SABRE HOLDINGS CORP
Form 10-Q
May 05, 2006

Use these links to rapidly review the document
INDEX

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

FORM 10-Q

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

ý

For the Quarterly Period Ended March 31, 2006.

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 check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check One):

Large Accelerated Filer ý Accelerated Filer o Non-accelerated Filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ý

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

Class	**Outstanding at April 30, 2006**
Class A Common Stock, $.01 par value	132,746,607 Shares

INDEX

SABRE HOLDINGS CORPORATION

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

SABRE HOLDINGS CORPORATION
CONSOLIDATED BALANCE SHEETS
(In thousands)

	March 31, 2006	December 31, 2005
	(Unaudited)	
Assets		
Current assets		
Cash	$ 195,860	$ 135,233
Restricted cash	9,790	57,019
Marketable securities	152,971	376,585
Accounts receivable, net	569,714	487,034
Prepaid expenses	40,682	41,632
Deferred income taxes	23,282	23,013
Other receivables	138,604	127,772
Total current assets	1,130,903	1,248,288
Property and equipment		
Buildings and leasehold improvements	319,500	318,880
Furniture, fixtures and equipment	39,220	38,349
Computer equipment	159,649	148,965
Internally developed software	274,156	257,990
	792,525	764,184
Less accumulated depreciation and amortization	(360,839)	(334,616)
Total property and equipment	431,686	429,568
Deferred income taxes	19,784	32,419
Investments in joint ventures	158,005	156,277
Goodwill and intangible assets, net	2,367,818	2,333,140
Other assets, net	176,429	174,419
Total assets	$ 4,284,625	$ 4,374,111
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	$ 179,682	$ 203,663
Travel supplier liabilities and deferred revenue	458,759	301,377
Accrued compensation and related benefits	37,078	74,628
Accrued subscriber incentives	118,072	81,877
Deferred revenues	56,932	32,047
Other accrued liabilities	380,027	398,871
Bridge Facility		800,000
Total current liabilities	1,230,550	1,892,463
Pensions and other postretirement benefits	187,755	191,453
Other liabilities	30,874	23,568

	March 31, 2006	December 31, 2005
Minority interests	6,944	38,948
Long-term capital lease obligation	155,259	158,188
Public and other notes payable	998,540	426,379
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; 145,856 shares issued at March 31, 2006 and December 31, 2005	1,459	1,459
Additional paid-in capital	1,265,589	1,275,836
Retained earnings	772,919	769,231
Accumulated other comprehensive loss	(63,660)	(77,872)
Less treasury stock at cost: 13,099 and 14,281 shares, respectively	(301,604)	(325,542)
Total stockholders' equity	1,674,703	1,643,112
Total liabilities and stockholders' equity	$ 4,284,625	$ 4,374,111

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,	
	2006	**2005**
Revenues	$ 700,188	$ 581,888
Cost of revenues	433,776	338,023
Amortization of purchased technology	8,680	2,095
Total cost of revenues	442,456	340,118
Gross Profit	257,732	241,770
Other operating expenses		
Selling, general and administrative	209,883	164,643
Amortization of other intangible assets	9,923	5,933
Total other operating expenses	219,806	170,576
Operating income	37,926	71,194
Other income (expense)		
Interest income	3,979	4,369
Interest expense	(19,766)	(7,614)
Gain on sale of investment		20,594
Other, net	4,585	609
Total other income (expense)	(11,202)	17,958
Income before provision for income taxes	26,724	89,152
Provision for income taxes	9,917	31,471
Net earnings	$ 16,807	$ 57,681
Earnings per common share		
Basic	$ 0.13	$ 0.44
Diluted	$ 0.13	$ 0.44
Weighted average common shares outstanding		
Basic	130,315	130,253
Diluted	132,627	130,753

See Notes to Consolidated Financial Statements.

SABRE HOLDINGS CORPORATION
CONSOLIDATED CONDENSED STATEMENT OF STOCKHOLDERS' EQUITY
THREE MONTHS ENDED MARCH 31, 2006
(Unaudited) (In thousands)

	Class A Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
Balance at December 31, 2005	$ 1,459	$ 1,275,836	$ 769,231	$ (77,872)	$ (325,542)	$ 1,643,112
Issuances pursuant to:						
Stock option plans		(1,495)			10,458	8,963
Restricted stock (net of forfeitures)		(16,883)			16,883	
Restricted stock withheld upon vesting					(3,538)	(3,538)
Employee stock purchase plan		(1)			135	134
Tax benefit from exercise of employee stock options and restricted stock		1,705				1,705
Dividends, $0.10 per common share			(13,119)			(13,119)
Amortization of stock-based compensation		6,417				6,417
Comprehensive income:						
Net earnings			16,807			16,807
Unrealized gain on foreign currency forward and option contracts, net of deferred income taxes				2,349		2,349
Unrecognized gain on hedge settlement				2,510		2,510
Unrealized gain on investments, net of deferred income taxes				1,109		1,109
Unrealized foreign currency translation gain, net of deferred income taxes				8,244		8,244
Total comprehensive income						31,019
Other		10				10
Balance at March 31, 2006	$ 1,459	$ 1,265,589	$ 772,919	$ (63,660)	$ (301,604)	$ 1,674,703

See Notes to Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2006	**2005**
Operating Activities		
Net earnings	$ 16,807	$ 57,681
Adjustments to reconcile net earnings to cash provided by operating activities:		
Depreciation and amortization	43,122	27,135
Stock-based compensation for employees	6,417	2,675
Allowance for doubtful accounts	4,006	2,070
Deferred income taxes	7,764	(12,286)
Joint venture equity loss (income)	(1,790)	3,968
Gain on sale of investment		(20,594)
Other	(252)	(2,794)
Changes in operating assets and liabilities:		
Accounts and other receivables	(108,899)	(96,402)
Prepaid expenses	(128)	(1,901)
Other assets	6,965	(16,765)
Accrued compensation and related benefits	(37,550)	(31,264)
Accounts payable and other accrued liabilities	180,544	128,560
Pensions and other postretirement benefits	(3,698)	
Excess tax benefits from stock-based compensation arrangements	(638)	
Cash provided by operating activities	112,670	40,083
Investing Activities		
Additions to property and equipment	(27,646)	(17,184)
Purchases of marketable securities	(3,808,308)	(2,668,962)
Sales of marketable securities	4,031,855	2,771,430
Proceeds from sale of investment		26,013
Acquisitions (net of cash acquired)	(54,308)	(61,022)
Proceeds from release of restricted cash	37,211	
Other investing activities	5,886	(12,538)
Cash provided by investing activities	184,690	37,737
Financing Activities		
Proceeds from issuance of Common Stock	5,559	2,691
Dividends paid	(13,119)	(11,894)
Prepayment of Bridge Facility	(800,000)	
Proceeds from borrowings on revolving credit agreement	180,000	
Proceeds from issuance of Notes	397,136	
Excess tax benefits from stock-based compensation arrangements	638	
Purchases of treasury stock		(63,213)
Other financing activities	(7,979)	(72)
Cash used for financing activities	(237,765)	(72,488)
Effect of exchange rate changes on cash and cash equivalents	1,032	(982)
Increase in cash	60,627	4,350
Cash at beginning of period	135,233	49,671
Cash at end of period	$ 195,860	$ 54,021

	Three Months Ended March 31,	

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. 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 and its consolidated subsidiaries unless otherwise stated or the context otherwise requires.

We are a world leader in travel commerce, marketing travel products and providing distribution and technology solutions for the travel industry. Through our *Sabre*®[1] global distribution system (the "*Sabre* system" or "*Sabre* GDS") subscribers, generally travel agencies, can access information about, and can book reservations for, among other things, airline trips, hotel stays, car rentals, cruises and tour packages. Our *Sabre Travel Network* business operates the *Sabre* GDS. We market and distribute travel related products and services directly to leisure and business travelers including air, hotel, car rental, cruises and packaged trip offerings through our *Travelocity*® business. 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.

