SABRE HOLDINGS CORP
Form 10-K
March 01, 2001

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

FORM 10-K

[X] Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 [No Fee Required]

For the fiscal year ended December 31, 2000.

[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 [No Fee Required]

Commission file number 1-12175

SABRE HOLDINGS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	75-2662240
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
4255 Amon Carter Blvd. Fort Worth, Texas	76155
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (817) 963-6400

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 (Section 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. [X]

The aggregate market value of the voting stock held by non-affiliates of the registrant as of February 21, 2001 was approximately $5,876,436,598, based on the closing price per share of Class A common stock of $44.62 on such date. As of February 21, 2001, 131,699,610 shares of the registrant's Class A common stock and no shares of the registrant's Class B 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 15, 2001.

PART I

ITEM 1. BUSINESS

Sabre Holdings Corporation is a holding company incorporated in Delaware on June 25, 1996. Pursuant to a reorganization consummated on July 2, 1996 (the "Reorganization"), the Company became the successor to the businesses of The Sabre Group which were formerly operated as divisions or subsidiaries of American Airlines, Inc. ("American") or AMR Corporation ("AMR"). Unless otherwise indicated, references herein to the "Company" include Sabre Holdings Corporation and its consolidated subsidiaries and, for any period prior to the Reorganization, the business of AMR and American constituting The Sabre Group. On October 17, 1996, the Company completed an initial public offering (the "Offering") of 23,230,000 shares of its Class A common stock, par value $.01 per share, constituting approximately 17.8% of the economic interest of the Company's outstanding common equity. At December 31, 1999, AMR owned all 107,374,000 shares of the Company's Class B common stock, representing approximately 82.7% of the economic interest and 98.0% of the combined voting power of all classes of voting stock of the Company. On March 15, 2000, AMR exchanged all of its 107,374,000 shares of the Company's Class B common stock for an equal number of shares of the Company's Class A common stock and distributed such shares to AMR shareholders as a stock dividend. The distribution consisted of AMR's entire ownership interest in the Company.

The Company is the world leader in the marketing and distribution of travel through its SABRE-REGISTERED TRADEMARK-(1) computer reservations system ("the SABRE system"). In addition, the Company is a leading provider of outsourcing and software solutions to the travel and transportation industries.

TRAVEL MARKETING AND DISTRIBUTION

The SABRE system and other global distribution systems are the principal means of air travel distribution in the United States and a growing means of air travel distribution internationally. Through the SABRE system, travel agencies, corporate travel departments and individual consumers ("subscribers") can access information about and book reservations with airlines and other providers of travel and travel-related products and services ("associates"). As of December 31, 2000, travel agencies with approximately 54,000 locations in over 100 countries on six continents subscribed to the SABRE system. Subscribers are able to make reservations with approximately 420 airlines, 50 car rental companies and 230 hotel companies covering approximately 52,000 hotel properties worldwide.

During 2000, more airline bookings in North America were made through the SABRE system than through any other global distribution system. Approximately 67.4%, 60.8% and 57.4% of the Company's revenue in 2000, 1999 and 1998, respectively, was generated by the marketing and distribution of travel, primarily through booking fees paid by associates.

THE SABRE-REGISTERED TRADEMARK- GLOBAL DISTRIBUTION SYSTEM

The SABRE system, like other global distribution systems, creates an electronic marketplace where travel providers display information about their products and warehouse and manage inventory. Subscribers -- principally travel agencies but also corporate travel departments and individual consumers (via Travelocity.com-SM- and other online agencies that subscribe to SABRE) -- access information and purchase travel products and services using the SABRE system. In 2000, over 990 associates displayed information about their products and services through the SABRE system, and the Company estimates that more than $75 billion of travel-related products and services were sold through the SABRE system.

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(1) Sabre, Direct Connect, Turbo Sabre, Sabre Business Travel Solutions, Planet Sabre and Travelocity are registered marks, and Airmax, Airflite, Basic Booking Request, eMergo, GetThere, Travelocity.com, Sabre Net Platform, DirectAirline, DirectCorporate, and DirectMidMarket are trademarks and/or service marks of an affiliate of Sabre Inc. All other names are trade names, trademarks and/or service marks of their respective companies.

In addition to providing information to subscribers about airlines and other travel-related vendors, the SABRE system reports to the travel providers transaction data about subscriber-generated reservations, allowing vendors to better manage inventory and revenues. The SABRE system also allows travel agency subscribers to print airline tickets, boarding passes and itineraries. Additionally, the SABRE system provides subscribers with travel information on matters such as currency, medical and visa requirements, weather and sightseeing. By accessing the SABRE system, a subscriber can, from a single source, obtain schedules, availability and pricing information from multiple travel providers for complex travel itineraries.

ASSOCIATE PARTICIPATION

The Company derives its travel marketing and distribution revenues primarily from booking fees paid by associates for reservations made through the SABRE system for their products and services. In addition to airlines, associates include car rental companies, hotel companies, railroads, tour operators, ferry companies and cruise lines.

Airlines and other associates can display, warehouse, manage and sell their inventory in the SABRE system. The booking fee paid by an associate depends upon several factors, including the associate's level of participation in the SABRE system and the type of products or services provided by the associate. Airlines are offered a wide range of participation levels. The lowest level of participation for airlines, SABRE-REGISTERED TRADEMARK- BASIC BOOKING REQUEST-SM- participation level, provides schedules and electronic booking functionality only. Higher levels of participation for airlines, such as SABRE-REGISTERED TRADEMARK- DIRECT CONNECT-REGISTERED TRADEMARK- AVAILABILITY participation level, provide greater levels of communication with the SABRE 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 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. The Company also provides 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.

SUBSCRIBER ACCESS

Access to the SABRE system enables subscribers to electronically locate, price, compare and purchase travel products and services provided by associates. The Company tailors the interface and functionality of the SABRE system to the needs of its different types of subscribers. Marketing is targeted to travel agencies, travel suppliers, corporations and individual consumers.

TRAVEL AGENTS. The Company provides travel agents with the hardware, software, technical support and other services needed to use the SABRE system, in return for fees that typically vary inversely with the travel agency's productivity, as measured by the number of bookings generated. Such fees are payable over the term of the travel agent's agreement with the Company, generally five years in the United States and Latin America, three years in Canada, and one year in Europe.

Because travel agencies have differing needs, the Company has modified the SABRE system interface to meet the specific needs of different categories of travel agents. Travel agents can choose interfaces that range from simple, text-based systems to feature-laden graphical systems. For example, the Company developed TURBO SABRE-REGISTERED TRADEMARK- software, an advanced point-of-sale interface and application development tool that enables advanced functionality such as customized screens, automated quality control, database integration, and eliminates complex commands, reducing keystrokes and training requirements.

PLANET SABRE-REGISTERED TRADEMARK- software includes a graphical launch pad, which enables the user to move to any function with one or two clicks of a mouse; a customization feature, which allows travel agencies to tailor PLANET SABRE software to meet their own specific needs; a tutorial; online help; a place to store notes about clients, destinations or procedures; and a suggestion system. PLANET SABRE software transforms the SABRE system from a complex command-oriented system to an all-graphic interface with continued access to the SABRE system and its capabilities.

SABRE NET PLATFORM-TM- is a low-cost, Internet browser based solution for smaller agencies or professional travel agents working from a remote location. The software provides Sabre quality and reliability at less than half the cost of other connectivity solutions, while at the same time, giving agents the flexibility to stay connected virtually anywhere.

The Company provides online bookings solutions for travel agencies and associate customers, including Web site development, business logic middleware, and backend processing. The end consumer accesses the agency and associate-specific Web sites via the Internet to locate, price, compare and purchase travel products and services. Because functionality requirements differ among customers, a suite of products has been developed to cater to specific online needs. Travel agent 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 the site. The Company currently provides Web hosting services for over 700 sites including the Travelocity.com Web site, ten major airlines, including American, US Airways, Inc. ("US Airways") and other associates and travel agencies.

The SABRE system interfaces are available in English, Spanish, Portuguese, French, German, Italian and Japanese. In addition, the Company offers travel agencies back-office accounting systems and further supports travel agencies by offering a simplified method to develop and place their own marketing presence on the World Wide Web.

TRAVEL SUPPLIERS AND CORPORATE ONLINE. Through its October 17, 2000 acquisition of GetThere, Inc. ("GetThere"), the Company significantly extended its leadership in Web-based solutions for corporations and suppliers.

GetThere-TM- DIRECTAIRLINE-TM- is powering Web sites for 10 major airlines including All Nippon Airways, America West, British Airways, TWA and United Airlines. GetThere's system provides supplier Web sites with extensive features for travel reservations, bonus mile programs, flight status alerts and Internet specials. In 2000, GetThere also announced its first booking site for a top lodging company - Hyatt.

Combining the former GetThere and Sabre Business Travel Solutions-REGISTERED TRADEMARK- organizations, GetThere provides Web-based travel booking systems designed for corporate travelers, travel arrangers and travel managers. It is a comprehensive offering that enables travel planning and reservations by corporate travelers, while providing control and decision support to travel managers. GetThere DIRECTCORPORATE-TM- provides corporations with tools to better manage travel costs, influence use of negotiated rates and adherence to corporate travel policies, and obtain real-time information on all aspects of travel. Through major agency and supplier partners, GetThere DIRECTMIDMARKET-TM- is delivering sophisticated corporate travel features to small and mid-sized companies that make up a significant percentage of business travel expenditures.

The Company receives fees for transactions booked through GetThere and also recognizes revenues for certain up-front fees, such as implementation, franchise, and license fees over the term of the related contract.

CONSUMER ONLINE. The Company owns a significant interest in Travelocity.com Inc. ("Travelocity.com"), a leading provider of online travel services to consumers. Through the Travelocity.com Web site and certain co-branded sites operated in conjunction with other Internet Web sites, individual consumers can plan their travel, obtain destination information, compare prices and make travel reservations online. This product is available to individual consumers free of charge.

