SABRE HOLDINGS CORP
Form 10-K
March 11, 2005

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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

/X/

For the fiscal year ended December 31, 2004

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)	**75-2662240** (I.R.S. Employer Identification No.)
3150 Sabre Drive **Southlake, Texas** (Address of principal executive offices)	**76092** (Zip Code)

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

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

Title of each class	Name of exchange on which registered
Class A common stock, par value $.01 per share	New York Stock Exchange

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

NONE
(Title of Class)

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. / /

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

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant as of June 30, 2004 was approximately $3,784,300,471 based on the closing price per share of Class A common stock of $27.71 on such date.

As of February 28, 2005, 131,526,251 shares of the registrant's Class A common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Form 10-K incorporates by reference certain information from the Proxy Statement for the Annual Meeting of Stockholders to be held May 17, 2005.

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 its 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, marketing travel products and providing distribution and technology solutions for the travel industry. We operate in multiple travel distribution channels: the travel agency channel, the consumer-direct channel and the corporate or business-direct channel. Through our *Sabre*® global distribution system (the "*Sabre* system" or "*Sabre* GDS") subscribers 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 and markets and distributes travel-related products and services through the travel agency and corporate channels. We engage in consumer-direct and business-direct travel marketing and distribution 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.

In 2004, approximately 67.5% of our revenue was generated from Sabre Travel Network, 21.9% from Travelocity and 10.6% from Sabre Airline Solutions based on segment results that include intersegment revenues. Compared to the year-ago period, revenues (including intersegment revenue) for the twelve months ended December 31, 2004 decreased 0.5% for Sabre Travel Network, while revenues increased 27.3% for Travelocity and 4.7% for Sabre Airline Solutions.

Business. We operate our business through the following business segments:

Sabre Travel Network: Our Sabre Travel Network segment markets and distributes travel-related products and services through the travel agency and corporate channels. Travel agencies, both online and brick and mortar, as well as corporations subscribe to our services. Our services provide subscribers information about and the ability to purchase travel-related products and services from airlines, hotels, car rental companies, cruise lines and others. We also provide travel agency office automation tools, enable travel agencies to provide services via the Internet and provide reservation management, distribution and technology services to hotel properties.

Travelocity: Our Travelocity segment markets and distributes travel-related products and services directly to individuals, including leisure travelers and business travelers, through Travelocity branded websites and contact centers and websites owned by its supplier and distribution partners. Travelocity customers 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. For business travelers, our *Travelocity Business*℠ online corporate travel agency provides the integrated online corporate travel technology and full-service offering of our *GetThere*® product along with the online expertise of Travelocity.

Sabre Airline Solutions: Sabre Airline Solutions 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. Over 200 airlines worldwide use one or more products in Sabre Airline Solutions' portfolio to increase revenues and improve operations. More than 100 airlines worldwide rely on Sabre Airline Solutions for its airline reservation suite products, with nine new carriers added and four carrier renewals in 2004 for our *SabreSonic* passenger reservations product suite. In addition, more than 100 clients worldwide have turned to Sabre Airline Solutions consulting group for strategic, commercial and operational consulting.

During the fourth quarter of 2003 we realigned our *GetThere*® business segment, which engaged in business direct travel services and had previously been operated as a separate business segment, within our other three segments. This realignment resulted in GetThere products, services and operations being integrated into the remaining three segments. Accordingly, GetThere is no longer reported as a separate segment.

The *Sabre* Global Distribution System

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 providers ("associates") display information about their products and services. Through the *Sabre* system, travel agents and other users ("subscribers") can access information about, book reservations for and purchase travel and travel-related products and services. In 2004, more than 900 associates displayed information about their products and services through the *Sabre* system. We estimate that nearly $70 billion of travel-related products and services were sold through the *Sabre* system during 2004. During 2004, more airline bookings were made through the *Sabre* system than through any other global distribution system.

The *Sabre* system provides subscribers a single rich source of travel information, allowing travel agents to search tens of thousands of itinerary and pricing options across multiple travel providers for consumers within seconds. The *Sabre* system reports transaction data about subscriber-generated reservations to associates, allowing them to better manage inventory and revenues. The *Sabre* system also allows subscribers and airline personnel to print airline tickets and itineraries. Additionally, the *Sabre* system provides subscribers with travel information on matters such as currency, medical and visa requirements, weather and sightseeing.

Associate Participation and Pricing Options. Airlines and other associates can display and sell their inventory in the *Sabre* system. Airlines are offered a wide 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, such as *Sabre® Direct Connect® Availability* ("DCA") participation level, provide enhanced levels of communication between the *Sabre* system and the associates' inventory system, giving subscribers more detailed information and associates improved inventory management. For an associate selecting one of the higher levels of participation, the *Sabre* system provides subscribers with a direct connection to the associate's internal reservation system, allowing the *Sabre* system to provide real-time information about inventory and confirmed reservations and allowing the associate to optimize revenue for each flight. Car rental companies and hotel operators are provided with similar levels of participation from which to select. We also provide associates, upon request, marketing data (in the form of anonymous, aggregated data from which all personal information has been deleted) derived from the *Sabre* system bookings for fees that vary depending on the amount and type of information provided. Associates use this marketing information in yield optimization and other operational systems we sell to improve their revenue and profitability.

Primarily to ensure that our customers had access to the most comprehensive airline fares, in 2002 and 2003 we introduced alternative booking fee pricing options to airlines that participate in the *Sabre* GDS. Through the DCA 3-Year Pricing Option ("DCA 3-Year Option"), for example, participating airlines committed to the highest level of participation in the *Sabre* system for three years. Participating airlines provide all *Sabre* GDS users with broad access to schedules, seat availability and published fares, including web fares and other promotional fares but excluding certain fares such as "opaque" fares (where the airline's identity is not disclosed until after the sale) and private discounts. Participating airlines also furnish generally the same customer perquisites and amenities to passengers booked through the *Sabre* GDS as those afforded through other GDS's and websites. Airlines selecting this option under their *Sabre* GDS participating carrier agreements receive a discount from our standard DCA booking fee rates which is fixed for the term of the agreement. Our DCA 3-Year Option agreements prepared us for GDS industry deregulation in the United States, by giving us access to virtually all of a participating carrier's content and eliminating "fare confusion" in the marketplace. *See "Computer Reservation System Industry Regulation"* below and "*Risk Factors Travel Suppliers are Seeking to Bypass...."*

With the deregulation of the GDS industry in mid-2004, (described below under *Computer Reservation System Industry Regulation*), we have new flexibility to price our services based upon a variety of factors. We have already implemented new pricing models for some suppliers. For example, during the second quarter of 2004, we completed two "opt-in" agreements with international carriers that are generally similar to our DCA 3-Year Pricing Option agreements. For bookings created in the participating carriers' home countries, those opt-in agreements offer a deeper discount than under the DCA 3-Year Pricing Option, which offers participating airlines smaller discounts across multiple regions. These agreements provide improved booking capability only to those *Sabre* GDS subscribers that accept lowered customer incentive rates. As of December 31, 2004, approximately 50% of our global direct air bookings were subject to our current discount pricing options (DCA 3-Year Pricing Option and "Opt-In" agreements).

We are evaluating various other options for pricing our services to suppliers. Pricing options might be offered to airlines according to their operational needs, such as pricing that varies with the volume of an airline's bookings through the *Sabre* GDS or pricing that differs between long-haul or short-haul trips. We will offer airlines a choice of multiple pricing schedules. Our goal with any new models will be to match our pricing programs with the value that we provide to suppliers while maintaining a neutral impact to the average unit revenue in the Sabre Travel Network business. Our goal is to have these new models, and new agreements with many airlines, in place before the expiration of our DCA 3-Year Pricing Option agreements in 2005 and 2006. *See* "*Risk Factors Some Travel Suppliers are Seeking Alternative Distribution Models....*"

Sabre Travel Network

Sabre Travel Network markets the *Sabre* GDS to associates and travel agency subscribers (online and brick and mortar) and corporations. As of December 31, 2004, travel agencies with approximately 50,000 locations in over 113 countries on 6 continents subscribed to the *Sabre* system, which enabled these subscribers to make reservations with over 400 airlines, 32 car rental companies, 220 tour operators, 9 cruise lines, 35 railroads and 239 hotel companies covering over 64,000 hotel properties worldwide.

Approximately 67.5%, 71.3% and 74.6% of our revenue (including intersegment revenues) in 2004, 2003 and 2002, respectively, was generated by Sabre Travel Network, primarily through booking fees paid by associates.

Subscribers may access the *Sabre* system on their own hardware over communications circuits contracted from telecommunications vendors or may contract with Sabre Travel Network 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 travel agent'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.

Because travel agencies have differing needs, we have modified 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. *Turbo Sabre*® software is an advanced point-of-sale interface and application development tool that enables advanced functionality, such as customized screens, automated quality control and database integration, and eliminates complex commands, reducing keystrokes and training requirements. In addition, we offer the *MySabre* 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.

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 associates, including website development, business logic middleware and back end processing. In addition, we offer travel agencies back-office accounting systems and a simplified method to develop and place their own marketing presence on the Internet. Subscriber and associate product offerings range from off-the-shelf applications to fully customized solutions. License, consulting and web hosting fees are recovered from the subscribers and vary with the level of customization and volume generated by their sites.

Changing Business Model. We are also taking actions to both strengthen our core *Sabre* GDS business with enhanced content and capabilities and to take advantage of the opportunities available in merchandising as we benefit from the insight we gain from having travel distribution and travel marketing assets in one integrated portfolio:

- Although the vast majority of our travel distribution revenues are derived from booking fees paid by travel suppliers, we have entered into agreements that do not follow this traditional business model, and we are evaluating the desirability of more of these agreements. For example, in 2004 we entered into an agreement in which we charge a transaction fee to the travel agency (rather than a booking fee to the travel supplier).

- In 2004, we further developed our *Jurni Network* consortium, a leisure travel agency consortium that combines a preferred sales network and consolidated purchasing power with technology-driven marketing tools to sell preferred travel offerings. Our Nexion® host agency offering provides ticketing, operations, fulfillment support and marketing services for all travel bookings, allowing its travel professional members to focus on selling travel. During 2004, *Nexion* became the largest fully-automated host agency in the United States.

- In 2004, we rolled out several new features for our *Jurni Network* offering, including the new *Jurni Custom Trip* packaging capabilities from Travelocity, *Agent* 59® which incorporates into the *Sabre* GDS last minute travel offerings from *Site59.com*®, and *JurniCruise* which provides automated shopping and booking capability for cruises. All of the features are available to *Jurni Network* consortium agents in our InternetView point-of-sale tool.

