusted discount rate. For certain classes of intangible assets, the valuations have been based upon estimated cost of replacement. In connection with these acquisitions, we have recorded a significant amount of intangible assets, including goodwill.

Long-Lived Assets and Goodwill We evaluate our goodwill for impairment on an annual basis or whenever indicators of impairment exist. The evaluation is based upon a comparison of the estimated fair value of the unit of our business to which the goodwill has been assigned to the sum of the carrying value of the assets and liabilities of that unit. The fair values used in this evaluation are estimated based upon discounted future cash flow projections for the unit. These cash flow projections are based upon a number of assumptions including growth rates, discount rates and price-to-earnings multiples. To date, we have not recorded a significant impairment of our goodwill. Intangible assets deemed to have indefinite lives are subject to impairment tests annually or when changes in circumstances indicate that the carrying value may not be recoverable. If the carrying value of an indefinite lived intangible asset exceeds its fair value, as generally estimated using a discounted future net cash flow projection, the carrying value of the asset is reduced to its fair value.

We believe that assumptions we have made in projecting future cash flows for the evaluations described above are reasonable. However, if future actual results do not meet our expectations, we may be required to record an impairment charge, the amount of which could be material to our results of operations.

Amortization expense relating to intangible assets subject to amortization totaled approximately $12.5 million and $13.6 million during the three months ended March 31, 2003 and 2002, respectively. Amortization expense for the three months ended March 31, 2002 includes a charge of $2.7 million incurred during the first quarter of 2002 for the write-down of a non-compete agreement that was determined to be unrecoverable. Amortization expense for the first quarter 2003 includes approximately $2.0 million of additional amortization incurred as a result of our April 2002 purchase of the publicly-held common shares of Travelocity.com that we did not own. The goodwill balance was approximately $820 million at both March 31, 2003 and December 31, 2002. Of this balance, approximately $94 million of goodwill resulted from our investments in joint ventures, which is included in investments in joint ventures in the accompanying balance sheet.

Earnings Per Share Basic earnings per share excludes any dilutive effect of any stock options. The number of shares used in the diluted earnings per share calculations includes the dilutive effect of stock options.

The following table reconciles weighted average shares used in computing basic and diluted earnings per common share (in thousands):

	Three Months Ended March 31,	
	2003	2002
Denominator for basic earnings per common share weighted-average shares	142,411	133,320
Dilutive effect of stock awards and options	217	3,159
Denominator for diluted earnings per common share adjusted weighted-average shares	142,628	136,479

Stock Awards and Options We account for stock awards and options using the intrinsic value method set forth in Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB 25") and related interpretations. Generally, no compensation expense is recognized for stock option grants to employees if the exercise price is at or above the fair market value of the underlying stock on the date of grant. Compensation expense relating to other stock awards is recognized over the period during which the employee renders service to us necessary to earn the award.

The total charge for stock compensation expense recorded in accordance with APB 25 and included in wages, salaries and benefits expense was $4.6 million, and $2.7 million for the three-month period ending March 31, 2003 and 2002, respectively. Of this expense, $3.2 million and $0.5 million for the three-month period ending March 31, 2003 and 2002, respectively, relates to the recognition of compensation expense for unvested employee stock options converted to options to purchase Sabre Holdings' common stock in connection with acquisitions of other companies. At March 31, 2003 and 2002, unamortized deferred stock compensation relating to acquisitions which we have made totaled approximately $29.6 million and $12.5 million, respectively, and is recorded as a reduction of additional paid-in capital.

On a pro forma basis, if we had accounted for our employee stock compensation at fair value, our net earnings and net earnings per share for the three months ended March 31, 2003 and 2002 would be as follows (in thousands, except per share data).