The Travelocity.com Web site is accessible through the Internet and computer online services. It features booking and purchase capability for airline, car rental and hotel companies for which booking and purchase capability is available in the SABRE system. Vacation and cruise packages are available as well. The Travelocity.com Web site also offers access to a database of destination information, articles from travel correspondents and interactive maps. Travelocity.com has approximately 25 million members. During 2000, members booked approximately $2.5 billion in travel services through the Travelocity.com Web site.

Travelocity.com has entered into co-branding agreements to provide access to the Travelocity.com Web site on complementary Internet portals and other Web sites. These agreements include arrangements for Travelocity.com to be the exclusive booking service for Web sites operated by America Online, Inc.; Yahoo!, Inc.; and Excite, Inc.

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The Company receives booking fees and commissions from travel providers for purchases of their travel products and services pursuant to reservations made through the Travelocity.com Web site. In addition, the Company receives advertising revenues from the delivery of advertising impressions on the Travelocity.com Web site.

On March 7, 2000, the Company completed the merger of Travelocity.com Inc., a newly created subsidiary of the Company and Preview Travel, Inc. ("Preview"), an independent publicly-traded company engaged in consumer direct travel distribution over the Internet. Under the terms of the merger agreement, shareholders of Preview received one share of Travelocity.com Inc. for each share of Preview held, and Preview was merged into Travelocity.com Inc., the surviving entity. Shares of Travelocity.com Inc. stock now trade under the symbol "TVLY" on the NASDAQ National Market. In connection with the merger, the Company contributed its Travelocity.com division and approximately $100 million in cash to Travelocity.com LP, a Delaware limited partnership (the "Partnership"). Immediately following the merger, Travelocity.com Inc. contributed the assets and businesses obtained from the acquisition of Preview to the Partnership. As a result of the merger, the Company owns an economic interest of approximately 70% in the combined Travelocity businesses, composed of an approximate 61% direct interest in the Partnership and an approximate 22% interest in Travelocity.com Inc., which holds an approximate 39% interest in the Partnership. The Partnership and the Company have entered into intercompany agreements that provide for, among other things, continued access to the SABRE system for content and reservations services, the provision of technology and administrative resources, and the allocation of intellectual property rights. The Company also agreed to a non-competition agreement under which it agrees that it will not enter into the business of offering real time travel-related reservations, services and content directly to consumers through a travel-related Internet site for a period of two years.

INTERNATIONAL MARKETING

The Company is actively involved in marketing the SABRE system internationally either directly or through joint venture or distributorship arrangements. The Company's global marketing partners principally include foreign airlines that have strong relationships with travel agents in such airlines' primary markets and entities that operate smaller global distribution systems or other travel-related network services.

In February 1998, the Company signed long-term agreements with ABACUS International Holdings Ltd. which created a Singapore-based joint venture company to manage travel distribution in the Asia/Pacific region. The Company owns 35% of the joint venture company, called ABACUS International Ltd., and provides it with transaction processing and product development services on the SABRE system.

COMPETITION

Although distribution through traditional travel agents continues to be the primary method of travel distribution, new channels of direct online distribution to businesses and consumers are developing rapidly. The adoption of these tools is currently quite low, but it is growing quickly. The Company believes that its products and services offered through GetThere and Travelocity.com are well positioned to effectively compete in these emerging distribution channels.

The global market to attract and retain agency subscribers is intensely competitive. Factors affecting competitive success of global distribution systems include depth and breadth of information, ease of use, reliability, service and incentives to travel agents and range of products available to travel providers, travel agents and consumers. The Company competes in travel marketing and distribution primarily against other large and well-established global distribution systems. The Company's principal competitors in marketing to travel agents include Amadeus, Galileo and Worldspan. Each of these competitors offers many products and services substantially similar to those of the Company.

The Company potentially faces many new competitors as new travel distribution channels develop, including new Internet based business-to-business ("B2B") and business-to-consumer ("B2C") channels. Of course, these new players will have to face a number of challenges, including: significant capital investment, development or acquisition of hardware and software systems with global scales and reach, and ability to connect to disparate travel suppliers' and travel agents' systems. Many of these channels will continue to require services from a global distribution system such as the SABRE system. The Company has and will continue to offer transaction processing and other services to parties that compete directly with the Travelocity.com Web site and GetThere as such parties require access to the Company's offerings. For example, the Company provides transaction processing services to Cheap Tickets and Lowestfare.com although such companies compete against the Travelocity.com Web site. For the provision of these services, the Company receives booking fees for bookings made through these and other travel-related Web sites.

The Company markets the SABRE system to corporations through GetThere. The market for Internet-based travel procurement and supply services is new, highly competitive and rapidly evolving. The Company's main competitors in the B2B channel in marketing to corporations include providers of online travel products and services, such as Amadeus Global Travel Distribution SA; Oracle's E-Travel and Datalex PLC; and online providers of indirect goods and services including Ariba and Commerce One.

The Company offers its B2C channel primarily through the Travelocity.com Web site. The main competitors of the Travelocity.com Web site in marketing to consumers include Expedia (owned primarily by Microsoft Corporation) and Priceline.com. Increasingly, many travel suppliers are developing their own Web sites, some of which offer an array of products and services, that directly target consumers. Various major airlines have recently announced their intention to launch Internet Web sites in the United States, Europe and Asia to provide booking services for airline travel, hotel accommodations and other travel services offered by multiple vendors. Several hotels have announced plans for similar multi-vendor Web sites. Certain of these sites appear to have the intention to make certain discounted fares and prices available exclusively on their proprietary or multi-vendor Web sites. To that end, the multi-airline owned Web site in the U.S., named "Orbitz," has included "most favored distributor" and exclusivity provisions in its airline participation contracts. Similarly, the multi-airline owned Web site in Europe has signaled that its airline participation contracts will contain "most favored distributor" provisions. Orbitz is currently being investigated by the U.S. Department of Transportation (the "DOT") and the U.S. Department of Justice (the "DOJ"). The DOT is also conducting a rulemaking proceeding in which one of the central issues is whether Orbitz should be subject to the same sorts of regulations as have long applied to airline owned or airline marketed computer reservations systems used by travel agencies.

The Attorneys General of 20 U.S. states and the Commonwealth of Puerto Rico have filed comments with both the DOT and the DOJ expressing their serious concerns about the impact that Orbitz might have on competition. The Senate Antitrust Subcommittee has written to the DOJ and the Federal Trade Commission calling for an investigation of Orbitz. In those proceedings, a number of parties -- including the Association of Retail Travel Agents, the American Society of Travel Agents, Southwest Airlines, the Consumer Federation and the Company -- have either sought to have conditions imposed on the manner in which Orbitz may operate or to have it prohibited outright. The Company has sought the imposition of conditions that will safeguard fair competition in this sphere. The Company is unable to say when those proceedings might conclude or what the final outcome may be.

CRS INDUSTRY REGULATION

The Company's travel marketing and distribution business is subject to regulation in the United States, the European Union, Canada and Australia. These regulations generally address the relationships among computer reservation systems ("CRSs"), airline associates, and travel agency subscribers. Generally, these regulations do not address relationships with non-airline associates. The regulations in the European Union, however, do include rail associates in certain circumstances. In general, these regulations are directed at ensuring fair competition among travel providers. Among the principles addressed in the current regulations are: unbiased CRS displays of airline information, fair treatment of airline associates by CRSs, equal participation by airlines in non-owned CRSs, and fair competition for subscribers. The CRS regulations in the United States are currently under review. In addition, the Transportation Ministry of Peru is considering the adoption of CRS regulations. Likewise, the Department of Civil Aviation in Brazil considered such regulations last year but, for the time being, has decided such regulations are not necessary. The Company does not believe that the possible revisions to the United States code, or possible adoption of codes in Peru and Brazil will materially adversely affect its operations.

OTHER REGULATION

The Company may be impacted by regulations affecting issues such as: exports of technology, telecommunications, data privacy and electronic commerce. Some portions of the Company's business, such as its Internet-based travel marketing and distribution, may be affected if regulations are adopted in these areas. Any such regulations may vary among jurisdictions. The Company believes that it is capable of addressing these regulatory issues as they arise.

OUTSOURCING AND SOFTWARE SOLUTIONS

The Company is a leading provider of information technology services to the travel and transportation industries. The Company employs its airline technology expertise to offer outsourcing and software solutions to clients that face similar complex operations issues, including airport, railroad and hospitality companies. The services offered by the Company include software development and product sales, transactions processing and consulting, as well as comprehensive information technology outsourcing. Approximately 32.6%, 39.2% and 42.6% of the Company's revenue in 2000, 1999 and 1998, respectively, was generated by the provision of outsourcing and software solutions.

The Company continues to aggressively pursue strategic information technology relationships. Clients enter into strategic agreements with the Company in order to benefit from its extensive airline industry expertise, experience with complex operating and transaction environments and its extensive suite of software products and services. In August 2000, the Company initiated a business strategy that will allow the Company to leverage its strengths in the software application, reservations hosting and Web hosting areas. This business strategy includes further expansion of the Company's suite of software applications to include Web-enabled product offerings that will allow the Company to deliver unmatched industry knowledge and operational expertise to a much larger customer base.

The Company offers a comprehensive set of information technology solution services to the airline industry. These solutions include: information technology services; software development, sales and licensing; multihost services and consulting, which includes capabilities ranging from reengineering to functional consulting. Recruiting and retaining capable personnel, particularly those with expertise in operations research, information technology and industrial engineering, is vital to the provision of solutions by the Company.

INFORMATION TECHNOLOGY OUTSOURCING. The Company provides information technology outsourcing to airlines for desktop, data center, network and application development. The Company extends real-time transaction processing services by providing access to its hardware and software to airlines for reservations, flight operations, departure control and other related services. Local computer terminals at a customer's location are linked to the Company's mainframes, and the Company maintains and operates the entire system on a secure and confidential basis. The Company also provides services for establishing systems security, voice networks, data center connectivity, help desk support and desktop applications. Some of the major clients for the outsourcing business include American, US Airways and Gulf Air. The Company's business strategy involves partnering with other information technology providers to pursue new outsourcing opportunities.