2. Summary of Significant Accounting Policies

Basis of Presentation The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") 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 GAAP 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 GAAP 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, 2006 are not necessarily indicative of results that may be expected for any other interim period or for the year ended December 31, 2006. Our quarterly financial data should be read in conjunction with our Consolidated Financial Statements for the year ended December 31, 2005 (including the notes thereto), set forth in Sabre Holdings Corporation's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 8, 2006.

We consolidate all of our majority-owned subsidiaries and companies over which we exercise control through majority voting rights. From November 7, 2005 through January 23, 2006, we were the primary beneficiary of Zuji Holdings Limited ("Zuji") and consolidated its results, which were previously accounted for using the equity method, in accordance with Financial Accounting Standards Board ("FASB") Interpretation No. 46R, *Consolidation of Variable Interest Entities (Revised)* ("FIN 46R"). In 2005, Travelocity entered into a put option agreement with the other owners of Zuji, exercisable from January 1, 2006 through January 31, 2006. This put option was exercised on January 24, 2006 and Travelocity gained 100% control of Zuji. See Note 3 for additional information. Other than Zuji for the time period noted above, no other entities are currently consolidated due to control through operating agreements, financing agreements, or as the primary beneficiary of a variable interest entity.

---

[1] Hotel Spotlight, GetThere, Jurni Network, lastminute.com, Nexion, PromoSpots, reisefeber Sabre, Sabre Airline Solutions, Sabre Holdings, the Sabre Holdings logo, Sabre Travel Network, Surround, Showtickets.com, Site 59, Site59.com, SynXis, TotalTrip, TRAMS, Travelocity, Travelocity Business, Travelocity.com, Zuji are trademarks and/or service marks of an affiliate of Sabre Holdings Corporation. All other trademarks, service marks, or tradenames are the property of their respective owners.

The Consolidated Financial Statements include our accounts after elimination of all significant intersegment balances and transactions. We account for our interests in joint ventures and investments in common stock of other companies that we do not control but over which we exert significant influence using the equity method, with our share of their results classified as revenues. 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 other than temporarily 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.

Reclassifications Certain reclassifications have been made to the 2005 Consolidated Financial Statements to conform to the 2006 presentation. These reclassifications are not material, either individually or in the aggregate, to our financial statements.

Recent Accounting Pronouncements On January 1, 2006, we adopted Statement of Financial Accounting Standards No. 123 (Revised 2004), *Share-Based Payments.* See Note 5 for additional information.

In May 2005, the FASB issued Statement of Financial Accounting Standards No. 154, *Accounting Changes and Error Corrections*, a replacement of APB Opinion No. 20, *Accounting Changes*, and Statement of Financial Accounting Standards No. 3, *Reporting Accounting Changes in Interim Financial Statements*. The standard requires changing the accounting and reporting requirements of voluntary and mandatory (unless the pronouncement provides other transition requirements) changes in accounting principle by requiring retroactive application of the change in accounting principle to prior periods' financial statements, unless it is not practical to do so, rather than recording a cumulative catch up adjustment in net earnings in the year of the change. Reporting error corrections will be handled similar to a change in accounting principles. The standard was effective on January 1, 2006.

Changes in Estimates Sabre Travel Network pays incentive payments to our subscribers, generally travel agents, based upon volume and rates contained within the travel agency contracts. For our larger subscribers, we have always accrued the incentive expense as these volumes represented the majority of our incentive liability. In the first quarter of 2006, we revised our estimate of the incentive liability to include expense associated with our smaller travel agency customers that were previously recorded as payments were made. The incentives from these smaller agencies were immaterial in the past; however, recent analysis of smaller travel agencies showed a pattern of growth in incentives paid. This new accrual methodology resulted in an additional $21 million in incentive expense this quarter. We performed a similar analysis on revenues we received from smaller travel agencies which resulted in an accrual of $7 million in subscriber revenues. Both of these accruals resulted in a net reduction to our after tax net earnings of approximately $9 million or $0.07 per dilutive common share.

Sabre Travel Network has a booking fee cancellation reserve that is calculated at each period end 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 certain percentage of cancellations are followed immediately by a new reservation, without loss of revenue. This assumption is based on historical rates of cancellations that results in new reservations and has a significant impact on the amount reserved. In the first quarter of 2006, our estimate of the rebook rate has increased. This change in the rebook rate assumption lowers the amount of reserve needed for cancelled bookings. The new estimated rate resulted in a $7 million decrease in the booking fee cancellation reserve from what it would have been using the previous rebook assumption resulting in a $4 million increase to after tax net earnings or $0.03 per dilutive common share.

Earnings Per Share Basic earnings per share excludes any dilutive effect of options, warrants and other stock-based awards. The number of shares used in the diluted earnings per share calculations includes the dilutive effect of stock options and restricted shares.

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

	Three Months Ended March 31,	
	2006	**2005**
Denominator for basic earnings per common share weighted-average shares	130,315	130,253
Dilutive effect of stock awards and options	2,312	500
Denominator for diluted earnings per common share adjusted weighted-average shares	132,627	130,753

The increase in dilutive shares for the three months ended March 31, 2006 as compared to the same three month period in 2005 is due to a higher market price of our Class A Common Stock, par value $0.01 per share ("Common Stock") and includes the dilutive impact of approximately 3,400,000 options that were issued to US Airways Group, Inc. in 1998 and expire in 2013. Options to purchase approximately 13,739,603 and 18,828,873 weighted-average shares of our Common Stock were outstanding at March 31, 2006 and 2005, respectively, but were excluded from the computation of diluted earnings per share because the effect would be antidilutive.

Restricted Cash At March 31, 2006, we held $10 million in cash that was restricted. Approximately $7 million of this restricted cash is from our consolidation of Zuji and represents bank guarantees required by airlines and other travel regulatory bodies as well as an office premise. At December 31, 2005, we held $57 million in cash that was restricted. $40 million was restricted to fulfill bonding requirements in Europe related to the lastminute.com acquisition. In the first quarter of 2006, $3 million of this restricted cash continued to be restricted and the remaining $37 million was released as a result of a guarantee issued in March 2006 by Sabre Holdings. Additionally, during the first quarter of 2006, we were able to release $11 million in cash held in an escrow account established to fulfill the requirements of a bank guarantee.

3. Significant Events

Legal Settlement We had previously disclosed two lawsuits, which were consolidated in federal court in Fort Worth, Texas, to which we were a party against Northwest Airlines, Inc. ("Northwest") related to Northwest's August 24, 2004 announcement and implementation on September 1, 2004 of a fare supplement for travel reservation bookings made through a GDS, including the *Sabre* GDS, by traditional travel agencies and some online travel sites, such as Travelocity. The bankruptcy court approved a settlement of this litigation by an order effective on February 25, 2006. The settlement resulted in a pre-tax loss of $15 million in the fourth quarter of 2005 recorded in other, net on the Consolidated Statement of Income.

AOL Agreement In 1999, we entered into an agreement with America Online, Inc. ("AOL") that provided, among other things, that Travelocity would be the exclusive reservations engine for AOL. On January 21, 2004, we revised the terms of and extended our agreement with AOL through March 2006. In March 2006, we again extended the terms and now have an agreement through March 2009 which includes an option to exit the contract in March 2008. Under the terms of the extension, Travelocity will have lower fixed payment obligations. We also maintained terms that reduce the fixed payment if AOL doesn't meet revenue targets. This payment is currently estimated to be $12 million over the term of the agreement. Other fixed financial commitments include $6 million to be paid over the term of the agreement. Travelocity continues to be the exclusive reservations engine for AOL's Internet properties under the revised agreement. The revised terms also allow AOL to continue and expand in the travel search arena through its sites and partners. The unamortized portion of fixed payments paid under the original and amended contracts are being expensed on a straight-line basis over the remaining term of the agreement, with $6 million recognized in the first quarter of 2006.

