

SABRE HOLDINGS CORP
Form 10-K
February 23, 2007

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2006

OR

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

Commission file number: 1-12175

SABRE HOLDINGS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)
3150 Sabre Drive, Southlake, TX
(Address of principal executive offices)

75-2662240
(I.R.S. Employer
Identification No.)
76092
(Zip Code)

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

None

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class
Class A Common Stock, \$.01 par value per share

Name of each exchange on which registered
New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No .

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

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

Indicate by check mark whether the registrant is 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.

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

As of June 30, 2006, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$2,845,891,356 based on the closing sale price of \$22.00 as reported on the New York Stock Exchange.

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 February 20, 2007

Common Stock, \$.01 par value per share

133,799,727 shares

Sabre Holdings Corporation
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PART I

In this Annual Report on Form 10-K, the words Sabre Holdings, company, we, our, ours and us refer to Sabre Holdings Corporation and consolidated subsidiaries unless otherwise stated or the context otherwise requires.

ITEM 1. BUSINESS

Overview

Sabre Holdings Corporation is a Delaware holding company incorporated on June 25, 1996. 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.

We are a world leader in travel commerce. Our companies and brands offer a broad portfolio of leading travel marketing, distribution and technology solutions. We support airlines, hotels, cruise lines, car rental agencies and other travel suppliers through a distribution network that enables global marketing through tens of thousands of points of sale, sophisticated data gathering and analysis, and robust business optimization tools. We support online and conventional travel agencies, corporate travel purchasers and consumers by providing an efficient electronic marketplace that consolidates a wealth of travel information, and facilitates shopping and purchasing of travel components and packages. We participate in travel distribution and marketing to multiple audiences through different methods we refer to as channels. These channels include travel agencies, direct to consumers, and corporate or business-direct.

We organize our businesses into three segments:

- Travelocity
- Sabre Travel Network
- Sabre Airline Solutions

In 2006, approximately 36.2% of our revenue was generated from Travelocity, 54.4% from Sabre Travel Network and 9.4% from Sabre Airline Solutions, based on segment results that include intersegment revenues. Compared to the year-ago period, revenues (including intersegment revenues) for the twelve months ended December 31, 2006 increased 30.5% for Travelocity (including lastminute.com from July 20, 2005), 1.3% for Sabre Travel Network and 8.3% for Sabre Airline Solutions.

Travelocity: Our Travelocity segment markets and distributes travel-related products and services directly to individuals, including leisure travelers and business travelers. Our *Travelocity*^{®1}, *lastminute.com*SM and *Zuji.com*SM branded websites and contact centers constitute one of the largest travel agencies in the world. We also provide content and functionality to, and market and sell products and services through private-label websites for suppliers, distribution partners and travel agencies. Through our offerings, travelers can access offerings, pricing and information about airlines, hotels, car rental companies, cruise lines, vacation and last-minute travel packages and other travel-related services. Our *Travelocity Business*[®] online corporate travel agency provides business travelers the corporate travel technology and full-service offering of our *GetThere*[®] products along with the online expertise of Travelocity.

¹ ClientBase, eMergo, GetThere, Holiday Autos, holidayautos.com, Hotel Spotlight, IgoUgo, Jurni Network, lastminute.com, medhotels.com, MySabre, Nexion, PromoSpots, rejsefeber.dk, reisefeber.no, resfeber.se, Sabre, Sabre Airline Solutions, Sabre Holdings, the Sabre Holdings logo, Sabre Travel Network, SabreSonic, Showtickets.com, Site 59, Site59.com, Surround, SynXis, TotalTrip, TRAMS, Travelocity, Travelocity Business, Travelocity Partner Network, Travelocity.ca, Travelocity.com, Travelocity.co.uk, TurboSabre, Travelocity.de, Zuji, and Zuji.com 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. © 2007 Sabre Holdings Corporation. All rights reserved.

Sabre Travel Network: Our Sabre Travel Network segment markets and distributes travel-related products and services for its travel supplier participants through the online and offline travel agency and corporate channels. Our *Sabre*® global distribution system (the *Sabre* system or *Sabre* GDS) produces more bookings for airlines and hotels than any other distribution system. Users of the *Sabre* system (who we refer to as subscribers) can access information about, book reservations for, and purchase a variety of travel offerings. These offerings include, among other things, airline trips, hotel stays, car rentals, cruises and tour packages. We also enable corporate travel management through our *GetThere* products. We provide travel agencies with office automation tools, consortia management services and enable them to provide services via the Internet. In addition, Sabre Travel Network provides marketing information to suppliers and reservation management and technology services to hotel properties.