	For the three months ended March 31,	
	2003	2002
Net earnings as reported	$ 64,879	$ 87,387
Add stock compensation expense determined under intrinsic value method, net of income taxes	2,870	1,720
Less total stock-based employee compensation expense determined under fair value based method for all awards, net of income taxes	(11,365)	(11,977)
Pro forma net earnings	$ 56,384	$ 77,130

	For the three months ended March 31,	
Net earnings per common share, as reported:		
Basic	$ .46	$ .66
Diluted	$ .45	$ .64
Net earnings per common share, pro forma:		
Basic	$ .40	$ .58
Diluted	$ .40	$ .57

Recent Accounting Pronouncements In July 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. This statement nullifies Emerging Issues Task Force, or EITF Issue No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)*. The standard requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of commitment to an exit or disposal plan. This statement is applicable to exit or disposal activities initiated after December 31, 2002. The adoption of this standard did not have a significant effect on our financial position or results of operations.

In January 2003, the FASB issued Interpretation No. 46, *Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin No. 51, Consolidated Financial Statements* ("FIN 46"). FIN 46 will significantly change current practice by requiring the consolidation of certain variable interest entities in which an enterprise absorbs a majority of the entity's expected losses, receives a majority of the entity's expected residual returns, or both, as a result of ownership, contractual or other pecuniary interests in the entity. Currently, entities are generally consolidated by an enterprise which has a controlling financial interest through ownership of a majority voting interest in the entity. This statement is to be applied to all new variable interest entities entered into after January 31, 2003. The statement will apply to all existing variable interest entities for periods beginning after June 15, 2003. As a result of the issuance of FIN 46, we will begin consolidating a special purpose entity ("SPE") used in connection with the syndicated lease arrangement discussed below, with which we are affiliated, that qualifies as a variable interest entity, effective July 1, 2003 unless the proposed lease refinancing discussed below is consummated. We are in the process of evaluating the impact of this statement on our other unconsolidated investees and other financial relationships.

Syndicated Lease Financing As part of a syndicated lease arrangement, we are affiliated with an SPE that qualifies for off-balance sheet treatment. In 1999, we arranged a syndicated lease financing facility of approximately $310 million through this entity for the use of land, an existing office building and the construction of a new corporate headquarters facility in Southlake, Texas, as well as the construction of a new data center in Tulsa, Oklahoma. The data center in Tulsa was sold during the third quarter of 2002. The balance of the lease facility is now approximately $207 million. We account for the financing facility as an operating lease. As a result, neither the asset nor the related debt are recorded on our balance sheet.

All capitalization of the SPE has been provided by a consortium of independent banking institutions. The banks have invested capital at risk exceeding 3.3% of the capital of the SPE. This, and certain other criteria, have allowed the SPE to not be consolidated in our financial statements. If the invested capital at risk of the lenders declines below 3.3%, or if certain other criteria are not met, we would be required to consolidate the SPE. Had we consolidated the SPE at March 31, 2003 (after taking into consideration the sale of the data center), our reported assets would have been increased by approximately $195 million, and liabilities would have been increased by approximately $202 million, net of deferred taxes. Additionally, instead of lease expense of $1 million, we would have recorded depreciation expense of $2 million and interest expense of $1 million for the three months ended March 31, 2003. For the three months ended March 31, 2002, instead of lease expense of $0.4 million, we would have recorded depreciation expense of $2 million and interest expense of $0.4 million.

The SPE leases the properties to us under a master lease agreement. The initial lease term expires September 2004, with two one-year renewal periods thereafter, subject to certain lessor and lessee approvals. At any time during the lease term, including the renewal periods, we have the option to purchase the properties or cause the properties to be sold. If the sell option is exercised, we have guaranteed to the lessor that proceeds on a sale will be at least 84% of the original fair value of the leased facilities, and we are responsible for the first dollar loss on a devaluation of the property of up to 84% of the total funded value of the SPE. At March 31, 2003 (taking into consideration the sale of the data center), the total guarantee approximated $174 million.

We periodically evaluate whether any accrual is required related to this residual value guarantee. Based on a preliminary appraisal received in May 2003, a payment of approximately $25 million to $30 million would be required at the termination of the lease under the guarantee. This amount would be recorded as expense over the remaining lease term, beginning at the end of the second quarter of 2003 if the lease is not refinanced.

