

SABRE HOLDINGS CORP
Form 10-Q
November 03, 2006

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

FORM 10-Q

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

ý

For the Quarterly Period Ended September 30, 2006.

OR

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

For the Transition Period From To

Commission file number 1-12175.

SABRE HOLDINGS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(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 ý No o

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

Large Accelerated Filer Accelerated Filer Non-accelerated Filer

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

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

Class	Outstanding at October 27, 2006
Class A Common Stock, \$.01 par value	132,375,395 Shares

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SABRE HOLDINGS CORPORATION

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements
SABRE HOLDINGS CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited) (In thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Revenues	\$ 746,129	\$ 699,706	\$ 2,168,929	\$ 1,900,849
Cost of revenues	375,587	372,367	1,203,985	1,083,673
Amortization of purchased technology	8,518	6,999	25,700	11,012
Total cost of revenues	384,105	379,366	1,229,685	1,094,685
Gross profit	362,024	320,340	939,244	806,164
Other operating expenses				
Selling, general and administrative	233,241	211,945	674,495	532,661
Amortization of other intangible assets	9,223	8,824	28,874	19,632
Total other operating expenses	242,464	220,769	703,369	552,293
Operating income	119,560	99,571	235,875	253,871
Other income (expense)				
Interest income	5,286	5,303	11,809	15,772
Interest expense	(20,102)	(15,801)	(59,165)	(31,803)
Gain (loss) on sale of investment		(100)		20,494
Gain (loss) on derivative instrument		1,746		(8,248)
Other, net	1,710	2,791	(4,789)	4,388
Total other income (expense)	(13,106)	(6,061)	(52,145)	603
Income before provision for income taxes	106,454	93,510	183,730	254,474
Provision for income taxes	38,882	35,014	65,595	94,410
Net earnings	\$ 67,572	\$ 58,496	\$ 118,135	\$ 160,064
Earnings per common share				
Basic	\$ 0.52	\$ 0.45	\$ 0.91	\$ 1.23
Diluted	\$ 0.52	\$ 0.45	\$ 0.90	\$ 1.23
Weighted average common shares outstanding				
Basic	129,769	129,328	130,177	129,619
Diluted	130,245	130,092	131,206	130,293

See Notes to Consolidated Financial Statements.

SABRE HOLDINGS CORPORATION
CONSOLIDATED BALANCE SHEETS
(In thousands)

	September 30, 2006	December 31, 2005
	(Unaudited)	
Assets		
Current assets		
Cash	\$ 327,746	\$ 135,233
Restricted cash	8,815	57,019
Marketable securities	183,215	376,585
Accounts receivable, net	505,131	487,034
Prepaid expenses	45,473	41,632
Deferred income taxes	18,984	23,013
Other receivables	130,191	127,772
	<u>1,219,555</u>	<u>1,248,288</u>
Total current assets	1,219,555	1,248,288
Property and equipment		
Buildings and leasehold improvements	226,322	224,953
Furniture, fixtures and equipment	36,923	38,349
Computer equipment	189,845	148,965
Internally developed software	296,669	257,990
	<u>749,759</u>	<u>670,257</u>
Less accumulated depreciation and amortization	(388,241)	(318,021)
	<u>361,518</u>	<u>352,236</u>
Total property and equipment	361,518	352,236
Deferred income taxes		32,419
Investments in joint ventures	149,199	156,277
Goodwill and intangible assets, net	2,476,690	2,333,140
Assets held for sale (See Note 3 Significant Events)	75,988	77,332
Other assets, net	181,059	174,419
	<u>4,464,009</u>	<u>4,374,111</u>
Total assets	\$ 4,464,009	\$ 4,374,111
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	\$ 166,055	\$ 165,705
Travel supplier liabilities and deferred revenue	470,761	303,557
Accrued compensation and related benefits	59,040	74,628
Accrued subscriber incentives	109,142	81,877
Deferred revenues	51,734	32,047
Bridge facility		800,000
Other accrued liabilities	394,033	434,649
	<u>1,250,765</u>	<u>1,892,463</u>
Total current liabilities	1,250,765	1,892,463
Deferred income taxes	36,070	
Pensions and other postretirement benefits	185,599	191,453
Other liabilities	26,198	23,568
Minority interests	6,085	38,948
Long-term capital lease obligation	155,960	158,188
Public and other notes payable	975,760	426,379

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	September 30, 2006	December 31, 2005
Commitments and contingencies		
Stockholders' equity		
Preferred stock: \$0.01 par value; 20,000 shares authorized; no shares issued		
Class A Common Stock: \$0.01 par value; 250,000 shares authorized; 145,937 shares issued at September 30, 2006 and December 31, 2005	1,459	1,459
Additional paid-in capital	1,281,912	1,275,836
Retained earnings	847,799	769,231
Accumulated other comprehensive gain (loss)	13,507	(77,872)
Less treasury stock at cost: 13,984 and 14,281 shares, respectively	(317,105)	(325,542)
Total stockholders' equity	1,827,572	1,643,112
Total liabilities and stockholders' equity	\$ 4,464,009	\$ 4,374,111

See Notes to Consolidated Financial Statements.