In 1995, as a subcontractor of American, the Company began providing information technology services to Canadian Airlines International, Ltd. ("Canadian"). The services contract was signed in conjunction with AMR acquiring a significant ownership stake in Canadian. On January 5, 2000, Canadian was acquired by Air Canada, and AMR no longer owns an interest in the airline. Air Canada currently receives information technology services from a competitor of the Company. Air Canada executed termination of the Canadian Services Agreement with AMR effective February 2001. Since their purchase of Canadian, Air Canada has been integrating Canadian's operations with its own, which include the integration of information technology services. The Company is cooperating with Air Canada in the integration and conversion of information technology systems and services. The Company continues to perform transition and wind-down activities related to the

Canadian Services Agreement, which are set to be concluded by end of June 2001. The Company has also entered into a services agreement directly with Air Canada for all remaining information technology services, which currently extends through August 2001.

In 1996, the Company executed an information technology services agreement with American for a term of ten years for most services (five years for others). Under this agreement, the Company provides data processing network, distributed systems and applications development services to American and AMR's other subsidiaries. The Company fulfills substantially all of American's data processing requirements and manages all voice and data communication services for American and AMR's other subsidiaries, including data networks, voice networks and radio services. The Company also provides American with the services required to design, install, operate and maintain its range of local area networks, desktop, mobile computing and peripheral devices. The Company completes nearly all of the applications development for American.

In January 1998, the Company completed the execution of a 25-year, multibillion dollar technology agreement with US Airways to provide substantially all of US Airways' information technology services. The agreement covers the management and operation of US Airways' systems and information technology services. In 2000, United Air Lines announced its intent to acquire US Airways. At the present time, it is uncertain what impact this potential change in ownership may have on the services provided to US Airways by the Company.

SOFTWARE DEVELOPMENT, SALES AND LICENSING. The Company currently provides software solutions to more than 165 airlines. The Company develops off the shelf products as well as customized software for some of its larger customers. The Company's suite of software products provides many applications for airlines and other travel providers. Some of the most popular products support flight scheduling, flight operations, revenue management, crew scheduling, sales automation, cargo tracking, passenger systems and frequent flyer programs. In November 2000, the Company expanded its existing software products and solutions by launching SABRE-REGISTERED TRADEMARK-EMERGO-TM- Web-enabled solutions, a new application service provider offering that is designed to simplify delivery and operations for airlines and other travel suppliers. The EMERGO offering allows carriers access to 17 of Sabre's best of breed technological solutions that feature delivery through shorter implementations, 24-hour data center support, and fewer complications than running an internal system. Over the next two years, the Company plans to enhance more than 30 applications, which will add even greater breadth and depth to the existing product suite. Most products offered within EMERGO are Web-enabled and provide users with secure access for a pre-defined, user-based fee. Previously, the Company only offered core reservations, departure control, flight operations, and cargo products via an ASP platform. Two products included in the EMERGO offering are: SABRE-REGISTERED TRADEMARK- AIRFLITE-TM-, a decision-support tool that focuses on flight schedule development processes, including market demands and

operational constraints, to help an airline improve profitability and reduce costs; and SABRE-REGISTERED TRADEMARK- AIRMAX-TM-, an automated yield management system that uses historical and current reservations data to forecast booking activity by segment and fare class. Both products, as well as others in the EMERGO offering, enable faster time to market and require less in-house expertise.

MULTIHOST SERVICES. The Company currently provides multihost internal reservations system services to over 55 airlines. Each hosted airline has a unique and secured partition that contains that airline's data and reservations. Airline users access their data through a global network. The Company's line of multihost products support various fundamental airline functions, including reservations, ticketing, pricing, departure control, inventory and scheduling. Services included as part of the multihost offering include 24-hour help desk, training, product consulting, and communications and network implementation and consulting.

CONSULTING. The Company's consulting services assist businesses in the travel and transportation industries in collecting and analyzing operational and customer data in order to improve internal operations and product distribution in the market place. These services enable businesses to improve airport and other operations and optimally distribute their fares, schedules and inventories through all available channels - with special emphasis on distribution through computer reservations and global distribution systems.

The Company distributes its solutions and consulting services through a sales and marketing organization that spans four continents, with primary sales offices in Dallas, London, Paris, Hong Kong, Sydney and Auckland. The Company also maintains agency relationships to support sales efforts in key markets, including India, China and the Middle East. To date, the Company has provided business solutions to nearly 750 clients located in more than 75 countries.

COMPETITION

In outsourcing and software solutions, the Company competes both against solutions companies and full-service providers of technology outsourcing, some of which have considerably greater financial resources than the Company, and against smaller companies that offer a limited range of products. Among the Company's full-service competitors are Electronic Data Systems, IBM Global Services, Unisys, Accenture and Lufthansa Systems. The Company believes that its competitive position in the travel and transportation industries is enhanced by its experience in developing systems for American and other airlines and by its ability to offer not only software applications but also systems development, integration and maintenance and transaction processing services.

RESEARCH AND DEVELOPMENT EXPENSES

Research and development costs approximated $59 million, $48 million and $39 million for 2000, 1999 and 1998, respectively.

SEGMENT INFORMATION

Financial information for the Company's operating segments and geographical revenues and assets are included in Note 14 to the Consolidated Financial Statements.

INTELLECTUAL PROPERTY

The Company uses software, business processes and other proprietary information to carry out its business. These assets and related patents, copyrights, trade secrets, trademarks and intellectual property rights are significant assets of the Company. The Company relies on a combination of patent, copyright, trade secret and trademark laws, confidentiality procedures and contractual provisions to protect these assets. The Company has implemented a program to seek patent protection on key technology and business processes of its business. The Company's software and related documentation are also protected under trade secret and copyright laws. The laws of some foreign jurisdictions may provide less protection than the laws of the United States for the Company's proprietary rights. Unauthorized use of the Company's intellectual property could have a material adverse effect on the Company, and there can be no assurance that the Company's legal remedies would adequately compensate it for the damages to its business caused by such use.

EMPLOYEES

As of December 31, 2000, the Company had approximately 10,000 employees. A central part of the Company's philosophy is to attract and maintain a highly capable staff. The Company considers its current employee relations to be good. The Company's employees based in the United States are not represented by a labor union.

Effective upon the spin-off of the Company from AMR, the Company ceased to be subject in the United States to the Railway Labor Act and became subject to the Fair Labor Standards Act ("FLSA"). Among the implications of the change in law, the Company has increased obligations to pay overtime compensation to non-exempt employees. The Company does not expect to incur material increased overtime costs. In addition, it is relatively easier for unions to organize collective bargaining units under the FLSA.

ITEM 2. PROPERTIES

The Company's principal executive offices are located in Fort Worth, Texas, primarily in three buildings, which are owned by the Company and one of which is located on land leased from the Dallas/Fort Worth International Airport Board under a lease that expires in 2019, subject to four renewal options of five years each, exercisable at the option of the Company. Additionally, the Company leases office facilities in Westlake, Texas under leases expiring in 2003, subject to a three-month or a three-year option, exercisable at the option of the Company. The Company also leases office facilities in approximately 90 other locations worldwide.

The Company's principal data center is located in an underground facility in Tulsa, Oklahoma (the "Data Center"). The land on which the Data Center is located is leased from the Tulsa Airport Improvements Trust, a public trust organized under the laws of the State of Oklahoma, pursuant to a lease that expires in 2038. The SABRE system and the Company's data processing services are dependent on the Company's central computer operations and information processing facility located in the Data Center. In addition, the Company leases a facility in Tulsa, Oklahoma, for its data tape archives under a lease that expires in 2004, subject to one five-year renewal option. The Company also utilizes a computer center located in one of its office buildings in Fort Worth (the "Fort Worth Center"). At the Fort Worth Center, the Company operates and manages a wide variety of server based and client/server distributed systems.

During 1999, the Company entered into an agreement for the use of land, an existing office building and the construction of a new corporate headquarters facility in Southlake, Texas, as well as the development of new data center facilities in Tulsa, Oklahoma. The initial term of the lease expires in 2004, with two optional one-year renewal periods thereafter.

Many of the Company's travel agency and corporate subscribers connect to the SABRE system through leased access circuits. These leased access circuits, in turn, connect to the domestic and international data networks leased by the Company, such as those leased from Societe Internationale de Telecommunications Aeronautiques ("SITA"), which is owned by a consortium of airlines.

The Company believes that its office facilities, Data Center and Fort Worth Center will be adequate for its immediate needs and that the development of the new headquarters facility in Southlake, Texas, and new data center facilities in Tulsa, Oklahoma will accommodate expansion. The Company, however, continuously invests to upgrade these facilities to meet changing technological needs. The Company also believes that its network access will be adequate for its immediate and foreseeable needs.

ITEM 3. LEGAL PROCEEDINGS

PAKISTAN INTERNATIONAL AIRLINES ARBITRATION

On March 16, 2000, the Company initiated an arbitration proceeding in Paris, France in which sought to recover, from Pakistan International Airlines ("PIA"), $8.5 million for services rendered plus lost profits and termination fees. On July 31, 2000, PIA filed counterclaims against the Company seeking damages relating to the Company's alleged failure to perform. On December 18, 2000, the Company and PIA reached an amicable settlement of the dispute, under which the Company will continue providing certain services to PIA.

WORLDSPAN DISPUTE

On January 9, 1998, Worldspan LP ("Worldspan"), the former provider of computer reservation system services to ABACUS International Holdings ("ABACUS"), filed a lawsuit against the Company in the United States District Court for the Northern District of Georgia, Atlanta Division, seeking damages and an injunction, and alleging, among other things, that the Company interfered with Worldspan's relationship with ABACUS, violated the U.S. antitrust laws, and misappropriated Worldspan's confidential information. The same day, Worldspan filed a parallel lawsuit in the same court against ABACUS. On February 26, 1998, the court denied Worldspan's motion for a preliminary injunction against ABACUS. Thereafter, the court stayed the ABACUS case pending arbitration between ABACUS and Worldspan. The Arbitration Tribunal ruled in favor of Worldspan on August 7, 2000. Discovery continues in the case between Worldspan and the Company. The Company believes that Worldspan's claims are without merit and is vigorously defending itself. Additionally, the Company is entitled to indemnification from ABACUS pursuant to the terms of the agreement between the parties. No trial date has been set.