Sabre Inc. is currently engaged in negotiations to pay off the existing syndicated lease facility and enter into a new lease on its corporate headquarters, to be guaranteed by Sabre Holdings Corporation. If the proposed lease facility were to be consummated, we anticipate that we would record approximately $25 million to $30 million as expense in connection with paying off the existing syndicated lease facility. We also expect that the proposed lease facility would be accounted for as a capital lease, which will result in approximately $170 million of assets under a capital lease and an approximately $170 million capital lease obligation being recorded on our balance sheet at the inception of the lease. Specific details of the proposed lease facility are to be determined in negotiations with providers of the proposed lease facility.

3. Significant Events

Tender Offer for Travelocity.com Common Stock On April 8, 2002 we completed a $28 per share cash tender offer for all of the approximately 16.7 million outstanding publicly-held common shares of Travelocity.com that we did not own. Prior to the tender offer, we had an approximate 70% ownership stake in Travelocity.com. We then effected a short-form merger, whereby

Travelocity.com became our indirect 100% owned subsidiary, on April 11, 2002. The transaction supports our continuing strategy to deliver value to suppliers and travelers across multiple distribution channels. We believe it makes sense to combine the strengths of our segments to pursue new revenue opportunities, while optimizing investment decisions across segments.

The aggregate cost of the tender offer and the ensuing merger was approximately $474 million. We used available balances of cash and marketable securities to complete the acquisition, of which we estimate $8 million remains to be paid at March 31, 2003. Approximately $10 million was paid during the three months ended March 31, 2003. The results of operations of the acquired interest in Travelocity.com have been included in our consolidated statement of income and the results of operations from the date of the acquisition. The acquisition has been accounted for as a purchase. The proportionate share of the assets acquired and liabilities assumed from the minority interest have been recorded at their fair values and the excess of cost over the estimated fair value of the net assets has been recorded as goodwill. The fair values were determined by management based on an independent valuation of the net assets acquired, including intangible assets. The following table summarizes the allocation of the purchase price and amounts allocated to goodwill (in thousands):

Minority interest assumed	$ 252,597
Deferred income tax asset, net	21,665
Distributor agreements (weighted average life of 3 years)	18,016
Supplier agreements (weighted average life of 3 years)	2,192
Proprietary software (weighted average life of 3 years)	2,256
Customer database (weighted average life of 7 years)	3,739
Trademark, tradename and domain name (indefinite life)	13,698
Goodwill	160,146
Total purchase price	$ 474,309

The goodwill included above relates to the Travelocity segment and is not deductible for tax purposes.

We are also recognizing stock compensation expense based on the intrinsic value of awards that were converted at the date of the acquisition from options to purchase shares of Travelocity.com common stock into options to purchase shares of Sabre Holdings' common stock. Total stock compensation expense related to the converted Travelocity.com options for the three months ended March 31, 2003 was approximately $2 million. At March 31, 2003 the amount of unrecognized stock compensation expense to be amortized over the remaining vesting period of the related options is approximately $19 million.

Acquisition of Site59 On March 27, 2002, we completed the acquisition of Site59.com, Inc. ("Site59"), an online seller of last-minute merchant model air, hotel and rental car inventory, for approximately $44 million in cash. Subsequent to the acquisition, Site59 is our 100% owned subsidiary.

The acquisition of Site59 is expected to provide Travelocity with a greater mix of merchant hotel inventory. This new inventory will be used to complement the extensive inventory Travelocity already receives through its long-term agreement with Hotels.com (formerly Hotel Reservations Network, Inc. "HRN"), while increasing the merchant inventory Travelocity receives directly from hotel partners. Travelocity began selling hotel rooms using inventory from Site59 during the fourth quarter of 2002.