Yahoo! Agreement We have an agreement with Yahoo! whereby we are the exclusive air, car and hotel booking engine on Yahoo! Travel. In March 2006, Yahoo! exercised an option to extend our agreement with them to December 31, 2007 with the same terms as 2006. Payments to Yahoo! are being amortized on a straight-line basis over the remaining term of the agreement.

Long-Term Full Content Agreements In October 2002, we began marketing long-term full content agreements, also known as DCA-3 year agreements, to airlines. Airlines that selected this option under their *Sabre* GDS participating carrier agreements received a discount of approximately 12.5% from the applicable 2003 rates, and were locked into that booking fee rate for three years. Through the long-term full content agreements, participating airlines agreed to commit to the highest level of participation in the Sabre system for three years. As a consequence, we believe that the participation of carriers in the program may have helped to slow the shift of bookings away from the *Sabre* GDS to supplier-controlled outlets.

Many of the original long-term full content agreement contracts are up for renewal in 2006. Sabre Travel Network already has successfully signed new long-term full content agreements with several large U.S. airlines: Delta Airlines, Northwest Airlines, United Airlines and US Airways, which had full content contracts, and AirTran Airways, which did not have a long-term full content contract. The US Airways agreement also includes America West, which did not have a long-term full content contract. The new agreements are for five to seven years and, like the original DCA 3-year agreements, require participating airlines to provide all *Sabre* GDS users broad access to schedules, seat availability and published fares, including Web fares and other promotional fares. These agreements also generally require participating airlines to furnish to passengers booked through the *Sabre* GDS the same customer perquisites and amenities as those afforded to passengers through other GDSs and websites.

Additionally, we have transitioned many carriers from our traditional Participating Carrier Agreement to a new Travel Marketing Agreement that better aligns price with value for the airline and provides better content guarantees to Sabre Travel Network.

Acquisition of TRAMS, Inc. and Related Assets On February 10, 2006, we acquired certain assets from an individual, including all of the outstanding stock of TRAMS, Inc., ("TRAMS") a leading provider of financial reporting, customer relationship management tools and direct marketing solutions and services for travel agencies. The purchase price was $22 million in cash, $20 million of which had been paid as of March 31, 2006. We are also contingently liable for up to $8 million in purchase price if certain contractually determined performance measures are met over the next three years. The acquisition enables Sabre Travel Network to directly serve the end-to-end needs, from front to back-office, of a broad spectrum of travel agencies, with initial focus on small and mid-sized leisure agencies. With the acquisition, Sabre Travel Network will be able to integrate the *TRAMS* offerings more seamlessly with existing and future *Sabre* solutions. The results of operations of TRAMS have been included in our Consolidated Statement of Income and the results of operations of our Sabre Travel Network segment from the date of acquisition. Assets acquired and liabilities assumed have been recorded at their estimated fair values, and the $6 million excess of cost over the estimated fair value of the net assets has been recorded as goodwill. A portion of the acquired goodwill is deductible for tax purposes. The fair values were determined based on preliminary estimates by management and an independent valuation of the net assets acquired, which includes intangible assets of $16 million. Intangible assets subject to amortization are being amortized over a weighted average of 6 years and relate primarily to technology and customer relationships. The final allocation of the purchase price will be based on a complete valuation of all of the assets and liabilities including the outstanding stock of TRAMS and accordingly the information presented on our Consolidated Balance Sheet and elsewhere in this report, is preliminary and may change.

Consolidation and Acquisition of Zuji Holdings Limited On November 7, 2005, pursuant to issuing a $4 million loan to Zuji, we became the primary beneficiary of the joint venture and in accordance with FIN 46R, began accounting for our investment in the *Zuji*SM business, which was previously accounted for using the equity method, on a fully consolidated basis. Zuji was established as a joint venture in 2002 with 16 Asia Pacific airlines and operates in the Asia Pacific region. Zuji is hosted by Travelocity and utilizes Travelocity technology.

On January 24, 2006, a put option that we entered into in 2005 with the other equity investors of Zuji was exercised and pursuant to the agreement we paid $34 million for the remaining 90% interests in Zuji that we did not already own. Therefore, 100% of the results of operations for Zuji are included in our Consolidated Statement of Income and the results of operations of our Travelocity segment from the date of acquisition. Because we previously owned 10% of Zuji, the acquisition was accounted for as a step-acquisition. The purchase price was allocated based on 90% of the estimated fair value of the net assets acquired, including intangible assets acquired. After adding our original 10% cost basis in the entities to the 90% of the fair value of the net assets acquired, our total investment in Zuji is $35 million, including $55 million of goodwill. The recorded goodwill is not deductible for non-U.S. income tax purposes but will reduce the amount of U.S. tax paid on distributions of Zuji profits to its U.S. parent. The goodwill represents a value attributable to an increased competitive position in the Asia Pacific region and greater scale. The fair values of the net assets acquired were determined by management based, in part, on a preliminary independent valuation of the intangible assets acquired. Intangible assets acquired are being amortized over a weighted average period of 5 years and relate primarily to contracts and tradenames. The following table summarizes the allocation of the purchase price and the amounts allocated to goodwill (in thousands):

Working capital	$	(26,225)
Tradenames (indefinite life)		2,900
Tradenames (5 year useful life)		700
Technology (5 year useful life)		3,000
Goodwill		54,649
Total purchase price	$	35,024

Acquisition of lastminute.com On July 20, 2005, we completed the acquisition of lastminute.com plc, a leading online travel agency and leisure company in Europe and began consolidating its results. The aggregate cost of the acquisition was approximately $1.2 billion ($1,072 million net of cash acquired). The aggregate cost includes $1,023 million of cash paid to lastminute.com plc stockholders, $138 million of debt retired and $14 million of direct acquisition costs. We used approximately $374 million of available cash and marketable securities ($272 million, net of cash acquired) to fund the acquisition and incurred $800 million in indebtedness under an unsecured bridge loan agreement (Note 8). During the first quarter of 2006, we prepaid the entire amount outstanding under the bridge loan agreement.

With the acquisition of lastminute.com, our Travelocity segment greatly expanded its scale. We can now offer travel suppliers a greater number of potential buyers in a broader geographic area, particularly Europe. We expect this increased scale to allow us to offer consumers even better travel deals and a greater range of international options. An immediate benefit is our ability to provide lastminute.com customers access to the wide range of hotels in Travelocity's net rate hotel program. lastminute.com customers will have a greater range of U.S. and international travel options, and over time, Travelocity should gain more European travel choices.

lastminute.com has been included in our Consolidated Statements of Income from the date of acquisition, July 20, 2005. The assets acquired and liabilities assumed have been recorded on our Consolidated Balance Sheets based on preliminary estimates of fair value by management and results of an independent valuation. We continue to review the fair value of assets and liabilities acquired. The final allocation of the purchase price will be based on a complete valuation of the assets and liabilities of lastminute.com. Accordingly, the information presented on our Consolidated Balance Sheets and elsewhere in this report may differ materially from the final purchase price allocation. The recorded goodwill related to the acquisition of lastminute.com by our Travelocity segment is deductible for tax purposes and represents a value attributable to an increased competitive position in Europe and greater scale.

The following table summarizes the allocation of the purchase price and the amounts allocated to goodwill (in thousands):

Working capital	$	(192,145)
Property and equipment		21,280
Investments in joint ventures and other assets, net		556
Tradenames (indefinite life)		281,789
Tradenames (14.2 year average useful life)		45,005
Technology (3.5 year useful life)		95,411
Customer and contractual relationships (7 year useful life)		108,012
Non-compete agreements (1 year useful life)		1,800
Goodwill		814,193
Non-current liabilities		(1,483)
Total purchase price	$	1,174,418

Working capital includes an accrual of approximately $43 million of acquisition-related costs, including $10 million, net of deferred taxes of $5 million, for the fair value of a restructuring plan described further below. The accrual also includes a material contingent liability in relation to a dispute with a vendor and other items described more fully below.

