

SABRE HOLDINGS CORP  
Form 10-Q  
May 15, 2002

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the Quarterly Period Ended March 31, 2002.**

OR

**Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the Transition Period From To \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number 1-12175.**

**SABRE HOLDINGS CORPORATION**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of incorporation or  
organization)

**75-2662240**  
(I.R.S. Employer Identification No.)

**3150 Sabre Drive Southlake, Texas**  
(Address of principal executive offices)

**76092**  
(Zip Code)

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

**Not Applicable**

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

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

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

Class A Common Stock, \$.01 par value 144,480,759 as of May 9, 2002

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SABRE HOLDINGS CORPORATION

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PART I. FINANCIAL INFORMATION

*Item 1. Financial Statements*

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

	March 31, 2002	December 31, 2001
	<u>          </u>	<u>          </u>
<b>Assets</b>		
<b>Current assets</b>		
Cash	\$ 20,319	\$ 18,855
Marketable securities	797,557	648,032
Accounts receivable, net	370,052	327,816
Prepaid expenses	78,713	51,565
Deferred income taxes	44,880	45,970

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	March 31, 2002	December 31, 2001
Total current assets	1,311,521	1,092,238
<b>Property and equipment</b>		
Buildings and leasehold improvements	155,710	254,487
Furniture, fixtures and equipment	40,523	49,845
Computer equipment	204,820	189,298
	401,053	493,630
Less accumulated depreciation and amortization	(178,709)	(205,181)
Total property and equipment	222,344	288,449
Deferred income taxes		19,611
Investments in joint ventures	177,754	169,949
Goodwill and intangible assets, net	698,616	672,145
Other assets, net	138,432	133,625
<b>Total assets</b>	<b>\$ 2,548,667</b>	<b>\$ 2,376,017</b>
<b>Liabilities and stockholders' equity</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 176,667	\$ 158,839
Accrued compensation and related benefits	55,502	73,274
Accrued subscriber incentives	92,180	89,337
Deferred revenues	53,567	59,591
Other accrued liabilities	192,412	183,415
Total current liabilities	570,328	564,456
Deferred income taxes	29,960	
Pensions and other postretirement benefits	104,481	88,756
Notes payable	395,034	400,375
Other liabilities	66,292	60,938
Minority interests	243,301	219,716
Commitments and contingencies		
<b>Stockholders' equity</b>		
Preferred stock: \$0.01 par value; 20,000 shares authorized; no shares issued		
Class A common stock, \$0.01 par value; 250,000 shares authorized; 133,962 and 133,527 shares issued at March 31, 2002 and December 31, 2001, respectively	1,356	1,351
Additional paid-in capital	830,856	818,742
Retained earnings	315,373	227,986
Accumulated other comprehensive income	1,165	3,176
Less treasury stock at cost: 384 shares	(9,479)	(9,479)
Total stockholders' equity	1,139,271	1,041,776
<b>Total liabilities and stockholders' equity</b>	<b>\$ 2,548,667</b>	<b>\$ 2,376,017</b>

See Notes to Consolidated Financial Statements

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

	Three Months Ended March 31,	
	2002	2001
<b>Revenues</b>	\$ 539,367	\$ 573,414
<b>Operating expenses</b>		
Cost of revenues	289,787	362,858
Selling, general and administrative	115,956	99,267
Amortization of goodwill and intangible assets	13,630	66,428
Total operating expenses	419,373	528,553
<b>Operating income</b>	119,994	44,861
<b>Other income (expense)</b>		
Interest income	7,002	3,521
Interest expense	(5,684)	(16,193)
Other, net	19,888	(9,708)
Total other income (expense)	21,206	(22,380)
<b>Minority interests</b>	847	7,787
<b>Income from continuing operations before income taxes</b>	142,047	30,268
Provision for income taxes	54,660	29,855
<b>Income from continuing operations</b>	87,387	413
<b>Income from discontinued operations, net</b>		13,632
<b>Income before cumulative effect of change in accounting method</b>	87,387	14,045
<b>Cumulative effect of change in accounting method, net of minority interests and income taxes</b>		3,103
<b>Net earnings</b>	\$ 87,387	\$ 17,148
<b>Earnings per common share basic</b>		
Income from continuing operations	\$ .66	\$
Income from discontinued operations		.10
Cumulative effect of change in accounting method		.03

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	Three Months Ended March 31,	
Net earnings	\$ .66	\$ .13
<b>Earnings per common share diluted</b>		
Income from continuing operations	\$ .64	\$ .10
Income from discontinued operations		.10
Cumulative effect of change in accounting method		.03
Net earnings	\$ .64	\$ .13

See Notes to Consolidated Financial Statements

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**SABRE HOLDINGS CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**  
**THREE MONTHS ENDED MARCH 31, 2002**  
(Unaudited) (In thousands)

	Class A Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total
Balance at December 31, 2001	\$ 1,351	\$ 818,742	\$ 227,986	\$ 3,176	\$ (9,479)	\$ 1,041,776
Issuance of 506 shares of Class A common stock pursuant to stock option, restricted stock incentive and stock purchase plans	5	6,910				6,915
Tax benefit from exercise of employee stock options		1,919				1,919
Comprehensive income:						
Net earnings			87,387			87,387
Unrealized loss on foreign currency forward contracts, net of deferred income taxes				(106)		(106)
Unrealized loss on investments, net of deferred income taxes				(1,859)		(1,859)
Unrealized foreign currency translation loss				(46)		(46)
Total comprehensive income						85,376
Other		3,285				3,285
Balance at March 31, 2002	\$ 1,356	\$ 830,856	\$ 315,373	\$ 1,165	\$ (9,479)	\$ 1,139,271

See Notes to Consolidated Financial Statements.