The results of operations of Site59 have been included in our consolidated statements of income and the results of operations of our Travelocity segment from the date of acquisition. Assets

acquired and liabilities assumed have been recorded at their estimated fair values and the excess of cost over the estimated fair value of the net assets has been recorded as goodwill. The fair values were determined by management based on an independent valuation of the net assets acquired, including intangible assets. The following table summarizes the allocation of the purchase price and amounts allocated to goodwill (in thousands):

Working capital acquired	$	1,770
Property and equipment and other non-current assets		824
Software		1,352
Non-current liabilities		(75)
Supplier agreements (weighted average life of 1.5 years)		900
Trademark, tradename and domain name (indefinite life)		600
Goodwill		38,232
Total purchase price	$	43,603

The acquired goodwill included above is related to the Travelocity segment and is not deductible for tax purposes.

Pro Forma Statement of Operations Data

The unaudited pro forma statement of operations data in the table below presents the effects of our acquisition, through a cash tender offer, of the approximately 30% minority interest of Travelocity.com that we did not previously own on our operations as if the buy-in occurred on January 1, 2002. Adjustments related to this buy-in that affect our statement of operations include stock compensation expense associated with the conversion of Travelocity.com options into options to purchase shares of Sabre Holdings' common stock, amortization of the fair value of amortizing intangible assets acquired and elimination of minority interests in the results of operations of Travelocity.com. Pro forma adjustments related to the acquisition of Site59 on March 27, 2002 have not been included as the effect of doing so would be immaterial. Amounts shown below are in thousands, except per share amounts.

		Three Months Ended March 31, 2002
Revenues	$	549,358
Net earnings	$	84,499

		Three Months Ended March 31, 2002
Earnings per common share		
Basic	$	.63
Diluted	$	.62

Reduced Volume of Air Travel Air travel continues to be adversely affected by a decline in travel resulting from economic conditions in the United States, ongoing travel security concerns resulting from the aftermath of the terrorist attacks on September 11, 2001, the war in Iraq and the possibility of terrorist attacks, hostilities and war, the resulting security measures at airports, the financial instability of many air carriers, concern by travelers about exposure to contagious diseases such as SARS and economic and political issues in Latin America. Travelers appear to be traveling less, remaining closer to home, deferring travel and substituting alternative methods of travel for air travel.

During the first quarter of 2003, *Sabre* bookings were down 16.6% in the United States and 13.4% globally as compared to the year-ago period, because of the factors and events listed above. We

are uncertain whether travel booking volumes will fully recover to historical levels, especially when compared to the year 2000, which was a year in which we experienced historically high levels of travel bookings.

Sale of Former Corporate Office Facility On January 31, 2002, we sold our previous headquarters office facility in Fort Worth, Texas to a third party. We received proceeds of $80 million in cash, and recognized a pre-tax gain of approximately $18 million as a result of the sale.

Workforce Reduction As a result of continued low travel and booking volumes resulting from the weakened economy and the other factors mentioned under "Reduced Volume of Air Travel" above, we reduced our workforce in December 2002 by approximately 400 employees, or 6% of our workforce. Approximately $15.8 million of expense was recorded for this reduction, of which approximately $4.4 million was paid during 2002 leaving an $11.4 million liability at December 31, 2002. An additional $9.3 million of this severance accrual was paid during the first quarter of 2003, leaving the liability at $2.1 million as of March 31, 2003, which is expected to be paid over the next several months. The following table summarizes the costs related to the 2002 workforce reduction, as well as the liabilities included in the balance sheets at December 31, 2002 and March 31, 2003 (in thousands).

Estimated cost of 2002 workforce reduction	$	15,791
Amounts paid in 2002		(4,377)
Remaining liability at December 31, 2002		11,414
Amounts paid in three months ended March 31, 2003		(9,348)
Remaining liability at March 31, 2003	$	2,066

Contract Settlements In the first quarter of 2003 we recognized revenue of approximately $36 million, representing settlements from two travel agency subscribers (who were affiliated with each other and were acquired by a competitor of ours) in exchange for allowing them to cancel their existing subscriber agreements.