- During the first quarter of 2004, we also introduced *Assured Vantage* , a new program for small- to medium-sized travel agencies that offers more agency-friendly contract terms, reducing the risk of traditional booking volume shortfalls, and a new structured incentive schedule that drives a slowing of the incentive growth rate.

- During the third quarter of 2004, we introduced the *Sabre Hotel Spotlight* program*Sabre Hotel Spotlight* offers premium marketing opportunities to hoteliers through the *Sabre* GDS.

- In 2004 we launched our new *MySabre* web-based agent booking portal which provides agents and suppliers with new merchandising opportunities at the point of sale.

- In January of 2005, we acquired SynXis Corporation, which provides *SynXis*® reservation management, distribution and technology services to approximately 6,000 hotel properties, to further expand the range of services we offer to hotels.

Travelocity

Travelocity is a leading provider of consumer direct travel services for the leisure and business traveler. Through the Travelocity.com® website, Travelocity's international websites, its contact centers, and its *Travelocity Partner Network* offering, individual leisure and business travelers can shop and compare prices and make travel reservations online with airlines, car rental agencies, hotel companies and cruise providers. The *Travelocity Partner Network* offering expands Travelocity's distribution reach through agreements with several leading online retailers, including: Yahoo! Travel, America Online, American Express, Southwest Airlines, US Airways, and AARP. Additionally, Travelocity continues to leverage Site59's experience as an applications service provider (an "ASP") (from powering last-minute 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). In addition, we 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 for the booking of and payment for travel accommodations. Travelocity generates revenue from providing such facilitation services equal to the total amount paid by the customer for products and services, minus its payment to the travel supplier. Travelocity also generates revenues from commissions or transaction fees from travel suppliers for the purchase of travel products and services pursuant to reservations made through our system. Additionally, Travelocity revenues include service fees charged to customers and advertising revenues. Travelocity revenues also include, as a contra-revenue item, losses derived from interests in joint ventures, which are described under "International" below. Travelocity derives 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 Travelocity's online booking technology. During 2004, customers transacted for approximately $5 billion in travel and related services through Travelocity.

In addition to Travelocity's primary U.S. website, we also operate *Travelocity Business* . Travelocity Business is a comprehensive travel service available for corporations and other business travelers which combines the integrated online 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 "*International"* below.

Investments in Travelocity. The development of Travelocity continues to be a strategic focus for us. For example, during the second quarter of 2003, we launched a new technology platform (Travelocity *TotalTrip*^{SM}) to enable the marketing of higher margin packaged travel products. In addition, during the first quarter of 2004, we implemented a complete rebranding and redesign of Travelocity's website, offering consumers greater ease-of-use.

We are also investing in developing products and segments that we believe offer rapid growth opportunities, such as in the business-direct segment and online distribution in Europe and Asia. For example:

In the third quarter of 2004, *Travelocity Business* launched enhanced technologies in its service center that integrate and automate the corporate travel reservation process from beginning to end.

During the third quarter of 2004, Travelocity introduced its merchant model hotel platform in Europe on Travelocity.co.uk and will continue to expand the program into its other European operations in the near future.

In the third quarter of 2004, Travelocity acquired Las Vegas-based All State Tours Inc., ("Allstate Ticketing") a leading distributor of show tickets and tours in the entertainment capital of the world. As part of the purchase, Travelocity acquired the *Allstate Ticketing®* brand and the *ShowTickets.com*^{SM} website.

In October of 2004, Travelocity acquired sole control of the non-German operations of Travelocity Europe by purchasing the 50% interest in the joint venture's non-German operations owned by the Otto Group's Otto Freizeit und Touristik GmbH ("Otto"). Although we anticipate that this acquisition will require additional investment and be dilutive over the short term, by gaining full control over the non-German operations of Travelocity Europe, we believe we can accelerate its growth by introducing Travelocity's industry-leading capabilities, including dynamic packaging, our advanced merchant hotel program and revolutionary site designs.

On January 18, 2005, Travelocity entered into a put option agreement pursuant to which it may gain control of 100% of Zuji Holdings Limited ("Zuji"), a joint venture operating in the Asia Pacific region. *See* "Financial Statements and Supplementary Data Subsequent Events (Note 16) Zuji Agreement."

Net Rate Hotel Program. In an effort to provide additional choices to consumers, Travelocity is increasingly promoting our net rate hotel program, commonly referred to in the industry as our "merchant model hotel program" due to the fact that Travelocity is the merchant of record for credit card purposes. Under the merchant model, we facilitate transactions between travel suppliers and travelers for the booking of and payment for travel accommodations. To facilitate the provision of travel accommodations to travelers, we enter into agreements with travel suppliers for the right to market their products, services and other content offerings at pre-determined net rates. Merchant model travel offerings can include air travel, hotel stays, and dynamically packaged combinations (via Travelocity *TotalTrip* and Last Minute Deals). We market those offerings to travelers at a price that includes an amount sufficient to pay the travel supplier for its charge for providing the travel accommodations, along with any applicable taxes on that charge, as well as additional amounts representing our service fees. For this type of business model, we require pre-payment by the traveler at the time of booking. Merchant content is beneficial for travelers because they can often book travel at a price lower than regularly published offerings. For us, the merchant model generally delivers higher service fee revenue per transaction than comparable transactions under an agency commission booking fee model and we experience improved operating cash flows as a result of receiving pre-payments from customers while paying suppliers after the travel occurs. 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. For merchant model transactions, we recognize as revenue the amount paid by the traveler for products, fees and services minus the amount paid to the travel supplier.

Our business strategy depends on merchant model 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 merchant model hotel program, based upon arrangements we make directly with individual hotel properties and hotel chains. Because of Travelocity's supplier friendly approach, which includes timely payment to suppliers and a two-way seamless connectivity to hotels' property management systems so that reservations aren't lost, its hotel program has become successful even though it was started later than some competing programs. One example of the success of this approach was Travelocity's selection by InterContinental Hotels Group (IHG) as the first online third party intermediary to be certified for IHG's more than 3,500 hotels worldwide, including InterContinental Hotels and Resorts, Crowne Plaza, Holiday Inn, Holiday Inn Express, Staybridge Suites and Candlewood Suites. Please see "*Management's Discussion and Analysis of Financial Condition and Results of Operations Business Trends Merchant Model*" and "*Risk Factors Our business plans call for the significant growth of our merchant model business...."*

Sabre Airline Solutions

Sabre Airline Solutions 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. Over 200 airlines worldwide use one or more products in Sabre Airline Solutions' broad portfolio to increase revenues and improve operations. More than 100 airlines worldwide rely on Sabre Airline Solutions for its airline reservation suite products, with nine new carriers added and four carrier renewals in 2004 for our *SabreSonic* passenger reservations product suite. In addition, more than 100 clients worldwide have utilized Sabre Airline Solutions' consulting group for strategic, commercial and operational consulting.

Airline Passenger Solutions. Sabre Airline Solutions provides airline reservations, inventory and check-in hosting solutions that help airlines address the challenge of building and retaining customer loyalty through enhanced customer centric offerings and service while also reducing costs. With support of e-ticketing and passenger self-service options, Sabre Airline Solutions' departure control systems equip airlines with the tools to increase sales through every distribution channel. Built on open-systems technology, the recently introduced 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. Sabre Airline Solutions provides decision-support software and technology necessary 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. Sabre Airline Solutions offers a complete range of consulting services to the airline industry. Assignments range from a one time engagement to extended engagements. Typical engagements include projects such as 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.

Agreements with EDS

We have an agreement with Electronic Data Systems Corporation ("EDS") through which EDS manages our information technology systems. Under a 10-year agreement through June 2011, EDS provides us with information technology services, including data center management, applications hosting, applications development, data assurance and network management. Among the services provided is transaction processing for our travel marketing and distribution businesses, including operation of the *Sabre* system. The agreement was entered into as part of the 2001 sale to EDS of our infrastructure outsourcing business and information technology infrastructure assets and the associated real estate ("Outsourcing Business"). In connection with the sale, we also entered into agreements with EDS to jointly market information technology services and software solutions to the travel and transportation industries.

International

Sabre Travel Network is actively involved in marketing the *Sabre* system internationally directly and through joint venture and distributorship arrangements. Our global marketing partners principally include foreign airlines that have strong relationships with travel agents in their primary markets and entities that operate smaller 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. 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, provides technology services, bookable travel products and distribution services for travel agencies, corporations and travel suppliers in the region.

Travelocity is marketed internationally both directly and through joint venture arrangements. In Canada, Travelocity directly markets its *Travelocity.ca*[SM] site, launched in 1999. In the United Kingdom, Sweden, Denmark, Norway, and France, Travelocity is marketed directly through Travelocity Europe, which includes Travelocity.co.uk in the United Kingdom, *resfeber.se*[SM] and *Box Office*[SM] in Sweden, *rejsefeber.dk*[SM] and *Arte Udland*[SM] in Denmark, *reisefeber.no*[SM] and *Ticket Service*[SM] in Norway, and *Odysia.fr*[SM] and *Boomerang Voyages*[SM] in France. Travelocity also partners with Otto Versand through joint venture company (Kommanditgesellschaft Travel Overland GmbH & Co.) that distributes Travelocity in Germany. Travelocity owns 50% of this joint venture. In Japan, Travelocity and Tabini Holdings, whose primary stockholders include Japan Airlines and All Nippon Airways, launched the Tabini travel website in 2002. Travelocity has approximately a 49% equity stake in this joint venture as of January 2005. Zuji Holdings Limited ("Zuji"), a joint venture established in 2002 with 16 Asia Pacific airlines, operates in the rest of the Asia Pacific region. Zuji is hosted by Travelocity and utilizes Travelocity technology. Through direct and indirect ownership, we have an approximately 13% equity stake in Zuji. Travelocity is a direct equity holder of a 10.13% interest in Zuji. Abacus (in which we have a 35% ownership interest) holds a 9.87% equity interest in Zuji. The remaining 80% equity stake in Zuji is owned by AGC Holdings Limited ("AGC"). AGC and Abacus are indirectly majority-owned by several Asia Pacific airlines. On January 18, 2005, Travelocity entered into a put option agreement pursuant to which it may gain control of 100% of Zuji. *See* "Financial Statements and Supplementary Data Subsequent Events (Note 16) Zuji Agreement."

Additionally, Sabre Airline Solutions distributes software solutions and consulting services through a sales and marketing organization that spans four continents, with primary sales offices in the Dallas/Ft. Worth area, London, Hong Kong and Sydney. Sabre Airline Solutions also maintains agency relationships to support sales efforts in key markets, including countries in Asia and the Middle East. Through Stockholm, Sweden-based RM Rocade, Sabre Airline Solutions provides software solutions, including a fully functional flight operations product suite, to international small, medium-size and low cost carriers.