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

	<b>Three Months Ended March 31,</b>	
	<b>2002</b>	<b>2001</b>
<b>Operating Activities</b>		
Net earnings	\$ 87,387	\$ 17,148
Adjustments to reconcile net earnings to cash provided by operating activities		
Depreciation and amortization	29,055	138,355
Deferred income taxes	51,568	68
Gain on sale of former headquarters building	(18,308)	
Minority interests	(847)	(7,787)
Tax benefit from exercise of stock options	1,919	6,402
Cumulative effect of change in accounting method, net		(3,103)
Other	18,057	26
Changes in operating assets and liabilities		
Accounts receivable	(71,866)	(88,817)
Prepaid expenses	(26,883)	(9,000)
Other assets	(2,727)	(22,746)
Accrued compensation and related benefits	(17,773)	(20,740)
Accounts payable and other accrued liabilities	34,861	55,807
Pensions and other postretirement benefits	15,725	5,662
Other liabilities	(17,851)	16,107
Cash provided by operating activities	82,317	87,382
<b>Investing Activities</b>		
Additions to property and equipment	(12,132)	(51,409)
Business combinations, net of cash acquired	(35,907)	(25,000)
Proceeds from sale of former headquarters building	80,000	
Proceeds from sale of minority interest in Sabre Pacific	23,466	
Purchases of marketable securities	(660,350)	(455,872)
Sales of marketable securities	508,359	425,353
Other investing activities, net	23,325	(7,855)
Cash used for investing activities	(73,239)	(114,783)
<b>Financing Activities</b>		
Proceeds from issuance of common stock	6,915	32,180
Other financing activities, net	(14,529)	
Cash provided by (used for) financing activities	(7,614)	32,180
Increase in cash	1,464	4,779
Cash at beginning of period	18,855	7,778
Cash at end of period	\$ 20,319	\$ 12,557

See Notes to Consolidated Financial Statements

**SABRE HOLDINGS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**1. General Information**

Sabre Holdings Corporation is a holding company. Its sole direct subsidiary is Sabre Inc. Unless otherwise indicated, references herein to "we", "our" or "us" include Sabre Holdings Corporation and its direct and indirect consolidated subsidiaries.

We generate most of our revenues from continuing operations by providing travel marketing and distribution services to travel agencies and travel suppliers using the Sabre® global distribution system ("the *Sabre* system"), to consumers using the Travelocity.com Web site and to businesses using GetThere products. We also generate revenues from the development and marketing of airline software solutions.

**2. Summary of Significant Accounting Policies**

**Basis of Presentation** The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, these financial statements contain all adjustments, consisting of normal recurring accruals, necessary to present fairly the financial position, results of operations and cash flows for the periods indicated. The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Operating results for the three months ended March 31, 2002 are not necessarily indicative of results that may be expected for any other interim period or for the year ended December 31, 2002. Our quarterly financial data should be read in conjunction with our consolidated financial statements for the year ended December 31, 2001 (including the notes thereto), set forth in Sabre Holdings Corporation's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 28, 2002.

**Reclassifications** Certain reclassifications have been made to the 2001 financial statements to conform to the 2002 presentation.

**Recent Accounting Pronouncements** In June 2001, the Financial Accounting Standards Board ("FASB") issued Statements of Financial Accounting Standards No. 141, *Business Combinations* ("FAS 141"), and No. 142, *Goodwill and Other Intangible Assets* ("FAS 142"), effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized, but will be subject to annual impairment tests in accordance with the Statements. Other intangible assets will continue to be amortized over their useful lives.

We adopted FAS 141 and 142 effective January 1, 2002. Upon adoption of FAS 142, we no longer amortize goodwill and certain other indefinite lived intangible assets. The following table reflects income from continuing operations and net income adjusted to exclude amortization expense (including related tax effects) recognized in the periods presented related to goodwill and other indefinite lived intangible assets: (in thousands)

	<b>Three Months Ended March 31,</b>	
	<b>2002</b>	<b>2001</b>
Reported income from continuing operations	\$ 87,387	\$ 413
Add back goodwill and indefinite lived intangible assets amortization, net of tax		50,858
Adjusted income from continuing operations	\$ 87,387	\$ 51,271

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	<u>Three Months Ended March 31,</u>	
	<u>2002</u>	<u>2001</u>
Reported net earnings	\$ 87,387	\$ 17,148
Add back goodwill and indefinite lived intangible assets amortization, net of tax		50,858
Adjusted net earnings	\$ 87,387	\$ 68,006
<b>Earnings per share</b>		
<b>Basic:</b>		
Reported income from continuing operations	\$ .66	\$ .39
Add back goodwill and indefinite lived assets amortization, net of tax		.39
Adjusted income from continuing operations	\$ .66	\$ .39
Reported net earnings	\$ .66	\$ .13
Add back goodwill and indefinite lived assets amortization, net of tax		.39
Adjusted net earnings	\$ .66	\$ .52
<b>Diluted:</b>		
Reported income from continuing operations	\$ .64	\$ .38
Add back goodwill and indefinite lived assets amortization, net of tax		.38
Adjusted income from continuing operations	\$ .64	\$ .38
Reported net earnings	\$ .64	\$ .13
Add back goodwill and indefinite lived assets amortization, net of tax		.38
Adjusted net earnings	\$ .64	\$ .51

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At March 31, 2002 and December 31, 2001, our intangible assets were comprised of the following: (in thousands)

	Weighted Average Useful Lives	<u>March 31, 2002</u>		<u>December 31, 2001</u>	
		Gross Carrying Amount, at Cost	Accumulated Amortization	Gross Carrying Amount, at Cost	Accumulated Amortization
<b>Not Subject to Amortization:</b>					
Goodwill		\$ 666,885	\$	\$ 626,785	\$
Tradenames/trademarks		7,682		7,682	
		674,567		634,467	
<b>Subject to Amortization:</b>					
Purchased technology	4 years	125,146	(44,262)	125,146	(36,592)



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		March 31, 2002		December 31, 2001	
Acquired customer relationships	7 years	32,820	(6,244)	32,820	(4,950)
Non-compete agreements	4 years	17,059	(8,783)	17,059	(4,971)
Acquired contracts	3 years	8,261	(5,873)	8,261	(5,018)
		183,286	(65,162)	183,286	(51,531)
<b>Total</b>		<b>\$ 857,353</b>	<b>\$ (65,162)</b>	<b>\$ 817,753</b>	<b>\$ (51,531)</b>

At December 31, 2001, accumulated amortization of \$381 million and \$6 million relating to goodwill and trade names/trademarks, respectively, were reclassified against the gross cost of the related asset.

Amortization expense relating to intangible assets subject to amortization totaled \$14 million and \$9 million during the three months ended March 31, 2002 and 2001, respectively. Amortization expense for the three months ended March 31, 2002 includes a one-time charge of \$3 million for the write-down of a non-compete agreement that was determined to be unrecoverable.