Sabre Airline Solutions: Our Sabre Airline Solutions segment is a global leader in providing passenger management solutions, software products and related services, and consulting services to help airlines simplify operations and lower costs. We provide airline reservations, inventory and check-in hosting solutions that help airlines address the challenge of building and retaining customer loyalty while reducing costs. We supply decision-support software and technology for airlines to improve profitability, increase revenue, streamline operations and improve workflow. In addition, we offer a complete range of consulting services to the airline industry, ranging from one time to extended engagements. Clients include airlines, airports, manufacturers and governments, as well as individuals, travel agencies and members of the financial community.

Sale of the Company

On December 12, 2006, we entered into a definitive agreement and plan of merger (Merger Agreement) with affiliates of Texas Pacific Group and Silver Lake Partners (the Sponsors). Under the terms of the Merger Agreement, investment funds affiliated with the Sponsors will indirectly acquire the Class A Common Stock of Sabre Holdings for \$32.75 per share. The \$5.4 billion acquisition is anticipated to be funded with direct and indirect equity investments from the investment funds and with underwritten debt commitments from Deutsche Bank and Merrill Lynch.

If the merger agreement is terminated in certain circumstances, we could be required to pay a termination fee of \$135 million to the Sponsors affiliates. If the merger agreement is terminated under other circumstances, the Sponsors affiliates have agreed to pay us a business interruption fee of \$175 million.

Upon completion of the merger, we will incur significant costs associated with the acceleration of employee and non-employee director share-based awards (see Note 12 to the Consolidated Financial Statements) as well as significant costs to complete the transaction.

Completion of the transaction is subject to our receiving regulatory and shareholder approvals. We expect the transaction to close by early second quarter of 2007.

Travelocity

Travelocity is a leading provider of consumer direct travel services for the leisure and business traveler. In 2005, we significantly expanded our presence in Europe with the purchase of lastminute.com, a leader in European online travel marketing. Travelocity operates through the *Travelocity.com*® and *Site59.com*® (*Site 59*®) websites, Travelocity's international websites including *lastminute.com*, *HolidayAutos.com*SM and *Zuji.com*SM and its contact centers, travel agency partners, and its *Travelocity Partner Network*® offering. These services allow individual leisure and business travelers to shop, compare prices and make travel reservations online with airlines, car rental agencies, hotel companies and cruise and tour providers. The *Travelocity Partner Network* offering expands Travelocity's distribution reach through agreements with leading online retailers, including Yahoo! Travel, America Online, American Express, Southwest Airlines, US Airways, and AARP. For example, *Site 59* powers the last-minute travel sections of Travelocity, AOL Travel, Cheap Tickets, Yahoo! Travel, American Airlines Vacations, Delta Air Lines Vacations, Continental Airlines Vacations, Northwest's nwa.com, and Bestfares.com, among others. We also offer access to a database of information regarding specific destinations and other information of interest to travelers.

Travelocity facilitates transactions between travel suppliers and consumers to book and pay for travel accommodations. For net rate transactions, we generate service fee revenue equal to the total amount paid by the customer, minus Travelocity's payment to the travel supplier for the travel accommodations. We also generate revenue from commissions or transaction fees from travel suppliers for the purchase of travel products and services pursuant to reservations made through our system. Other revenue sources include service fees charged to customers, advertising revenues and GDS incentives (from Sabre Travel Network and other GDSs). Income or losses from interests in joint ventures, which are described under *International* below, are recognized as revenue or contra-revenue. We derive intersegment revenues from Sabre Travel Network, consisting mainly of incentives for Travelocity bookings made through the *Sabre* GDS, and fees paid by Sabre Travel Network and Sabre Airline Solutions for corporate and airline trips booked through the *Travelocity* online booking technology. During 2006, customers transacted approximately \$10.1 billion in travel and related services through Travelocity.

For our business customers, we also operate *Travelocity Business*, a comprehensive travel service available for corporations and other organizations. *Travelocity Business* combines the integrated corporate travel technology and full-service offering products of *GetThere* with the online expertise of Travelocity. Travelocity also operates multiple businesses tailored to customers outside the United States, as described under *Strategic Development of Travelocity* and *International* below.