INDIA TAX ISSUE

In 1998, the tax authority in India asserted that the Company has a taxable presence in India. In March 1999, the Company received a $30 million USD tax assessment (including interest) for the two years ending March 31, 1998. The Company challenged the assessment on the grounds that it does not have a taxable presence in India and, even if it does, the assessment is based on incorrect data. The United States government intervened on behalf of the Company (and other U.S. companies currently facing similar tax-related issues with the Indian government). The Company appealed the validity and amount of the assessment within the Indian tax authority. Although the Company did not prevail in its appeal at this level on merits, a reassessment based on correct data was ordered. The Company is awaiting that redetermination. The Company continues to believe that the position of the Indian government is without merit and that it will ultimately prevail either through the U.S. government's efforts or on its direct appeal. The Company anticipates that it will appeal the case through judicial systems in India if an unfavorable ruling is obtained from the tax authority in India.

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

No matters were submitted to a vote of the Company's security holders during the fourth quarter of the fiscal year ended December 31, 2000.

EXECUTIVE OFFICERS OF THE REGISTRANT

The executive officers of the Company, their positions and ages as of December 31, 2000 are as follows:

William J. Hannigan...................	Chairman, since March 2000 and Director, President and Chief Executive Officer since December 1999. President of SBC Global Markets in 1999; President of Business Communication Services for Southwestern Bell/SBC 1998-1999; Chair of SBC DataComm Strategy Task Force and Regional President of Central & West Texas

	Southwestern Bell from 1997 to 1998; Vice President of Business and Government Markets Pacific Bell from 1996 to 1997; Vice President of Engineering and Applications Support for Sprint Corporation from 1995 to 1996. Age 41.
Jeffery M. Jackson....................	Executive Vice President, Chief Financial Officer and Treasurer since May 1999; Senior Vice President, Chief Financial Officer and Treasurer from August 1998 to May 1999; Vice President and Controller for American Airlines from January 1998 to August 1998; Vice President--Corporate Development and Treasurer for American Airlines from 1995 to 1998. Age 44.
David A. Schwarte.....................	Executive Vice President and General Counsel since March 2000. Director of Kelly, Hart & Hallman from July 1998 to March 2000; Managing Director of International Affairs of American Airlines from December 1996 to July 1998; Associate General Counsel of American Airlines from January 1995 to December 1996. Age 50.
Eric J. Speck.........................	Executive Vice President since May 2000; Executive Vice President, Marketing & Sales from May 1999 to May 2000; Senior Vice President--Sabre Travel Information Network from April 1997 to May 1999; Vice President--Sabre Europe from August 1995 to March 1997. Age 44.

All officers serve at the discretion of the Board of Directors.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

The Company's Class A common stock is traded on the New York Stock Exchange (symbol TSG). The approximate number of record holders of the Company's Class A common stock at February 21, 2001 was 11,080. At December 31, 2000 there were no shares of the Company's Class B common stock outstanding as a result of the exchange by AMR of Class B common stock for Class A common stock, all of which shares were distributed by AMR to AMR shareholders on March 15, 2000.

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

	HIGH	LOW
Quarter Ended:		
March 31, 2000	$53.50	$34.1875
June 30, 2000	38.625	25.5625
September 30, 2000	30.5625	22.3125
December 31, 2000	43.8125	26.375
Quarter Ended:		
March 31, 1999	$47.75	$38.25
June 30, 1999	70.625	44.937
September 30, 1999	72.00	39.50
December 31, 1999	56.125	39.75

On February 7, 2000, the Company declared a one-time cash dividend on all outstanding shares of the Company's Class A and Class B common stock. The aggregate amount of the dividend was $675 million, or approximately $5.20 per share, and was paid to shareholders on February 18, 2000. In the future, the Company intends to retain its earnings to finance future growth and, therefore, does not anticipate paying any additional cash dividends on its common stock. Any determination as to the future payment of dividends will depend upon the future results of operations, capital requirements and financial condition of the Company and its subsidiaries and such other factors as the Board of Directors of the Company may consider, including any contractual or statutory restrictions on the Company's ability to pay dividends.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following table presents historical financial data of the Company. During 2000, the Company acquired Preview; Gradient Solutions Limited ("Gradient"); GetThere and a 51% ownership interest in Dillon Communication Systems GmbH ("Dillon"). Such acquisitions affect the comparability of the data presented. See Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 4 to the Consolidated Financial Statements for further information regarding these acquisitions and their impact on the Company's financial condition and results of operations.

	YEAR ENDED DECEMBER 31,			
	2000	1999	1998	1997
	(IN MILLIONS, EXCEPT PER SHARE DATA AND OTHER DAT			
INCOME STATEMENT DATA (1)(2):				
Revenues	$2,617.3	$2,434.6	$2,306.4	$1,788
Operating expenses	2,366.9	2,062.1	1,956.0	1,475
Operating income	250.4	372.5	350.4	312
Other income (expense), net	(13.9)	155.4	21.1	11
Minority interests	30.7	---	---	-
Income before income taxes	267.2	527.9	371.5	323
Income taxes	123.1	196.0	139.6	123
Net earnings	$144.1	$331.9	$231.9	$199
Earnings per common share, basic	$1.11	$2.56	$1.78	$1.
Earnings per common share, diluted	$1.11	$2.54	$1.78	$1.
BALANCE SHEET DATA (AT END OF PERIOD) (1)(2):				
Current assets	$693.0	$976.4	$944.4	$877
Goodwill and intangible assets, net	891.5	---	---	-
Total assets	2,650.4	1,951.2	1,926.8	1,504
Current liabilities	1,266.4	525.1	400.8	311
Long-term notes payable	149.0	---	317.9	317
Minority interests	239.5	---	---	-
Stockholders' equity	791.0	1,262.0	953.7	757
OTHER DATA (1)(2):				
Operating margin (1)	9.6%	15.3%	15.2%	17
Direct reservations booked using the SABRE system (3)	394	370	358	3
Total reservations processed using the SABRE system (4)	467	439	409	3
Cash flows from operating activities	$310.8	$495.4	$450.8	$372
Capital expenditures	$190.1	$168.0	$320.0	$218

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(1) 2000 results of operations were impacted by the Company's merger and acquisition activities and the related goodwill amortization expense associated with those transactions. See Note 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 and the impact on the Company's financial condition and results of operations.

(2) The Company has significant transactions with AMR and American. The terms of many of the agreements with AMR and its affiliates were revised in connection with AMR's divestiture of its entire ownership interest in the

Company in the first quarter of 2000. See Note 6 to the Consolidated Financial Statements.

(3) CRS reservations for which the Company collects a booking fee.

(4) Includes direct reservations plus reservations processed by joint venture partners using the SABRE system.

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

SUMMARY

During 2000, the Company generated approximately 67.4% of its revenues from travel marketing and distribution services and approximately 32.6% of its revenues from outsourcing and software solutions services. Total revenues have grown at a compound annual growth rate of 13.5% for the three years ended December 31, 2000.

For the three years ended December 31, 2000, total operating expenses have grown at a compound annual growth rate of 17.1%. The Company's primary expenses consist of salaries, benefits, other employee-related costs, depreciation and amortization, communication costs and customer incentives, representing approximately 74.0%, 77.2% and 76.5% of total operating expenses in 2000, 1999 and 1998, respectively. Those expenses grew at a compound annual growth rate of 16.5% for the three years ended December 31, 2000, primarily due to the Company's growth, including business acquisitions, the incremental costs of the Company's Year 2000 efforts, and expenses associated with certain long-term outsourcing agreements.

As a result of the higher growth in operating expenses compared to revenues, primarily due to the financial impact of the Company's merger and acquisition activities in 2000, the Company's operating margin decreased to 9.6% in 2000 from 15.2% in 1998.

SEASONALITY

The following table sets forth quarterly financial data for the Company (in millions except per share data and percents):

	First Quarter	Second Quarter	Third Quarter
2000			
Revenues	$644.9	$661.8	$667.3
Operating income (loss)	102.6	100.6	68.0
Operating margin	15.9%	15.2%	10.2%
Net earnings (loss)	$65.6	$63.4	$44.4
Earnings (loss) per common share, basic	$.51	$.49	$.34
Earnings (loss) per common share, diluted	$.48	$.46	$.34
Direct reservations booked using the SABRE system	106	103	98
Total reservations booked using the SABRE system	125	122	117

1999			
Revenues	$638.1	$638.8	$617.2
Operating income	112.1	95.9	120.6
Operating margin	17.6%	15.0%	19.5%
Net earnings	$92.7	$63.5	$78.4
Earnings per common share, basic	$.71	$.49	$.61
Earnings per common share, diluted	$.71	$.48	$.55
Direct reservations booked using the SABRE system	99	97	94
Total reservations booked using the SABRE system	116	115	112

The travel industry is seasonal in nature. Bookings, and thus fees charged for the use of the SABRE system, decrease significantly each year in the fourth quarter, primarily in December, due to early bookings by customers

for travel during the holiday season and a decline in business travel during the holiday season. See Note 15 to the Consolidated Financial Statements for further information on quarterly financial results.