SABRE HOLDINGS CORPORATION
CONSOLIDATED CONDENSED STATEMENT OF STOCKHOLDERS' EQUITY
NINE MONTHS ENDED September 30, 2006
(Unaudited) (In thousands)

	Class A Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Gain	Treasury Stock	Total
Balance at December 31, 2005	\$ 1,459	\$ 1,275,836	\$ 769,231	\$ (77,872)	\$ (325,542)	\$ 1,643,112
Issuances pursuant to:						
Stock option plans		(2,875)			17,697	14,822
Restricted stock (net of forfeitures)		(18,708)			18,708	
Restricted stock withheld upon lapse					(3,585)	(3,585)
Employee stock purchase plan		(17)			441	424
Tax benefit from exercise of employee stock options and restricted stock		1,840				1,840
Dividends, \$0.10 per common share			(39,567)			(39,567)
Purchases of treasury stock					(23,387)	(23,387)
Amortization of stock-based compensation		24,389				24,389
Comprehensive income:						
Net earnings			118,135			118,135
Unrealized gain on foreign currency forward and option contracts, net of deferred income taxes				5,539		5,539
Unrecognized gain on hedge settlement				2,384		2,384
Unrealized gain on investments, net of deferred income taxes				1,070		1,070
Unrealized foreign currency translation gain, net of deferred income taxes				82,386		82,386
Total comprehensive income						209,514
Other		1,447			(1,437)	10
Balance at September 30, 2006	\$ 1,459	\$ 1,281,912	\$ 847,799	\$ 13,507	\$ (317,105)	\$ 1,827,572

See Notes to Consolidated Financial Statements.

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

	Nine Months Ended September 30,	
	2006	2005
Operating Activities		
Net earnings	\$ 118,135	\$ 160,064
Adjustments to reconcile net earnings to cash provided by operating activities:		
Depreciation and amortization	131,506	92,120
Stock-based compensation for employees	24,389	8,714
Allowance for doubtful accounts	11,023	4,520
Deferred income taxes	13,627	8,077
Loss on derivative instrument		8,248
Joint venture equity loss (income)	(11,509)	1,992
Gain on sale of investments		(20,494)
Loss on sale of subsidiaries	11,053	
Other	(16,575)	(7,630)
Changes in operating assets and liabilities:		
Accounts and other receivables	(47,846)	(50,657)
Prepaid expenses	(542)	12,065
Other assets	25,861	12,783
Accrued compensation and related benefits	(15,436)	(21,205)
Accounts payable and other accrued liabilities	(36,470)	(10,813)
Travel supplier liabilities and deferred revenue	170,004	42,683
Pensions and other postretirement benefits	(5,854)	108
Excess tax benefits from stock-based compensation arrangements	(683)	
	370,683	240,575
Investing Activities		
Additions to property and equipment	(81,231)	(62,727)
Purchases of marketable securities	(10,276,506)	(8,282,115)
Sales of marketable securities	10,469,911	8,623,107
Proceeds from sale of investments	1,940	40,920
Loans to and investments in joint venture partners		(16,538)
Acquisitions (net of cash acquired)	(50,438)	(1,172,320)
Proceeds from release of restricted cash	37,211	
Other investing activities	4,743	(17,697)
	105,630	(887,370)
Financing Activities		
Proceeds from issuance of Common Stock	11,661	4,093
Dividends paid	(39,567)	(35,480)
Proceeds from bridge facility		800,000
Prepayment of bridge facility	(800,000)	
Proceeds from borrowings on revolving credit agreement	180,000	
Payments of borrowings on revolving credit agreement	(25,000)	
Proceeds from issuance of senior unsecured notes	397,136	
Excess tax benefits from stock-based compensation arrangements	683	
Purchases of treasury stock	(23,387)	(63,213)
Other financing activities	(1,461)	(1,210)
	(299,935)	704,190
Cash provided by (used for) financing activities		
Effect of exchange rate changes on cash and cash equivalents	16,135	(2,344)

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	<u>Nine Months Ended September 30,</u>	
Increase in cash	192,513	55,051
Cash at beginning of period	135,233	49,671
Cash at end of period	\$ 327,746	\$ 104,722

See Notes to Consolidated Financial Statements.