Strategic Development of Travelocity. The growth and development of Travelocity continues to be a strategic focus for us. We continued to invest in areas that we believe offer rapid growth opportunities, such as in the business-direct channel and online distribution in Europe and Asia. For example:

- On July 20, 2005, we acquired lastminute.com, a leading online travel and leisure company in Europe that has become Travelocity's lead brand in the region. With the acquisition of lastminute.com, we can now offer travel suppliers a greater number of potential buyers in a broader geographic area, particularly in Europe. We expect this greatly 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 give lastminute.com customers access to the wide range of hotels in Travelocity's net rate hotel program. lastminute.com customers have a greater range of U.S. and international travel options, and over time, Travelocity.com customers should gain more European travel choices. Sabre Travel Network also expects to offer its network of travel agency subscribers expanded European travel options as a result of the acquisition, expanding distribution reach for lastminute.com travel suppliers.

- Zuji Holdings Limited (Zuji), a joint venture operating in the Asia Pacific region with operations in Australia, Hong Kong, Korea, New Zealand, Singapore and Taiwan. On November 7, 2005, due to our issuing a \$4 million loan to Zuji, we became the primary beneficiary of the joint venture and in accordance with Financial Accounting Standards Board (FASB) Interpretation No. 46R, *Consolidation of Variable Interest Entities (Revised)* (FIN 46R), we began accounting for our investment in Zuji, which was previously accounted for using the equity method, on a fully consolidated basis. In January 2005, Travelocity entered into a put option agreement relating to the equity of Zuji. On January 24, 2006, the put option was exercised and we purchased the remaining 90% of Zuji that we did not already own. We expect significant growth from Zuji as adoption of online travel continues to grow in Asia.

See Item 1A *We may be unsuccessful in pursuing and integrating business combinations...*

In June 2006, we sold three offline traditional retail businesses in our Travelocity Europe and lastminute.com operations as a part of the integration efforts that continue in the Travelocity segment and in Europe particularly. This sale was part of an effort to rationalize our portfolio of assets to focus on the higher growth online operations.

Net Rate Program. In an effort to provide additional choices to consumers, Travelocity is increasingly promoting our net rate program, commonly referred to in the industry as a merchant model program due to the fact that Travelocity is the merchant of record for credit card processing. Under the net rate program, we facilitate transactions between travel suppliers and travelers for the booking of and payment for travel accommodations. Under this model, we generally do not purchase and resell travel accommodations and do not have any obligations with respect to travel accommodations listed online that do not sell. Instead, we act as an intermediary by entering into agreements with travel suppliers for the right to market their products, services and other content offerings at pre-determined net rates. Net rate travel offerings can include air travel, hotel stays, car rentals and dynamically packaged combinations. We market these net rate offerings to travelers at a price that includes service fees that we retain, plus an amount sufficient to pay the travel supplier for its charge for providing the travel accommodations, along with any applicable occupancy and other local taxes on that charge. For this type of business model, we require pre-payment by the traveler at the time of booking. Net rate content is beneficial for travelers because they can often book travel at a price lower than regularly published offerings. For us, the net rate model generally delivers higher service fee revenue per transaction than comparable transactions under an agency commission booking fee model. In addition, as long as the net rate program is growing, we experience improved operating cash flows as a result of receiving pre-payments from customers while paying suppliers after the travel occurs. For net rate transactions, we recognize as revenue the service fees that we retain on these transactions.

Our business strategy depends on net rate bookings as a significant source of future revenue growth and increased margins. Our strategy calls for us to increase or maintain the number of hotel rooms we can market under our net rate hotel program, based upon arrangements we make directly with individual hotel properties and hotel chains. In addition, Travelocity continues to use a supplier-friendly approach, which includes timely payment to suppliers and a two-way seamless connectivity to hotels' property management systems so that reservations are not lost. See *Item 1A Travelocity's revenue growth largely depends on international growth and on expanding net rate (merchant) programs.*

The Sabre Global Distribution System

Overview

The Sabre system and other global distribution systems are a primary means of air travel distribution in the United States and in many international regions. The Sabre system, like other global distribution systems, creates an electronic marketplace where airlines, hotels and other travel suppliers display information about their products and services.

The *Sabre* system provides subscribers a single rich source of travel information, allowing travel agents and other users to search within seconds tens of thousands of itinerary and pricing options across multiple travel suppliers. The *Sabre* system provides suppliers with data about subscriber-generated reservations, allowing suppliers to better manage inventory and revenues. The *Sabre* system enables printing airline tickets and itineraries. Additionally, the *Sabre* system offers extensive travel information on matters such as currency, medical and visa requirements, weather and sightseeing.