Competition

The marketplace for travel marketing and distribution is large, multi-faceted and intensely competitive. Factors affecting competitive success include: depth and breadth of information, level of marketing spend to acquire and retain customers, ease of use, reliability, service, incentives to travel agents and the price and range of offerings available to travel providers, travel agents and consumers. Global distribution systems such as the *Sabre* system continue to be important to online and offline travel distribution. Although the traditional travel agency channel continues to be an important method of travel distribution, other rapidly growing channels are allowing travel suppliers to market and distribute directly to businesses and consumers, particularly via the Internet. We face many new competitors as travel marketing and distribution channels emerge and mature, including the growing Internet-based business-direct and consumer-direct channels. Suppliers and third parties are seeking to create alternative marketing and distribution systems that book directly with travel suppliers at a reduced cost. Some of these alternative marketing and travel distribution channels are developing, but have yet to fully define their functionality and costs. Many of these competitors continue to utilize services from a global distribution system such as the *Sabre* system. *See* "Management's Discussion and Analysis Business Trends *Supplier Efforts to Control Travel Distribution*." In addition, a new breed of competitors is entering the online travel marketplace. Both well-established search engine companies as well as start ups are attempting to enter the online travel marketplace by leveraging search technology to aggregate travel search results across supplier, travel agent and other travel-related websites. These search engines and alternative travel marketing and distribution channels may have the effect of diverting customers from our online sites and our *Sabre* GDS, putting pressure on our revenues, pricing and operating margins. They may also contribute to "channel shift," or the efforts of suppliers to divert bookings away from independent distributors (such as online and conventional agencies using our *Sabre* GDS) towards supplier-direct booking channels (such as supplier-controlled websites and call centers). *See* "*Risk Factors Some travel suppliers are seeking alternative distribution models....*"

Competition to attract and retain travel agency subscribers is intense. Sabre Travel Network competes in the travel agency channel against other large and well-established traditional global distribution systems, such as Amadeus Global Travel Distribution S.A. ("Amadeus"), Galileo International Inc. (owned by Cendant Corporation) and Worldspan, L.P. Each of these competitors offers many products and services substantially similar to those offered by Sabre Travel Network. New competitors in this channel continue to emerge in the form of alternative distribution channels. However, the diverging price structures of competing global distribution systems provide us with an opportunity to gain customers dissatisfied with the prices or service of their current global distribution systems.

Our product and service offerings are well positioned to compete in all channels of travel marketing and distribution. Those include our Travelocity segment in the consumer-direct channel (through *Travelocity.com* and related websites) and in the business-direct channel (through *Travelocity Business*). We also offer traditional travel agencies a wide array of tools that allow them to market their services over the Internet.

We market travel in the consumer-direct channel primarily through Travelocity. Competitors of Travelocity include Priceline.com, Orbitz (owned by Cendant Corporation) InterActiveCorp (which owns Expedia, Hotels.com and Hotwire.com), Opodo (owned by 9 European airlines and Amadeus) and Lastminute.com. Priceline.com also operates Travelweb.com, which provides booking services for hotel accommodations. Airline joint ventures provide booking services for airline travel, hotel accommodations and other travel services offered by multiple vendors. Many travel suppliers have developed their own websites, some of which offer an array of products and services directly to consumers. In addition, virtually all-major airlines have their own websites allowing direct bookings. 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 "*Risk Factors Our business plans call for the significant growth of our merchant model business...."*

We market travel in the business-direct channel principally through *Travelocity Business* and our *GetThere*® product. The corporate marketplace for Internet-based 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 Galileo's TravelPort and more recently, online travel agents such as Orbitz.com and Expedia.com.

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.

The travel industry is currently undergoing rapid consolidation. Consolidation among our competitors may give these competitors increased negotiating leverage with travel suppliers and greater resources for use in marketing to subscribers and other customers. New or consolidated competitors may emerge and rapidly acquire significant market share. 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 "*Risk Factors We face competition-..."*

Another form of competition derives from airlines, which have aggressively worked to divert travel bookings onto channels that they control. Many of those 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. In 2004, we saw a slowing in the rate of channel shift, discussed below in *"Management's Discussion and Analysis of Financial Condition and Results of Operations Business Trends DCA 3-Year Pricing Option."*

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 CRSs,
- equal participation by airlines that have an ownership interest in a CRS, and
- limits on travel agency contract terms.

All CRS regulations promulgated by the US Department of Transportation that were applicable in the United States expired on July 31, 2004. We believe that this deregulation in the United States will enhance our opportunities to creatively market airline services and freely negotiate with travel agencies. However, deregulation also presents challenges associated with maintaining participation levels in the *Sabre* GDS by travel suppliers who are no longer subject to equal participation regulations.

Transport Canada issued final rules on May 7, 2004, eliminating all CRS regulations in Canada except rules prohibiting screen preference and discrimination in providing the right to participate in service enhancements. In addition, regulators in the European Commission are reviewing their CRS regulations for possible changes, which may include some level of deregulation. It is not clear whether or when any amendments in the European Union will take effect nor what form they may take.

The potential effects of these trends, events and uncertainties are discussed below under *Risk Factors*.

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. Travel bookings for our Travelocity business decrease each year in the fourth quarter, primarily in December. Customers generally book their holiday leisure travel earlier in the year. 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 merchant revenue for vacation packages and hotel stays are recognized upon date of consumption. See the discussion on Seasonality in *Management's Discussion and Analysis of Financial Condition and Results of Operations* for additional information.

Research and Development Expenses

Research and development costs 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 costs approximated $32 million, $48 million and $40 million for 2004, 2003 and 2002, 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, 2004, we had approximately 6,700 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 450 Fifth Street, NW., Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-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 2. PROPERTIES

In June 2003, Sabre Inc. refinanced the syndicated lease arrangement regarding our corporate headquarters facility in Southlake, Texas, and entered into a ten-year master lease, accounted for as a capital lease. The initial term of the lease expires in 2013 with an option to purchase these facilities prior to or upon expiration of the lease. Additionally, we lease office facilities in Westlake, Texas under leases expiring in 2008. These facilities are utilized by each of our three business units. We also lease office facilities for our business units in approximately 120 other locations worldwide. See Notes 5 and 8 to the Consolidated Financial Statements for additional information on our capital lease.

On January 31, 2002 we sold our previous headquarters office facility in Fort Worth, Texas for proceeds of approximately $80 million and recognized a pre-tax gain of approximately $18 million.

EDS subleases a large office facility from us in Fort Worth, Texas, under a sublease that will expire in 2011. Additionally, in July 2002 we purchased a data center facility constructed on our behalf in Tulsa, Oklahoma for approximately $92 million and immediately sold it as part of the sale of the Outsourcing Business. We received proceeds of approximately $68 million in cash and realized a previously accrued loss of approximately $24 million.

On December 3, 2003 we sold one of our previous office facilities in Fort Worth, Texas for proceeds of approximately $3 million and recognized a pre-tax loss of approximately $3 million.

We also sublease five small office facilities in North America to various companies.

We believe that our office facilities will be adequate for our immediate needs and could accommodate expansion.

ITEM 3. LEGAL PROCEEDINGS

The litigation matters described below involve issues or claims that may be of particular interest to the Company's stockholders, regardless of whether any of these matters may be material to the financial position or operations of the Company based upon the standard set forth in the SEC's rules.

We are party to two lawsuits (which as described below have now been consolidated in federal court in Fort Worth, Texas) 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). We notified Northwest that it was in breach of the parties' Participating Carrier Distribution and Services Agreement ("PCA"), as amended by the DCA 3-Year Option Agreement. We also took commercial steps, which we believed were reasonable under the DCA 3-Year Option Agreement and PCA, in order to enforce both agreements.

The Company sued Northwest on August 24, 2004 in Sabre Inc. v. Northwest Airlines, Inc., Civil Action 4-04-CV-612-Y in the Fort Worth Division of the United States District Court for the Northern District of Texas (hereinafter the "Fort Worth Action"). We allege that Northwest breached the PCA, as amended by the DCA 3-Year Option Agreement. Among other things, the DCA 3-Year Option Agreement requires that Northwest provide us with fares and other content for the *Sabre* GDS that Northwest makes available through other channels of ticket distribution. We believe that Northwest breached the DCA 3-Year Option Agreement by imposing a charge on tickets booked on the *Sabre* GDS but not on other channels of ticket distribution. We seek monetary damages, attorneys fees, and to compel Northwest to adhere to the terms of their agreements.

On August 25, 2004, Northwest sued Sabre Holdings Corporation, Sabre Inc. and Sabre Travel International Ltd. in a separate action styled Northwest Airlines Corporation v. Sabre Inc. et al., Cause No. 04-CV-03889 in Minneapolis federal court (hereinafter the "Minneapolis Action"). The Minneapolis Action related to the same factual events described above. In its complaint filed on August 25, 2004, Northwest asserted that we breached our PCA with Northwest by our commercial actions in response to Northwest's August 24, 2004 breach of the PCA. On September 27, 2004, Northwest filed an amended complaint in the same cause number adding allegations that we had violated Section 2 of the Sherman Act, claiming that we had monopoly power, and also asserting claims against us for alleged interference with prospective contractual relations, deceptive trade practices, fraud, false advertising under the federal Lanham Act, and for a declaratory judgment that Sabre, and not Northwest, is in breach of the PCA. Northwest alleges that it has suffered unspecified damages. Northwest seeks treble damages under the antitrust laws, attorneys fees, to have the court declare that we breached the parties' agreement and violated federal and state statutes, and to enjoin us from certain conduct.

On November 9, 2004, the Court in the Fort Worth Action rejected Northwest's motion to transfer that case to the federal court in Minneapolis, following which Northwest agreed to have the Minneapolis Action transferred to Forth Worth. The two cases have now been consolidated before the Court in Fort Worth. On January 13, 2005, the Company filed a motion with the Court to dismiss Northwest's antitrust claims and its claims under various Minnesota state statutes and tort law theories.

We are unable to estimate the amount of the loss, if any, that might arise from this litigation.