Shortly following the completion of the acquisition, we began to develop a plan to eliminate duplicate costs, including certain duplicate facilities, and to restructure certain areas of the *lastminute.com*SM business. At the acquisition date, we accrued $11 million, offset by deferred taxes of $4 million, for the present value of future lease payments and related costs due on facilities that will be closed and consolidated with existing facilities in the United Kingdom, Germany and Sweden. The majority of the accrual relates to the relocation of staff from a facility in Camberley to a facility in Woking which has excess capacity. Both facilities are southwest of the London, England area. The Camberley facility will no longer be utilized and we plan to pursue options to sublet or terminate our lease early for this facility, although at this time we do not know if either of these options is possible. As of March 31, 2006, the accrual remains at $10 million as the facility moves are only beginning to occur.

Additionally, we accrued $4 million for severance and related costs for reductions in headcount in various areas of lastminute.com, including in the United Kingdom, France, Germany and Holland. The reductions are due to the elimination of duplicate staff with the consolidation of facilities and activities of Travelocity.com and lastminute.com, outsourcing of certain call center activities and other redundancies identified in our analysis of the business. Since the acquisition, we have paid $1 million of the severance accrued and reduced the accrual by $1 million for adjustments due to the voluntary departure of employees. As of March 31, 2006, the remaining accrual for severance and related costs is $2 million.

lastminute.com had an ongoing dispute with a vendor when we completed the acquisition on July 20, 2005. The vendor had claimed that lastminute.com owed it approximately $56 million. On April 27, 2006 we settled this dispute for an amount that was not materially different than the amount accrued with the purchase price allocation and which was significantly less than what was claimed.

Pro forma Statement of Operations Data for lastminute.com Acquisition

The following unaudited pro forma information presents our results of operations from continuing operations as if the acquisition of lastminute.com, discussed above, had occurred as of January 1, 2005. The pro forma information has been prepared by combining our results of operations and lastminute.com's results of operations for the three months ended March 31, 2005. Prior to the acquisition, lastminute.com utilized a September 30 fiscal year end. The lastminute.com statements of operations have been adjusted to conform to our calendar year end financial statement presentation. For purposes of this report, unaudited pro forma adjustments, including a reconciliation between GAAP in the United Kingdom, where lastminute.com is headquartered, and GAAP in the United States, have been made to the lastminute.com historical financial statements. The pro forma information does not purport to be indicative of the results that would have occurred if the acquisition had actually been in effect earlier than July 20, 2005, nor indicative of future performance. The pro forma results during the three months ended March 31, 2005 include several one-time adjustments totaling $38 million which have a material effect on the results presented. These adjustments, which are not anticipated in future periods, include costs incurred and amounts expensed related to the acquisition and a material disputed amount possibly due to a vendor. Pro forma adjustments related to the acquisitions of TRAMS, Inc. and Zuji have not been included, as the effect of doing so would be immaterial. Amounts below are presented in thousands, except per share data:

	Three Months Ended March 31, 2005	
Pro forma revenues	$	642,824
Pro forma net earnings		10,186
Pro forma net earnings per common share:		
Basic	$	0.08
Diluted	$	0.08

Acquisition of SynXis On January 19, 2005, we completed the acquisition of SynXis Corporation ("SynXis"), a provider of the *SynXis*® reservation management, distribution and technology services for hotels, for approximately $41 million in cash, including acquisition costs, of which $37 million has been paid as of March 31, 2006. This acquisition enables Sabre Travel Network to further build on our capabilities and offerings to hoteliers, to leverage new hotel content for all of our travel agents, and to extend reservation technology currently used at approximately 6,000 hotels, primarily in the United States and Europe. SynXis will continue to operate under the SynXis name as a wholly-owned subsidiary of Sabre Inc. The acquired goodwill is not deductible for tax purposes. Intangible assets subject to amortization are being amortized over their respective lives. The following table summarizes the allocation of the purchase price and the amounts allocated to goodwill (in thousands):

Assets acquired net of liabilities assumed	$	5,503
Purchased technology (5 year useful life)		3,900
Customer relationships (8 year useful life)		10,700
Tradenames		1,800
Goodwill		19,196
Total purchase price	$	41,099

Sale of Karavel Investment On March 11, 2005, we sold our interest in Karavel SA, a French tour operator. We received approximately $26 million (Euro 20 million) in cash proceeds in connection with the sale and recorded a $21 million gain in other income. In the second quarter of 2005 an additional $1 million was received related to this sale.

Cost Reductions In 2005, we announced plans to reduce our workforce and accrued approximately $6 million for severance and related costs, approximately $2 million of which remains accrued as of March 31, 2006. In March 2006, we further reduced our workforce and accrued approximately $3 million for severance and related costs. We expect the majority of the accruals for these reductions will be paid out in the second quarter of 2006.

4. Pension and Other Postretirement Benefit Plans

The components of net periodic benefit cost of defined benefit pension plans and other defined benefit postretirement plans for the three months ended March 31, 2006 and 2005 are presented in the tables below (in thousands):

	Pension Benefits		Other Benefits	
Components of net periodic benefit cost:	**2006**	**2005**	**2006**	**2005**
Service cost	$ 28	$ 1,554	$ 293	$ 569
Interest cost	4,673	5,451	1,163	1,982
Expected return on plan assets	(5,654)	(5,976)		
Amortization of transition asset	(3)	(3)	4	4
Amortization of prior service cost		15	(1,622)	(3,133)
Amortization of actuarial loss	584	1,313	963	1,373
Net periodic benefit cost	(372)	2,354	801	795
Settlement loss	307			
Total net periodic benefit cost	$ (65)	$ 2,354	$ 801	$ 795

There were no contributions to fund our various defined benefit pension plans during the three months ended March 31, 2006 and 2005. We are evaluating making additional contributions during the remainder of 2006. Annual contributions to our defined benefit pension plans are based on several factors that may vary from year to year. Therefore, past contributions are not always indicative of future contributions.

We amended the Sabre Inc. Legacy Pension Plan and the Supplemental Executive Retirement Plan to freeze pension benefit accruals as of December 31, 2005, so that no additional pension benefits will be accrued after that date.

Effective January 1, 2006, we eliminated the discretionary company contribution to our 401(k) Plan and increased the company matching contribution from 50% to 100% of each employee's pre-tax contribution up to 6% of eligible base pay, subject to IRS limits. We have recorded expenses related to the 401(k) Plan of approximately $4 million for both the three months ended March 31, 2006 and 2005.

5. Options and Other Stock-Based Awards

Prior to January 1, 2006, we accounted for stock awards and stock option grants 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 as permitted by Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* ("SFAS 123"). Generally, no compensation expense was recognized for stock option grants to employees if the exercise price was at or above the fair market value of the underlying stock on the date of grant but was included in a pro forma disclosure in the footnotes to the financial statements. Compensation expense relating to other stock awards was recognized over the period during which the employee rendered service to us necessary to earn the award.

Effective January 1, 2006, we adopted Statement of Financial Accounting Standards No. 123 (Revised 2004), *Share-Based Payments* ("SFAS 123R"), which is a revision of SFAS 123. SFAS 123R supersedes APB 25 and amends FASB Statement of Financial Accounting Standards No. 95, *Statement of Cash Flows*. We adopted SFAS 123R using the modified prospective method. Stock options that were granted prior to January 1, 2006, but for which the requisite service period had not been provided will be expensed, based on the Black-Scholes value of those options as determined for the purposes of our pro forma disclosures in accordance with SFAS 123, over their remaining requisite service period adjusted for expected forfeitures. Compensation expense for restricted shares issued to employees was recognized prior to and subsequent to the adoption of SFAS 123R over their requisite service periods. Prior period financial statements have not been restated. The following table details stock-based compensation recorded for the three months ended March 31, 2006 and 2005 (in thousands):

	Three Months Ended March 31,	
	2006	**2005**
Stock options	$ 4,531	$ 455
Restricted stock	2,942	2,220
Performance shares	775	
SFAS 123R adjustment	(1,831)	
Total	$ 6,417	$ 2,675

Expenses related to stock options in 2006 and the SFAS 123R adjustment are the result of adopting SFAS 123R. The approximately $2 million SFAS 123R adjustment is for stock-based compensation expense recognized prior to adoption of SFAS 123R on restricted stock grants that we believe will ultimately forfeit. This adjustment was booked in accordance with implementation guidance set forth in SFAS 123R. We concluded that this adjustment was not material enough for treatment as a cumulative effect of an accounting change. By adopting SFAS 123R, our income before provision for income taxes and net earnings are $3 million and $2 million lower, respectively, for the three months ended March 31, 2006 than they would have been under APB 25. Basic and dilutive earnings per common share would have been $0.14 for the three months ended March 31, 2006 had we continued to account for share- based compensation under APB 25.