AGREEMENTS WITH AMR AND AMERICAN

In connection with the Reorganization, the Company, AMR and American entered into various agreements, collectively referred to as the "AMR Agreements". These agreements include an agreement for the provision of information technology services to American by the Company (the "Technology Services Agreement"), an agreement for the provision of marketing support by American for certain of the Company's products (the "Marketing Cooperation Agreement"), an agreement for the provision of management services by American to the Company (the "Management Services Agreement"), agreements for the provision of travel services by American to the Company and its employees (the "Corporate Travel Agreement" and the "Travel Privileges Agreement"). The rates under the agreements are adjusted or renegotiated from time to time, and current rates may represent an increase or decrease over previous rates. The financial terms of the AMR Agreements were applied to the Company's operations commencing January 1, 1996.

The base term of the Technology Services Agreement expires June 30, 2006. The terms of certain services to be provided by the Company to American, however, vary. The AMR Agreements generally establish pricing and service terms, and certain agreements, including the Technology Services Agreement, provide for periodic price adjustments that may take into account the market for similar services. Beginning in 1998, the formulas for annually adjusting certain rates under the Technology Services Agreement are adjusted every two years through negotiations of the parties which are to be guided by benchmarking procedures set forth in the agreement.

In connection with AMR's divestiture of its entire ownership interest in the Company in the first quarter of 2000, certain of these agreements were revised. Revisions to the Technology Services Agreement include extending services provided by the Company relating to AMR's real time environment until June 30, 2008 and AMR's client server operations until June 30, 2002. See Note 6 to the Consolidated Financial Statements.

RESULTS OF OPERATIONS

2000 COMPARED TO 1999

TRAVEL MARKETING AND DISTRIBUTION. Travel marketing and distribution revenues for the year ended December 31, 2000 increased approximately $284 million, 19.2%, compared to the year ended December 31, 1999, from $1,481 million to $1,765 million. This increase was primarily due to growth in booking and other fees from associates from $1,311 million to $1,533 million. The growth in fees from associates was driven by an increase in booking volumes and an overall increase in the average price per booking charged to associates due to a price increase implemented in February 2000. The increase was also partially driven by increases in bookings made through the Travelocity.com Web site. Other revenues increased approximately $62 million due primarily to increased advertising revenues from the Travelocity.com Web site, the addition of revenues from businesses acquired during 2000, services provided to and equity income related to the Company's joint ventures and increased revenues from the sale of miscellaneous products and services.

Cost of revenues for travel marketing and distribution increased approximately $133 million, 13.3%, from $1,002 million to $1,135 million. This increase was primarily attributable to increases in customer incentives, data processing costs, salaries, benefits, other employee-related costs and services purchased which were partially offset by reduced depreciation and amortization expense. Subscriber incentive expenses increased in order to maintain and expand the Company's travel agency subscriber base. Data processing costs increased due to the growth in bookings and transactions processed. Salaries, benefits and other employee-related costs increased to support the growth of the Company's businesses, including Travelocity.com, the addition of personnel associated with business combinations consummated in 2000 and higher severance charges related to a reduction in force in 2000 compared to severance charges related to a reduction in force in 1999. Services purchased increased due to increased temporary labor to support the growth of Travelocity.com business. Depreciation and amortization expense decreased due to certain classes of computer equipment becoming fully depreciated in 2000 and decreased spending on service contract equipment for subscribers resulting from lower unit costs of computer equipment.

OUTSOURCING AND SOFTWARE SOLUTIONS. Revenues from outsourcing and software solutions for the year ended December 31, 2000 decreased approximately $100 million, 10.5%, compared to the year ended December 31, 1999, from $953 million to $853 million. Revenues from US Airways decreased approximately $38 million due primarily to the conclusion of conversion and migration work under the information technology services agreement partially offset by increased revenues from infrastructure services. Other revenues decreased approximately $62 million primarily due to reduced applications development services for Canadian and Aerolineas Argentinas, the divestiture of the Company's logistics business and lower transaction processing and software development sales to other customers.

Cost of revenues for outsourcing and software solutions decreased approximately $104 million, 12.9%, from $807 million to $703 million. This decrease was primarily attributable to decreased contract labor, salaries, benefits, depreciation and amortization, and other operating expenses. Contract labor expenses decreased due to a planned reduction in contract labor headcount. Salaries and benefits decreased due to a reduction in headcount, partially offset by higher severance charges related to a reduction in force in 2000 compared to severance charges related to a reduction in force in 1999. Depreciation and amortization decreased due to the impact of changes in the Company's stock price on the amortization of the deferred costs associated with the stock options granted to US Airways. Due to a reduction in the market price of the Company's common stock, the value of the deferred costs decreased during the year resulting in a reduction of amortization expense of approximately $6 million. Depreciation and amortization expense also decreased due to reduced capital spending due in part to leasing rather than purchasing certain computer equipment. Other operating expenses decreased as a result of the conclusion of conversion and migration work on two information technology outsourcing contracts, the divestiture of the Company's logistics business and reduced application development work for Canadian Airlines.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses increased $165 million, 65.0%, from $254 million to $419 million. General and administrative expenses for the year include approximately $19 million of nonrecurring charges associated with the spin-off of the Company from AMR. Additionally, approximately $100 million of the increase in selling, general and administrative expenses relates to the Travelocity.com business and includes approximately $46 million of payments made to strategic distribution partners, approximately $36 million in increased advertising and promotion activities and approximately $18 million due to higher salaries, benefits and other administrative expenses necessary to support the growth of that business. The remaining increase in selling, general and administrative expenses is due to the Company's growth initiatives including strategic acquisitions consummated during 2000.

AMORTIZATION OF GOODWILL AND INTANGIBLE ASSETS. Amortization of goodwill and intangible assets was $109 million in 2000. The Company recorded approximately $1 billion of goodwill and intangible assets associated with the merger of Preview and Travelocity.com and the acquisitions of GetThere, Gradient and an interest in Dillon in 2000. The acquired goodwill and intangible assets are being amortized over periods ranging from one to five years.

OPERATING INCOME. Operating income decreased $123 million, 33.0%, from $373 million to $250 million. Operating margins decreased from 15.3% in 1999 to 9.6% in 2000, due to an increase in operating expenses of 14.8% partially offset by a 7.5% increase in revenues.

INTEREST INCOME. Interest income decreased by $12 million, 42.9%, from $28 million to $16 million, due primarily to lower average balances maintained in the Company's cash and marketable securities accounts as a result of the payment of a $675 million dividend to shareholders in February 2000 and strategic acquisitions during 2000.

INTEREST EXPENSE. Interest expense increased $22 million, 220.0%, from $10 million to $32 million as a result of the debt assumed during 2000 in connection with the payment of a $675 million dividend to shareholders in February 2000 and the acquisition of GetThere in October 2000.

OTHER INCOME (EXPENSE). Other income (expense) decreased $136 million, primarily due to a $138 million non-recurring gain recognized in 1999 on the liquidation of Equant N.V. ("Equant") depository certificates.

MINORITY INTERESTS. Minority interests include minority owners' interests in consolidated subsidiaries of the Company, primarily Travelocity.com.

INCOME TAXES. The provision for income taxes was $123 million and $196 million for 2000 and 1999, respectively. The decrease in the provision for income taxes primarily corresponds with the change in income before the provision for income taxes. The decrease is also due to a lower effective tax rate resulting from the research and experimentation credit, partially offset by a higher effective tax rate resulting from nondeductible goodwill amortization. See Note 9 to the Consolidated Financial Statements for additional information regarding income taxes.

NET EARNINGS. Net earnings decreased $188 million, 56.6%, from $332 million to $144 million, primarily due to decreases in other income, operating income and interest income and increases in interest expense in 2000 compared to 1999.

1999 COMPARED TO 1998

TRAVEL MARKETING AND DISTRIBUTION. Travel marketing and distribution revenues for the year ended December 31, 1999 increased approximately $156 million, 11.8%, compared to the year ended December 31, 1998, from $1,325 million to $1,481 million. This increase was primarily due to growth in booking and other fees from associates from $1,183 million to $1,311 million. The growth in fees from associates was driven by an increase in booking volumes and an overall increase in the average price per booking charged to associates due to a price increase implemented in February 1999. The increase was also partially driven by increases in bookings made through the Company's Travelocity.com Web site. Other revenues increased approximately $28 million primarily due to services provided to and equity income related to the Company's joint ventures and revenues from sales of miscellaneous products and services.

Cost of revenues for travel marketing and distribution increased approximately $86 million, 9.4%, from $916 million to $1,002 million. This increase was primarily attributable to increases in subscriber incentive expenses, data processing costs and salaries and benefits, partially offset by reductions in expenses associated with the Marketing Cooperation Agreement with American. Subscriber incentive expenses increased in order to maintain and expand the Company's travel agency subscriber base. Data processing costs increased due to the growth in bookings and transactions processed. Salaries and benefits increased due to an increase in the average number of employees necessary to support the Company's business growth and annual salary increases.

OUTSOURCING AND SOFTWARE SOLUTIONS. Revenues from outsourcing and software solutions for the year ended December 31, 1999 decreased approximately $29 million, 3.0%, compared to the year ended December 31, 1998, from $982 million to $953 million. This decrease was primarily related to services performed under the information technology services agreement with US Airways moving into a steady state and decreases in software development sales, offset by increased revenues from other information technology outsourcing agreements signed during 1998.

Cost of revenues for outsourcing and software solutions decreased approximately $40 million, 4.7%, from $847 million to $807 million. This decrease was primarily attributable to a decrease in contract labor expenses and other services purchased, partially offset by an increase in salaries and benefits expenses. Contract labor expenses decreased due to a planned reduction in contract labor headcount. Other services purchased decreased due to the completion of conversion services for US Airways in 1999. Salaries and benefits increased due to higher average salaries and benefits costs and severance charges related to the reduction in force in August 1999.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses increased $61 million, 31.6%, from $193 million to $254 million, primarily due to salaries, benefits and employee-related costs, advertising and miscellaneous selling expenses. Salaries, benefits and employee-related costs increased as a result of sales growth initiatives and increased administrative requirements to support the Company's growth. Advertising for the Travelocity.com Web site and miscellaneous selling expenses also increased in order to support the Company's growth initiatives.