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

No matters were submitted to a vote of our security holders during the fourth quarter of the fiscal year ended December 31, 2004.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our Class A common stock is traded on the New York Stock Exchange (symbol TSG). The approximate number of record holders of our Class A common stock at February 28, 2005 was 10,458

The range of the high and low sales prices for our Class A common stock on the New York Stock Exchange by quarter for the two most recent fiscal years was:

	High	Low
Quarter Ended:		
December 31, 2004	$ 25.81	$ 20.56
September 30, 2004	$ 27.99	$ 21.22
June 30, 2004	$ 28.85	$ 22.70
March 31, 2004	$ 24.96	$ 20.10
Quarter Ended:		
December 31, 2003	$ 23.00	$ 19.58
September 30, 2003	$ 27.50	$ 21.14
June 30, 2003	$ 26.68	$ 15.68
March 31, 2003	$ 20.78	$ 14.00

We paid no dividends on our common stock during 2002. We began paying a quarterly dividend of $.07 per share during the second quarter of 2003, and paid dividends of the same amount during the third and fourth quarters of 2003 resulting in total dividend payments for 2003 of $30 million. On January 20, 2004 we announced an increased dividend of $.075 per share. We paid dividends of that same amount in each quarter during 2004 resulting in total dividend payments of approximately $41 million. On February 1, 2005, our Board of Directors approved an increased dividend of $.09 per share of common stock payable on February 28, 2005 to stockholders of record on February 11, 2005. Based on a quarterly dividend of $.09 per share, and assuming that the current number of outstanding shares of our common stock remains constant for the remainder of 2005, we expect to pay an aggregate of approximately $45 to $50 million in dividends during the fiscal year 2005. Our Board of Directors currently intends to consider declaring and paying comparable future dividends on a regular quarterly basis, subject to our ability to pay dividends and to a determination by management and our Board of Directors that dividends continue to be in the Company's best interests and those of our stockholders.

During 2004, 2003 and 2002, we repurchased 9,891,312, 2,159,597 and 2,234,400 shares of Class A common stock, respectively, pursuant to authorizations by our Board of Directors. On October 20, 2003 our Board of Directors approved a share repurchase program authorizing us to repurchase up to $100 million of our common stock. At December 31, 2003, we had remaining authorization to repurchase approximately $72 million of our common stock under this program. We purchased the amount remaining under this authorization during the first three months of 2004. On April 19, 2004 our Board of Directors approved another share repurchase program authorizing us to repurchase up to an additional $100 million of our Common Stock, which we completed during 2004. On October 25, 2004, our Board of Directors approved another share repurchase program authorizing us to repurchase up to an additional $100 million of our Common Stock. At December 31, 2004, we had remaining authorization to repurchase approximately $43 million of our common stock under this program. As of the date of this filing, we had remaining authorization to repurchase approximately $1 million of our common stock under this program.

On October 20, 2003 our Board of Directors authorized the purchase of shares of our common stock to satisfy our obligations to deliver shares under our Employee Stock Purchase Plan and our Long-Term Incentive Plan (the "Alternative Share Settlement Program"). Although this authorization remains in force, we did not repurchase any shares of our Common Stock under this authorization during 2004. We purchased 840,000 shares under this authorization in January 2005.

We expect that the timing, volume and price of the current and any future repurchases of our Common Stock will be made pursuant to trading plans that we intend as qualifying under Rule 10b5-1, unless such plans are terminated at the discretion of management.

The following table summarizes the share repurchases made during the fourth quarter of the fiscal year ended December 31, 2004:

Period	Total Number of Shares Purchased	Weighted Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly Announced Program	Maximum Dollar Value of Shares That May Yet be Purchased Under such Programs
October 10/01/04-10/31/04		N/A		$ 100,993,159
November 11/01/04-11/30/04	1,483,150	$ 22.36	1,483,150	$ 67,823,584
December 12/01/04-12/31/04	1,078,300	$ 22.67	1,078,300	$ 43,377,373
Total 4th Quarter 2004 Repurchases	2,561,450	$ 22.50	2,561,450	

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following selected financial data should be read in conjunction with "Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Item 8: Financial Statements and Supplementary Data." We have derived the selected financial data set forth below from our audited financial statements and related notes.

We have completed numerous acquisitions during the years 2000 through 2004 which affect the comparability of the selected consolidated financial data presented. The table below summarizes these transactions. For further information regarding these transactions, see Management's Discussion and Analysis of Financial Condition and Results of Operations and the Notes to the Consolidated Financial Statements.

Year acquired	Entity	Purchase price ($000s)
2004	RM Rocade AB and RM Rocade Assist AB	$ 15,000
	All State Tours, Inc.	25,000
	Travelocity Europe 50% of the non-German operations	33,000
2003	Dillon Communications Systems GmbH ("Dillon") remaining 49% interest	30,000
	World Choice Travel, Inc.	50,000
2002	Site59.com, Inc.	44,000
2001	Sabre Pacific	46,000
2000	GetThere, Inc.	753,000
	Preview Travel, Inc.	287,000
	Gradient Solutions Limited (now known as Sabre Travel International Limited)	39,000
	Dillon initial 51% ownership interest	24,000

On April 8, 2002, we completed a $28 per share cash tender offer for all of the approximately 16.7 million outstanding publicly held common shares of Travelocity.com that we did not own. Prior to the tender offer, we had an approximate 70% ownership stake in Travelocity.com. We consolidated Travelocity.com and accounted for the 30% outside ownership as minority interest. After the tender offer, we effected a short-form merger on April 11, 2002, whereby Travelocity.com became our indirect 100% owned subsidiary.

Effective January 1, 2002, we adopted the provisions of Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* ("SFAS No. 142"). Under the new rules, intangible assets deemed to have indefinite lives are not amortized but are subject to impairment tests annually or when changes in circumstances indicate that the carrying value may not be recoverable. See Note 2 to the Consolidated Financial Statements for further information regarding the impact of this change in accounting.

The following table presents selected historical financial data for each of the five years in the period ended December 31, 2004.

	Year Ended December 31,				
	2004	**2003 (4)**	**2002 (4)**	**2001 (4)**	**2000 (2)**
	(in millions, except per share data and other data where indicated)				
Income Statement Data (1) (2) (3) (9):					
Revenues	$ 2,131.0	$ 2,045.2	$ 2,056.5	$ 2,145.0	$ 1,955.5
Operating expenses, excluding amortization of goodwill and intangible assets	1,825.4	1,822.7	1,685.6	1,876.2	1,673.3
Amortization of goodwill and intangible assets (3)	46.9	56.3	53.4	277.5	109.4
Operating income (loss)	258.7	166.2	317.5	(8.7)	172.8
Other income (expense), net (10)	(3.3)	(38.4)	21.4	20.2	(13.9)
Minority interests	1.7	(.4)	.2	22.5	30.7
Income from continuing operations before income taxes	257.1	127.4	339.1	34.0	189.6
Income taxes	66.7	44.1	125.0	81.0	93.5
Income (loss) from continuing operations	190.4	83.3	214.1	(47.0)	96.1
Income from discontinued operations, net (1) (5)				75.1	48.0
Cumulative effect of accounting change, net (6)				3.1	
Net earnings	$ 190.4	$ 83.3	$ 214.1	$ 31.2	$ 144.1
Earnings (loss) per common share basic:					
Income (loss) from continuing operations (1)	$ 1.40	$ .59	$ 1.53	$ (.35)	$ .74
Income from discontinued operations, net (1)				.57	.37
Cumulative effect of accounting change, net (6)				.02	
Net earnings	$ 1.40	$ .59	$ 1.53	$ .24	$ 1.11
Earnings (loss) per common share diluted:					
Income (loss) from continuing operations (1)	$ 1.38	$ .58	$ 1.50	$ (.35)	$ .74
Income from discontinued operations, net (1)				.57	.37
Cumulative effect of accounting change, net (6)				.02	
Net earnings	$ 1.38	$ .58	$ 1.50	$ .24	$ 1.11
Dividends per common share (11)	$ .30	$ .21	$	$	$ 5.20

	Year Ended December 31,				
	2004	**2003 (4)**	**2002 (4)**	**2001 (4)**	**2000 (2)**
	(in millions, except per share data and other data where indicated)				
Balance Sheet Data (at end of period) (1) (9):					
Current assets	$ 1,280.0	$ 1,347.7	$ 1,288.0	$ 1,085.4	$ 695.1
Goodwill and intangible assets, net (3)	$ 988.6	$ 891.7	$ 859.5	$ 676.2	$ 895.8
Total assets	$ 3,018.0	$ 2,966.5	$ 2,771.9	$ 2,376.0	$ 2,662.8
Current liabilities	$ 608.3	$ 503.4	$ 499.9	$ 564.5	$ 1,266.4
Minority interests	$ 5.1	$ 6.5	$ 10.3	$ 219.7	$ 239.5
Long-term capital lease obligation	$ 161.1	$ 160.7	$	$	$
Public and other notes payable	$ 439.3	$ 442.5	$ 450.8	$ 400.4	$ 149.0
Stockholders' equity (11)	$ 1,626.5	$ 1,680.1	$ 1,641.6	$ 1,041.8	$ 791.0
Other Data:					
Direct reservations booked using the *Sabre* system (4) (7)	323	309	340	372	394
Total reservations processed using the *Sabre* system (4) (7)	391	366	397	431	467
Operating margin	12.1%	8.1%	15.4%	(0.4)%	8.8%
Ratio of earnings to fixed charges (8)	8.63	5.34	11.69	0.97	4.75
Cash flows from operating activities	$ 363.2	$ 279.3	$ 303.6	$ 401.2	$ 322.8
Capital expenditures	$ 78.0	$ 71.5	$ 62.7	$ 158.4	$ 190.1

(1) Effective July 1, 2001, we completed the sale of our Outsourcing Business and also entered into agreements with EDS for (i) EDS to manage our IT systems for 10 years and (ii) to jointly market certain IT services and software solutions to the travel and transportation industries. The results of operations of the Outsourcing Business have been reclassified and presented as income from discontinued operations, net, for 2001 and 2000. Balance sheet and cash flow data for periods prior to the sale have not been revised for the effects of our sale of the Outsourcing Business.

(2) Prior to AMR's divestiture of its entire ownership interest in us in the first quarter of 2000, we had significant related party transactions with AMR and American Airlines. The terms of many of the agreements with AMR and its affiliates were revised in connection with the divestiture.

(3) The results of operations for the periods presented were impacted by our merger and acquisition activities and the amortization expense related to the goodwill and intangible assets recorded in those transactions. Amortization of goodwill and certain indefinite lived intangible assets ceased on January 1, 2002 upon our adoption of Statement of Financial Accounting Standard No. 142*, Goodwill and Other Intangible Assets*, resulting in approximately $212 million, net of tax and minority interest, less amortization expense being recognized in 2002 compared with 2001. See Notes 2 and 4 to the Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations for additional information regarding mergers and acquisitions, the change in accounting for goodwill and certain intangible assets and their impacts on our financial condition and results of operations.