Prior to the adoption of SFAS 123R, all tax benefits resulting from the exercise of options were presented as an operating cash flow in the Statement of Cash Flows. SFAS 123R requires that tax deductions in excess of compensation expense for exercised shares be presented as a financing cash flow with a corresponding reduction in operating cash flows. As a result, our Statement of Cash Flows includes approximately $1 million in cash flows from financing activities that would have been in cash flows from operating activities had we not adopted SFAS 123R.

We have not made, and will not make, loans (including the acceptance of promissory notes) for the exercise of our stock options or the purchase of our Common Stock.

The following table summarizes the pro forma effect of stock-based compensation on our net earnings and net earnings per share for the three months ended March 31, 2005, as if we had accounted for such compensation at fair value (in thousands, except per share data):

		Three Months Ended March 31, 2005
Net earnings as reported	$	57,681
Add stock compensation expense determined under intrinsic value method, net of income taxes		1,652
Less total stock-based employee compensation expense determined under fair value based method for all awards, net of income taxes		(8,465)
Pro forma net earnings	$	50,868
Net earnings per common share, as reported:		
Basic	$	0.44
Diluted	$	0.44
Net earnings per common share, pro forma:		
Basic	$	0.39
Diluted	$	0.39

The above pro forma information regarding net earnings and earnings per share has been determined as if we had accounted for employee stock options and stock-based awards under the fair value method set forth in SFAS 123. The fair value for the stock options granted by us to employees was estimated at the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

		Three Months Ended March 31, 2005
Average risk-free interest rate		3.64%
Expected life (in years)		4.5
Dividend yield		1.7%
Volatility		49.8%
Fair value	$	8.27

Restricted Stock Shares of restricted stock are awarded at no cost to employees. Restricted shares generally grade vest from one to five years following the date of grant. Dividends issued with respect to restricted shares may be paid in cash or treated as additional shares of restricted stock that are subject to the same restrictions and other terms and conditions that apply to the shares with respect to which such dividends are issued. During 2005 and for the first quarter of 2006, the dividends were paid in cash. We recognize the expense for restricted stock grants over the requisite service period of the grant using the market value on the date of the grant. Certain restricted stock issued to employees of lastminute.com contains performance conditions which could result in the acceleration of vesting. In these cases, we are recognizing compensation expense over the longer service period. If it becomes probable that the performance conditions will be met, we will recognize compensation expense over the shorter performance period.

The following table summarizes the activity for our restricted stock plan during the three months ended March 31, 2006:

Restricted Stock	Shares	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2005	1,757,084	$ 20.81
Granted	923,000	23.69
Vested	(484,137)	20.66
Forfeited	(48,278)	19.71
Nonvested at March 31, 2006	2,147,669	$ 22.11

As of March 31, 2006, there was $45 million of total unrecognized compensation cost related to our restricted stock plan, including grants that we believe will eventually forfeit. This cost is expected to be recognized over a weighted-average period of three years.

Performance Shares In February 2006, we issued 910,750 performance shares under the Amended and Restated 2005 Long-Term Incentive Plan and Performance Share Unit Agreement. These performance shares are divided into four equal tranches that vest based upon our ranking of total shareholder return over a period of one to four years compared to other companies making up the Standard & Poor's 500. We recognize compensation expense related to these awards over each tranche's respective vesting period. Each tranche of these shares was valued using a Monte Carlo simulation model. The average fair value of these shares was estimated at $11.55 per share. Certain assumptions used in the model include (but are not limited to) the following:

Sabre Holdings initial stock price	$23.62
Sabre Holdings implied volatility	27.41%
Sabre Holdings dividend yield	1.67%
Risk free rate	4.63%-4.65%

For the three months ended March 31, 2006, we recorded $1 million in compensation expense related to these shares and have approximately $10 million in unrecognized compensation expense (including shares we expect to ultimately forfeit) that will be recognized over the next four years.

As of March 31, 2006, we have several other stock-based compensation plans under which there are outstanding awards, as follows:

The Amended and Restated 2005 Long-Term Incentive Plan Under our Amended and Restated 2005 Long-Term Incentive Plan (the "LTIP"), executives, non-employee directors, managers and other key employees may be granted restricted stock, deferred stock, stock options, stock appreciation rights, stock purchase rights, other stock-based awards and/or performance-related awards. Under the Amended Plan:

- the total number of shares of Class A Common Stock reserved and available for distribution is currently limited to an aggregate of 27,635,410;

- the number of shares available for grant in the form of restricted stock, deferred stock and other stock-based awards is limited to an aggregate of 5,000,000 shares issued on or after May 17, 2005;

- the provisions of the LTIP provide flexibility with respect to the option price per share for stock option conversions associated with a merger or acquisition, but prohibit the repricing of stock options without stockholder approval;

upon a change of control of the Company (as defined in the LTIP), any issued and outstanding stock options, stock appreciation rights, restricted stock, deferred stock, stock purchase rights, performance shares or any other stock-based awards may continue in effect or be converted to equivalent equity awards of any successor company;

no more than 1,000,000 shares of stock may be granted to any employee in a one-year period.

The LTIP will terminate in May 2015. At March 31, 2006, approximately 9,869,475 shares remained available for future grants of stock-based awards under the LTIP.

Sabre Holdings Corporation Stock Option Plan In 2000, we established the Sabre Holdings Corporation Stock Option Plan (the "2000 Plan") to attract, retain and reward our employees by offering stock incentives. Under the 2000 Plan, employees may be granted stock options or stock appreciation rights. The total number of shares of Class A Common Stock authorized for distribution under the 2000 Plan is 7,000,000 shares. At March 31, 2006, approximately 1,174,652 shares remained available for future grants.

GetThere Stock Incentive Plans In conjunction with the acquisition of GetThere Inc. in 2000, we assumed their two stock incentive plans and converted all outstanding GetThere options to options in our Common Stock. These converted options remain under the original GetThere plans and are administered under the original terms and conditions. We do not plan to use the GetThere plans for future grants.

Travelocity Stock Incentive Plans In 2002, in conjunction with the tender offer to acquire the portion of the *Travelocity.com®* business that we did not already own, we assumed the Travelocity.com plans and converted options in Travelocity.com to options in our Common Stock. We are recognizing stock compensation expense based on the intrinsic value of the awards converted at the date of acquisition over the remaining vesting periods. These converted options remain under the original Travelocity plans and are administered under the original terms and conditions. In 2002, we terminated the plans so that no future grants could be issued.

Directors' Stock Incentive Plan Under the 1996 Director Stock Incentive Plan, non-employee directors received awards of options. Shares were granted from the plan through 1998. Beginning in 1999, stock options granted to non-employee directors were granted under the LTIP. As of December 31, 2005, 109,026 options had been granted to directors at a weighted-average exercise price of $25.20. As of March 31, 2006, 36,342 of those options have been exercised, and 72,684 are still outstanding. These amounts are also included in the stock options outstanding table below.