In 2006, more than 750 travel suppliers displayed information about their products and services through the *Sabre* system. We estimate that nearly \$90 billion of travel-related products and services were sold through the *Sabre* system during this time. Also during 2006, more airline and hotel bookings were made through the *Sabre* system than through any other global distribution system.

Travel Supplier Participation and Pricing Options. Airlines and other travel suppliers display and sell their inventory in the *Sabre* system. We offer airlines a range of participation levels. The lowest level of participation for airlines, *Sabre® Basic Booking Request*, provides schedules and electronic booking functionality only. Higher levels of participation for airlines provide enhanced levels of communication between the *Sabre* system and the travel supplier's inventory system, giving subscribers more reliable information and travel suppliers improved inventory management. This direct connection allows the *Sabre* system to provide real-time information about inventory and confirmed reservations and the airline to optimize revenue for each flight. We offer car rental companies and hotel operators similar levels of participation. We also offer travel suppliers marketing data derived from the *Sabre* system bookings. Travel suppliers use this marketing information and other operational systems we sell to improve their revenue and profitability.

We have designed service and pricing offerings to airlines to ensure that subscribers will continue to have broad, dependable access to airline schedules, seat availability and fares. With the deregulation of the United States GDS industry in mid-2004 (described below under *Computer Reservation System Industry Regulation*), we have the flexibility to vary our pricing and other contract terms from airline to airline. We believe that airlines will see the benefits of more customizable relationships with us, including possible reductions in transaction fees. We are setting forth various pricing options for airline suppliers, including options that may include services from each of our business segments and may expand net rate or other merchandising opportunities. We also have opt-in agreements that offer participating airlines lower transaction fees for bookings created in certain regions, and make certain discounted fares on those airlines available only to those subscribers that accept lowered incentive payments.

We have signed new long-term full content agreements with the following large U.S. airlines: American Airlines, Continental Airlines, Delta Air Lines, Northwest Airlines, United Airlines and US Airways, which had full content contracts up for renewal, and AirTran Airways, Alaska Airlines, and JetBlue Airways, which did not previously have long-term full content contracts. The US Airways agreement also includes America West, which did not previously have a long-term full content contract. The new agreements are for five to seven years and, like the original Direct Connect Availability (DCA) 3-year agreements, require participating airlines to provide all *Sabre* GDS users long-term, 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 booked through other GDSs and websites. As of December 31, 2006, approximately 60% of our global direct air bookings were subject to long-term contracts.

Additionally, we have transitioned over 350 carriers from our traditional Participating Carrier Agreement (PCA) to a new Travel Marketing Agreement (TMA). These new agreements are one-year agreements, as compared with 30 days in the PCA, and are automatically renewed unless cancelled by either side. The TMA has pricing that varies by region and, in some cases, by the value of the ticket that was sold. This pricing better aligns price with value for the airline and provides better content guarantees to Sabre Travel Network.

Sabre Travel Network

Sabre Travel Network markets the *Sabre* GDS to travel suppliers, travel agency subscribers (online and brick and mortar) and corporations. As of December 31, 2006, travel agencies with over 50,000 locations in 113 countries on 6 continents subscribed to the *Sabre* system. We enabled these subscribers to make reservations with over 440 airlines, 28 car rental companies, 215 tour operators, 12 cruise lines, 37 railroads and 277 hotel companies.

Approximately 54.4%, 59.7% and 67.5% of our revenue (including intersegment revenues) in 2006, 2005 and 2004, respectively, was generated by Sabre Travel Network, primarily through transaction fees paid by travel suppliers.

Subscribers may access the *Sabre* system on their own hardware over communications circuits contracted from their telecommunications vendors, or subscribers may contract with us for the hardware, software, technical support and other services needed to use the *Sabre* system. Increasingly, travel agents are providing the majority of their own hardware. Fees for our services are payable over the term of the subscriber's agreement with us, generally five years in the United States and Latin America, three years in Canada, and one year in Europe. In addition, we pay incentives to many travel agencies based on their booking productivity, which is our largest cost of revenue.

We have designed the *Sabre* system interface to meet the specific needs of different categories of travel agents. The *Sabre* system interfaces are available in English, Spanish, Portuguese, French, German, Italian and Japanese. We offer the *MySabre*TM web-based travel agency portal, which combines the breadth of the Internet with the power of the *Sabre* GDS. It provides access to the content of the *Sabre* GDS, as well as web-based booking tools for cruises, restaurants, ground transportation, theatre, local events and theme parks. *Turbo Sabre*[®] software is an advanced point-of-sale interface and application development tool that enables advanced functionality like customized screens, automated quality control and database integration. In addition, *Turbo Sabre* eliminates complex commands, reducing keystrokes and training requirements.