SABRE HOLDINGS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. General Information

Sabre Holdings Corporation ("Sabre Holdings") is a Delaware holding company. Sabre Inc. is the principal operating subsidiary and sole direct subsidiary of Sabre Holdings. Sabre Inc. or its direct or indirect subsidiaries conduct all of our businesses. In this Quarterly Report on Form 10-Q, references to the "company", "we", "our", "ours" and "us" refer to Sabre Holdings and its consolidated subsidiaries unless otherwise stated or the context otherwise requires.

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

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ClientBase, GetThere, Hotel Spotlight, Jurni Network, lastminute.com, Nexion, PromoSpots, Sabre, Sabre Airline Solutions, Sabre Holdings, the Sabre Holdings logo, Sabre Travel Network, Showtickets.com, Site 59, Site59.com, Surround, SynXis, TRAMS, Travelocity, Travelocity Business, Travelocity.com and Zuji are trademarks and/or service marks of an affiliate of Sabre Holdings Corporation. All other trademarks, service marks, or tradenames are the property of their respective owners. © 2006 Sabre Holdings Corporation. All rights reserved.

2. Summary of Significant Accounting Policies

Basis of Presentation The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP in the United States for complete financial statements. In the opinion of management, these financial statements contain all adjustments, consisting of normal recurring accruals, necessary to present fairly the financial position, results of operations and cash flows for the periods indicated. The preparation of financial statements in accordance with GAAP in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Operating results for the three months ended September 30, 2006 are not necessarily indicative of results that may be expected for any other interim period or for the year ended December 31, 2006. Our quarterly financial data should be read in conjunction with our Consolidated Financial Statements for the year ended December 31, 2005 (including the notes thereto), set forth in Sabre Holdings Corporation's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 8, 2006.

We consolidate all of our majority-owned subsidiaries and companies over which we exercise control through majority voting rights. From November 7, 2005 through January 23, 2006, we were the primary beneficiary of Zuji Holdings Limited ("Zuji") and consolidated its results, which were

previously accounted for using the equity method, in accordance with Financial Accounting Standards Board ("FASB") Interpretation No. 46R, *Consolidation of Variable Interest Entities (Revised)* ("FIN 46R"). In 2005, Travelocity entered into a put option agreement with the other owners of Zuji, exercisable from January 1, 2006 through January 31, 2006. This put option was exercised on January 24, 2006 and Travelocity gained 100% control of Zuji. See Note 3 to the Consolidated Financial Statements for additional information. Other than Zuji for the time period noted above, no other entities are currently consolidated due to control through operating agreements, financing agreements, or as the primary beneficiary of a variable interest entity.

The Consolidated Financial Statements include our accounts after elimination of all significant intersegment balances and transactions. We utilize the equity method to account for our interests in joint ventures and investments in common stock of other companies that we do not control but over which we exert significant influence, with our share of their results classified as revenues. Investments in the common stock of other companies over which we do not exert significant influence are accounted for at cost. We periodically evaluate equity and debt investments in entities accounted for at cost for impairment by reviewing updated financial information provided by the investee, including valuation information from new financing transactions by the investee and information relating to competitors of investees when available. If we determine that a cost method investment is other than temporarily impaired, the carrying value of the investment is reduced to its estimated fair value. To date, writedowns of investments carried at cost have been insignificant to our results of operations.

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

We have reclassified \$4 million and \$20 million of customer commissions from cost of revenues for the first quarter and the second quarter of 2006, respectively, to selling, general and administrative expenses to conform to prior periods' presentation.

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

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

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, an interpretation of FASB Statement No. 109, *Accounting for Income Taxes*. The interpretation, effective for fiscal years beginning after December 15, 2006, provides thresholds and measurement guidelines for recognizing an uncertain tax position taken or expected to be taken in a tax return. We are currently evaluating the potential impact this interpretation might have on our financial results.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*. This standard, effective for fiscal years ending after November 15, 2007,

defines fair value, provides guidance regarding the measurement of fair value and expands the required disclosures for fair value measurements. We are currently evaluating the potential impact this interpretation might have on our financial results but do not believe the impact will be material.

Also in September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R)*. This new standard requires recognition of the over or under funded status of a defined benefit postretirement plan as either an asset or liability in the consolidated balance sheets and recognition of changes in the funded status through other comprehensive income in the year that the changes occur. Additionally, the statement requires measurement of the funded status as of the fiscal year-end balance sheet date. The standard also requires additional annual disclosures regarding adjustments to other comprehensive income related to changes in the funded status and amounts expected to be recognized as net periodic benefit costs over the following fiscal year. The recognition provisions and disclosure requirements of this standard are to be applied prospectively and are effective for public companies' fiscal years ending after December 15, 2006. The measurement date provisions of this statement are effective for fiscal years ending after December 15, 2008 with earlier application encouraged. The new measurement standards will have no effect on our current practice, as we currently measure the funded status of our defined benefit pension plan and other postretirement benefit plans as of the year-end balance sheet date. While we are still evaluating the impact of this standard on our financial position, this statement is not expected to have a material impact on our financial results.