4. Income Taxes

The provision for income taxes relating to continuing operations differs from amounts computed at the statutory federal income tax rate as follows (in thousands):

	Three Months Ended March 31, 2003		Three Months Ended March 31, 2002	
Income tax provision at statutory federal income tax rate	$	35,922	$	49,716
State income taxes, net of federal benefit		2,849		4,308
Other, net		(1,015)		636
Total provision for income taxes	$	37,756	$	54,660

5. Derivatives

Travelocity received warrants from Hotels.com in connection with an affiliation agreement entered into during 2000. In March 2001, we extended our existing affiliation agreement with Hotels.com through July 31, 2005 and expanded the scope of the Hotels.com relationship. In connection with the expanded and extended agreement, we received additional vested Hotels.com warrants with a fair value of approximately $30 million on the date of receipt. We expect to recognize this amount as revenue over the extended term of the agreement. During the three months ended March 31, 2003 and 2002, we recognized revenue relating to amortization of the fair value of the Hotels.com

warrants received at contract origination and modification totaling approximately $2.0 million and $2.2 million, respectively. We may also vest in additional warrants in the future based upon the achievement of certain performance metrics. During the three months ended March 31, 2003 and 2002, we received additional Hotels.com warrants, based on certain performance metrics, with a fair value of approximately $2.3 million and $2.7 million, respectively. These amounts have been recognized as revenue in the periods the warrants were earned. During the three months ended March 31, 2003 and 2002, we completed cashless exercises of Hotels.com warrants and received approximately 41,000 and 36,000 shares of Hotels.com common stock, which was disposed of for cash proceeds of $2.0 million and $1.6 million, respectively. No significant gain or loss was realized relating to these exercises of the warrants or the disposals of the Hotels.com common stock. As of March 31, 2003 we held approximately 56,000 unexercised Hotels.com warrants.

The board of directors of Hotels.com has approved a merger agreement that would result in Hotels.com becoming a wholly-owned subsidiary of USA Interactive. As the holder of a majority of the voting power of Hotels.com, USA Interactive has acted by written consent to approve the transaction. USA Interactive has announced that, in the merger, each outstanding share of Hotels.com Class A common stock would be converted into the right to receive 2.4 shares of USA common stock. Hotels.com has announced that, in connection with the merger, Hotels.com warrants are to be converted into warrants to acquire USA Interactive common stock.

We are a party to certain foreign currency forward contracts. We have designated our foreign currency forwards as cash flow hedges. Amounts reclassified from other comprehensive income to earnings during the three months ended March 31, 2003 and 2002 relating to the forwards were not significant. There was no hedging ineffectiveness recorded in earnings relating to the forwards during the three months ended March 31, 2003 and 2002.

In connection with our issuance in August 2001 of $400 million principal amount in unsecured notes ("Notes") with a fixed interest rate of 7.35%, we entered into two interest rate swaps. We had designated the swaps as fair value hedges of $100 million and $200 million principal amount, respectively, of the Notes. Because the critical terms of the Notes and the swaps matched, the swaps were considered a perfectly effective hedge against changes in the fair value of the Notes due to changes in the London Interbank Offered Rate ("LIBOR"). On August 1, 2002 we terminated the swaps, resulting in a gain of approximately $17 million. The gain has been recorded as an increase in the carrying value of the Notes, and will be amortized as an offset to interest expense over the remaining term of the Notes which mature in entirety on August 1, 2011. Also, on August 1, 2002, we entered into two new interest rate swaps. Under the terms of the two new interest rate swaps, which have notional amounts of $100 million and $200 million, we will receive semi-annual payments based on a fixed interest rate of 7.35% and will make semi-annual payments based on a six-month LIBOR plus 231 basis points. The reset dates on the swaps are February 1 and August 1 each year until maturity on August 1, 2011. The initial six-month LIBOR date for both swaps was August 1, 2002 and the initial rate of 4.17125% was set on both swaps. On February 3, 2003, the swaps were reset to a new six-month LIBOR rate of 1.35%, creating an all-in floating rate of 3.66%. We have designated the swaps as fair value hedges of $100 million and $200 million of the principal amount of the Notes. Changes in the fair value of the swaps are recognized as a component of other income in each reporting period. Additionally, the carrying value of the Notes is adjusted by a like amount, with the adjustment recognized as a component of other income. As of March 31, 2003, we had recorded a hedging asset of approximately $22 million, which is included in other assets in the accompanying balance sheet, and a corresponding increase in the carrying value of the Notes relating to these new swaps.