(4) On September 11, 2001, the United States was the target of terrorist attacks of unprecedented scope involving the hijacking and destruction of multiple passenger aircraft operated by commercial air carriers. After those attacks, all of our business segments were adversely affected by the state of the United States economy, by the possibility of terrorist attacks, government hostilities and military action, by the financial instability of many air carriers, by delays resulting from added security measures at airports and from channel shift. Our revenues and results of operations for the years ended December 31, 2001, 2002 and 2003 were negatively affected by this continued reduction in travel and from channel shift. Our total global bookings for 2002 were down 7.8% and total bookings for 2002 in the United States were down approximately 11.9% compared with 2001, while our total global bookings for 2003 were down 7.9% and total bookings for 2003 in the United States were down approximately 10.8% from 2002. For 2004, global bookings increased 6.9% compared with 2003 while United States booking volumes increased 5.0% compared with 2003.

(5)

Income from discontinued operations for the year ended December 31, 2001 includes a gain of approximately $39 million, net of related income taxes of approximately $25 million, recognized upon completion of the sale of our Outsourcing Business to EDS effective July 1, 2001.

(6)

On January 1, 2001 we adopted Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*. See Note 6 to the Consolidated Financial Statements.

(7)

Direct reservations include those for which we are entitled to a booking fee directly from the travel service provider ("associate"). Total reservations include direct reservations as well as those for which our equity method joint venture partners are entitled to a booking fee directly from the associate.

(8)

For purposes of computing the ratio of earnings to fixed charges, earnings consist of the sum of income from continuing operations before income taxes and the cumulative effect of change in accounting method, interest expense and the portion of rent expense deemed to represent interest. Fixed charges consist of interest incurred, whether expensed or capitalized, including amortization of debt issuance costs, if applicable, and the portion of rent expense deemed to represent interest. Earnings for the year ended December 31, 2001 were inadequate to cover fixed charges by approximately $1 million.

(9)

See Note 5 to the Consolidated Financial Statements for discussion of the impact of other significant events and transactions on the periods presented.

(10)

Prior to June 30, 2001, American Airlines held for our economic benefit certain depository certificates representing beneficial ownership of common stock of Equant N.V., which was acquired by France Telecom in the first half of 2001. During 2001, our remaining ownership position in these holdings was liquidated and we received proceeds totaling approximately $47 million. Because our carrying value of these holdings was nominal, a gain approximating the proceeds received was recorded in other income during 2001.

(11)

On February 7, 2000, we declared a cash dividend on all outstanding shares of our Class A common stock. A dividend of approximately $675 million, or $5.20 per share, was paid on February 18, 2000 in connection with our separation from AMR Corporation, which was our majority owner until March 2000.

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

The following discussion and analysis contains forward-looking statements about our plans and expectations of what may happen in the future. Forward-looking statements are based on a number of assumptions and estimates that are inherently subject to significant risks and uncertainties, and our results could differ materially from the results anticipated by our forward-looking statements as a result of many known or unknown factors, including, but not limited to, those factors discussed below in this Item under the sub-heading "Risk Factors."

You should read the following discussion and analysis in conjunction with "Item 6 Selected Financial Data" and "Item 8 Financial Statements and Supplementary Data" appearing elsewhere in this report.

Overview

We are a world leader in travel commerce, marketing travel products and providing distribution and technology solutions for the travel industry. We operate in multiple travel distribution channels: the travel agency channel, the consumer-direct channel and the corporate or business-direct channel. Through our *Sabre*® global distribution system (the "*Sabre* system" or "*Sabre* GDS") subscribers 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 and markets and distributes travel-related products and services through the travel agency and corporate channels. We engage in consumer-direct and business-direct travel marketing and distribution 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.

In 2004, approximately 67.5% of our revenue was generated from Sabre Travel Network, 21.9% from Travelocity and 10.6% from Sabre Airline Solutions based on segment results that include intersegment revenues. Compared to the year-ago period, revenues (including intersegment revenue) for the twelve months ended December 31, 2004 decreased 0.5% for Sabre Travel Network, while revenues increased 27.3% for Travelocity and 4.7% for Sabre Airline Solutions.

Business. We operate our business through the following business segments:

Sabre Travel Network: Our Sabre Travel Network segment markets and distributes travel-related products and services through the travel agency and corporate channels. Travel agencies, both online and brick and mortar, subscribe to our services. Our services provide travel agency subscribers information about and the ability to purchase travel-related products and services from airlines, hotels, car rental companies, cruise lines and others. We also provide travel agency office automation tools, enable travel agencies to provide services via the Internet and provide reservation management, distribution and technology services to hotel properties.

Travelocity: Our Travelocity segment markets and distributes travel-related products and services directly to individuals, including leisure travelers and business travelers, through Travelocity websites and contact centers, and websites owned by its supplier and distribution partners. Travelocity customers 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. For business travelers, *Travelocity Business* provides the integrated online corporate travel technology and full-service offering of our *GetThere*® product along with the online expertise of Travelocity.

Sabre Airline Solutions: Sabre Airline Solutions 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. Over 200 airlines worldwide use one or more products in Sabre Airline Solutions' portfolio to increase revenues and improve operations. More than 100 airlines worldwide rely on Sabre Airline Solutions for its airline reservation suite products, with nine new carriers added and four carrier renewals in 2004 for our *SabreSonic* passenger reservations product suite. In addition, more than 100 clients worldwide have turned to Sabre Airline Solutions consulting group for strategic, commercial and operational consulting.

During the fourth quarter of 2003 we realigned our *GetThere* business segment, which engaged in business direct travel services and had previously been operated as a separate business segment, within our other three segments. This realignment resulted in GetThere products, services and operations being integrated into the remaining three segments. Accordingly, GetThere is no longer reported as a separate segment.

Business Trends

Potential effects of the following trends, events and uncertainties are discussed in *Risk Factors*.

Increased Travel Booking Volumes Through our Channels. During the twelve months ended December 31, 2004, we experienced increased travel bookings through all of our channels. We attribute this year-over-year increase in bookings to improved demand for travel services as compared to 2003. We believe that a significant portion of this improvement results from travel demand having been depressed in 2003 because of traveler concerns about the war in Iraq and Severe Acute Respiratory Syndrome ("SARS"). During 2004, booking volumes through our Sabre Travel Network business segment improved as a result of the rebound in travel demand. The table below details the year-over-year percentage increases in Sabre Travel Network booking volumes for the year ended December 31, 2004.

	Twelve Months Ended December 31, 2004	
Year-over-year Increase	**Air Bookings**	**Total Bookings**
United States	4.5%	5.0%
Global	6.3%	6.9%

Factors Influencing the Travel Industry, Particularly Airlines. Our revenues are highly dependent on the travel and transportation industries, and particularly on airlines. Most of our revenue is derived from airlines, hotel operators, car rental companies, cruise operators, and other suppliers in the travel and transportation industries. Our revenue increases and decreases with the level of travel and transportation transactions processed by our systems. Consequently, our revenues are highly subject to declines in or disruptions to travel and transportation due to factors entirely out of our control, such as the recent tsunami that devastated large parts of Southeast Asia. In addition, we depend on a relatively small number of major airlines for a significant portion of our revenues. Several of these airlines are experiencing financial difficulty, some (including United Air Lines, Inc., U.S. Airways, Inc. and ATA Holdings Corporation) have sought bankruptcy protection and still others may consider bankruptcy relief. See "*Risk Factors Our Revenues Are Highly Dependent....*"

Supplier Efforts to Control Travel Distribution. Airlines have been working aggressively for several years to divert travel bookings away from GDS networks and towards alternative travel distribution channels, including websites that they control and online travel agencies that book directly with those airlines. See "*Risk Factors Some Travel Suppliers are Seeking Alternative Distribution Models....*" The efforts of suppliers to divert bookings away from independent distributors (such as online and conventional travel agencies using our *Sabre* GDS) towards supplier-direct booking channels (such as supplier-controlled websites and call centers) is referred to as "channel shift." Over the last eighteen months, we have experienced a slowing in the rate of channel shift, which we attribute partly to our current Pricing Options for suppliers, discussed below, and partly due to a rebound in corporate travel. The slowing of channel shift is an encouraging indicator, but it is not clear if this pattern will continue over the long-term.

During the third quarter of 2004, Northwest Airlines, Inc. ("Northwest") implemented a fare supplement for travel reservation bookings made through a GDS by traditional travel agencies and online travel sites (including Travelocity). In response to Northwest's announcement, Sabre Travel Network filed a lawsuit against Northwest for noncompliance with its Participating Carrier Distribution and Services Agreement with us. Sabre Travel Network also implemented a series of actions under its Fare Parity Policy, in order to cause Northwest to honor its contract to provide fare parity for users of the *Sabre* GDS. Northwest countersued us the following day. On September 2, 2004, Northwest discontinued the fare supplement, and Sabre Travel Network discontinued application of its Fare Parity Policy to Northwest. *See* Part I Item 3: "Legal Proceedings."

Competition and Consolidation. The marketplace for travel distribution is intensely competitive. We routinely face new competitors and new methods of travel distribution. Suppliers and third parties seek to create distribution systems that book directly with travel suppliers at a reduced cost. Many of these alternative travel distribution channels are in start-up or developing mode, are well-financed and have yet to fully define their functionality and costs. These new travel distribution technologies may contribute to "channel shift." (*See Supplier Efforts to Control Travel Distribution*, above). In addition, a new breed of competitors is entering the travel marketplace. Both established and start up search engine companies are attempting to enter the travel marketplace by leveraging search technology to aggregate travel search results across supplier, travel agent and other websites. These search engines and alternative travel distribution channels pose a threat to our businesses as they may have the effect of diverting customers from our online sites and our *Sabre* GDS, putting pressure on our revenues, pricing and operating margins. We also face consolidation among suppliers, travel marketing and distribution competitors, and online and conventional travel agencies, which may offer them negotiating leverage and other advantages of scale. See "*Risk Factors We face competition..."* and*"Risk Factors Consolidation...."*

Pricing Options for Suppliers. To ensure that our customers had access to the most comprehensive airline fares, in 2002 and 2003 we introduced alternative booking fee pricing options, such as the *Direct Connect® Availability* ("DCA") 3-Year Pricing Option, to airlines that participate in the *Sabre* GDS. *See "*Item 1 Business Associate Participation and Pricing Options." Through the DCA 3-Year Pricing Option, for example, participating airlines committed to the highest level of participation in the *Sabre* system for three years. Our DCA 3-Year Pricing Option agreements were a first step in preparation for being a leader in a deregulated industry by giving us access to virtually all of a carrier's content, eliminating "fare confusion" in the marketplace. See "*Risk Factors Travel Suppliers are Seeking to Bypass...."*