The goodwill balance of \$666,885 and \$626,785 at March 31, 2002 and December 31, 2001, respectively, includes \$94 million of goodwill related to our investments in joint ventures. Goodwill resulting from joint ventures is included in investments in joint ventures in the accompanying balance sheet.

Estimated amortization expense relating to intangible assets subject to amortization for each of the five succeeding years is as follows (in thousands):

2002	\$ 45,422
2003	37,637
2004	32,089
2005	7,833
2006	3,838

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Changes in the carrying amount of goodwill are as follows: (in thousands)

	Travel Marketing and Distribution	Travelocity.com	GetThere	Airline Solutions	Total
Three months ended March 31, 2002:					
Balance at beginning of period	\$ 123,719	\$ 97,602	\$ 401,740	\$ 3,724	\$ 626,785
Goodwill acquired		41,117			41,117
Goodwill adjustments			(869)	(148)	(1,017)
Balance at end of period	\$ 123,719	\$ 138,719	\$ 400,871	\$ 3,576	\$ 666,885

Prior to the adoption of FAS 142, our policy was to evaluate goodwill for impairment on an undiscounted projected future cash flows basis. Beginning January 1, 2002, we evaluate goodwill and indefinite lived intangible assets based on fair value. We performed the first of the required impairment tests of goodwill and indefinite lived intangible assets pursuant to FAS 142 as of January 1, 2002 and determined that no impairments were necessary.

The FASB has also recently issued FAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* ("FAS 144"), which we adopted on January 1, 2002. The FASB's new rules on asset impairment supersede FAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of* ("FAS 121").

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FAS 144 retains the requirements of FAS 121 to (a) recognize an impairment loss only if the carrying amount of a long-lived asset is not recoverable from its undiscounted cash flows and (b) measure an impairment loss as the difference between the carrying amount and fair value of the asset, but removes goodwill from its scope. This aspect of FAS 144 will primarily affect our accounting for intangible assets subject to amortization, property and equipment, and certain other long-lived assets.

FAS 144 significantly changes the criteria that would have to be met to classify an asset as held-for-sale. Under the provisions of FAS 144, assets to be disposed of will be stated at the lower of their fair values or carrying amounts and depreciation no longer recognized.

FAS 144 also supersedes the provisions of Accounting Principles Board ("APB") Opinion No. 30, *Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions* ("APB 30"), with regard to reporting the effects of a disposal of a segment of a business, and requires expected future operating losses from discontinued operations to be displayed in discontinued operations in the period(s) in which the losses are incurred (rather than as of the measurement date as presently required). In addition, more dispositions will qualify for discontinued operations treatment in the income statement.

The adoption of FAS 144 did not have a significant effect on our financial condition or results of operations.

### 3. Discontinued Operations

On July 2, 2001 we completed a transaction with Electronic Data Systems Corporation ("EDS") which provided for (i) the sale of our infrastructure outsourcing business and information technology ("IT") infrastructure assets and associated real estate to EDS (the "Asset Purchase Agreement"), (ii) a 10-year contract with EDS to manage our IT systems (the "IT Outsourcing Agreement"), and (iii) agreements with EDS to jointly market IT services and software solutions to the travel and transportation industries (the "Marketing Agreements").

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The disposition of the infrastructure outsourcing business represents the disposal of a business segment under APB 30. The accompanying consolidated financial statements have been reclassified to present the results of discontinued operations separately for the three months ended March 31, 2001. Summarized financial information for the discontinued operations is as follows (in thousands):

	<b>Three Months Ended March 31, 2001</b>	
Revenues	\$	181,273
Income before provision for income taxes	\$	22,224
Provision for income taxes		8,592
Income from discontinued operations	\$	13,632

### 4. Significant Events

#### *Acquisition of Site59*

On March 27, 2002, Travelocity.com completed the acquisition of Site59.com, Inc. ("Site59"), an online seller of last-minute merchant model air, hotel and rental car inventory, for approximately \$43 million, including related costs and employee stock options assumed in the acquisition. Subsequent to the acquisition, Site59 is our wholly-owned subsidiary. The results of operations of Site59 have been included in our consolidated statement of income and the results of operations of our Travelocity.com segment from the date of acquisition.

Travelocity.com intends to operate Site59 as a separate unit and expects to begin generating revenue from last-minute travel operations immediately. Travelocity.com plans to begin selling hotel rooms using inventory from Site59 in Summer 2002.

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The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition. We are in the process of obtaining third party valuations of the purchase price allocation. Because the purchase price valuation is not complete and amounts are not yet finalized, we are not able to provide the break out of identifiable intangible assets and goodwill. The following preliminary purchase price allocation, including the allocation of value to intangible assets other than goodwill, will be modified as further information becomes available (in thousands):

Working capital acquired	\$ 1,770
Long term assets	2,147
Goodwill and other intangible assets	38,850
Long term liabilities	(76)
	_____
Total Purchase Price	\$ 42,691

The acquired goodwill will not be deductible for tax purposes.

### ***Events of September 11, 2001***

On September 11, 2001, the United States was the target of terrorist attacks of unprecedented scope involving the hijacking and destruction of multiple passenger aircraft operated by commercial air carriers. Air travel in the United States was suspended for several days after the attacks. As a consequence, we have experienced significant decreases in bookings volumes due to reduced travel in the United States and, to a lesser degree, internationally. Our results of operations for the three

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months ended March 31, 2002 were negatively affected by this reduction in travel. Our total bookings in the U.S. were approximately 17.8% lower during the three months ended March 31, 2002 than in the same period one year ago.

### ***Sale of Previous Headquarters***

On January 31, 2002, we sold our previous headquarters office facility in Fort Worth, Texas to American Airlines. We received proceeds of approximately \$80 million in cash, and recognized a pre-tax gain of approximately \$18 million as a result of the sale.

### **5. Income Taxes**

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

	Three Months Ended March 31,	
	2002	2001
Income tax provision at statutory federal income tax rate	\$ 49,716	\$ 10,593
State income taxes, net of federal benefit	4,308	1,779
Nondeductible goodwill amortization		17,415
Other, net	636	68
	_____	_____
Total provision for income taxes	\$ 54,660	\$ 29,855

### **6. Derivatives**

We adopted Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* ("FAS 133") effective January 1, 2001.