The estimated fair values of our derivatives as of March 31, 2003 and December 31, 2002 are provided below (in thousands):

	Assets at	
	March 31, 2003	**December 31, 2002**
Hotels.com warrants	$ 2,336	$ 2,213
Foreign currency forwards	4,698	7,019
Interest rate swaps	21,966	21,397
	$ 29,000	$ 30,629

Derivative assets and liabilities are classified as current or long-term other assets and other liabilities in the accompanying balance sheets, depending on the date of settlement of the contract.

6. Segment Reporting

The Sabre Travel Network segment operates the *Sabre* GDS and distributes travel products and services through the travel agency channel. The Travelocity segment distributes travel services to individual consumers and unmanaged business travelers. Through the Travelocity Web sites, consumers can compare prices, make travel reservations and obtain destination information online. GetThere distributes travel services directly to businesses. GetThere operates one of the world's largest Internet marketplaces focused on travel services for managed business travelers, travel arrangers and travel managers. GetThere also provides a Web interface for reservation systems operated by airlines or other suppliers. The Sabre Airline Solutions segment primarily provides software development, reservations hosting and consulting solutions to airlines and other travel providers.

Our reportable segments are strategic business units that offer different products and services and are managed separately because each business requires different market strategies. The accounting policies of the segments are the same as those described in the summary of significant accounting policies (Note 2). We account for significant intersegment transactions as if the transactions were to third parties, that is, at estimated current market rates.

Personnel and related costs for the corporate headquarters, certain legal and professional fees and other corporate charges are allocated to the segments through a management fee based primarily on usage. Depreciation expense on the corporate headquarters buildings and related facilities costs are allocated to the segments through a facility fee based on headcount. Benefits expense, including pension expense, postretirement benefits, medical insurance and workers' compensation, are allocated to the segments based on headcount. Unallocated corporate expenses include depreciation expense and other costs associated with the corporate headquarters buildings, net of facility fees allocated to the reportable segments and affiliated companies, and expenses related to certain other corporate charges maintained at the corporate level.

The segment operating results are presented on a basis that excludes certain special items that are summarized below, except where noted. This presentation is consistent with the manner in which our management assesses the operating performance of our business segments (in thousands).

	Three Months Ended March 31, 2003	Three Months Ended March 31, 2002
Revenues from external customers:		
Sabre Travel Network	$ 416,864	$ 424,807
Travelocity	62,682	58,180
GetThere	11,982	11,630
Sabre Airline Solutions	55,479	52,328
Total	$ 547,007	$ 546,945
Intersegment revenues:		
Sabre Travel Network	$ 6,326	$ 6,024
Travelocity	22,616	16,316
GetThere	316	161
Total	$ 29,258	$ 22,501
Equity in net income (loss) of equity method investees:		
Sabre Travel Network	$ 2,117	$ 3,244
Travelocity	(5,291)	(831)
Total	$ (3,174)	$ 2,413
Total consolidated revenues:		
Sabre Travel Network	$ 425,307	$ 434,075
Travelocity	80,007	73,665
GetThere	12,298	11,791
Sabre Airline Solutions	55,479	52,328
Elimination of intersegment revenues	(29,258)	(22,501)
Total	$ 543,833	$ 549,358
Segment operating income (loss) excluding special items:		
Sabre Travel Network	$ 89,740	$ 136,412
Travelocity	(5,476)	6,031
GetThere	(5,577)	(9,173)
Sabre Airline Solutions	3,758	6,958
Net corporate allocations	201	277
Total	$ 82,646	$ 140,505

6. Segment Reporting (Continued)

A summary of the special items and reconciliation to consolidated operating income is set forth below (in thousands):