In addition to the *Sabre* system described above, Sabre Travel Network also provides bookings solutions to serve the specific online needs of our subscribers and travel suppliers, including website development, business logic middleware and back end processing. We also offer travel agencies back-office accounting systems and a simplified method to develop and place their own marketing presence on the Internet. Subscriber and travel supplier product offerings range from off-the-shelf applications to fully customized solutions. Subscribers pay license, consulting and web hosting fees that vary with the level of customization and volume generated by their sites.

Changing our Sabre Travel Network Revenue Model. Historically, the vast majority of our travel distribution revenues have been derived from transaction fees paid by travel suppliers measured by subscriber bookings generated through the *Sabre* GDS. From those fees, Sabre Travel Network has paid incentives to its travel agency subscribers as a cost of revenue. We continue to seek ways to provide more flexible and cost-effective distribution options to suppliers and are increasingly entering into arrangements that depart from our traditional revenue model. As our business evolves, we have broadened our description of transaction to include any travel reservation that generates a fee paid directly to us, including in part the following:

- traditional booking fees paid by travel suppliers,
- non-traditional transaction fees paid by travel suppliers,
- transaction fees paid by travel agency subscribers, and
- transaction fees paid by corporations related to our online booking tool, *GetThere*.

See *The Sabre Global Distribution System Travel Supplier Participation and Pricing Options* above. For example, we have arrangements under which some travel suppliers pay our travel agency customer (such as Travelocity), who in turn pays a transaction fee to Sabre Travel Network. We are also looking for more opportunities to market net rate offerings, benefiting from the merchandising insight that we gain from our integrated portfolio of travel distribution and travel marketing assets. Net rate offerings are explained in more detail above in *Travelocity Net Rate Program*. Some of these non-traditional transactions may have a lower rate per transaction than a traditional booking fee, and as a result the overall average revenue per transaction may be lower as these non-traditional transactions increase.

Launching of the Efficient Access Solution. On September 1, 2006 we launched the *Efficient Access SM Solution* for our airline and travel agency customers. The *Efficient Access Solution* is a balanced program to address the economic pressures airlines face while continuing to provide travel agencies with the incentives and long-term protections described below. With the *Efficient Access Solution*, carriers participating in the program receive a discount on booking fees for reservations made by participating agencies. In return, the airlines agree to provide over the long-term, key benefits and protections to agencies participating in the program. Through participation in the *Efficient Access Solution*, agencies are assured of long-term commitments from those airlines concerning:

- Full content from program carriers, including published fares and Web fares, as well as non-discriminatory access to private fares, including agency negotiated rates and rates provided to the corporate or government customers those agencies serve, and
- Protection from service fees that a program carrier might otherwise levy on bookings made through the *Sabre GDS*.

Agencies participating in the program agree to adjusted financial terms in exchange for the significant benefits and protections afforded by the new agreements. The terms will vary according to agency contract type, but generally result in lower incentive payments. Additionally, because carriers participating in the program will receive a discount on booking fees, this could have the effect of lowering Sabre Travel Network revenues over time but is anticipated to be offset by the lower incentive expense.

See Item 1A *Changes to our travel supplier relationships may reduce our revenues.*

Sabre Airline Solutions

Sabre Airline Solutions is a global leader in providing technology that allows airlines to market and sell their inventory, serve their customers and manage daily operations to efficiently fly their schedules. We offer software products and related services for all facets of their business along with strategic and operational consulting services. Over 200 airlines worldwide use one or more products in our broad portfolio to increase revenues and improve operations. More than 100 airlines worldwide rely on our *SabreSonic®* passenger reservations product suite, and in 2006 four new carriers implemented this product suite, six new carriers signed agreements, and three carriers renewed their agreements, including Alaska Airlines. In addition, our *Sabre® eMergo®* Web access solution has grown to be the industry's leading hosting solution for operational solutions with over 250 applications outsourced.

Airline Passenger Solutions. We provide airline reservations, inventory and check-in hosting solutions that help airlines address the challenge of building and retaining customer loyalty while also reducing costs. With support of e-ticketing and passenger self-service options, our departure control systems equip airlines with the tools to increase sales through every distribution channel. Built on open-systems technology, our new generation *SabreSonic Passenger Solution* offers passenger-facing systems to airlines regardless of size, location, business model or current reservations system.