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We recognized a cumulative gain in earnings relating to the HRN warrants during the three months ended March 31, 2001 upon adoption of FAS 133 of approximately \$3 million, net of minority interest of approximately \$2 million and deferred income taxes of approximately \$2 million. During March 2001, we extended our affiliation agreement with HRN through July 31, 2005 and expanded the scope of the HRN relationship. In connection with the expanded and extended agreement, we received additional vested HRN warrants with a fair value of approximately \$30 million on the date of receipt. We will recognize this amount as revenue over the extended term of the agreement. During the three months ended March 31, 2002 we recognized revenue relating to amortization of the fair value of the HRN warrants received at contract origination and modification totaling approximately \$2.2 million compared to \$0.9 million for the three months ended March 31, 2001. We may also vest in additional warrants in the future based upon the achievement of certain performance metrics. During the three months ended March 31, 2002, we received additional HRN warrants, based on certain performance metrics, with a fair value of approximately \$2.7 million compared to \$0.3 million for the three months ended March 31, 2001. Such amounts have been recognized as revenue in the periods the warrants were earned. During the three months ended March 31, 2002, we completed a cashless exercise of HRN warrants and received approximately 36,000 shares of HRN stock, which were disposed of for cash proceeds totaling approximately \$1.6 million. No significant gain or loss was realized relating to such disposals. As of March 31, 2002 we hold 61,974 unexercised HRN warrants.

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We are a party to certain foreign currency forward contracts. We have designated our foreign currency forwards as a cash flow hedge. The cumulative effect of adoption of FAS 133 related to these foreign currency forwards was insignificant. Amounts reclassified from other comprehensive income to earnings during the three months ended March 31, 2002 and 2001 relating to the forwards were not significant. There was no hedging ineffectiveness recorded in earnings relating to the forwards during the three months ended March 31, 2002 and 2001.

In connection with our issuance in August 2001 of \$400 million principal amount in unsecured notes ("Notes") with a fixed interest rate of 7.35%, we entered into two interest rate swaps. We have designated the swaps as fair value hedges of \$100 million and \$200 million principal amount, respectively, of the Notes. Because the critical terms of the Notes and the swaps match, the swaps are considered a perfectly effective hedge against changes in the fair value of the Notes due to changes in the LIBOR rate. Changes in the fair value of the swaps are recognized as a component of other income in each reporting period. Additionally, the carrying value of the Notes is adjusted by a like amount, with the adjustment recognized as a component of other income. As of March 31, 2002, we had recorded a hedging liability of approximately \$3 million, which is included in other liabilities in the accompanying balance sheet, and a corresponding decrease in the carrying value of the Notes relating to these swaps.

The estimated fair values of our derivatives as of March 31, 2002 and 2001 are provided below (in thousands):

	Asset/(Liability)	
	March 31,	
	2002	2001
HRN Warrants	\$ 2,734	\$ 21,400
Foreign currency forwards	185	(913)
Interest rate swaps	(2,532)	
	\$ 387	\$ 20,487

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

### 7. Earnings Per Share

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

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	Three Months Ended March 31,	
	2002	2001
Denominator for basic earnings per common share weighted-average shares	133,320	130,847
Dilutive effect of stock awards and options	3,159	2,511
Denominator for diluted earnings per common share adjusted weighted-average shares	136,479	133,358

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## 8. Segment Reporting

We have four reportable segments: Travel Marketing and Distribution, which includes Emerging Businesses, Travelocity.com, GetThere, and Airline Solutions. The Travel Marketing and Distribution segment distributes travel services to travel agencies ("subscribers"). Through our global distribution system, subscribers can access information about and book reservations with airlines and other providers of travel and travel-related products and services. The Travelocity.com segment distributes travel services to individual consumers. Through the Travelocity.com Web site, individual consumers can compare prices, make travel reservations and obtain destination information online. GetThere distributes travel services online directly to businesses. GetThere is the world's largest provider of Web-based travel reservations systems for major corporations and airlines. The Airline Solutions segment primarily provides software development, reservations hosting, consulting solutions and other products and services to airlines and other travel providers. Our reportable segments are strategic business units that offer different products and services and are managed separately because each business requires different market strategies.

The segment information is presented on a basis that excludes certain special items that are summarized below. This presentation is consistent with the manner in which our management assesses the operating performance of our business segments.

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Selected information for our four reportable segments for the three months ended March 31, 2002 and 2001 follows (in thousands):

	Three Months Ended March 31,	
	2002	2001
<b>Revenues from external customers:</b>		
Travel Marketing and Distribution	\$ 414,816	\$ 456,540
Travelocity.com	58,180	55,174
GetThere	11,630	10,981
Airline Solutions	52,328	46,610
Total	\$ 536,954	\$ 569,305
<b>Intersegment revenues:</b>		
Travel Marketing and Distribution	\$ 6,024	\$ 6,321
Travelocity.com	16,316	17,677

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	<b>Three Months Ended March 31,</b>	
	<b>2002</b>	<b>2001</b>
GetThere	161	
Airline Solutions		2,075
<b>Total</b>	<b>\$ 22,501</b>	<b>\$ 26,073</b>
<b>Equity in net income of equity method investees:</b>		
Travel Marketing and Distribution	\$ 3,244	\$ 4,109
Travelocity.com	(831)	
<b>Total</b>	<b>\$ 2,413</b>	<b>\$ 4,109</b>
<b>Total consolidated revenues:</b>		
Travel Marketing and Distribution	\$ 424,084	\$ 466,970
Travelocity.com	73,665	72,851
GetThere	11,791	10,981
Airline Solutions	52,328	48,685
Elimination of intersegment revenues	(22,501)	(26,073)
<b>Total</b>	<b>\$ 539,367</b>	<b>\$ 573,414</b>
<b>Segment operating income (loss) excluding special items:</b>		
Travel Marketing and Distribution	\$ 136,412	\$ 127,107
Travelocity.com	6,031	425
GetThere	(9,173)	(16,562)
Airline Solutions	6,958	4,392
Net corporate allocations	277	(188)
<b>Total</b>	<b>\$ 140,505</b>	<b>\$ 115,174</b>