With the recent deregulation of the GDS industry, we have new flexibility to price our services based upon a variety of factors. We have already implemented new pricing models for some suppliers. *See* "Item 1 Business *Computer Reservation System Industry Regulation*." For example, during the second quarter of 2004, we completed two "opt-in" agreements with international carriers that are generally similar to our DCA 3-Year Pricing Option agreements. *See* "Item 1 Business Associate Participation and Pricing Options." We are also evaluating various other options for pricing our services to suppliers. Pricing options might be offered to airlines according to their operational needs, such as pricing that varies with the volume of an airline's bookings through the *Sabre* GDS or pricing that differs between long-haul or short-haul trips. We will offer airlines a choice of multiple pricing schedules. Our goal with any new models will be to match our pricing programs with the value that we provide to suppliers while maintaining a neutral impact to the average unit revenue in the Sabre Travel Network business. Our goal is to have these new models, and corresponding new agreements with many airlines, in place before the expiration of our DCA 3-Year Pricing Option agreements in 2005 and 2006. *See* "*Risk Factors Adverse Changes In Or Interruptions To....*"

Changing our Sabre Travel Network Business Model. We are also taking actions to both strengthen our core *Sabre* GDS business with enhanced content and capabilities and to take advantage of the opportunities available in merchandising as we benefit from the insight we gain from having travel distribution and travel marketing assets in one integrated portfolio:

Although the vast majority of our travel distribution revenues are derived from booking fees paid by travel suppliers, we recently entered into agreements that do not follow this traditional business model, and we are evaluating the desirability of more of these agreements. For example, in 2004 we entered into an agreement in which we charge a transaction fee to the travel agency (rather than a booking fee to the travel supplier).

During 2004, we enhanced our competitive position by reducing our operating expenses. See "*Cost Reductions and Expense Savings"* below.

In 2004, we further developed our *Jurni Network* consortium, a leisure travel agency consortium that combines a preferred sales network and consolidated purchasing power with technology-driven marketing tools to sell preferred travel offerings. Our Nexion® host agency offering provides ticketing, operations, fulfillment support and marketing services for all travel bookings, allowing its travel professional members to focus on selling travel. During 2004, Nexion became the largest fully-automated host agency in the United States.

In 2004, we rolled out several new features for our *Jurni Network* offering, including the new *Jurni Custom Trip* packaging capabilities from Travelocity, *Agent* 59® which incorporates last minute travel offerings from *Site59.com*®, and *JurniCruise* which provides automated shopping and booking capability for cruises. All of the features are available to *Jurni Network* consortium agents in our InternetView point-of-sale tool.

During the first quarter of 2004, we also introduced *Assured Vantage* , a new program for small- to medium-sized travel agencies that offers more agency-friendly contract terms, reducing the risk of traditional booking volume shortfalls, and a new structured incentive schedule that we expect will result in a slowing of the incentive growth rate.

During the third quarter of 2004, we introduced the *Sabre Hotel Spotlight* program*Sabre Hotel Spotlight* offers premium marketing opportunities to hoteliers through the *Sabre* GDS.

In 2004 we launched our new *MySabre* web-based agent booking portal which provides agents and suppliers with new merchandising opportunities at the point of sale.

In January of 2005, we acquired SynXis Corporation, which provides SnyXis® reservation management, distribution and technology services to approximately 6,000 hotel properties, to further expand the range of services we offer to hotels.

Investments in Travelocity. The development of Travelocity continues to be a strategic focus for us. For example, during the second quarter of 2003, we launched a new technology platform (Travelocity *TotalTrip*^{SM}) to enable the marketing of higher margin packaging products. In addition, during the first quarter of 2004, we implemented a complete rebranding and redesign of Travelocity's website, offering consumers greater ease-of-use.

We are also investing in developing products and segments that we believe offer rapid growth opportunities, such as in the business-direct segment and online distribution in Europe and Asia. For example:

In the third quarter of 2004, *Travelocity Business* launched enhanced technologies in its service center that integrate and automate the corporate travel reservation process from beginning to end.

During the third quarter of 2004, Travelocity introduced its merchant model hotel platform in Europe on Travelocity.co.uk and will continue to expand the program into its other European operations in the near future.

In the third quarter of 2004, Travelocity acquired Las Vegas-based All State Tours Inc., ("Allstate Ticketing") a leading distributor of show tickets and tours in the entertainment capital of the world. As part of the purchase, Travelocity acquired the *Allstate Ticketing®* brand and the *ShowTickets.com*[SM] website.

In October of 2004, Travelocity acquired sole control of the non-German operations of Travelocity Europe by purchasing the 50% interest in the joint venture's non-German operations owned by the Otto Group's Otto Freizeit und Touristik GmbH ("Otto"). Although we anticipate that this acquisition will require additional investment and be dilutive over the short term, by gaining full control over the non-German operations of Travelocity Europe, we believe we can accelerate its growth by introducing Travelocity's industry-leading capabilities, including dynamic packaging, our advanced merchant hotel program and revolutionary site designs. Travelocity and Otto plan to continue their joint (50/50) ownership of the German operations of Travelocity Europe.

On January 18, 2005, Travelocity entered into a put option agreement pursuant to which it may gain control of 100% of Zuji Holdings Limited ("Zuji"), a joint venture operating in the Asia Pacific region. *See* "Financial Statements and Supplementary Data Subsequent Events (Note 16) Zuji Agreement."

Cost Reductions and Expense Savings. In the fourth quarter of 2003, we began implementing plans to enhance our competitive position by reducing our operating expenses and better aligning expenses with revenue targets. Through these initiatives, we realized over $80 million in cost savings in 2004. Further, as part of our cost leadership strategy we are, as a standard practice, evaluating efficiency opportunities across the company to ensure that we optimally manage our operational costs. Some of these cost-saving opportunities may involve globally-sourcing some of our operations (either by contracting with companies that work for us or by expanding our own operations abroad). We will continue to pursue opportunities to reduce our operating expenses throughout 2005.

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 CRSs,
- equal participation by airlines that have an ownership interest in a CRS, and
- limits on travel agency contract terms.

All CRS regulations promulgated by the US Department of Transportation that were applicable in the United States expired on July 31, 2004. We believe that this deregulation in the United States will enhance our opportunities to creatively market airline services and freely negotiate with travel agencies. However, deregulation also presents challenges associated with maintaining participation levels in the *Sabre* GDS by travel suppliers who are no longer subject to equal participation regulations.

Transport Canada issued final rules on May 7, 2004, eliminating all CRS regulations in Canada except rules prohibiting screen preference and discrimination in providing the right to participate in service enhancements. In addition, regulators in the European Commission are reviewing their CRS regulations for possible changes, which may include some level of deregulation. It is not clear whether or when any amendments in the European Union will take effect nor what form they may take.

The potential effects of these trends, events and uncertainties are discussed below under *Risk Factors*.

Components of Revenues and Expenses

Revenues. Sabre Travel Network primarily generates revenues from booking fees charged to airlines and non-air travel-suppliers who distribute their products and services through the *Sabre* system. Sabre Travel Network earns revenue through equipment service charges paid by subscribers and has also begun to generate revenue from transaction fees charged to certain subscribers that use the *Sabre* system. In addition, Sabre Travel Network earns revenue through the sale of other products and services (including *GetThere* offerings, the *Sabre Hotel Spotlight* program, which offers premium marketing opportunities to hoteliers through the *Sabre* GDS, and the *Jurni Network* consortium) to travel-suppliers, subscribers and other customers. Earnings derived from interests in joint ventures and other investments are also included in revenues. Sabre Travel Network earns intersegment revenues from data processing fees paid by Travelocity. Travelocity primarily generates revenues from commissions or transaction fees from travel-suppliers for the purchase of travel products and services pursuant to reservations made through our system. Travelocity also generates revenue from providing facilitation services equal to the amount paid by the customer for products and services, minus its payment to the travel supplier. Additional Travelocity revenues include other fees charged to customers and advertising revenues from our websites. Travelocity derives intersegment revenues from Sabre Travel Network, consisting of incentives earned for Travelocity bookings made through the *Sabre* GDS, and fees paid by Sabre Travel Network for corporate trips and Sabre Airline Solutions for airline trips booked through Travelocity's online booking technology. Sabre Airline Solutions generates revenues from the sale of airline reservations hosting services, inventory and check-in hosting solutions, decision-support software and technology, and airline consulting services.

Cost of Revenues. Sabre Travel Network cost of revenues consist primarily of customer incentives paid to subscribers, data processing charges resulting from the operation of the *Sabre* system, and salaries and other operating expenses. Sabre Travel Network also incurs intersegment expenses paid to Travelocity for incentives for Travelocity bookings made through the *Sabre* GDS, as well as fees for corporate trips booked through Travelocity's online booking technology. Travelocity cost of revenues consists primarily of customer service costs, technology costs, salaries, benefits and other employee expenses, data processing fees paid to Sabre Travel Network, credit card fees related to our merchant model and depreciation and amortization charges. Sabre Airline Solutions cost of revenues are comprised of labor cost incurred in the development and delivery of software and consulting services, data processing charges for hosted applications, and depreciation and amortization. Sabre Airline Solutions also incurs intersegment expenses paid to Travelocity for airline trips booked through Travelocity's online booking technology.

Operating Expenses. Sabre Travel Network selling, general and administrative expenses and other operating expenses consist of salaries, benefits and employee related expenses for staff functions required to support the business. Travelocity selling, general and administrative and other operating expenses consist primarily of advertising and promotion expenses, payments made to our distribution partners and salaries, benefits and employee related expenses for staff functions required to support the business. Sabre Airline Solutions operating expenses consist of the costs of the sales organization and the staff functions required to support the business.