Changes in Estimates Sabre Travel Network pays incentive payments to our subscribers, generally travel agents, based upon bookings volume and rates contained within the travel agency contracts. Historically, we estimated our accrued incentive liability based upon bookings volume and rates for our larger subscribers because these volumes represented the majority of our incentive liability. In the first quarter of 2006, we revised our estimate of the incentive liability to include expense associated with our smaller travel agency customers that was previously recorded as payments were made. The incentives from these smaller agencies were immaterial in the past; however, recent analysis of smaller travel agencies showed a pattern of growth in incentives which warranted accrual of the expense. This new accrual methodology resulted in an additional \$21 million in incentive expense in the first quarter of 2006. We performed a similar analysis on revenues we received from smaller travel agencies which resulted in an additional \$7 million in subscriber revenues in the first quarter of 2006. Both of these accruals resulted in a net reduction to our after tax net earnings for the three months ended March 31, 2006 of approximately \$9 million or \$0.07 per dilutive common share. We continue to accrue this expense and revenue; however, there has been no significant change since March 31, 2006.

Sabre Travel Network has a booking fee cancellation reserve that is calculated at each period end based on historical cancellation rates. In estimating the amount of future cancellations that will require us to refund a booking fee, we assume that a certain percentage of cancellations are followed immediately by a new reservation, without loss of revenue. This assumption is based on historical rates of cancellations that result in new reservations and has a significant impact on the amount reserved. In the first quarter of 2006, our estimate of the rebook rate increased. This change in the rebook rate assumption lowers the amount of reserve needed for cancelled bookings. In the first quarter of 2006, the new estimated rate, when compared to the previous rebook assumption, resulted in a \$7 million decrease in the booking fee cancellation reserve. This change resulted in a \$4 million increase to after tax net earnings for the three months ended March 31, 2006 or \$0.03 per dilutive common share. We continue to use the new rebook rate; however, there has been no significant change since March 31, 2006.

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Denominator for basic earnings per common share weighted-average shares	129,769	129,328	130,177	129,619
Dilutive effect of stock awards and options	476	764	1,029	674
Denominator for diluted earnings per common share adjusted weighted-average shares	130,245	130,092	131,206	130,293

Options to purchase 16,532,175 and 15,894,771 weighted-average shares of our Class A Common Stock, par value \$0.01 per share ("Common Stock"), were outstanding during the three and nine month periods ending September 30, 2006, respectively, but were excluded from the computation of diluted earnings per share because the effect would be antidilutive. For the corresponding periods in 2005, antidilutive options to purchase 20,896,599 and 20,321,717 weighted-average shares were excluded from the computation of diluted earnings per share. The decrease in antidilutive weighted-average shares from September 30, 2005 to September 30, 2006 is due primarily to a higher market price for shares of our Common Stock.

Restricted Cash At September 30, 2006, we held approximately \$9 million in cash that was restricted. Approximately \$6 million of this restricted cash represents deposits required by airlines and other travel regulatory bodies as well as an office premise for Zuji as required by the lessor. At December 31, 2005, we held \$57 million in cash that was restricted including \$40 million to fulfill bonding requirements in Europe related to *lastminute.com*SM. In the first quarter of 2006, \$37 million of this bonding requirement was released. Additionally, during the first quarter of 2006, we were able to release \$12 million in cash held in an escrow account as the related liability was extinguished.

3. Significant Events

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

AOL Agreement In 1999, we entered into an agreement with America Online, Inc. ("AOL") that provided, among other things, that *Travelocity* would be the exclusive reservations engine for AOL. On January 21, 2004, we revised the terms of and extended our agreement with AOL through March 2006. In March 2006, we again extended the terms and now have an agreement through March 2009, which includes an option to exit the contract in March 2008. Under the terms of the extension, *Travelocity* will have lower fixed payment obligations. We also maintained terms that

reduce the fixed payment if AOL does not meet certain revenue targets. This variable payment is currently estimated to be \$12 million over the 3-year term of the agreement plus a fixed financial commitment of \$6 million also to be paid over the term of the agreement. Travelocity continues to be the exclusive reservations engine for AOL's Internet properties under the revised agreement. The revised terms also allow AOL to continue to expand in the travel search arena through its sites and partners. At December 31, 2005, we had remaining \$6 million of unamortized fixed payments paid under the original contract, which was extended through March 2006, which was recognized in the first quarter of 2006. We recognized \$1 million in each of the second and third quarters of 2006 for the extension of the contract through March 2009.