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

	<b>Three Months Ended March 31,</b>	
	<b>2002</b>	<b>2001</b>
<b>Travel Marketing and Distribution:</b>		
Goodwill and other intangibles amortization	\$ 4,555	\$ 1,226
Stock compensation		
<b>Total Travel Marketing and Distribution</b>	<b>4,555</b>	<b>1,226</b>

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	Three Months Ended March 31,	
<b>Travelocity.com:</b>		
Goodwill and other intangibles amortization	660	21,160
Tender offer expenses	6,776	
Stock compensation	293	419
	<u>7,729</u>	<u>21,579</u>
<b>GetThere:</b>		
Goodwill and other intangibles amortization	6,606	41,435
Stock compensation	64	1,665
Severance and integration expenses		1,386
	<u>6,670</u>	<u>44,486</u>
<b>Corporate:</b>		
Goodwill and other intangibles amortization	1,415	2,607
Stock compensation	142	415
	<u>1,557</u>	<u>3,022</u>
<b>Total special items</b>	<b>\$ 20,511</b>	<b>\$ 70,313</b>
<b>Consolidated operating income (loss):</b>		
Travel Marketing and Distribution	\$ 131,857	\$ 125,881
Travelocity.com	(1,698)	(21,154)
GetThere	(15,843)	(61,048)
Airline Solutions	6,958	4,392
Corporate Allocations	(1,280)	(3,210)
	<u>119,994</u>	<u>44,861</u>
<b>Total</b>	<b>\$ 119,994</b>	<b>\$ 44,861</b>

**9. Subsequent Events**

***Tender Offer for Travelocity.com Common Stock***

On February 19, 2002 we announced our intent to make a cash tender offer for all of the approximately 16.7 million outstanding publicly-held common shares of Travelocity.com that we did not own. At the time, we had an approximate 70% ownership stake in Travelocity.com. We commenced the tender offer on March 5, 2002 and completed it on April 8, 2002, promptly paying the tender offer price of \$28.00 per share for each share tendered. We effected an ensuing short-form merger, whereby Travelocity.com became our indirect wholly owned subsidiary, on April 11, 2002. In the merger, each outstanding publicly-held share not tendered in the tender offer (other than shares held by stockholders exercising appraisal rights) was converted into a right to receive \$28.00 in cash. The aggregate cost of the tender offer and the ensuing merger was approximately \$468 million. We used available balances of cash and marketable securities to complete the acquisition.

**Equity Offering**

During April 2002, we completed an underwritten public offering of 8.2 million shares of Class A common stock at \$44.50 per share. We also granted the underwriters a 30-day option to purchase an additional 1.23 million shares to cover over-allotments, which was also completed in April. The sale of a total of 9.43 million shares resulted in net proceeds to us of approximately \$399.7 million. We plan to use the proceeds from the offering for general corporate purposes.

**10. Supplemental Guarantor/Non-Guarantor Financial Information**

The obligations of Sabre Holdings Corporation (Sabre Holdings) have been guaranteed by its wholly owned operating subsidiary, Sabre Inc. The following financial information presents condensed consolidating balance sheets, statements of income and statements of cash flows for Sabre Holdings, Sabre Inc. and non-guarantor subsidiaries. The information has been presented as if Sabre Holdings accounted for its ownership of Sabre Inc., and Sabre Inc. accounted for its ownership of the non-guarantor subsidiaries, using the equity method of accounting.

Sabre Inc. and certain non-guarantor subsidiaries are parties to various intercompany agreements which affect the amount of operating expenses reported in the following condensed consolidating statements of income. Among other things, fees are paid by Sabre Inc. to a non-guarantor subsidiary relating to the use of trademarks, trade names, etc. owned by a non-guarantor subsidiary; incentive and marketing payments are made by Sabre Inc. to non-guarantor subsidiaries relating to the use and distribution of the *Sabre* system; and payments are made by non-guarantor subsidiaries to Sabre Inc. for access to the *Sabre* system under the terms of these agreements. During the three months ended March 31, 2002 and 2001 Sabre Inc. recognized operating expenses totaling approximately \$61 million and \$72 million, respectively, in connection with these agreements. These amounts and the corresponding amounts recognized by the non-guarantor subsidiaries are eliminated in consolidation.

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

	<u>Sabre Holdings</u>	<u>Sabre Inc.</u>	<u>Non- Guarantor Subsidiaries</u>	<u>Eliminating Entries</u>	<u>Sabre Consolidated</u>
<b>Assets</b>					
<b>Current assets</b>					
Cash and marketable securities	\$ (2,944)	\$ 715,532	\$ 105,288	\$	\$ 817,876
Accounts receivable trade, net		259,288	110,764		370,052
Intercompany accounts receivable (payable)	1,075,675	(1,406,168)	330,493		
Prepaid expenses		30,579	48,134		78,713
Deferred income taxes		44,793	87		44,880
	<u>1,072,731</u>	<u>(355,976)</u>	<u>594,766</u>		<u>1,311,521</u>
Property and equipment, net		171,431	50,913		222,344
Deferred income taxes					
Investments in joint ventures		12,069	165,685		177,754
Goodwill and intangible assets, net		9,084	689,532		698,616
Investments in subsidiaries	462,320	1,152,801		(1,615,121)	
Other assets, net	2,970	87,847	47,615		138,432
	<u>1,538,021</u>	<u>1,077,256</u>	<u>1,548,511</u>	<u>(1,615,121)</u>	<u>2,548,667</u>
<b>Total assets</b>					
<b>Liabilities and stockholders' equity</b>					
<b>Current liabilities</b>					
Accounts payable	\$	\$ 143,112	\$ 33,555	\$	\$ 176,667
		44,284	11,218		55,502



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	Sabre Holdings	Sabre Inc.	Non- Guarantor Subsidiaries	Eliminating Entries	Sabre Consolidated
Accrued compensation and related benefits					
Other accrued liabilities		258,006	80,153		338,159
<b>Total current liabilities</b>		<b>445,402</b>	<b>124,926</b>		<b>570,328</b>
Deferred income taxes		47,852	(17,892)		29,960
Pensions and other postretirement benefits		103,661	820		104,481
Other liabilities	3,716	18,021	44,555		66,292
Minority interests			243,301		243,301
Notes payable	395,034				395,034
Stockholders' equity	1,139,271	462,320	1,152,801	(1,615,121)	1,139,271
<b>Total liabilities and stockholders' equity</b>	<b>\$ 1,538,021</b>	<b>\$ 1,077,256</b>	<b>\$ 1,548,511</b>	<b>\$ (1,615,121)</b>	<b>\$ 2,548,667</b>