	Three Months Ended March 31, 2003	Three Months Ended March 31, 2002
Sabre Travel Network:		
Settlements from cancelled subscriber contracts	$ (36,458)	$
Intangible assets amortization	3,097	5,970
Stock compensation	16	142
Total Sabre Travel Network	(33,345)	6,112
Travelocity:		
Intangible assets amortization	2,795	660
Stock compensation	2,342	293
Tender offer expenses		6,776
Total Travelocity	5,137	7,729
GetThere:		
Intangible assets amortization	6,105	6,606
Stock compensation	855	64
Total GetThere	6,960	6,670
Total special items	$ (21,248)	$ 20,511
Consolidated operating income (loss):		
Sabre Travel Network	$ 123,085	$ 130,300
Travelocity	(10,613)	(1,698)
GetThere	(12,537)	(15,843)
Sabre Airline Solutions	3,758	6,958
Corporate Allocations	201	277
Total	$ 103,894	$ 119,994

7. Supplemental Guarantor/Non-Guarantor Financial Information

Certain obligations of Sabre Holdings Corporation have been solely guaranteed by its 100% owned operating subsidiary, Sabre Inc. There are no restrictions on Sabre Holdings Corporation's ability to obtain funds from Sabre Inc. in the form of a dividend or loan other than those that would exist under Delaware law. Additionally, there are no significant restrictions on Sabre Inc.'s ability to obtain funds from its direct or indirect subsidiaries other than those that would exist under state or foreign law. Sabre Inc. is the sole direct subsidiary of Sabre Holdings Corporation. All other subsidiaries are direct or indirect subsidiaries of Sabre Inc. These subsidiaries are all included in the non-guarantor financial statements. The following financial information presents condensed consolidating balance sheets, statements of income and statements of cash flows for Sabre Holdings Corporation, Sabre Inc. and non-guarantor subsidiaries. The information has been presented as if Sabre Holdings Corporation accounted for its ownership of Sabre Inc., and Sabre Inc.

accounted for its ownership of the non-guarantor subsidiaries, using the equity method of accounting. Certain reclassifications have been made to the 2002 financial statements to conform to the 2003 presentation.

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Sabre Inc. conducts the North American operations of the Company's Sabre Travel Network segment and conducts the operations of the Sabre Airline Solutions segment. The operations of the Travelocity and GetThere segments, as well as the principal international operations of the Sabre Travel Network segment are conducted by the non-guarantor subsidiaries.

Sabre Inc. and certain non-guarantor subsidiaries are parties to various intercompany agreements, which affect the amount of operating expenses reported in the following condensed consolidating statements of income. Among other things, fees are paid by Sabre Inc. to a non-guarantor subsidiary relating to the use of trademarks, tradenames, etc. owned by a non-guarantor subsidiary; incentive and marketing payments are made by Sabre Inc. to non-guarantor subsidiaries relating to the use and distribution of the *Sabre* system; and payments are made by non-guarantor subsidiaries to Sabre Inc. for access to the *Sabre* system under the terms of these agreements. During the three months ended March 31, 2003 and 2002, Sabre Inc. recognized operating expenses totaling approximately $72 million and $61 million, respectively, in connection with these agreements. These amounts, and the corresponding amounts recognized by the non-guarantor subsidiaries, are eliminated in consolidation.

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UNAUDITED CONDENSED CONSOLIDATING BALANCE SHEETS
MARCH 31, 2003
(in thousands)

	Sabre Holdings	Sabre Inc.	Non-Guarantor Subsidiaries	Eliminating Entries	Sabre Consolidated
Assets					
Current assets					
Cash and marketable securities	$	$ 906,330	$ 20,539	$	$ 926,869
Accounts receivable trade, net		271,064	101,918		372,982
Intercompany accounts receivable (payable)	1,540,513	(2,085,445)	544,932		
Prepaid expenses and other current assets		32,214	62,684		94,898
Deferred income taxes		17,914	50		17,964
Total current assets	1,540,513	(857,923)	730,123		1,412,713
Property and equipment, net		188,017	54,491		242,508
Investments in joint ventures		18,205	169,184		187,389
Goodwill and intangible assets, net		9,898	832,971		842,869
Investments in subsidiaries	583,872	1,682,787		(2,266,659)	
Other assets, net	24,549	80,390	39,176		144,115
Total assets	$ 2,148,934	$ 1,121,374	$ 1,825,945	$ (2,266,659)	$ 2,829,594
Liabilities and stockholders' equity					
Current liabilities					
Accounts payable	$ 4	$ 138,015	$ 30,853	$	$ 168,872
Accrued compensation and related benefits		26,132	11,745		37,877