Airline Products and Services. We provide decision-support software and technology for airlines to improve profitability, increase revenue, streamline operations and improve workflow. We offer flexible product and service configurations to meet unique business needs, allowing airlines to choose a single, stand-alone system for a specific operational area or a bundled solution of multiple systems to address a variety of functional requirements and increase information sharing across a greater number of departments. Additionally, we offer the *Sabre eMergo* web-enabled and dedicated network solutions, as well as an ASP offering to airlines. Providing convenient remote access to secure data, the *eMergo* solutions help significantly lower or eliminate expenses associated with upfront capital outlay, staffing, data storage, ongoing maintenance and installation. Our decision-support tools are designed exclusively to meet the needs of airlines, regardless of size or business model, and assist in every key functional area of an airline, such as crew and cargo management, flight operations and revenue management.

Consulting Services. We offer a complete range of consulting services to the airline industry. Assignments range from a one time engagement to extended engagements. Typical engagements include achieving the necessary standards to join an alliance, preparing for privatization and optimizing current operations. Clients include airlines, airports, manufacturers and governments, as well as individuals, travel agencies and members of the financial community.

International

Travelocity We market Travelocity internationally directly through our various brands, and through a travel agency network in Europe. In Canada, Travelocity directly markets its *Travelocity.ca*® site. With the acquisition of lastminute.com in July 2005, we market in Europe using *lastminute.com* as our leading brand. Our European operations also include other European travel websites, including *holidayautos.com*SM and *medhotels.com*®, *onlinetravel.com*, *Travelocity.co.uk*® in the United Kingdom, *resfeber.ses*M in Sweden, *rejsefeber.dk*SM in Denmark, *reisefeber.nos*M in Norway and *Travelocity.des*M in Germany. Until December 2005, Travelocity also partnered with Otto Versand through a joint venture company that distributed *Travelocity* in Germany through several brands. Travelocity retained the *Travelocity.de* brand on dissolution of that joint venture.

We operate in the Asia Pacific region through *Zuji.com*, which is hosted by Travelocity and utilizes Travelocity technology. See *Travelocity Strategic Development of Travelocity* above.

Sabre Travel Network We market the *Sabre* system internationally both directly and through joint venture and distributorship arrangements. As of December 31, 2006, travel agencies with over 50,000 locations in 113 countries on 6 continents subscribed to the *Sabre* system. Our marketing partners outside the United States principally include airlines that have strong relationships with travel agents in their primary markets, and entities that operate regional computer reservation systems or other travel-related network services.

Sabre Travel Network has long-term agreements with ABACUS International Holdings Ltd., which created ABACUS International PTE Ltd. (Abacus), a Singapore-based joint venture company that manages travel distribution in the Asia Pacific region. We own 35% of the joint venture and provide it with transaction processing and product development services on the *Sabre* system. We also own 51% of Sabre Pacific, a joint venture with Abacus that provides travel marketing and distribution services in Australia and New Zealand. Sabre Travel Network also provides distribution products and services to Infini and Axess, Japan's two largest GDS travel agency marketing companies. Infini is owned 40% by ABACUS and 60% by All Nippon Airways. Axess is owned 25% by Sabre and 75% by Japan Airlines. Sabre Travel Network also provides travel marketing and distribution services in Mexico through our 51% owned (48% voting rights) joint venture, Sabre Sociedad Technologica S.A. de C.V. Sabre Travel Network Middle East, a joint venture owned 60% by Sabre Travel Network and 40% by Gulf Air Company GSC (Gulf Air), provides technology services, bookable travel products and distribution services for travel agencies, corporations and travel suppliers in the Middle East region.

Sabre Airline Solutions Sabre Airline Solutions markets software solutions and consulting services on four continents, with primary sales offices in the Dallas/Ft. Worth area, London, Hong Kong and Sydney. We also maintain agency relationships to support sales efforts in key areas, including countries in Asia and the Middle East. Through Stockholm, Sweden-based RM Rocate (Rocate), we provide software solutions, including a fully functional flight operations product suite, to international small, medium-size and low cost carriers.