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

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

Additionally, we have transitioned approximately 300 carriers from our traditional Participating Carrier Agreement ("PCA") to a new Travel Marketing Agreement ("TMA"). These new agreements are one-year agreements, as compared with 30 days in the PCA, and are automatically renewed unless canceled by either side. The TMA has pricing that varies by region and, in some cases, by the value of the ticket that was sold. This pricing better aligns price with value for the airline and provides better content guarantees to Sabre Travel Network.

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

Full content from program carriers, including published fares and Web fares, as well as non-discriminatory access to private fares, including agency negotiated rates and rates provided to the corporate or government customers those agencies serve, and

Protection from service fees that a program carrier might otherwise levy on bookings made through the *Sabre* GDS.

Agencies participating in the program agree to adjusted financial terms in exchange for the significant benefits and protections afforded by the new agreements. The terms will vary according to agency contract type, but generally result in lower incentive payments.

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Additionally, because carriers participating in the program will receive a discount on booking fees, this could have the effect of lowering Sabre Travel Network revenues over time.

Acquisition of TRAMS, Inc. and Related Assets On February 10, 2006, we acquired certain assets from an individual, including all of the outstanding stock of TRAMS, Inc. ("TRAMS"), a leading provider of financial reporting, customer relationship management tools and direct marketing solutions and services for travel agencies. The purchase price was \$22 million in cash, \$20 million of which had been paid as of September 30, 2006. We are also contingently liable for up to \$8 million in purchase price if certain contractually determined performance measures are met over the next three years. The acquisition enables Sabre Travel Network to directly serve the end-to-end needs, from front to back-office, of a broad spectrum of travel agencies, with initial focus on small and mid-sized leisure agencies. With the acquisition, Sabre Travel Network will be able to integrate the *TRAMS* offerings more seamlessly with existing and future *Sabre* solutions. The results of operations of TRAMS have been included in our Consolidated Statements of Income and the results of operations of our Sabre Travel Network segment from the date of acquisition. Assets acquired and liabilities assumed have been recorded at their estimated fair values, and the \$6 million excess of cost over the estimated fair value of the net assets has been recorded as goodwill. A portion of the acquired goodwill is deductible for tax purposes. The fair values were determined by management based in part on an independent valuation of the net assets acquired, which includes intangible assets of \$16 million. Intangible assets subject to amortization are being amortized over a weighted-average period of 11 years and relate primarily to technology and customer relationships.

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

On January 24, 2006, a put option that we entered into in 2005 with the other equity investors of Zuji was exercised and pursuant to the agreement, we paid \$34 million for the remaining 90% interests in Zuji that we did not already own. Therefore, 100% of the results of operations for Zuji are included in our Consolidated Statements of Income and the results of operations of our Travelocity segment from the date of acquisition. Because we previously owned 10% of Zuji, the acquisition was accounted for as a step-acquisition. The purchase price was allocated based on 90% of the estimated fair value of the net assets acquired, including intangible assets acquired. After adding our original 10% cost basis in the entity to the 90% of the fair value of the net assets acquired, our total investment in Zuji is \$35 million, including \$51 million of goodwill. The recorded goodwill is not deductible for non-U.S. income tax purposes but will reduce the amount of U.S. tax paid on distributions of Zuji profits to its U.S. parent. The goodwill represents a value attributable to an increased competitive position in the Asia Pacific region and greater scale. The fair values of the net assets acquired were determined by management based, in part, on a preliminary independent valuation of the intangible assets acquired. Intangible assets acquired are being amortized over a weighted-average period of 5 years and relate primarily to contracts and

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

Working capital	\$ (25,257)
Tradenames (indefinite life)	5,400
Tradenames (5 year useful life)	800
Technology (5 year useful life)	3,130
Goodwill	50,986
	<hr/>
Total purchase price	\$ 35,059
	<hr/>

Acquisition of lastminute.com On July 20, 2005, we completed the acquisition of lastminute.com plc, a leading online travel agency and leisure company in Europe and began consolidating its results. The aggregate cost of the acquisition was approximately \$1.2 billion (\$1,069 million net of cash acquired). The aggregate cost includes \$1,019 million of cash paid to lastminute.com plc stockholders, \$138 million of debt retired and \$15 million of direct acquisition costs. We used approximately \$371 million of available cash and marketable securities (\$269 million net of cash acquired) to fund the acquisition and incurred \$800 million in indebtedness under an unsecured bridge loan agreement (Note 8). During the first quarter of 2006, we prepaid the entire amount outstanding under the bridge loan agreement.