Financial Results

The following table presents operating results for the three years ended December 31, 2004, 2003 and 2002 (in thousands of dollars). The segment revenues and cost of revenues are shown including intersegment activity. We have included the elimination of intersegment activity below to agree to the results of operations presented in the consolidated financial statements:

	Year Ended December 31,		
	2004	**2003**	**2002**
Segment revenues:			
Sabre Travel Network	$ 1,552,832	$ 1,560,232	$ 1,630,213
Travelocity	502,549	394,508	338,772
Sabre Airline Solutions	243,470	232,354	216,847
Subtotal segment revenues	2,298,851	2,187,094	2,185,832
Elimination of intersegment revenues	(167,880)	(141,931)	(129,366)
Total	$ 2,130,971	$ 2,045,163	$ 2,056,466
Cost of revenues:			
Sabre Travel Network	$ 1,004,236	$ 1,031,735	$ 930,860
Travelocity	224,386	203,392	187,612
Sabre Airline Solutions	176,902	177,769	165,674
Corporate	2,536	(1,836)	6,505
Subtotal segment cost of revenues	1,408,060	1,411,060	1,290,651
Elimination of intersegment expenses	(167,880)	(141,931)	(129,366)
Total	$ 1,240,180	$ 1,269,129	$ 1,161,285
Gross profit:			
Sabre Travel Network	$ 548,596	$ 528,497	$ 699,353
Travelocity	278,163	191,116	151,160
Sabre Airline Solutions	66,568	54,585	51,173
Corporate	(2,536)	1,836	(6,505)
Total	$ 890,791	$ 776,034	$ 895,181
Selling, general and administrative:			
Sabre Travel Network	$ 260,083	$ 262,029	$ 271,690
Travelocity	273,189	249,893	221,477
Sabre Airline Solutions	50,026	31,454	31,699
Corporate	1,884	10,127	(609)
Total	$ 585,182	$ 553,503	$ 524,257
Amortization of acquired intangibles:			
Sabre Travel Network	$ 18,607	$ 12,788	$ 16,588
Travelocity	25,472	41,554	35,042
Sabre Airline Solutions	2,800	1,959	1,794
Total	$ 46,879	$ 56,301	$ 53,424
Operating income (loss):			

	Year Ended December 31,		
Sabre Travel Network	$ 269,906	$ 253,680	$ 411,075
Travelocity	(20,498)	(100,331)	(105,359)
Sabre Airline Solutions	13,742	21,172	17,680
Corporate	(4,420)	(8,291)	(5,896)
Total	$ 258,730	$ 166,230	$ 317,500

Results of Operations: 2002-2004

Total revenues of $2,131 million for the year ended December 31, 2004 were $86 million, or 4.2% higher than revenues of $2,045 million for the year ended December 31, 2003. Cost of revenues of $1,240 million for the year ended December 31, 2004 were $29 million or 2.3% lower than the cost of revenues of $1,269 million for the year ended December 31, 2003. These reported revenues and expenses are net of intersegment revenues and expenses which were eliminated in consolidation.

Management's discussion and analysis of revenues and cost of revenues by business segment are based upon the information contained in the above table, where segment results include intersegment revenues and cost of revenues of approximately $168 million, $142 million and $129 million for the years ended December 31, 2004, 2003 and 2002, respectively. 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 bookings made through the *Sabre* GDS, data processing fees paid by Travelocity to Sabre Travel Network, and fees paid by Sabre Travel Network and Sabre Airline Solutions for corporate and airline trips booked through Travelocity's online booking technology. All intersegment revenues and corresponding cost of revenues have been eliminated in consolidation. Disaggregated results by segment are presented in Note 13 to the Consolidated Financial Statements.

Revenues. The compounded annual growth rate of revenues by segment for the three years ended December 31, 2004 was a reduction of 3.3% for Sabre Travel Network, and growth of 15.7% for Travelocity and 4.0% for Sabre Airline Solutions. Each of our business segments was negatively affected by the September 11, 2001 terrorist attacks, and the resulting decline in the U.S. economy in general and the travel industry in particular. Other macroeconomic factors that negatively impacted our business during this period included the war and continued conflict in Iraq, ongoing travel security concerns, and fear of potential terrorist attacks and SARS. These negative impacts to the general economy and the travel industry specifically negatively impacted each of our business segments, with the most pronounced effect being on Sabre Travel Network, where 2004 revenues remained below 2002 revenue levels.

The combination of an economic downturn, travel security concerns and channel shift has resulted in a compounded 3.2% decrease in annual bookings processed through the *Sabre* system since 2001. We have also seen continued pressure on Sabre Travel Network revenues resulting from travel bookings being diverted from independent GDS channels toward supplier-controlled channels, individual airline websites and call centers, as well as various other travel distribution websites on the internet. We believe that the discounted pricing agreements (such as the DCA 3-Year Pricing Option Agreements) are helping to slow the effects of channel shift from the *Sabre* system, but these types of agreements have also lowered our effective yield on bookings.

For the three years ended December 31, 2004, Travelocity has experienced 15.7% compounded annual growth in revenues due to the growth in bookings made through our websites and contact centers, and increased yields stimulated by increased merchant hotel activity and improved packaging of offerings. Although Travelocity was negatively affected by the terrorist attacks and the negative factors noted above and by declining internet advertising revenue, the growth in the internet travel business combined with Travelocity merchant model and packaging initiatives offset the negative impacts.

Sabre Airline Solutions has experienced 4.0% compounded annual growth in revenues for the three years ended December 31, 2004. Although Sabre Airline Solutions and its customers were negatively affected by the terrorist attacks and the negative factors noted above, we were able to grow revenues in each of the past two years. This increase in revenues during a turbulent time for the airline industry is the result of increased sales of decision support products and services and web-enabled solutions that offer cost savings and more efficient operations to our customers. Additionally, this increase was driven by growth in airline reservation hosting revenues.

Expenses. Our primary operating expenses consist of salaries, benefits, other employee-related costs, data processing costs, communication costs, advertising and customer incentives, representing approximately 78.7%, 77.8% and 77.0% of total operating expenses in 2004, 2003 and 2002, respectively. Since 2001, we have realized a compounded decrease in our operating expenses of approximately 4.6%. These decreases reflect reduced amortization expense resulting from goodwill no longer being amortized beginning in 2002 and lower operating costs in each business unit achieved through the EDS contract.

Sabre Travel Network hardware and communications costs have decreased as a result of the migration to lower cost solutions and the adoption of third-party solutions by subscribers. These decreases were partially offset by increases in Sabre Travel Network technology spending due to the phased implementation and continuing expansion of new functionality that requires running legacy systems as well as the new technology, and increases in Sabre Travel Network customer incentives due to competitive pressures on renewals and conversions.

Travelocity cost of revenues and selling, general and administrative expenses have increased due to growth in the business. We increased our expenditures for advertising in order to drive additional travelers to Travelocity's websites, and expenses have increased as a result of increases in transaction volumes for our merchant offerings. Our technology infrastructure related expenses have also increased in order to support our growth and new offerings.

Sabre Airline Solutions operating expenses have generally grown at a rate commensurate with the growth in revenues during the 2002 to 2004 period although bad debt expense increased significantly in 2004 due to the economic state of the airline industry and the bankruptcy filings of several key customers.

2004 Compared to 2003

Total revenues for the year ended December 31, 2004 increased approximately $86 million, or 4.2%, compared to the year ended December 31, 2003, from $2,045 million to $2,131 million. Cost of revenues for the year ended December 31, 2004 decreased approximately $29 million, or 2.3%, compared to the year ended December 31, 2003, from $1,269 million to approximately $1,240 million.

Management's discussion and analysis of revenues and cost of revenues by business segment are based upon segment results including intersegment revenues and cost of revenues of approximately $168 million and $142 million for the years ended December 31, 2004 and 2003, respectively. 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 for Travelocity bookings made through the *Sabre* GDS, data processing fees paid by Travelocity to Sabre Travel Network, and fees paid by Sabre Travel Network for corporate trips booked through Travelocity's online booking technology. All intersegment revenues and corresponding cost of revenues have been eliminated in consolidation. Disaggregated results by segment are presented in Note 13 to the Consolidated Financial Statements.

Revenues. Total revenues (including intersegment revenues) for the year ended December 31, 2004 increased approximately $112 million compared to the year ended December 31, 2003, from $2,187 million to $2,299 million.

The increase in total revenues reflects improved travel demand and travel bookings in 2004. We believe that 2003 revenues in each of our segments were adversely affected by a decline in travel resulting from several factors that occurred during this period, including unfavorable economic conditions in the United States, political and economic instability abroad resulting in part from the war in Iraq and its aftermath, ongoing travel security concerns due to the continued conflict in Iraq, fear of potential terrorist attacks, and travelers' fear of exposure to contagious diseases such as SARS.

Sabre Travel Network Revenues decreased $7 million or 0.5%, from $1,560 million in 2003 to $1,553 million in 2004.

Booking fees from suppliers and transaction fees from certain subscribers increased by $25 million. This $25 million increase includes a $55 million improvement resulting from higher booking volumes partially associated with travel demand having been depressed in 2003 (because of traveler concerns about the war in Iraq and SARS) offset by a $30 million decrease due to a lower effective average rate per booking. This average rate per booking decrease was primarily attributable to the impact of discounted pricing options such as the DCA 3-Year Pricing Option. Total worldwide travel bookings processed through the *Sabre* system, which include direct bookings and joint venture bookings for which we or our distribution partners earn a booking fee, were 391 million for the year ended December 31, 2004, an increase of 6.9% from 366 million bookings in 2003.

Non-transaction fee subscriber revenue decreased by $54 million, driven by $36 million of settlement revenue recognized in 2003 derived from two canceled subscriber contracts. The remaining decrease in non-transaction fee subscriber revenue of $18 million reflects the trend towards the adoption of third-party equipment solutions by our subscribers.

Other revenues increased by $22 million compared to 2003, driven primarily by a $7 million increase in equity income and transaction processing revenue from our joint ventures and a $6 million increase in corporate booking revenue resulting from higher corporate booking volumes. In addition, other revenue increased approximately $3 million due to the introduction of our *Sabre Hotel Spotlight* program during the third quarter of 2004. The remaining $6 million increase relates to other revenue increases associated with various products.

Travelocity Revenues increased approximately $108 million or 27.3%, from $395 million to $503 million.

Transaction revenue increased $136 million or 46.5%, primarily driven by a $120 million increase in non-air transaction revenue (including revenue resulting from sales of package offerings that include air travel as a component) and a $16 million increase in stand-alone air transaction revenue.

The $120 million increase in non-air transaction revenue consisted primarily of the following:

Stand-alone hotel revenue growth of $49 million due to the growth of our merchant model hotel offering and due to increased hotel bookings through our *World Choice Travel* ("WCT") affiliate network, which we acquired in November 2003.

Packaged trip revenue increased approximately $48 million due to growth in our Travelocity *TotalTrip*^{SM} offering (launched in June 2003) and volume growth in our last minute deals;

Net transaction revenue increased $13 million due to a reduction in our merchant supplier liability. In 2004, we implemented a process to write off any supplier liabilities greater than six months old from the travel date. Based on recent trends, we estimate that approximately $5 million of the $13 million relates to travel prior to December 31, 2003 which would be recognized six months following the travel date under our new process (see Note 2 to the Consolidated Financial Statements for additional information);

All other non-air transaction revenue increased $10 million which includes the impact of the Allstate acquisition, which we completed on August 30, 2004.

The $16 million increase in stand-alone air transaction revenue was primarily due to a volume increase in stand-alone air ticket sales compared to 2003. Our volume increased due to an overall increase in online travel demand.