Competition

The travel marketplace is intensely competitive. Our companies and brands offer a broad portfolio of leading travel marketing, distribution and technology solutions that are well positioned in the marketplace. We market travel in the consumer-direct channel primarily through Travelocity. Travelocity's competitors include Priceline.com, Travelport (which owns Orbitz and ebookers.com), Expedia (which also operates Hotels.com and Hotwire.com) and Opodo (owned by nine European airlines and Amadeus Global Travel Distribution S.A. (Amadeus). Virtually all major airlines, and many other travel suppliers, have websites that allow consumers to book directly with that supplier, and some offer an array of products and services. Certain owners of these sites may make certain discounted fares and prices available exclusively on their proprietary or multi-vendor websites. See further discussion under Item 1A *Customers may reduce...*

We market travel in the business-direct channel principally through *Travelocity Business* travel service and our *GetThere* product. The marketplace for Internet-based corporate and government travel procurement and supply services is highly competitive and rapidly evolving. Travelocity's competitors in the business-direct channel include traditional global distribution systems such as Amadeus E-Travel and Travelport's Galileo as well as online players such as Expedia.com and Travelport's Orbitz for Business and Travelport for Business.

Sabre Travel Network competes in the travel agency channel against other large and well-established traditional global distribution systems, such as Amadeus, Galileo International Inc. and Worldspan, L.P. Each of these competitors offers many products and services substantially similar to those offered by Sabre Travel Network. The diverging price structures of competing global distribution systems, and our ability to offer our portfolio of solutions, may provide us with an opportunity to win additional business.

We routinely face new competitors and new methods of travel distribution. Suppliers and third parties seek to promote distribution systems that book directly with travel suppliers. For example, established and start-up search engine companies are attempting to enter the travel marketplace by aggregating travel search results across supplier, travel agent and other websites. Many alternative distribution systems offer lower costs to suppliers, but they are not global and offer travelers a limited subset of transactions from a limited subset of suppliers in one market segment. The systems often must rely on the scale and functionality of a GDS such as our *Sabre* system for a complete travel distribution solution for suppliers and travel agencies. They do not offer comprehensive functionality and do not have the infrastructure to adequately service and support travel management companies or corporations. They require the integration of a new, stand alone system into most existing agency or corporate booking tool workflows. Many of these alternative travel distribution channels are well financed but are in start-up or developing mode, and have yet to fully define their functionality and costs. These alternative travel distribution systems may have the effect of diverting customers from our online sites and our *Sabre* GDS, putting pressure on our revenues, pricing and operating margins. See Item 1A *Travel suppliers are pursuing distribution options...*

Another form of competition derives from airlines, which have worked to divert travel bookings onto channels that they control. Airlines have withheld inventory from independent travel distributors, have greatly reduced commissions paid to online and traditional travel agencies and have conditioned independent distributors' access to inventory on their acceptance of pricing offered by channels that those airlines control. Their collective efforts have resulted in travel bookings being diverted from traditional distribution channels toward supplier-controlled channels, such as individual airline websites and call centers. We believe, however, that the rate of channel shift from the GDS channel to supplier-controlled sites has stabilized.

The development of competing technologies or the emergence of new industry standards may also adversely affect our competitive position. Competition could result in reduced margins on our services and products. See Item 1A *Consolidation in the travel industry...*

In the products and services business, Sabre Airline Solutions competes with a number of boutique firms in specific product areas, as well as across our portfolio with vendors such as Lufthansa Systems. In the airline passenger solutions business, Sabre Airline Solutions competes with Amadeus, Navitaire, Worldspan, IBM and others.

Computer Reservation System Industry Regulation

Aspects of our travel marketing and distribution businesses are subject to the Computer Reservation Systems (CRS) regulations in the European Union, Canada and Peru. These regulations generally govern GDS services for airlines and travel agencies, but not for non-airline suppliers (except rail suppliers in limited circumstances). Among the topics addressed in some of the current regulations are:

- no preferencing CRS displays based upon airline identity,
- equal treatment of airlines by the CRS,
- equal participation in all CRSs by airlines that have an ownership interest in a CRS, and
- limits on travel agency contract terms.

All CRS regulations in the United States expired on July 31, 2004. CRS regulations in Canada were eliminated on May 7, 2004, except rules prohibiting screen preference and discrimination in providing the right for all airlines to participate in service enhancements. The deregulation of CRSs in both the U.S. and Canada has enhanced our opportunities to creatively market airline services and freely negotiate with travel agencies. Regulators in the European Union (E.U.) have indicated they may propose the total repeal of their current CRS regulations even though four large E.U.-based airlines retain substantial ownership positions in the Amadeus CRS. It is not clear whether or when any amendments in the European Union s CRS Code of Conduct will be formally proposed, or will take effect or what form they may ultimately take. The repeal of CRS rules in a jurisdiction where a locally-strong airline retains an ownership interest in a CRS presents significant competitive risks. See further discussion under Item 1A *Regulatory developments in Europe could limit our ability to compete...*

Other Regulation

Our businesses continue to be subject to regulations affecting issues such as: exports of technology, telecommunications, data privacy and electronic commerce. Any such regulations may vary among jurisdictions. We believe that we are capable of addressing these regulatory issues as they arise.