	Sabre Holdings	Sabre Inc.	Non-Guarantor Subsidiaries	Eliminating Entries	Sabre Consolidated
Other accrued liabilities	2,963	186,119	93,422		282,504
Total current liabilities	2,967	350,266	136,020		489,253
Deferred income taxes		52,555	(31,821)		20,734
Pensions and other postretirement benefits		123,538	990		124,528
Other liabilities	645	11,143	27,042		38,830
Minority interests			10,927		10,927
Notes payable	435,916				435,916
Stockholders' equity	1,709,406	583,872	1,682,787	(2,266,659)	1,709,406
Total liabilities and stockholders' equity	$ 2,148,934	$ 1,121,374	$ 1,825,945	$ (2,266,659)	$ 2,829,594

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UNAUDITED CONDENSED CONSOLIDATING BALANCE SHEETS
DECEMBER 31, 2002
(in thousands)

	Sabre Holdings	Sabre Inc.	Non-Guarantor Subsidiaries	Eliminating Entries	Sabre Consolidated
Assets					
Current assets					
Cash and marketable securities	$	$ 898,958	$ 12,802	$	$ 911,760
Accounts receivable trade, net		223,216	75,282		298,498
Intercompany accounts receivable (payable)	1,532,426	(2,094,913)	562,487		
Prepaid expenses and other current assets		38,994	46,663		85,657
Deferred income taxes		15,678	50		15,728
Total current assets	1,532,426	(918,067)	697,284		1,311,643
Property and equipment, net		187,783	52,289		240,072
Investments in joint ventures		11,892	184,833		196,725
Deferred income taxes		(38,267)	38,267		
Goodwill and intangible assets, net		10,605	845,078		855,683
Investments in subsidiaries	529,892	1,675,167		(2,205,059)	
Other assets, net	24,058	89,060	39,290		152,408
Total assets	$ 2,086,376	$ 1,018,173	$ 1,857,041	$ (2,205,059)	$ 2,756,531
Liabilities and stockholders' equity					
Current liabilities					
Accounts payable	$ 88	$ 163,071	$ 18,775	$	$ 181,934
Accrued compensation and related benefits		44,752	10,018		54,770
Other accrued liabilities	8,381	169,783	85,046		263,210

	Sabre Holdings	Sabre Inc.	Non-Guarantor Subsidiaries	Eliminating Entries	Sabre Consolidated
Total current liabilities	8,469	377,606	113,839		499,914
Deferred income taxes		(13,404)	27,159		13,755
Pensions and other postretirement benefits		115,400	905		116,305
Other liabilities	564	8,679	29,671		38,914
Minority interests			10,300		10,300
Notes payable	435,765				435,765
Stockholders' equity	1,641,578	529,892	1,675,167	(2,205,059)	1,641,578
Total liabilities and stockholders' equity	$ 2,086,376	$ 1,018,173	$ 1,857,041	$ (2,205,059)	$ 2,756,531

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UNAUDITED CONDENSED CONSOLIDATING STATEMENTS OF INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2003
(in thousands)

	Sabre Holdings	Sabre Inc.	Non-Guarantor Subsidiaries	Eliminating Entries	Sabre Consolidated
Revenues	$	$ 420,167	$ 245,120	$ (121,454)	$ 543,833
Operating expenses	646	340,796	219,951	(121,454)	439,939
Operating income (loss)	(646)	79,371	25,169		103,894
Other income (expense)					
Interest income	18,750	3,257	4,599		