Stock Options Outstanding All stock options are granted at the fair market value of Class A Common Stock on the date of grant, though the Board of Directors has the discretion to grant at or above fair market value. Stock options generally grade vest over one to five years and are not exercisable more than ten years after the date of grant. For valuation purposes, the entire grant is valued using the Black-Scholes method for options issued prior to adoption of SFAS 123R on January 1, 2006. We will use a lattice model for any options granted subsequent to adoption. Options are amortized on a straight-line basis over the requisite service period for the entire award. There were no grants of stock options during the three months ended March 31, 2006. For stock options only we recognized $5 million in stock compensation expense for the three months ended March 31, 2006. At March 31, 2006, we have approximately $33 million in unrecognized compensation expense (including options that we expect will ultimately forfeit) which will be recognized over the next four years.

The following table summarizes activity under all stock option plans (in thousands, except for per share and contractual term amounts):

Stock Options	Shares	Weighted Average Exercise Price per Share	Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding at December 31, 2005	16,990,060	$ 30.10	6.32	$ 511,400,806
Granted				
Exercised	(458,578)	19.80		
Cancelled	(387,768)	30.98		
Outstanding at March 31, 2006	16,143,714	$ 30.32	6.05	$ 489,477,408

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Shares	Weighted-Average Remaining Life (Years)	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
$0.16-$15.99	25,475	4.01	$ 7.73	25,475	$ 7.73
$16.00-$25.99	7,746,797	7.50	20.64	3,750,406	20.67
$26.00-$35.99	1,371,263	3.60	31.69	1,356,004	31.73
$36.00-$48.99	5,837,346	5.13	38.39	5,834,511	38.39
$49.00-$60.99	1,039,548	3.98	50.00	1,039,548	50.00
$61.00-$105.06	123,285	3.97	79.59	123,285	79.59
Total	16,143,714	6.05	$ 30.32	12,129,229	$ 33.52

Stock appreciation rights ("SAR") may be granted in conjunction with all or part of any stock option granted. All SARs will be forfeited upon termination or exercise of the related option and will be exercisable only during the time that the related option is exercisable. If a SAR is exercised, the related stock option will be deemed to have been exercised. As of March 31, 2006, an insignificant number of stock appreciation rights remained outstanding.

2003 Directors' Deferred Compensation and Deferred Stock Unit Plan Under the 2003 Directors' Deferred Compensation and Deferred Stock Unit Plan, directors may be issued deferred stock units. Additionally, directors may defer their cash fees into stock equivalent units at their individual elections. Through May 17, 2005, each director was granted 400 deferred stock units for each regularly scheduled Board of Directors meeting attended. On December 17, 2004, the Compensation Committee approved a new compensation arrangement for directors effective after the 2005 Annual Meeting. Under the new arrangement, directors receive $60,000 in deferred stock units annually, granted in two semiannual payments on June 1 and December 1 each year. The units are marked to the current fair market value through expense until the deferral period ends. Fair market value is determined based on an average range of our stock price over the most recent valuation period. At March 31, 2006, 92,349 deferred stock units and 79,208 stock equivalent units at a fair market value of $21.37 per share have been deferred.

Employee Stock Purchase Plan We sponsor an Employee Stock Purchase Plan (the "ESPP"). Effective January 1, 2005, we amended the terms of the ESPP. The amended terms allow participating employees to purchase stock on a quarterly basis at 95% of the market price of the stock at the end of a three-month period. Employees may continue to purchase stock up to an aggregate maximum purchase price of 10% of the employee's annual compensation, subject to certain limitations. We issued approximately 34,000 shares of Common Stock in fiscal 2005 under the ESPP. On May 4, 2004, shareholders approved an authorization of an additional 2,000,000 shares of Class A Common Stock under the ESPP, bringing the total number of shares reserved under the plan to 4,000,000. At March 31, 2006, approximately 2,110,703 shares remained available for future issuance.

6. 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,	
	2006	2005
Income tax provision at statutory federal income tax rate	$ 9,353	$ 31,203
State income taxes, net of federal benefit	615	1,751
Other, net	(51)	(1,483)
Total provision for income taxes	$ 9,917	$ 31,471

7. Derivatives

In order to hedge our operational exposure to foreign currency movements, we are a party to certain foreign currency forward contracts. We have also used options in the past, but have no options currently outstanding. We have designated these instruments as cash flow hedges. Amounts reclassified from other comprehensive income to earnings due to the settlement of forward contracts were losses of approximately $2 million and gains of approximately $2 million during the three months ended March 31, 2006 and 2005, respectively. No hedging ineffectiveness was recorded in earnings relating to the forwards during the three months ended March 31, 2006 and 2005. The estimated fair values of the foreign currency forward contracts were liabilities related to unrealized losses of $2 million at March 31, 2006 and $6 million at December 31, 2005, respectively. These foreign currency forward contracts were recorded in other accrued liabilities at March 31, 2006 and December 31, 2005 on the Consolidated Balance Sheets. We also have entered into short-term forward contracts through certain of our lastminute.com subsidiaries that hedge a portion of our foreign currency exposure related to travel supplier liability payments. The impact of these contracts on the financial statements for the quarter ended March 31, 2006 was not significant.

We are also a party to certain interest rate swap contracts. We have designated the swaps as fair value hedges of our public notes payable and capital lease obligation. No hedging ineffectiveness relating to our interest rate swaps was recorded in earnings during the three months ended March 31, 2006 or 2005. The estimated fair value of the interest rate swaps was a liability of $13 million at March 31, 2006 which was recorded in other liabilities on the Consolidated Balance Sheet. The estimated fair value of the interest rate swaps was a net liability of $5 million at December 31, 2005, of which $2 million was recorded in other assets and $7 million in other liabilities on the Consolidated Balance Sheet.

In order to protect ourselves against the impacts of interest rate fluctuations occurring prior to the issuance of $400 million of senior unsecured notes in March 2006, we entered into two interest rate hedges on the Ten Year U.S. Treasury Note, which locked in the treasury component of our borrowing rate on the notes. We hedged $250 million on February 16, 2006, at a rate of 4.628%, and we hedged $150 million on March 3, 2006, at a rate of 4.69%. The hedges were sold on March 8, 2006, simultaneously with the pricing of the bonds. The resulting gain on the sale of $3 million was recorded in other comprehensive income and will be recognized over the life of the notes, using the effective yield method.

8. Debt

Bridge Financing Arrangement

On May 12, 2005, we entered into an $800 million unsecured bridge loan agreement (the "Bridge Facility") maturing August 12, 2006, in order to provide short-term financing in connection with the lastminute.com acquisition and to satisfy legal requirements for certainty of funding for the acquisition. On July 22, 2005, we entered into an amendment to the Bridge Facility whereby all the rights and obligations of Sabre Inc. under the Bridge Facility were assumed by Sabre Holdings Corporation and Sabre Inc. was discharged from its obligations thereunder.

Effective August 1, 2005, we borrowed $800 million under the Bridge Facility in order to fund a portion of the purchase price payable for the shares of lastminute.com in connection with the lastminute.com acquisition (Note 3).

During the three months ended March 31, 2006, we prepaid the entire $800 million outstanding under the Bridge Facility using debt and our existing cash as follows:

On February 16, 2006, we prepaid $100 million from available cash and marketable securities.

On March 13, 2006, we prepaid $400 million. Includes $397 million from the proceeds of publicly issued senior unsecured notes (see below for additional details) and $3 million of available cash and marketable securities.

On March 17, 2006, we borrowed $180 million under our existing revolving credit agreement and used the proceeds to prepay $180 million of the outstanding principal on the Bridge Facility (see below for additional details).

On March 23, 2006, we prepaid the remaining $120 million of the Bridge Facility using our available cash and marketable securities.