Seasonality

The travel industry is seasonal in nature. Travel bookings for our Sabre Travel Network business, and the revenue we derive from those bookings, decrease significantly each year in the fourth quarter, primarily in December. Customers generally book their November and December holiday leisure travel earlier in the year, and business travel declines during the holiday season. Travelocity revenues are also impacted by the seasonality of travel bookings, but to a lesser extent since commissions from car and hotel travel providers and net rate revenue for vacation packages and hotel stays are recognized at the date of consumption. The acquisition of lastminute.com has resulted in revenues and net earnings becoming more significant in the second and third quarters for the Travelocity segment due largely to European travel patterns. See the discussion on Seasonality in Item 7 *Management s Discussion and Analysis of Financial Condition and Results of Operations* for additional information.

Research and Development Expenses

Research and development expenses represent costs incurred to investigate and gain new knowledge that could be useful in developing a new product or service and then translating those findings into a plan or design for a product or service. Our research and development expenses approximated \$26 million, \$26 million and \$32 million for 2006, 2005 and 2004, respectively.

Segment Information

Financial information for our operating segments and geographical revenues and assets are included in Note 13 to the Consolidated Financial Statements.

Intellectual Property

We use software, business processes and other proprietary information to carry out our business. These assets and related patents, copyrights, trade secrets, trademarks and other intellectual property rights are significant assets of our business. We rely on a combination of patent, copyright, trade secret and trademark laws, confidentiality procedures and contractual provisions to protect these assets. We seek patent protection on key technology and business processes of our business. Our software and related documentation are also protected under trade secret and copyright laws where appropriate. We also seek statutory and common-law protection of our trademarks where appropriate. The laws of some foreign jurisdictions may provide less protection than the laws of the United States for our proprietary rights. Unauthorized use of our intellectual property could have a material adverse effect on us and there can be no assurance that our legal remedies would adequately compensate us for the damages to our business caused by such use.

Employees

As of December 31, 2006, we had approximately 9,000 employees. A central part of our philosophy is to attract and maintain a highly capable staff. We consider our current employee relations to be good. Our employees based in the United States are not represented by a labor union.

Available Information

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended, and in accordance therewith, we file reports, proxy and information statements and other information with the Securities and Exchange Commission (SEC). Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, proxy and information statements and other information and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available through the Investor Relations section of our Website under the links to Financial Information SEC Filings. Our Internet address is www.sabre-holdings.com. Reports are available free of charge as soon as reasonably practicable after we electronically file them with, or furnish them to, the SEC. In addition, our officers and directors file with the SEC initial statements of beneficial ownership and statements of change in beneficial ownership of our securities, which are also available on our website at the same location. We are not including this or any other information on our website as a part of, nor incorporating it by reference into, this Form 10-K or any of our other SEC filings.

In addition to our website, you may read and copy public reports we file with or furnish to the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-732-0330. The SEC maintains an Internet site that contains our reports, proxy and information statements, and other information that we file electronically with the SEC at www.sec.gov.

ITEM 1A. RISK FACTORS

RISK FACTORS

Risks associated with an investment in our securities, and with achieving the forward-looking statements contained in this report or in our news releases, websites, public filings, investor and analyst conferences or elsewhere, include, but are not limited to, the risk factors described below. Any of the risk factors described below could have a material adverse effect on our business, financial condition or results of operations. We may not succeed in addressing these challenges and risks.

Completion of the sale of the Company to Silver Lake Partners and Texas Pacific Group is subject to various conditions and the transaction may not occur even if we obtain stockholder approval.

Completion of the merger is subject to various risks, including but not limited to those set forth below. The list is not intended to be an exhaustive list of the risks related to the merger and should be read in conjunction with the other information in our definitive Proxy Statement dated February 21, 2007.

- Stockholders holding at least a majority of the shares of our outstanding Common Stock entitled to vote might not vote to adopt the merger agreement;
- Our failure or the failure of Silver Lake Partners and Texas Pacific Group to obtain the required regulatory approvals by foreign governments regarding the merger (the required approval from U.S. authorities was received on January 26, 2007 when the waiting period under the Hart-Scott-Rodino Act