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**UNAUDITED CONDENSED CONSOLIDATING BALANCE SHEETS**  
**DECEMBER 31, 2001**  
(in thousands)

	Sabre Holdings	Sabre Inc.	Non- Guarantor Subsidiaries	Eliminating Entries	Sabre Consolidated
<b>Assets</b>					
<b>Current assets</b>					
Cash and marketable securities	\$	\$ 543,196	\$ 123,691	\$	\$ 666,887
Accounts receivable trade, net		238,747	89,069		327,816
Intercompany accounts receivable (payable)	1,074,130	(1,406,885)	332,755		
Prepaid expenses		18,120	33,445		51,565
Deferred income taxes		45,740	230		45,970
<b>Total current assets</b>	<b>1,074,130</b>	<b>(561,082)</b>	<b>579,190</b>		<b>1,092,238</b>
Property and equipment, net		232,434	56,015		288,449
Investments in joint ventures		12,353	157,596		169,949
Goodwill and intangible assets, net		9,626	662,519		672,145
Investments in subsidiaries	372,556	1,132,522		(1,505,078)	
Other assets, net	5,845	76,545	70,846		153,236
<b>Total assets</b>	<b>\$ 1,452,531</b>	<b>\$ 902,398</b>	<b>\$ 1,526,166</b>	<b>\$ (1,505,078)</b>	<b>\$ 2,376,017</b>
<b>Liabilities and stockholders' equity</b>					
<b>Current liabilities</b>					
Accounts payable	\$	\$ 136,608	\$ 22,231	\$	\$ 158,839
Accrued compensation and related benefits		59,184	14,090		73,274
Other accrued liabilities	9,347	219,651	103,345		332,343

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	Sabre Holdings	Sabre Inc.	Non- Guarantor Subsidiaries	Eliminating Entries	Sabre Consolidated
Total current liabilities	9,347	415,443	139,666		564,456
Pensions and other postretirement benefits		88,362	394		88,756
Other liabilities	1,033	26,037	33,868		60,938
Minority interests			219,716		219,716
Notes payable	400,375				400,375
Stockholders' equity	1,041,776	372,556	1,132,522	(1,505,078)	1,041,776
<b>Total liabilities and stockholders' equity</b>	<b>\$ 1,452,531</b>	<b>\$ 902,398</b>	<b>\$ 1,526,166</b>	<b>\$ (1,505,078)</b>	<b>\$ 2,376,017</b>

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**UNAUDITED CONDENSED CONSOLIDATING STATEMENTS OF INCOME  
FOR THE THREE MONTHS ENDED MARCH 31, 2002  
(in thousands)**

	Sabre Holdings	Sabre Inc.	Non- Guarantor Subsidiaries	Eliminating Entries	Sabre Consolidated
Revenues	\$	\$ 425,492	\$ 212,737	\$ (98,862)	\$ 539,367
Operating expenses	338	328,489	189,408	(98,862)	419,373
Operating income (loss)	(338)	97,003	23,329		119,994
<b>Other income (expense)</b>					
Interest income	8,536	5,722	5,249	(12,505)	7,002
Interest expense	(5,024)	(12,717)	(448)	12,505	(5,684)
Income from subsidiaries	85,296	20,278		(105,574)	
Other, net		16,406	3,482		19,888
Total other income (expense)	88,808	29,689	8,283	(105,574)	21,206
Minority interests			847		847
<b>Income (loss) from continuing operations before income taxes</b>	<b>88,470</b>	<b>126,692</b>	<b>32,459</b>	<b>(105,574)</b>	<b>142,047</b>
Provision for income taxes	1,083	41,396	12,181		54,660
<b>Net income (loss)</b>	<b>\$ 87,387</b>	<b>\$ 85,296</b>	<b>\$ 20,278</b>	<b>\$ (105,574)</b>	<b>\$ 87,387</b>

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**UNAUDITED CONDENSED CONSOLIDATING STATEMENTS OF INCOME  
FOR THE THREE MONTHS ENDED MARCH 31, 2001  
(in thousands)**

Sabre Holdings	Sabre Inc.	Non- Guarantor Subsidiaries	Eliminating Entries	Sabre Consolidated
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Revenues	\$	\$ 452,372	\$ 207,896	\$ (86,854)	\$ 573,414	
Operating expenses		172	382,185	235,124	(88,928)	528,553
Operating income (loss)		(172)	70,187	(27,228)	2,074	44,861
<b>Other income (expense)</b>						
Interest income		8,643	2,254	7,213	(14,589)	3,521
Interest expense			(30,417)	(365)	14,589	(16,193)
Income from subsidiaries		11,568	(27,830)		16,262	
Other, net			(2,001)	(7,707)		(9,708)
Total other income (expense)		20,211	(57,994)	(859)	16,262	(22,380)
<b>Minority interests</b>				7,787		7,787
<b>Income (loss) from continuing operations before income taxes</b>		20,039	12,193	(20,300)	18,336	30,268
Provision for income taxes		2,891	15,688	11,276		29,855
<b>Income (loss) from continuing operations</b>		17,148	(3,495)	(31,576)	18,336	413
<b>Income (loss) from discontinued operations, net</b>			15,063	643	(2,074)	13,632
<b>Income before cumulative effect of change in accounting method</b>		17,148	11,568	(30,933)	16,262	14,045
<b>Cumulative effect of change in accounting method, net of minority interests and income taxes</b>				3,103		3,103
<b>Net income (loss)</b>	\$	\$ 17,148	\$ 11,568	\$ (27,830)	\$ 16,262	\$ 17,148

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**UNAUDITED CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS  
FOR THE THREE MONTHS ENDED MARCH 31, 2002  
(in thousands)**