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

lastminute.com has been included in our Consolidated Statements of Income from the date of acquisition, July 20, 2005. The assets acquired and liabilities assumed have been recorded on our Consolidated Balance Sheets at their estimated fair values, and the excess of cost over the estimated fair value of the net assets has been recorded as goodwill. The fair values were determined by management based in part on an independent valuation of the net assets acquired, which includes intangible assets as presented in the table below. The recorded goodwill related to the acquisition of lastminute.com by our Travelocity segment is deductible for tax purposes and represents a value attributable to an increased competitive position in Europe and greater scale.

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

Working capital	\$ (234,956)
Property and equipment	19,629
Investments in joint ventures and other assets, net	556
Tradenames (indefinite life)	281,789
Tradenames (14.2 year average useful life)	45,005
Technology (3.5 year useful life)	95,411
Customer and contractual relationships (7 year useful life)	108,012
Non-compete agreements (1 year useful life)	1,800
Goodwill	855,677
Non-current liabilities	(1,483)
	<hr/>
Total purchase price	\$ 1,171,440
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Working capital includes an accrual of approximately \$37 million of acquisition-related costs, including \$10 million, net of deferred taxes of \$5 million, for the fair value of a restructuring plan described further below. The accrual also included a material contingent liability in relation to a dispute with a vendor and other items described more fully below.

Shortly following the completion of the acquisition, we began to develop a plan to eliminate duplicate costs, including certain duplicate facilities, and to restructure certain areas of the lastminute.com business. At the acquisition date, we accrued \$11 million, offset by deferred taxes of \$4 million, for the present value of future lease payments and related costs due on facilities that are being closed and consolidated with existing facilities in the United Kingdom, Germany and Sweden. The majority of the accrual relates to the relocation of staff from a facility in Camberley to a facility in Woking which has excess capacity. The Camberley facility is no longer being utilized and we plan to pursue options to sublet or terminate our lease early for this facility, although at this time we do not know if either of these options is possible. As of September 30, 2006, the accrual is approximately \$9 million.

Additionally, we accrued \$4 million for severance and related costs for reductions in headcount in various areas of lastminute.com, including in the United Kingdom, France, Germany and Holland. The reductions are due to the elimination of duplicate staff with the consolidation of facilities and activities of Travelocity.com and lastminute.com, outsourcing of certain call center activities and other redundancies identified in our analysis of the business. Since the acquisition, we have paid \$2 million of the severance accrued. As of September 30, 2006, the remaining accrual for severance and related costs is \$2 million.

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

In the third quarter of 2006, we finalized our purchase price allocation for the acquisition of lastminute.com. Adjustments since the date of acquisition were for the final asset valuation appraisals, to adjust for differences in United Kingdom versus U.S. accounting principles, for pre-acquisition contingencies and for errors related to pre-acquisition transactions and other activities.

Pro forma Statement of Operations Data for lastminute.com Acquisition

The following unaudited pro forma information presents our results of operations from continuing operations as if the acquisition of lastminute.com, discussed above, had occurred as of January 1, 2005. The pro forma information has been prepared by combining our results of operations and lastminute.com's results of operations for the three and nine months ended September 30, 2005. Prior to the acquisition, lastminute.com utilized a September 30 fiscal year end. The lastminute.com statements of operations have been adjusted to conform to our calendar year end financial statement presentation. For purposes of this report, unaudited pro forma adjustments, including a reconciliation between GAAP in the United Kingdom, where lastminute.com is headquartered, and GAAP in the United States, have been made to the lastminute.com historical financial statements. The pro forma information does not purport to be indicative of the results that would have occurred if the acquisition had actually been in effect earlier than July 20, 2005, nor indicative of future performance. The pro forma results during the nine months ended September 30, 2005 include several non-recurring adjustments totaling \$43 million, which have a material effect on the results presented. These adjustments, which are not anticipated in future periods, include costs incurred and amounts expensed related to the acquisition and a material disputed amount due to a vendor. Pro forma adjustments related to any other acquisitions

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occurring during 2005 or 2006 have not been included, as the effect of doing so would be immaterial. Amounts below are presented in thousands, except per share data:

	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005
Pro forma revenues	\$ 730,434	\$ 2,085,206
Pro forma net earnings	59,848	98,595
Pro forma net earnings per common share:		
Basic	\$ 0.46	\$ 0.76
Diluted	\$ 0.46	\$ 0.76

Acquisition of SynXis On January 19, 2005, we completed the acquisition of SynXis Corporation ("SynXis"), a provider of the SynXis® reservation management, distribution and technology services for hotels, for approximately \$41 million in cash. This acquisition enables Sabre Travel Network to further build on our capabilities and offerings to hoteliers, to leverage new hotel content for all of our travel agents, and to extend reservation technology currently used at approximately 8,200 hotels, primarily in the United States and Europe. SynXis will continue to operate under the SynXis name as a wholly-owned subsidiary of Sabre Inc. The acquired goodwill is not deductible for tax purposes. Intangible assets subject to amortization are being amortized over their respective lives. The following table summarizes the allocation of the purchase price and the amounts allocated to goodwill (in thousands):

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

Sale and Leaseback of a Portion of Our Southlake, Texas Headquarters Facilities In September 2006, as a part of our ongoing cost savings efforts, we entered into a sale leaseback agreement with Maguire Partners ("Maguire") that we expect will generate approximately \$10 million in annual pre-tax savings starting in 2008. Under the agreement, we will sell our Solana building as well as some undeveloped land that is a part of our Southlake, Texas headquarters facilities (the "Property") for \$80 million, subject to certain closing conditions.