Publicly Issued Senior Unsecured Notes

In March 2006, Sabre Holdings Corporation issued $400 million in senior unsecured notes ("Notes"), bearing interest at a fixed rate of 6.35% and maturing March 15, 2016, in an underwritten public offering resulting in net cash proceeds after expenses of approximately $397 million. The Notes include certain non-financial covenants, including restrictions on incurring certain types of debt or entering into certain sale and leaseback transactions. We used all of the net proceeds plus available cash and marketable securities to prepay $400 million of the Bridge Facility. Under the terms of the Notes we are obligated to pay $13 million in interest charges in 2006, and $25 million per year afterwards until 2016. As of March 31, 2006, we were in compliance with all covenants under the indenture for the Notes.

Revolving Credit Agreement

On March 17, 2006, we borrowed $180 million under our revolving credit agreement. We used the proceeds to prepay $180 million of the outstanding principal on the Bridge Facility. The interest rate on this indebtedness is based on the London Interbank Offered Rate ("LIBOR") plus a borrowing spread, and is sensitive to our credit rating. At March 31, 2006 the interest rate was 5.35%. All or part of this indebtedness can be extended month-to-month at our option but it must be repaid on or before June 15, 2009. The indebtedness may be accelerated in certain circumstances that are described in the revolving credit agreement. We may repay the revolving credit loans outstanding under the revolving credit agreement at any time without penalty prior to the maturity date. Based on the terms of the revolving credit agreement, we have $180 million of unused borrowing capacity under this facility at March 31, 2006.

As of March 31, 2006, we were in compliance with all covenants under our revolving credit agreement including the following financial covenants:

Covenant	Requirement	Level at March 31, 2006
Consolidated Leverage Ratio (Debt to EBITDA)	3.75 to 1 maximum	2.94
Consolidated Net Worth	$1.3 billion	$1.7 billion

Our leverage ratio covenants under the revolving credit agreement are as follows:

As amended on July 22, 2005	Requirement
Consolidated Leverage Ratio (Debt to EBITDA) for the quarters ended:	
July 22, 2005 through March 31, 2006	3.75 to 1 maximum
June 30, 2006 through September 30, 2006	3.50 to 1 maximum
December 31, 2006 through March 31, 2007	3.25 to 1 maximum
June 30, 2007 and thereafter	3.00 to 1 maximum

There were no material changes to our $400 million of public notes issued in August 2001 or to our capital lease obligation during the three months ended March 31, 2006.

9. Business Segments

We are a world leader in travel commerce, marketing travel products and providing distribution and technology solutions for the travel industry. Through our *Sabre* global distribution system subscribers, generally travel agencies, can access information about, and can book reservations for, among other things, airline trips, hotel stays, car rentals, cruises and tour packages. Our *Sabre Travel Network* business operates the *Sabre* GDS. We market and distribute travel related products and services directly to leisure and business travelers including air, hotel, car rental, cruises and packaged trip offerings through our *Travelocity* business, including distribution through the newly-acquired *lastminute.com*^{SM} business, which significantly expands our presence in Europe. 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.

Our reportable segments are strategic business segments 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 used in our consolidated results. Due to similarities in products, services and operations, lastminute.com is included in the Travelocity segment pursuant to Statement of Financial Accounting Standards No. 131, *Disclosures about Segments of an Enterprise and Related Information*. We account for significant intersegment transactions as if the transactions were to third parties, that is, at estimated current market prices. The majority of the intersegment revenues and cost of revenues are between Travelocity and Sabre Travel Network, consisting mainly of incentives paid by Sabre Travel Network to Travelocity for transactions processed through the *Sabre* GDS, data processing fees paid by Travelocity to Sabre Travel Network for transactions processed through the *Sabre GDS*, transaction fees paid by Travelocity to Sabre Travel Network for transactions facilitated through the *Sabre* GDS in which the travel supplier pays Travelocity directly, and fees paid by Sabre Travel Network to Travelocity for corporate trips booked through the *Travelocity* online booking technology. In addition, Sabre Airline Solutions pays fees to Travelocity for airline trips booked through the *Travelocity* online booking technology. 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 on the relative size of the segments and usage of corporate resources or services. 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.

The segment operating results are presented on a basis that excludes certain adjusting 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.

Selected information for our three reportable segments for the three months ended March 31, 2006 and 2005 follows (in thousands):

	Three Months Ended March 31,	
	2006	2005
Revenues from external customers, excluding adjusting items:		
Sabre Travel Network	$ 437,299	$ 413,702
Travelocity	196,274	109,381
Sabre Airline Solutions	64,825	62,773
Total	$ 698,398	$ 585,856
Intersegment revenues:		
Sabre Travel Network	$ 9,765	$ 5,956
Travelocity	37,818	41,813
Total	$ 47,583	$ 47,769
Equity in net income (loss) of equity method investees:		
Sabre Travel Network	$ 1,452	$ 149
Travelocity	338	(4,117)
Total	$ 1,790	$ (3,968)
Consolidated revenues:		
Sabre Travel Network	$ 448,516	$ 419,807
Travelocity	234,430	147,077
Sabre Airline Solutions	64,825	62,773
Elimination of intersegment revenues	(47,583)	(47,769)
Total	$ 700,188	$ 581,888

Our Chief Operating Decision Maker allocates resources to and assesses the performance of each segment using adjusted operating income. A summary of the adjusting items and reconciliation of adjusted operating income to consolidated operating income is set forth below (in thousands). Starting in the first quarter of 2006, we began including most stock-based compensation as an adjusting item including compensation expense from restricted and performance shares (see Note 5). In addition to the segment data see Item 2, "*Management's Discussion and Analysis of Financial Condition and Results of Operations*".

	Three Months Ended March 31,	
	2006	**2005**
Segment operating income (loss) excluding adjusting items:		
Sabre Travel Network	$ 75,505	$ 81,288
Travelocity	(17,306)	(11,780)
Sabre Airline Solutions	6,610	9,910
Net corporate allocations	(373)	13
Total	$ 64,436	$ 79,431
Impact of adjusting items on operating income (increase)/decrease:		
Sabre Travel Network:		
Other intangibles amortization	$ 3,707	$ 5,209
Stock-based compensation	4,065	
Total Sabre Travel Network	$ 7,772	$ 5,209
Travelocity:		
Other intangibles amortization	$ 14,165	$ 2,003
Stock-based compensation	2,665	455
Total Travelocity	$ 16,830	$ 2,458
Sabre Airline Solutions:		
Other intangibles amortization	$ 558	$ 570
Stock-based compensation	1,350	
Total Sabre Airline Solutions	$ 1,908	$ 570
Total operating income adjusting items	$ 26,510	$ 8,237
Consolidated operating income (loss):		
Sabre Travel Network	$ 67,733	$ 76,079
Travelocity	(34,136)	(14,238)
Sabre Airline Solutions	4,702	9,340
Net corporate allocations	(373)	13
Total	$ 37,926	$ 71,194

10. Supplemental Guarantor/Non-Guarantor Financial Information

All indebtedness of Sabre Holdings has been solely guaranteed by its 100%-owned operating subsidiary, Sabre Inc. pursuant to an intercompany guaranty executed by Sabre Inc. in favor of Sabre Holdings. There are no restrictions on Sabre Holdings' 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. All other subsidiaries of the Company 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, Sabre Inc. and non-guarantor subsidiaries. The information has been presented as if Sabre Holdings 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 2005 financial statements to conform to the 2006 presentation.

Sabre Inc. conducts the domestic operations of the Company's Sabre Travel Network segment and the Sabre Airline Solutions segment. The operations of the Travelocity segment, 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, 2006 and 2005, Sabre Inc. recognized operating expenses in connection with these agreements totaling approximately $65 million and $72 million, respectively. These amounts, and the corresponding amounts recognized by the non-guarantor subsidiaries, are eliminated in consolidation.