OPERATING INCOME. Operating income increased $23 million, 6.6%, from $350 million to $373 million. Operating margins increased from 15.2% in 1998 to 15.3% in 1999, due to an increase in revenues of 5.6%, while operating expenses increased 5.4%.

INTEREST INCOME. Interest income increased by $2 million, due primarily to higher average balances maintained in the Company's cash and marketable securities accounts.

INTEREST EXPENSE. Interest expense decreased $9 million as a result of the settlement in June 1999 of the $318 million debenture payable to AMR.

OTHER INCOME (EXPENSE). Other income (expense) increased $123 million, primarily due to a $138 million gain recognized on the liquidation in 1999 of Equant depository certificates held by American for the economic benefit of the Company, partially offset by the one-time gain of $14 million recognized in 1998 as a result of the favorable court judgment relating to Ticketnet Corporation, an inactive subsidiary of the Company.

INCOME TAXES. The provision for income taxes was $196 million and $140 million for 1999 and 1998, respectively. The increase in the provision for income taxes corresponds with the increase in net income before the provision for income taxes, partially offset by a lower effective tax rate due primarily to increased foreign tax benefits. See Note 9 to the Consolidated Financial Statements for additional information regarding income taxes.

NET EARNINGS. Net earnings increased $100 million, 43.1%, from $232 million to $332 million, primarily due to the increases in other income and operating income and the reduction in interest expense.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2000, the Company had $193 million in cash and marketable securities, including $47 million of long-term marketable securities, and a working capital deficit of $573 million compared to cash and marketable securities and working capital balances at December 31, 1999 of $611 million and $451 million, respectively. The Company invests cash in short-term marketable securities, consisting primarily of certificates of deposit, bankers' acceptances, commercial paper, corporate notes and government notes. The reduction in the amount of cash and marketable securities and working capital was primarily due to the funding of the $675 million dividend paid in February 2000 and strategic acquisitions made by the Company in 2000. The Company plans to repay its short-term debt obligations prior to maturity using a combination of its available cash and marketable securities and, depending on market conditions, other refinancing alternatives including but not limited to short-term to medium-term public or privately-placed debt.

The Company has historically funded its operations through cash generated from operations. The Company's cash provided by operating activities of $311 million, $495 million and $451 million in 2000, 1999 and 1998, respectively, were primarily attributable to net earnings before noncash charges.

On January 5, 2000, pursuant to the terms of the stock option agreement with US Airways, the Company settled the first tranche of options to acquire 3 million shares of the Company's Class A common stock with a cash payment of $81 million in lieu of issuing stock. The second tranche of options to acquire 3,406,914 shares of the Company's Class A common stock remained outstanding at December 31, 2000. Effective January 1, 2001, US Airways' ability to select alternative value in place of receiving stock for the second tranche of options expired. The Company may, at its discretion, choose to settle the remaining stock options with alternative value in place of issuing shares of its common stock. Such payment may result in the payment of cash by the Company to US Airways.

Net cash used for investing activities for 2000 and 1999 were $473 million and $438 million, respectively. Investing activities in 2000 primarily included $711 million for strategic acquisitions including GetThere, Preview, Gradient and an interest in Dillon as well as $190 million of expenditures for property and equipment. Investing activities in 1999 primarily included a $300 million loan to American and $167 million of expenditures for property and equipment.

The Company obtained $163 million in cash from financing activities in 2000 compared to cash used for financing activities in 1999 of $59 million. Cash provided by financing activities in 2000 includes $859 million from the issuance of notes payable which was partially offset by the payment of $675 million in dividends to shareholders in February and $34 million used to repurchase approximately 1 million shares of the Company's Class A common stock. See Note 11 to the Consolidated Financial Statements for a further discussion of the 2000 dividend. In the future, the Company intends to retain its earnings to finance future growth and, therefore, does not anticipate paying any additional cash dividends on its common stock. Any determination as to the future payment

of dividends will depend upon the future results of operations, capital requirements and financial condition of the Company and its subsidiaries and such other factors as the Board of Directors of the Company may consider, including any contractual or statutory restrictions on the Company's ability to pay dividends. Cash used for financing activities in 1999 included $60 million to repurchase approximately 1 million shares of the Company's stock and the payment of $18 million to AMR in settlement of an outstanding debt obligation.

On February 4, 2000, the Company entered into a $300 million, senior unsecured, revolving credit agreement (the "Credit Facility"), which expires on September 14, 2004. Concurrently, the Company entered into a short-term $200 million, senior unsecured, term loan agreement (the "Interim Loan"), with an original maturity of August 4, 2000 which was subsequently extended to February 4, 2001. On February 18, 2000, the Company utilized a portion of its available cash balance and marketable securities, as well as proceeds from both the Credit Facility and Interim Loan to fund a $675 million dividend to shareholders. In connection with the bridge credit facility discussed below, the entire $200 million balance outstanding under the Interim Loan was repaid and the Interim Loan agreement was terminated. At December 31, 2000, there were no outstanding borrowings under the Interim Loan and $149 million outstanding under the Credit Facility.

On October 10, 2000, the Company entered into a $865 million bridge credit agreement (the "Bridge Credit Agreement"). Proceeds of the Bridge Credit Agreement were used to fund the acquisition of GetThere and to repay the $200 million outstanding under the Interim Loan. At December 31, 2000, the outstanding balance of borrowings under the Bridge Credit Agreement was $710 million. See Note 7 to the Consolidated Financial Statements for further information regarding these credit agreements.

During 1999, the Company entered into a syndicated lease financing facility of approximately $310 million for the use of land and an existing office building and the construction of a new corporate headquarters facility in Southlake, Texas, as well as the development of new data center facilities in Tulsa, Oklahoma. The financing facility will be accounted for as an operating lease. The initial term of the lease extends through September 14, 2004, with two optional one-year renewal periods thereafter. At the end of each renewal period, the Company is required to either renew the lease, purchase the property for its original cost, or arrange for the sale of the property to a third party, with the Company guaranteeing to the lessor proceeds on such sale of approximately 85% of the original fair value of the leased facility, or approximately $264 million. See Note 10 to the Consolidated Financial Statements for further information regarding future minimum lease payments.

On October 2, 1999, the Company entered into an agreement with America Online, Inc. ("AOL") that became effective upon the consummation of the merger of Travelocity.com with Preview. The agreement provides, among other things, that the Travelocity.com Web site will be the exclusive reservations engine for AOL's Internet properties. Travelocity.com is obligated for payments of up to $200 million and AOL and Travelocity.com will share advertising revenues and commissions over the five year term of the agreement. Under certain circumstances, Travelocity.com may elect to alter the terms of this agreement such that guaranteed payments to AOL would no longer be required. In connection with this agreement, Travelocity.com paid $40 million to AOL on March 7, 2000.

On March 10, 2000, the Company filed a registration statement on Form S-3 with the Securities and Exchange Commission through which the Company intends to sell certain securities from time to time after the effective date of the registration statement. The Company intends to use the proceeds from the sale of any securities for general corporate purposes, including the retirement of debt, additions to working capital, capital expenditures and for acquisitions.

The Company expects that the principal use of funds in the foreseeable future will be for capital expenditures, software product development, acquisitions, working capital and the repayment of debt. Capital expenditures will primarily consist of purchases of equipment for the Data Center, as well as computer equipment, printers, fileservers and workstations to support (i) updating subscriber equipment primarily for travel agencies, (ii) expansion of the subscriber base and (iii) new product capital requirements. The Company has estimated capital expenditures of approximately $225 million to $275 million for 2001.

The Company believes that available balances of cash and marketable securities, cash flows from operations and, depending on market conditions, other refinancing alternatives including but not limited to short-term to medium-term public or privately-placed debt will be sufficient to meet the Company's cash requirements.

INTEREST IN EQUANT

At December 31, 2000, American held for the economic benefit of the Company 2.3 million depository certificates representing beneficial ownership of common stock of Equant, a telecommunications company affiliated with SITA. The depository certificates are issued by the SITA Foundation, which holds the underlying Equant shares. The depository certificates have an estimated value of approximately $60 million, based upon the market value of Equant's publicly-traded common stock at December 31, 2000.

In November 2000, an agreement was announced in which the SITA Foundation will exchange approximately 68 million Equant shares for France Telecom shares. The SITA Foundation will receive one France Telecom share for every 2.2 Equant shares. The agreement is conditional upon certain regulatory approvals from the European Union and the United States authorities. It is also subject to certain customary termination provisions. Completion is expected to take place in the first half of 2001. Based upon the terms of the SITA Foundation exchange agreement with France Telecom, the depository certificates have an estimated value of approximately $90 million at December 31, 2000. The Company's carrying value of these certificates was nominal at December 31, 2000 as certain restrictions limit the Company's ability to freely dispose of the certificates. Any future disposal of such depository certificates, or shares of France Telecom received in exchange for the depository certificates, may result in additional gains to the Company.

MERGERS AND ACQUISITIONS

During 2000, the Company completed the merger of Travelocity.com and Preview. Additionally, the Company completed the acquisitions of Gradient and GetThere, as well as acquired a 51% ownership interest in Dillon. For further information regarding these transactions, see Note 4 to the Consolidated Financial Statements.

INFLATION

The Company believes that inflation has not had a material effect on its results of operations.

OUTLOOK FOR 2001

This outlook section contains a number of forward-looking statements, all of which are based on current expectations. Actual results may differ materially. Please refer to the Cautionary Statement and Risk Factors paragraphs contained below in this Management's Discussion and Analysis of Financial Conditions and Results of Operations.

The Company expects continued profitability and revenue growth in 2001. The Company expects consolidated year-over-year revenue growth to exceed 15% and expects consolidated earnings growth to be in the 17% to 20% range compared to 2000, excluding certain non-cash and one-time charges in both years. Such items include amortization of goodwill and intangible assets associated with strategic acquisitions, amortization expense associated with stock options granted to US Airways, expenses associated with the spin-off from AMR Corporation, and other various special items.