	Sabre Holdings	Sabre Inc.	Non-Guarantor Subsidiaries	Eliminating Entries	Sabre Consolidated
<b>Operating Activities</b>					
Net earnings	\$ 87,387	\$ 85,296	\$ 20,278	\$ (105,574)	\$ 87,387
Adjustments to reconcile net earnings to cash provided by operating activities:					
Depreciation and amortization		7,625	21,430		29,055
Deferred income taxes		69,317	(17,749)		51,568
Tax benefit from exercise of stock options	1,919				1,919
Minority interests			(847)		(847)
(Income) loss from subsidiaries	(85,296)	(20,278)		105,574	
Gain on sale of former headquarters building		(18,308)			(18,308)
Other		3,726	14,331		18,057
Changes in operating assets and liabilities	(9,401)	(58,625)	(18,488)		(86,514)

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	Sabre Holdings	Sabre Inc.	Non- Guarantor Subsidiaries	Eliminating Entries	Sabre Consolidated
Cash provided by (used for) operating activities	(5,391)	68,753	18,955		82,317
<b>Investing Activities</b>					
Additions to property and equipment		(8,890)	(3,242)		(12,132)
Purchases of marketable securities		(540,795)	(119,555)		(660,350)
Sales of marketable securities		368,896	139,463		508,359
Investments in subsidiaries, net	(4,468)			4,468	
Business combinations, net of cash acquired			(35,907)		(35,907)
Proceeds from sale of former headquarters building		80,000			80,000
Proceeds from sale of minority interest in Sabre Pacific			23,466		23,466
Other investing activities, net		30,283	(6,958)		23,325
Cash provided by (used for) investing activities	(4,468)	(70,506)	(2,733)	4,468	(73,239)
<b>Financing Activities</b>					
Contributions from affiliates		4,468		(4,468)	
Proceeds from issuance of common stock	6,915				6,915
Other financing activities, net			(14,529)		(14,529)
Cash provided by (used for) financing activities	6,915	4,468	(14,529)	(4,468)	(7,614)
Increase (decrease) in cash	(2,944)	2,715	1,693		1,464
Cash at beginning of the period		8,642	10,213		18,855
Cash at end of the period	\$ (2,944)	\$ 11,357	\$ 11,906	\$	\$ 20,319

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**UNAUDITED CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS  
FOR THE THREE MONTHS ENDED MARCH 31, 2001  
(in thousands)**

	Sabre Holdings	Sabre Inc.	Non- Guarantor Subsidiaries	Eliminating Entries	Sabre Consolidated
<b>Operating Activities</b>					
Net earnings	\$ 17,148	\$ 11,568	\$ (27,830)	\$ 16,262	\$ 17,148
Adjustments to reconcile net earnings to cash provided by operating activities:					
Depreciation and amortization		55,798	82,557		138,355
Deferred income taxes		9,409	(9,341)		68
Minority interests			(7,787)		(7,787)
Tax benefit from exercise of stock options	6,402				6,402
(Income) loss from subsidiaries	(11,568)	27,830		(16,262)	
Cumulative effect of accounting change, net			(3,103)		(3,103)

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	Sabre Holdings	Sabre Inc.	Non- Guarantor Subsidiaries	Eliminating Entries	Sabre Consolidated
Other		468	(442)		26
Changes in operating assets and liabilities	50,834	(132,499)	17,938		(63,727)
Cash provided by (used for) operating activities	62,816	(27,426)	51,992		87,382
<b>Investing Activities</b>					
Additions to property and equipment		(43,954)	(7,455)		(51,409)
Purchases of marketable securities		(372,125)	(83,747)		(455,872)
Sales of marketable securities		345,582	79,771		425,353
Investments in subsidiaries, net	(94,996)	(3,392)		98,388	
Business combinations, net of cash acquired			(25,000)		(25,000)
Other investing activities, net		504	(8,359)		(7,855)
Cash provided by (used for) investing activities	(94,996)	(73,385)	(44,790)	98,388	(114,783)
<b>Financing Activities</b>					
Contributions from affiliates		94,996	3,392	(98,388)	
Proceeds from issuance of common stock	32,180				32,180
Cash provided by (used for) financing activities	32,180	94,996	3,392	(98,388)	32,180
Increase (decrease) in cash		(5,815)	10,594		4,779
Cash at beginning of the period		1,582	6,196		7,778
Cash at end of the period	\$	\$ (4,233)	\$ 16,790	\$	\$ 12,557

*Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations*

**SABRE HOLDINGS CORPORATION**

**RESULTS OF OPERATIONS**

**Summary.** We generate revenues from continuing operations by providing travel marketing and distribution services to travel agencies, corporate travel departments and travel suppliers using the *Sabre* system, to consumers using the Travelocity.com Web sites, to businesses using GetThere products, and from the development and marketing of airline solutions. During the three months ended March 31, 2002, we generated approximately 77.5% of our revenue from Travel Marketing and Distribution services, approximately 10.6% from Travelocity.com, 2.2% from GetThere and 9.7% from Airline Solutions. Our consolidated operating margins were 22.2% and 7.8% for the three months ended March 31, 2002 and 2001, respectively.

**EDS Transaction.** On July 2, 2001, we completed a transaction with EDS which provided for (i) the sale of our infrastructure outsourcing business and IT infrastructure assets and associated real estate to EDS, (ii) a 10-year contract with EDS to manage our IT systems, and (iii) agreements with EDS to jointly market IT services and software solutions to the travel and transportation industries. As a result of the EDS transaction, our financial statements have been reclassified to present the results of operations of the information technology infrastructure outsourcing business as discontinued operations for the three months ended March 31, 2001. See Note 3 to the Consolidated Financial Statements for additional information regarding this transaction.

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**Events of September 11, 2001.** On September 11, 2001, the United States was the target of terrorist attacks of unprecedented scope involving the hijacking and destruction of multiple passenger aircraft operated by commercial air carriers. Air travel in the United States was suspended for several days after the attacks. As a consequence, we have experienced significant decreases in booking volumes due to reduced travel in the United States and, to a lesser degree, internationally. Our results of operations for the three months ended March 31, 2002 were negatively affected by this reduction in travel. Our total bookings in the U.S. were approximately 17.8% lower during the three months ended March 31, 2002 than in the year-ago period.