We also agreed to lease back the Solana building from Maguire for a term of five years. Under the leaseback, we will be responsible for rent of approximately \$6 million annually and for operational expenses such as maintenance and property taxes. We expect to complete the sale of the Property to Maguire by the end of 2006, at which time we will become obligated under the leaseback agreement.

Additionally, in order to facilitate the sale of the Property, we amended our capital lease facility with CSL Leasing, Inc. that extends through 2013. The amendment, which is effective as of August 31, 2006, allows us to exercise at any time an option to purchase the Property from CSL, subject to the payment of accrued interest and 10-business days' advance notice. We intend to exercise our option to purchase the Property from CSL, and to sell the Property to Maguire, after Maguire has completed its diligence on the Property.

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We plan to re-accommodate the approximately 1,200 employees currently occupying the Solana building in two other headquarters buildings, also in Southlake, Texas and vacate the Solana building in late 2007 or early 2008, prior to the expiration of the five year lease term.

This transaction provides an efficient means to dispose of a real estate asset held under a capital lease as part of a broader initiative to consolidate our headquarters facilities. The capital lease facility obligation currently is \$165 million with a \$159 million residual value guarantee. We intend to use the proceeds from the sale of the Property to repay a portion of our capital lease facility, which will result in a \$93 million remaining obligation under the capital lease facility with an \$89 million residual value guarantee. Upon vacating the Solana building in late 2007 or early 2008, we expect to take a charge of approximately \$31 million to \$36 million related to future obligations under the leaseback due to the exit of the facility prior to the end of the lease term. Thereafter, we expect to generate approximately \$10 million in annual savings by reducing lease expenses, other operating expenses and interest expense related to our headquarters facilities.

As a result of our intent to sell this Property, it is being treated as an asset group held for sale in accordance with Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. We have removed approximately \$76 million and \$77 million, the book value of the Property, from buildings and leasehold improvements and classified it as assets held for sale in the Consolidated Balance Sheets as of September 30, 2006 and December 31, 2005, respectively. We have determined that the Property to be sold is not impaired and, to date, we have not incurred any significant costs associated with the pending sale.

Sale of Certain Travelocity Europe and lastminute.com Businesses In June 2006, we sold three offline traditional retail businesses in our Travelocity Europe and lastminute.com operations as a part of the integration efforts that continue in the Travelocity segment and in Europe particularly. This sale was part of an effort to rationalize our portfolio of assets to focus on the higher growth online operations. The revenues and costs of these businesses were not material, individually or in the aggregate. The sale of these three businesses resulted in a pre-tax loss of \$11 million, net of proceeds, recorded in Other, net in our Consolidated Statements of Income.

Sale of Karavel Investment On March 11, 2005, we sold our interest in Karavel SA, a French tour operator. We received approximately \$26 million (Euro 20 million) in cash proceeds in connection with the sale and recorded a \$21 million gain in other income in our Consolidated Statements of Income.

Cost Reductions In 2005, we announced plans to reduce our workforce and accrued approximately \$6 million for severance and related costs, less than \$1 million of which remains accrued as of September 30, 2006. In March 2006, we further reduced our workforce and accrued approximately \$3 million for severance and related costs, of which less than \$1 million remains accrued as of September 30, 2006. We expect the majority of the accruals for these reductions will be paid out in 2006.

4. Pension and Other Postretirement Benefit Plans

The components of net periodic benefit cost of defined benefit pension plans and other defined benefit postretirement plans for the three and nine months ended September 30, 2006 and 2005 are presented in the tables below (in thousands):

Pension Benefits

Components of net periodic benefit cost:	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Service cost	\$ 29	\$ 1,510	\$ 86	\$ 4,529
Interest cost	6,477	5,405	17,172	16,212
Expected return on plan assets	(8,412)	(6,332)	(21,406)	(18,341)
Amortization of transition asset	(3)	(3)	(9)	(8)
Amortization of prior service cost		35		104
Amortization of actuarial loss	603	1,189	1,941	3,565
Net periodic benefit cost	(1,306)	1,804	(2,216)	6,061
Settlement loss			307	
Total net periodic benefit cost	\$ (1,306)	\$ 1,804	\$ (1,909)	\$ 6,061