Within the Travel Marketing and Distribution business, revenue is expected to grow due to increased travel bookings and an increase in the average price per booking as well as expected strong revenue growth in the Travelocity.com and GetThere businesses. The Company anticipates continued pressure on subscriber incentive expenses and plans to offset such expenses through cost cutting initiatives announced in 2000.

Within the Outsourcing and Software Solutions business, the Company anticipates flat to slight year-over-year revenue growth. Revenue from existing outsourcing customers, software solutions, and the reservations applications business is expected to improve, offset by declining revenue on the Canadian contract. The Company anticipates year-over-year operating margin improvement within this business driven by cost cutting initiatives announced in 2000.

RECENT ACCOUNTING PRONOUNCEMENT

The Company has adopted Statement of Financial Accounting Standards No. 133, ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES ("FAS 133") effective January 1, 2001. FAS 133 requires the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings.

At December 31, 2000, the Company was a party to certain derivative instruments, including foreign currency forwards designated as a hedge related to anticipated foreign currency expenditures, an interest rate/foreign currency swap contract entered into in connection with Euro denominated debt related to the Gradient acquisition (see Note 4 to the Consolidated Financial Statements) and warrants received from Hotel Reservations Network in connection with an affiliation agreement. The Company currently estimates that it will report a gain of approximately $7 million, before minority interest, related to the adoption of FAS 133 in the first quarter of 2001. The estimated gain is based upon the fair value of the derivatives and any actual gains or losses realized by the Company will be dependent upon future events.

CAUTIONARY STATEMENT

Statements in this report which are not purely historical facts, including statements regarding the Company's anticipations, beliefs, expectations, hopes, intentions or strategies for the future, may be forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. All forward-looking statements in this report are based upon information available to the Company on the date of this report. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Any forward-looking statements involve risks and uncertainties that could cause actual events or results to differ materially from the events or results described in the forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements.

RISK FACTORS

Risks associated with an investment in the Company, and with achievement of the Company's forward-looking statements in this report, its news releases, Web sites, public filings, investor and analyst conferences and elsewhere, include, but are not limited to, the risk factors described below. Any of the risk factors described below could have a material adverse effect on the Company's business, financial condition or results of operations. The Company may not succeed in addressing these challenges and risks.

For a discussion of risk factors specific to the Travelocity.com business, please refer to the filings made with the Securities and Exchange Commission by Travelocity.com Inc. Those filings may be accessed on the Internet at www.sec.gov.

THE COMPANY FACES COMPETITION FROM ESTABLISHED AND EMERGING TRAVEL DISTRIBUTION CHANNELS. MANY OF THE COMPANY'S COMPETITORS IN THE TRAVEL MARKETING AND DISTRIBUTION BUSINESS ARE WELL FUNDED AND HAVE MAJOR TRAVEL SUPPLIERS AS SIGNIFICANT SHAREHOLDERS.

The Company's travel marketing and distribution business includes channels of distribution that target the Travel Agency, Business-to-Business, and Business-to-Consumer segments of the global travel distribution market. In all of these distribution channels, the Company faces significant competitors in the travel marketing and distribution business. In the Travel Agency channel, the Company's Sabre-Registered Trademark- global distribution system competes primarily against other large and well-established global distribution systems, including those operated by Amadeus, Galileo and Worldspan. Airlines are significant owners of each of those global distribution system competitors. Sabre is the only global distribution system in which no airline is a significant owner. In addition, the Company faces competition in the Travel Agency channel from travel suppliers that distribute directly to travel agencies and from non-global distribution system companies. In the Business-to-Business channel, the Company's GetThere-SM- and Sabre-Registered Trademark- BUSINESS TRAVEL SOLUTIONS suite of products compete not only against similar products offered by Amadeus, Galileo and Worldspan, but also with products offered by new competitors, including Oracle and SAP. Some of these competitors effectively market business travel systems that are bundled with financial and other non-travel software systems that are not offered by the Company. In the Business-to-Consumer channel, the Company's Travelocity.com product offering competes not only against similar products offered by Amadeus, Galileo and Worldspan, but also with a large number of travel Web sites, including those operated by travel suppliers and by Expedia (an affiliate of Microsoft Corporation) and Priceline. Airlines and other travel suppliers have significant ownership stakes in some of these competitors. In addition, various airlines have recently established their own travel distribution Web sites, and several have announced plans to create multi-airline travel distribution Web sites (such as those proposed in the U.S. by Orbitz and in Europe by the Online Travel Portal). Although government authorities in some jurisdictions are examining whether the content and features made available through multi-airline Web sites by their owner airlines must also be made available to competitor Web sites, and although Orbitz is under investigation by the U.S. Departments of Justice and Transportation, it is uncertain whether the various governments will act to require carriers owning multi-carrier sites to treat competing sites in a fair and non-discriminatory way. Furthermore, many travel suppliers offer lower prices when their products and services are purchased directly from the supplier, such as through its own Web site, than when they are offered by the Company.

TRAVEL AGENCY CONSOLIDATION AND INCREASED COMPETITION FOR TRAVEL AGENCY SUBSCRIBERS MAY RESULT IN INCREASED EXPENSES OR REDUCED REVENUE AND MARKET POSITION.

The absolute and relative size of the Company's Travel Agency subscriber base is important to the Company's success. Travel suppliers have reduced commissions paid to travel agencies, which has forced some smaller travel agencies to close or to combine with larger agencies. Although the Company has a leading share of large travel agencies, competition is particularly intense among global distribution systems for travel agency subscribers. The potential for the Company to add new Travel Agency subscribers exists primarily outside of North America. Some of the Company's competitors aggressively pay economic incentives to travel agencies to obtain business. In order to compete, the Company may need to increase incentives, increase spending on marketing or product development, or otherwise take actions adverse to the Company. If the Company does not retain subscribers representing a significant percentage of historic bookings through the Sabre-Registered Trademark- global distribution system, the Company's booking fee revenues would decrease.

AIRLINES THAT ARE DIVESTING THEIR OWNERSHIP OF GLOBAL DISTRIBUTION SYSTEMS MIGHT LIMIT THEIR PARTICIPATION IN THE COMPANY'S TRAVEL MARKETING AND DISTRIBUTION SERVICES.

Rules in the United States, Canada and the European Union govern "computer reservation systems" such as the Company's global distribution system. Airlines that divest their ownership of computer reservation systems (such as American, British Airways, US Airways, and Continental Airlines) may not be subject to the rules in these jurisdictions, which would otherwise require them to participate in the Company's global distribution system in a non-discriminatory manner. The Company could be adversely affected by a decision by one or more large airlines to discontinue or to lower its level of participation in the Company's global distribution system.

REGULATORY DEVELOPMENTS COULD LIMIT THE COMPANY'S ABILITY TO COMPETE.

The U.S. Department of Transportation is currently engaged in a comprehensive review of its rules governing computer reservation systems such as the Company's global distribution system. It is unclear at this time when the Department of Transportation will complete its review and what changes, if any, will be made to the U.S. rules. The Company could be unfairly and adversely affected if the U.S. rules are retained as to traditional global distribution systems used by travel agencies but are not applied to Business-to-Consumer travel distribution Web sites owned by more than one airline. The Company could also be adversely affected if changes to the U.S. rules increased its cost of doing business, weakened the non-discriminatory participation rules to allow one or more large airlines to discontinue or to lower its level of participation in the Company's global distribution system, or caused the Company to be subject to rules that do not apply to its travel marketing and distribution competitors.

THE COMPANY MAY LOSE CERTAIN CURRENT PRINCIPAL OUTSOURCING CUSTOMERS.

A principal information technology solutions customer -- US Airways -- might be acquired by another airline. If US Airways were to be acquired, it might reduce the amount of services currently provided by the Company. American is the Company's largest customer for information technology solutions services. In March 2000, American's parent company, AMR, distributed to its shareholders its controlling interest in the Company. Thus, American may now have a greater incentive to negotiate lower prices and better terms in its contracts with the Company, or to award business to competitors of the Company.

RAPID TECHNOLOGICAL CHANGES AND NEW DISTRIBUTION CHANNELS MAY RENDER THE COMPANY'S TECHNOLOGY OBSOLETE OR DECREASE THE ATTRACTIVENESS OF ITS SERVICES TO

CUSTOMERS.

New distribution channels and technology in the travel marketing and distribution business and the outsourcing and software solutions business are rapidly emerging, such as the Internet, computer on-line services, private networks, cellular telephones and other wireless communications devices. The Company's ability to compete in the travel marketing and distribution business and outsourcing and software solutions business, and the Company's future results, depend in part on its ability to make timely and cost-effective enhancements and additions to its technology and to introduce new products and services that meet customer demands and rapid advancements in technology. Maintaining flexibility to respond to technological and market dynamics may require substantial expenditures and lead-time. There can be no assurance that the Company will successfully identify and develop new products or services in a timely manner, that products, technologies or services developed by others will not render the Company's offerings obsolete or noncompetitive, or that the technologies in which the Company focuses its research and development investments will achieve acceptance in the marketplace.

THE COMPANY'S SYSTEMS MAY SUFFER FAILURES, CAPACITY CONSTRAINTS AND BUSINESS INTERRUPTIONS, WHICH COULD INCREASE THE COMPANY'S OPERATING COSTS AND CAUSE THE COMPANY TO LOSE CUSTOMERS.

The Company's travel marketing and distribution and outsourcing and software solutions businesses are largely dependent on the Company's computer data centers and network systems. The Company relies on several communications service suppliers to provide network access between the Company's computer data center and end-users of the Company's travel marketing and distribution and outsourcing and software solutions services. The Company occasionally experiences system interruptions that make the Company's global distribution system or other data processing services unavailable. Much of the Company's computer and communications hardware is located in a single facility. Our systems might be damaged or interrupted by fire, flood, power loss, telecommunications failure, break-ins, earthquakes and similar events. Computer viruses, physical or electronic break-ins and similar disruptions might cause system interruptions, delays and loss of critical data and could significantly diminish the Company's reputation and brand name and prevent it from providing services. Although the Company believes it has taken adequate steps to address these risks, the Company could be harmed by outages in or unreliability of the data center or network systems.