### *Three Months Ended March 31, 2002 and 2001*

**Revenues.** Total revenues for the three months ended March 31, 2002 decreased approximately \$34 million, 5.9%, compared to the three months ended March 31, 2001, from \$573 million to \$539 million. Travel marketing and distribution revenue decreased \$43 million, 9.2%. This decrease was primarily due to a \$42 million decrease in booking and other fees from associates while revenues from other services fell \$1 million. Decreases in bookings were primarily the result of reduced air travel after the September 11 terrorist attacks. Travelocity.com revenues increased approximately \$2 million, 3.9%, primarily as the result of a \$5 million increase in other revenue and a \$1 million increase in transaction services revenue. These increases were partially offset by a \$4 million decline in advertising revenue. GetThere revenues increased \$1 million, primarily as a result of a \$3 million increase in corporate revenues. This increase was partially offset by GetThere's strategic shift away from lower margin airline fulfillment operations, resulting in a \$2 million decrease in supplier revenues. Airline Solutions increased revenues approximately \$6 million, 12.3%, due to increases in product and service revenues. We believe that 2002 revenues in each of our segments were adversely affected by the reduction in travel resulting from the September 11 terrorist attacks.

**Cost of Revenues.** Cost of revenues for the three months ended March 31, 2002 decreased approximately \$73 million, 20.1%, compared to the three months ended March 31, 2001, from \$363 million to \$290 million. Travel marketing and distribution cost of revenues decreased \$63 million,

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20.9%. This decrease was driven by lower depreciation and other operating expenses. Travelocity.com cost of revenues was unchanged. GetThere cost of revenues decreased \$5 million, 31.3%. This improvement was primarily attributable to workforce reductions, better leverage of employee benefits, reduced employee-related expenses including travel and incidentals, and a reduction of contract labor and services purchased. Airline solutions cost of revenues decreased \$5 million, 13.5%, primarily due to lower data processing and communications expenses.

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses for the three months ended March 31, 2002 increased \$17 million, 17.2%, compared to the three months ended March 31, 2001, from \$99 million to \$116 million. The increase is primarily due to approximately \$7 million of one-time costs resulting from the tender offer for Travelocity.com common stock, as well as costs historically allocated to the information technology outsourcing business that are still being incurred as part of continuing operations.

**Amortization of goodwill and intangible assets.** Amortization of goodwill and intangible assets was \$14 million for the three months ended March 31, 2002, which is a \$52 million reduction from the \$66 million for the three months ended March 31, 2001. Goodwill and intangible assets of approximately \$1 billion were recorded during 2000 in connection with the merger of Travelocity.com and Preview Travel; the acquisitions of GetThere, Gradient Solutions Limited and a 51% interest in Dillon Communications Systems; and the acquisition of Sabre Pacific in March 2001. The acquired goodwill and intangible assets were being amortized over periods ranging from one to seven years. Amortization of this goodwill and certain indefinite lived intangible assets ceased on January 1, 2002 upon our adoption of Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*, resulting in approximately \$51 million less amortization expense during the three months ended March 31, 2002. See the discussion on Recent Accounting Pronouncements in Note 2 of the Consolidated Financial Statements for information about the effect on amortization of acquired goodwill and intangible assets.

**Operating Income.** Operating income increased \$75 million, 166.7%, from \$45 million for the three months ended March 31, 2001, to \$120 million for the three months ended March 31, 2002. Operating margins increased from 7.8% in 2001 to 22.2% in 2002 as the 5.9% decrease in revenues was more than offset by a 20.7% decrease in operating expenses. Travel marketing and distribution operating income increased \$6 million due to reductions in depreciation and other operating expenses exceeding the revenue decreases which have resulted since the September 11 terrorist attacks. Travelocity.com operating loss decreased \$19 million primarily due to increased revenues and decreased amortization of goodwill and certain indefinite lived intangible assets. GetThere operating loss

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decreased \$45 million primarily due to increased revenues and reductions in amortization of goodwill and certain indefinite lived intangible assets. Airline solutions operating income increased \$3 million due to higher revenues with no increase in total operating expenses.

**Interest Income.** Interest income increased \$3 million due to higher average balances maintained in our investment accounts, which was partially offset by lower average interest rates.

**Interest Expense.** Interest expense decreased \$11 million during the three months ended March 31, 2002 due to the retirement of \$859 million of debt in July 2001, primarily using cash proceeds from the sale of assets to EDS. This decrease was partially offset by interest on the \$400 million Notes issued August 2001.

**Other income, net.** Other income, net, was \$20 million during the three months ended March 31, 2002 compared to a loss of \$10 million during the same period a year ago. A gain of \$18 million was recorded during the three months ended March 31, 2002 as a result of the sale of our former corporate headquarters building. The loss during the three months ended March 31, 2001 consisted of unrealized losses on warrants we held to purchase shares of Hotel Reservations Network common stock.

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**Minority interest.** The minority interest includes minority owners' interests in the results of operations of our consolidated subsidiaries, primarily Travelocity.com. The decrease in losses attributable to minority interest in first quarter 2002 relative to first quarter 2001 is due to a decrease in the net loss of Travelocity.com in 2002.

**Income Taxes.** The provision for income taxes was \$55 million and \$30 million for the three months ended March 31, 2002 and 2001, respectively. The increase in the provision for income taxes primarily corresponds with the change in income before the provision for income taxes, which is partially offset by a higher effective tax rate during 2001 resulting from non-deductible goodwill amortization during the three months ended March 31, 2001.

**Income from Discontinued Operations.** Net earnings from discontinued operations for the three months ended March 31, 2001 were \$14 million. As noted in Note 3 to the Consolidated Financial Statements, we sold our information technology infrastructure outsourcing business to EDS effective July 1, 2001.

**Cumulative Effect of Accounting Change.** The cumulative effect of change in accounting method was approximately \$3 million for the three months ended March 31, 2001 as a result of the adoption of Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*. See Note 6 to the Consolidated Financial Statements for additional information.

### SABRE HOLDINGS CORPORATION LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2002, we had approximately \$818 million in cash and marketable securities and working capital of \$741 million compared to \$667 million in cash and marketable securities and working capital of \$528 million at December 31, 2001. We invest cash in highly liquid instruments, including high credit quality certificates of deposit, bankers' acceptances, commercial paper, mortgage-backed and receivables-backed securities, and corporate and government notes.

Historically, we have funded our operations through internally generated cash. We generated cash from operating activities of \$82 million and \$87 million for the three months ended March 31, 2002 and 2001, respectively. The decrease in cash provided by operating activities during the first quarter of 2002 as compared to first quarter of 2001 primarily resulted from a decrease in revenues.

In 1999, we entered into an agreement with AOL that pro