UNAUDITED CONSOLIDATING CONDENSED BALANCE SHEETS
MARCH 31, 2006
(In thousands)

	Sabre Holdings	Sabre Inc.	Non-Guarantor Subsidiaries	Eliminations	Sabre Consolidated
Assets					
Current Assets					
Cash and marketable securities	$	$ 151,306	$ 197,525	$	$ 348,831
Restricted cash			9,790		9,790
Accounts receivable, net		258,069	311,645		569,714
Intercompany accounts receivable (payable)		(234,329)	234,329		
Other current assets		105,425	97,143		202,568
Total current assets		280,471	850,432		1,130,903
Property and equipment, net		344,050	87,636		431,686
Investments in subsidiaries	756,716	2,621,206		(3,377,922)	
Intercompany notes	1,907,411	(1,907,411)			
Investments in joint ventures		4,416	153,589		158,005
Goodwill and intangible assets, net		11,216	2,356,602		2,367,818
Other assets, net	5,242	172,486	18,485		196,213
Total assets	$ 2,669,369	$ 1,526,434	$ 3,466,744	$ (3,377,922)	$ 4,284,625
Liabilities and stockholders' equity					
Current liabilities					
Accounts payable	$ 70	$ 82,754	$ 96,858	$	$ 179,682
Travel supplier liabilities and deferred revenue			458,759		458,759
Accrued compensation and related benefits		25,622	11,456		37,078
Other accrued liabilities	5,434	296,239	253,358		555,031
Total current liabilities	5,504	404,615	820,431		1,230,550
Pensions and other postretirement benefits		186,716	1,039		187,755
Other liabilities	5,698	23,128	2,048		30,874
Minority interests			6,944		6,944
Long-term capital lease obligation		155,259			155,259
Public and other notes payable	983,464		15,076		998,540
Total stockholders' equity	1,674,703	756,716	2,621,206	(3,377,922)	1,674,703
Total liabilities and stockholders' equity	$ 2,669,369	$ 1,526,434	$ 3,466,744	$ (3,377,922)	$ 4,284,625

UNAUDITED CONSOLIDATING CONDENSED BALANCE SHEETS
DECEMBER 31, 2005
(In thousands)

	Sabre Holdings	Sabre Inc.	Non-Guarantor Subsidiaries	Eliminations	Sabre Consolidated
Assets					
Current Assets					
Cash and marketable securities	$	$ 380,898	$ 130,920	$	$ 511,818
Restricted cash		11,237	45,782		57,019
Accounts receivable, net		251,408	235,626		487,034
Intercompany accounts receivable (payable)		(158,906)	158,906		
Other current assets		81,192	111,225		192,417
Total current assets		565,829	682,459		1,248,288
Property and equipment, net		344,179	85,389		429,568
Investments in subsidiaries	744,562	2,583,474		(3,328,036)	
Intercompany notes	2,122,011	(2,122,011)			
Investments in joint ventures		4,189	152,088		156,277
Goodwill and intangible assets, net		11,361	2,321,779		2,333,140
Other assets, net	4,106	169,509	33,223		206,838
Total assets	$ 2,870,679	$ 1,556,530	$ 3,274,938	$ (3,328,036)	$ 4,374,111
Liabilities and stockholders' equity					
Current liabilities					
Accounts payable	$ 3,559	$ 102,510	$ 97,594	$	$ 203,663
Travel supplier liabilities and deferred revenue			301,377		301,377
Accrued compensation and related benefits		56,710	17,918		74,628
Other accrued liabilities	11,013	284,952	216,830		512,795
Bridge Facility	800,000				800,000
Total current liabilities	814,572	444,172	633,719		1,892,463
Pensions and other postretirement benefits		190,486	967		191,453
Other liabilities	1,692	19,122	2,754		23,568
Minority interests			38,948		38,948
Long-term capital lease obligation		158,188			158,188
Public and other notes payable	411,303		15,076		426,379
Total stockholders' equity	1,643,112	744,562	2,583,474	(3,328,036)	1,643,112
Total liabilities and stockholders' equity	$ 2,870,679	$ 1,556,530	$ 3,274,938	$ (3,328,036)	$ 4,374,111

UNAUDITED CONSOLIDATING CONDENSED STATEMENTS OF INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2006
(In thousands)

	Sabre Holdings	Sabre Inc.	Non-Guarantor Subsidiaries	Eliminations	Sabre Consolidated
Revenues	$	$ 403,198	$ 418,961	$ (121,971)	$ 700,188
Operating expenses	1,045	372,772	410,416	(121,971)	662,262
Operating income (loss)	(1,045)	30,426	8,545		37,926
Other income (expense)					
Interest income	36,864	2,890	5,417	(41,192)	3,979
Interest expense	(16,268)	(44,007)	(683)	41,192	(19,766)
Income from subsidiaries	6,459	10,761		(17,220)	
Other, net	(1,831)	263	6,153		4,585
Total other income (expense)	25,224	(30,093)	10,887	(17,220)	(11,202)
Income before provision for income taxes	24,179	333	19,432	(17,220)	26,724
Provision (credit) for income taxes	7,372	(6,126)	8,671		9,917
Net earnings	$ 16,807	$ 6,459	$ 10,761	$ (17,220)	$ 16,807

UNAUDITED CONSOLIDATING CONDENSED STATEMENTS OF INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2005
(In thousands)

	Sabre Holdings	Sabre Inc.	Non-Guarantor Subsidiaries	Eliminations	Sabre Consolidated
Revenues	$	$ 401,273	$ 286,794	$ (106,179)	$ 581,888
Operating expenses	946	324,469	291,458	(106,179)	510,694
Operating income (loss)	(946)	76,804	(4,664)		71,194
Other income (expense)					
Interest income	26,122	3,221	1,844	(26,818)	4,369
Interest expense	(5,158)	(28,984)	(290)	26,818	(7,614)
Income from subsidiaries	44,567	11,030		(55,597)	
Other, net		(146)	21,349		21,203
Total other income (expense)	65,531	(14,879)	22,903	(55,597)	17,958
Income before provision for income taxes	64,585	61,925	18,239	(55,597)	89,152
Provision for income taxes	6,904	17,358	7,209		31,471
Net earnings	$ 57,681	$ 44,567	$ 11,030	$ (55,597)	$ 57,681

UNAUDITED CONSOLIDATING CONDENSED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2006
(In thousands)

	Sabre Holdings	Sabre Inc.	Non-Guarantor Subsidiaries	Eliminations	Sabre Consolidated
Operating Activities					
Cash provided by operating activities	$	$ 76,509	$ 36,161	$	$ 112,670
Investing Activities					
Additions to property and equipment		(15,480)	(12,166)		(27,646)
Net sales of marketable securities		223,471	76		223,547
Acquisitions (net of cash acquired)		(19,727)	(34,581)		(54,308)
Proceeds from release of restricted cash			37,211		37,211
Other investing activities		(956)	6,842		5,886
Cash provided by (used for) investing activities		187,308	(2,618)		184,690
Financing Activities					
Proceeds from issuance of Common Stock	5,559				5,559
Dividends paid	(13,119)				(13,119)
Contributions (distributions) from affiliates, net	230,986	(265,483)	34,497		
Prepayment of Bridge Facility	(800,000)				(800,000)
Proceeds from borrowings on revolving credit agreement	180,000				180,000
Proceeds from issuance of Notes	395,936	1,200			397,136
Excess tax benefits from stock-based compensation arrangements	638				638
Other financing activities		(5,588)	(2,391)		(7,979)
Cash provided by (used for) financing activities		(269,871)	32,106		(237,765)
Effect of exchange rate changes on cash and cash equivalents			1,032		1,032
Increase (decrease) in cash		(6,054)	66,681		60,627
Cash at beginning of period		4,418	130,815		135,233
Cash at end of period	$	$ (1,636)	$ 197,496	$	$ 195,860

UNAUDITED CONSOLIDATING CONDENSED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2005
(In thousands)

	Sabre Holdings	Sabre Inc.	Non-Guarantor Subsidiaries	Eliminations	Sabre Consolidated
Operating Activities					
Cash provided by (used for) operating activities	$	$ 45,981	$ (5,898)	$	$ 40,083
Investing Activities					
Additions to property and equipment		(11,444)	(5,740)		(17,184)
Net sales of marketable securities					