THE COMPANY'S REVENUES ARE HIGHLY DEPENDENT ON THE TRAVEL AND TRANSPORTATION INDUSTRIES, AND PARTICULARLY ON THE AIRLINES.

Most of the Company's revenue is derived from airlines, hotel operators and car rental companies and other suppliers in the travel and transportation industries. The Company's revenue increases and decreases with the level of travel and transportation activity, and is therefore highly subject to declines in or disruptions to travel and transportation. Factors that may adversely affect travel and transportation activity include price escalation in travel-related industries, airline or other travel-related labor action, political instability and hostilities, bad weather, fuel price escalation, increased occurrence of travel-related accidents, acts of terrorism, and economic downturns and recessions. The travel industry is seasonal, and the Company's revenue varies significantly from quarter to quarter.

THE COMPANY FACES TRADE BARRIERS OUTSIDE OF NORTH AMERICA THAT LIMIT ITS ABILITY TO COMPETE.

Trade barriers erected by non-U.S. travel suppliers - historically often government-owned - have on occasion prevented the Company from offering its products and services in their markets or have denied the Company content or features that they give to the Company's competitors. Those trade barriers make the Company's products and services less attractive to travel agencies in those countries than other global distribution systems that have such capability and have restricted the ability of the Company to gain market share outside of the U.S. Competition in those countries could require the Company to increase incentives, reduce prices, increase spending on marketing or product development, or otherwise to take actions adverse to the Company.

THE COMPANY'S INTERNATIONAL OPERATIONS ARE SUBJECT TO OTHER RISKS.

The Company faces risks inherent in international operations, such as risks of currency exchange rate fluctuations, local economic and political conditions, restrictive governmental actions (such as trade protection measures, including export duties and quotas and custom duties and tariffs), changes in legal or regulatory requirements, import or export licensing requirements, limitations on the repatriation of funds, difficulty in obtaining distribution and support, nationalization, different accounting practices and potentially longer payment cycles, seasonal reductions in business activity, higher costs of doing business, consumer protection laws and restrictions on pricing or discounts, lack of or the failure to implement the appropriate infrastructure to support the Company's technology, disruptions of capital and trading markets, laws and policies of the U.S. affecting trade, foreign investment and loans, and tax and other laws. These risks may adversely affect the Company's ability to conduct and grow business internationally.

THE COMPANY MAY NOT SUCCESSFULLY MAKE AND INTEGRATE BUSINESS COMBINATIONS AND STRATEGIC ALLIANCES.

The Company plans to continue to enter into business combinations, investments, joint ventures or other strategic alliances with other companies in order to maintain and grow revenue and market presence. Those transactions with other companies create risks such as difficulty in assimilating the operations, technology and personnel of the combined companies; disruption of the Company's ongoing business, including loss of management focus on existing businesses and other market developments; problems retaining key technical and managerial personnel; expenses associated with amortization of goodwill and other purchased intangible assets; additional operating losses and expenses of acquired businesses; impairment of relationships with existing employees, customers and business partners; and fluctuations in value and losses that may arise from equity investments. In addition, the Company may not be able to identify suitable candidates for business combinations and strategic investments or to make such business combinations and strategic investments on acceptable terms.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

INTEREST RATE RISK

At December 31, 2000, the Company's exposure to interest rates relates primarily to it's investment portfolio and it's borrowings under various credit facilities. At December 31, 1999, the Company's exposure to interest rates related primarily to its investment portfolio.

The objectives of the Company's marketable securities are safety of principal, liquidity maintenance, yield maximization and full investment of all available funds. As such, the Company's investment portfolio consists primarily of high credit quality certificates of deposit, bankers' acceptances, commercial paper, mortgage-backed and receivables-backed securities, and corporate and government notes. If short-term interest rates average 10% lower in 2001 than they were during 2000, the Company's interest income from marketable securities would decrease by approximately $0.5 million. In comparison, at December 31, 1999, the Company estimated that if short-term interest rates averaged 10% lower in 2000 than they were during 1999, the Company's interest income from marketable securities would have decreased by approximately $0.7 million. These amounts were determined by applying the hypothetical interest rate change to the Company's marketable securities balances as of December 31, 2000 and 1999.

In addition, the Company had floating rate borrowings with a principal balance of approximately $859 million at December 31, 2000. If short-term interest rates average 10% higher in 2001 than they were in 2000, the Company's interest expense would increase by approximately $3 million. This amount was determined by applying the hypothetical interest rate change to the Company's borrowings balance at December 31, 2000. In comparison, at December 31, 1999, the Company had no interest rate exposure due to the fact that there was no outstanding debt at that date. If the Company's mix of interest rate-sensitive assets and liabilities changes significantly, the Company may enter into derivative transactions to manage its net interest exposure.

FOREIGN CURRENCY RISK

The Company has various foreign operations, primarily in North America, South America, Europe, and Asia. As a result of these business activities, the Company is exposed to foreign currency risk. However, these exposures have historically related to a small portion of the Company's overall operations as a substantial majority of the Company's business is transacted in the United States dollar. The Company was a party to certain foreign currency derivative contracts at December 31, 2000. These contracts were not significant to the Company's financial position or results of operations as of or for the year ending December 31, 2000. No such transactions were outstanding at December 31, 1999.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

The Board of Directors and Stockholders
Sabre Holdings Corporation

We have audited the accompanying consolidated balance sheets of Sabre Holdings Corporation and subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2000. Our audits also included the financial statement schedule listed under Item 14(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sabre Holdings Corporation and subsidiaries at December 31, 2000 and 1999, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

ERNST & YOUNG LLP

Dallas, Texas
January 15, 2001

SABRE HOLDINGS CORPORATION
CONSOLIDATED BALANCE SHEETS
(in thousands)

	2
ASSETS	
CURRENT ASSETS	
Cash	$
Marketable securities	13
Accounts receivable, net	44
Receivable from related party, net	
Prepaid expenses	8
Deferred income taxes	1
Total current assets	69
PROPERTY AND EQUIPMENT	
Buildings and leasehold improvements	34
Furniture, fixtures and equipment	4

Service contract equipment	51
Computer equipment	52
	1,43
Less accumulated depreciation and amortization	(87
Total property and equipment	55
Investments in joint ventures	15
Goodwill and intangible assets, net	89
Other assets, net	35
TOTAL ASSETS	$ 2,65
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES	
Accounts payable	$ 17
Accrued compensation and related benefits	9
Notes payable	71
Other accrued liabilities	29
Total current liabilities	1,26
Deferred income taxes	4
Pensions and other postretirement benefits	10
Notes payable	14
Other liabilities	4
Minority interests	23
Commitments and contingencies	
STOCKHOLDERS' EQUITY	
Preferred stock: $0.01 par value; 20,000 shares authorized; no shares issued	
Common stock:	
Class A: $0.01 par value; 250,000 shares authorized; 131,632 and 23,995 shares issued, respectively	
Class B: $0.01 par value; 107,374 shares authorized; 0 and 107,374 shares issued and outstanding, respectively	
Additional paid-in capital	66
Retained earnings	19
Less treasury stock at cost; 1,625 and 1,573 shares, respectively	(6
Total stockholders' equity	79
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 2,65

The accompanying notes are an integral part of these financial statements.

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

	Year Ended December 3	
	2000	1999
REVENUES		
Travel Marketing and Distribution	$ 1,764,610	$ 1,481,200
Outsourcing and Software Solutions	852,765	953,419
Total revenues	2,617,375	2,434,619
OPERATING EXPENSES		
Cost of revenues		
Travel Marketing and Distribution	1,135,445	1,001,925
Outsourcing and Software Solutions	703,313	806,635
Selling, general and administrative	418,767	253,557
Amortization of goodwill and intangible assets	109,419	---
Total operating expenses	2,366,944	2,062,117
OPERATING INCOME	250,431	372,502
OTHER INCOME (EXPENSE)		
Interest income	16,248	27,673
Interest expense	(31,686)	(9,995)
Other, net	1,490	137,765
Total other income (expense)	(13,948)	155,443
MINORITY INTERESTS	30,754	---
INCOME BEFORE PROVISION FOR INCOME TAXES	267,237	527,945
Provision for income taxes	123,185	196,038
NET EARNINGS	$ 144,052	$ 331,907
EARNINGS PER COMMON SHARE		
Basic	$ 1.11	$ 2.56
Diluted	$ 1.11	$ 2.54

The accompanying notes are an integral part of these financial statements.

SABRE HOLDINGS CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31	
	2000	1999
OPERATING ACTIVITIES		
Net earnings	$ 144,052	$ 331,907
Adjustments to reconcile net earnings to cash provided by operating activities		
Depreciation and amortization	345,794	258,246
Deferred income taxes	22,334	(8,088)
Gain on sale of investments	---	(137,657)
Minority interests	(30,754)	---
Other	19,335	1,544
Changes in operating assets and liabilities		
Accounts receivable	(125,038)	48,827
Prepaid expenses	(88,861)	(9,810)
Other assets	(20,582)	3,586
Accrued compensation and related benefits	7,042	(4,284)
Accounts payable and other accrued liabilities	125,355	(3,308)
Receivable from and payable to related parties	29,100	(7,491)
Pensions and other postretirement benefits	(9,798)	15,113
Payment to US Airways	(81,469)	---
Other liabilities	(25,738)	6,797
Cash provided by operating activities	310,772	495,382
INVESTING ACTIVITIES		
Additions to property and equipment	(190,126)	(167,963)
Proceeds from sale of equipment	1,517	2,002
Net decrease (increase) in marketable securities	442,930	(75,129)
Loan to American	---	(300,000)
Proceeds from sale of investments	---	137,657
Investments in joint ventures, net	---	5,965
Business combinations, net of cash acquired	(711,383)	---
Other investing activities, net	(15,917)	(40,044)
Cash used for investing activities	(472,979)	(437,