Non-transaction revenue decreased $28 million, or 27.3%, consisting of the following:

- We recognized revenue of approximately $24 million in 2003 related to the warrants received from a former hotel supplier. Our contract with the supplier terminated in September 2003. See Note 6 to the Consolidated Financial Statements for additional information on these warrants.

- Joint venture equity method losses, which reduce our revenues, increased by approximately $10 million. The increased equity method losses result from increased spending on marketing by the joint ventures, the expansion of our former European joint venture into France and the acquisition of Travelchannel Ltd., a leading German online travel website, whose operating results increased the equity losses for our joint venture in Europe. See Notes 2 and 4 to the Consolidated Financial Statements for additional information on the accounting policies for our joint ventures and the acquisition of the non-German operations of Travelocity Europe.

- Corporate revenue, the fees paid by Sabre Travel Network and Sabre Airline Solutions to Travelocity for trips booked through Travelocity's online booking technology, increased by approximately $7 million due to higher volumes; and

- All other non-transaction revenue decreased $1 million.

Sabre Airline Solutions Revenues increased approximately $11 million or 4.7%, from $232 million to $243 million. This increase was driven primarily by a $20 million increase in airline reservation hosting revenue. This $20 million increase includes $11 million due to a shift towards online bookings for our customers and the sale of enhanced functionality to our existing hosted carrier base. The remaining $9 million is driven by increased transaction fees due to newly signed carriers and organic growth from our existing customers. Airline consulting services revenues increased $3 million due to a higher number of customer engagements. These increases were offset by an $8 million decrease in development labor revenues and a $4 million decrease in software products and services revenue driven by an elongated sales cycle.

Cost of Revenues. Total cost of revenues (including intersegment cost of revenues) for the year ended December 31, 2004 decreased approximately $3 million compared to the year ended December 31, 2003, from $1,411 million to $1,408 million.

Sabre Travel Network Cost of revenues decreased $28 million or 2.7%, from $1,032 million to $1,004 million. The primary drivers of this change were a $22 million decrease in headcount related expenses resulting from workforce reductions and a $9 million decrease in technology spending. Other cost of revenue expenses for Sabre Travel Network decreased $5 million, but were offset by a $8 million increase in subscriber support costs.

- The $9 million decrease in technology related spending is due to a $17 million reduction in operational costs related to our phased implementation of new, lower cost pricing and shopping functionality. This decrease was partially offset by a $6 million increase related to the continued expansion of this new functionality, which required us to operate legacy systems as well as the new systems and a $2 million increase in other technology spending.

- The $8 million increase in subscriber support costs includes a $36 million increase in customer incentives, partially offset by $28 million of reductions in hardware support and communications costs. The increase in customer incentives includes $10 million related to increased booking activity in 2004, $11 million resulting from increases in the average incentive per booking driven by competitive pressure on renewals and conversions, and $15 million related to incentive payments to Travelocity due to improved booking volumes. The $28 million reduction in hardware support and communications costs are driven by migration to lower cost solutions and the adoption of third-party solutions by subscribers.

Travelocity Cost of revenues increased $21 million or 10.3%, from $203 million to $224 million. Expenses related to our merchant model offerings increased $23 million due primarily to volume growth which is referenced above in the explanation for the 46.5% increase in transaction revenue. However, expenses related to our merchant model offerings also increased due to the fact that in 2004, we incurred credit card fees, merchant credit card chargebacks, fraud charges and other expenses that we did not incur at similar levels in 2003 due to our relationship with a third-party supplier of merchant hotel content, which was terminated in September 2003. Data processing expenses increased by approximately $6 million due to higher booking volumes and other cost of revenue expenses increased approximately $3 million. These increases were offset by approximately $11 million of savings resulting from our contact center operations agreement with WNS (see Note 5 to the Consolidated Financial Statements).

Sabre Airline Solutions Cost of revenues decreased approximately $1 million or 0.6%, from $178 million to $177 million. This decrease was driven by reduced direct headcount related expenses of $8 million and a $7 million reduction in indirect headcount related expenses driven by a year over year change in the allocation of corporate resources (offset by a corresponding increase in Sabre Airlines Solutions selling, general and administrative expenses below). These decreases were offset by increases in travel expenses of approximately $5 million partly due to the recognition of invoiced travel as revenue beginning in 2004 as opposed to an offset to cost of revenue in prior periods. Data processing expenses increased $3 million related to Internet booking engine volumes. Services purchased increased $3 million to support reservations hosting implementations and consulting engagements and development labor increased $2 million due to growth in web hosting related revenues. Other cost of revenue expenses increased $1 million.

Selling, General and Administrative Expenses. Selling, general and administrative expenses for the year ended December 31, 2004 increased $31 million or 5.6%, as compared to the year ended December 31, 2003, from $554 million to $585 million due to increases for Travelocity and Sabre Airline Solutions offset by an $8 million decrease in general and administrative costs at the corporate level due to facilities consolidation charges that we incurred in 2003 that we did not incur in 2004.

Sabre Travel Network Selling, general and administrative expenses for Sabre Travel Network decreased by $2 million driven primarily by a $12 million decrease in services purchased, which were higher in 2003 due to our efforts as an advocate for the deregulation of the U.S. CRS industry. This decrease was offset by an increase in bad debt reserves of $8 million resulting from the increased aging of receivables due from a few large customers. Other selling, general and administrative expenses for Sabre Travel Network increased $2 million.

Travelocity Travelocity's selling, general and administrative expenses increased $23 million, primarily due to increased advertising and customer acquisition costs of $14 million to drive additional travelers to our websites. The increase also includes payments to our WCT affiliates but is offset partially by savings from the AOL agreement renegotiation (see Note 5 to the Consolidated Financial Statements). Other selling, general and administrative expense increases for Travelocity include $4 million driven by higher corporate allocations, $2 million in services purchased, $2 million in direct headcount related expenses and other increases totaling $1 million.

Sabre Airline Solutions Selling, general and administrative expenses for Sabre Airline Solutions increased $19 million. This increase was driven by a $9 million increase in bad debt expense attributable to the economic state of the airline industry and the bankruptcy filings of several key customers. In addition, indirect headcount related expenses increased $7 million driven by a year over year change in the allocation of corporate resources (offset by a corresponding decrease in Sabre Airline Solutions cost of revenues above). Direct headcount related expenses and development labor increased $3 million.

Amortization of Intangible Assets. Amortization of intangible assets for the year ended December 31, 2004 was $47 million, a decrease of approximately $9 million as compared to the year ended December 31, 2003. Sabre Travel Network amortization increased approximately $6 million primarily due to a $3 million impairment write-down of technology related intangible assets in 2004 and a $3 million increase resulting from the acquisition of the remaining 49% of Dillon Communications Systems GmbH in December 2003. Travelocity amortization decreased by approximately $16 million due to an approximately $9 million write-off in 2003 of an intangible asset resulting from the termination of an agreement with a former hotel supplier in 2003. Also, there was an $11 million decrease due to the completion of amortization of intangible assets during 2003 and 2004, partially offset by approximately $3 million of increased amortization resulting from the acquisition of assets of WCT in the fourth quarter of 2003 and the acquisition of All State Tours in the third quarter of 2004. Amortization expense related to our fourth quarter 2004 acquisition of the non-German operations of TEU was insignificant. Amortization of intangible assets for Sabre Airline Solutions increased approximately $1 million resulting from several small acquisitions during 2004.

Interest Income. Interest income decreased approximately $1 million for the year ended December 31, 2004 from $16 million to $15 million due primarily to lower average balances of certain short-term investments and loans receivable.

Interest Expense. Interest expense increased $3 million for the year ended December 31, 2004 from $24 million to $27 million resulting from the capital lease we entered into at the end of June 2003 for our headquarters buildings.

Other, net. Other, net changed approximately $41 million from net other expense of approximately $31 million for the year ended December 31, 2003 to net other income of approximately $10 million for the year ended December 31, 2004. The change is primarily due to the $28 million loss we incurred in 2003 relating to the required residual value guarantee payment in connection with terminating our syndicated lease facility and entering into a capital lease facility for our corporate headquarters. Other net income for the year ended December 31, 2004 also includes a $6 million gain from settling a contract dispute. Other changes include year over year changes in net income allocated to minority interests as well as 2003 impairment charges on certain non-operating assets.

Income Taxes. The provision for income taxes for the year ended December 31, 2004 increased $23 million as compared to the year ended December 31, 2003, from $44 million to $67 million. This increase resulted from the approximately $130 million increase in pre-tax income between periods offset by a reversal of previously accrued taxes of $23 million due to a change in our federal income tax treatment of certain subscriber contract payments and the expiration of certain state income tax statutes of limitations. Our effective tax rate prior to the reversal was 35%. See Note 10 to the Consolidated Financial Statements for additional information regarding income taxes.

Net Earnings. Stronger travel demand, merchant model revenue growth and the successful implementation of cost reduction initiatives exceeded increases in customer incentives, advertising and bad debt expense resulting in an increase to net earnings of $84 million for the year ended December 31, 2004 compared to the year ended December 31, 2003. The remaining year over year increase relates to the $23 million reversal of previously accrued taxes discussed above.

Results of Operations

2003 Compared to 2002

Total revenues for the year ended December 31, 2003 decreased approximately $11 million, or 0.5%, compared to the year ended December 31, 2002, from $2,056 million to $2,045 million. Cost of revenues for the year ended December 31, 2003 increased approximately $108 million, or 9.3%, compared to the year ended December 31, 2002, from $1,161 million to approximately $1,269 million.

Management's discussion and analysis of revenues and cost of revenues by business segment are based upon segment results including intersegment revenues and cost of revenues of approximately $142 million and $129 million for the years ended December 31, 2003 and 2002, respectively. 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 and marketing fees for Travelocity bookings made through the *Sabre* GDS, data processing fees paid by Travelocity to Sabre Travel Network, and fees paid by Sabre Travel Network for corporate trips booked through Travelocity's online booking technology. All intersegment revenues and corresponding cost of revenues have been eliminated in consolidation. Disaggregated results by segment are presented in Note 13 to the Consolidated Financial Statements.

Revenues. Total revenues (including intersegment revenues) for the year ended December 31, 2003 were flat compared to the year ended December 31, 2002, increasing approximately $1 million from $2,186 million to $2,187 million.

We believe that 2003 revenues in each of our segments were adversely affected by a decline in travel resulting from several factors that occurred during this period; including unfavorable economic conditions in the United States, political and economic instability abroad such as the war in Iraq and its aftermath, ongoing travel security concerns due to the continued conflict in Iraq, fear of potential terrorist attacks, and travelers' fear of