Other Benefits

Components of net periodic benefit cost:	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Service cost	\$ 293	\$ 276	\$ 880	\$ 899
Interest cost	1,163	1,040	3,489	3,201
Amortization of transition asset	4	4	12	11
Amortization of prior service cost	(1,622)	(1,542)	(4,866)	(4,620)
Amortization of actuarial loss	963	661	2,889	2,253
Total net periodic benefit cost	\$ 801	\$ 439	\$ 2,404	\$ 1,744

We made a contribution of approximately \$5 million in the three months ended September 30, 2006 to fund our defined benefit pension plan. We made contributions totaling \$6 million and \$15 million during the nine months ended September 30, 2006 and September 30, 2005, respectively. For the full year 2005 we made contributions totaling \$32 million to fund our defined benefit pension plans. We intend to reevaluate making any additional contributions to our defined benefit pension plans at the end of 2006. Annual contributions to our defined benefit pension plans are based on several factors that may vary from year to year. Therefore, past contributions are not always indicative of future contributions.

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

In conjunction with the amendment to our pension and retirement plans, effective January 1, 2006, we eliminated the discretionary company contribution to our 401(k) Plan and increased the company matching contribution from 50% to 100% of each employee's pre-tax contribution up to 6% of eligible base pay, subject to IRS limits. We have recorded expenses related to the 401(k) Plan of approximately \$4 million for both the three months ended September 30, 2006 and 2005,

approximately \$12 million for the nine months ended September 30, 2006 and approximately \$11 million for the nine months ended September 30, 2005.

5. Options and Other Stock-Based Awards

Prior to January 1, 2006, we accounted for stock awards and stock option grants using the intrinsic value method set forth in Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB 25"), and related interpretations as permitted by Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* ("SFAS 123"). Generally, no compensation expense was recognized for stock option grants to employees if the exercise price was at or above the fair market value of the underlying stock on the date of grant but was included in a pro forma disclosure in the footnotes to the financial statements. Compensation expense relating to other stock awards was recognized over the period during which the employee rendered service to us necessary to earn the award.

Effective January 1, 2006, we adopted SFAS No. 123 (Revised 2004), *Share-Based Payments* ("SFAS 123R"), which is a revision of SFAS 123. SFAS 123R supersedes APB 25 and amends FASB Statement of Financial Accounting Standards No. 95, *Statement of Cash Flows*. We adopted SFAS 123R using the modified prospective method. Stock options that were granted prior to January 1, 2006, but for which the requisite service period had not been provided will be expensed, based on the Black-Scholes value of those options as determined for the purposes of our pro forma disclosures in accordance with SFAS 123, over their remaining requisite service period adjusted for expected forfeitures. Compensation expense for restricted shares issued to employees was recognized prior to and subsequent to the adoption of SFAS 123R over their requisite service periods. Prior period financial statements have not been restated. The following table details stock-based compensation expense recorded for the three and nine months ended September 30, 2006 and 2005 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Stock options	\$ 3,712	\$ 371	\$ 12,693	\$ 1,202
Restricted stock	3,652	2,584	10,389	7,417
Performance shares	1,181		3,138	
SFAS 123R adjustment			(1,831)	
Total	\$ 8,545	\$ 2,955	\$ 24,389	\$ 8,619

Expenses related to stock options in 2006 and the SFAS 123R adjustment are the result of adopting SFAS 123R. The approximately \$2 million SFAS 123R adjustment is for stock-based compensation expense recognized prior to adoption of SFAS 123R on restricted stock grants that we believe will ultimately forfeit. This adjustment was booked in accordance with implementation guidance set forth in SFAS 123R. We concluded that this adjustment was not material enough for treatment as a cumulative effect of an accounting change. By adopting SFAS 123R, our income before provision for income taxes and net earnings are \$4 million and \$2 million lower, respectively, for the three months ended September 30, 2006 and \$11 million and \$7 million lower, respectively, for the nine months ended September 30, 2006 than they would have been under APB 25. Basic and dilutive earnings per common share are each \$0.02 lower for the three months ended September 30, 2006, and \$0.05 lower for the nine months ended September 30, 2006 than they would have been had we continued to account for stock-based compensation expense under APB 25.

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

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

The following table summarizes the pro forma effect of stock-based compensation expense on our net earnings and net earnings per share for the three and nine months ended September 30, 2005, as if we had accounted for such compensation at fair value (in thousands, except per share data):

	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005
Net earnings, as reported	\$ 58,496	\$ 160,064
Add stock compensation expense determined under intrinsic value method, net of income taxes	1,914	5,466
Less total stock-based employee compensation expense determined under fair value based method for all awards, net of income taxes	(7,736)	(24,027)
Pro forma net earnings	\$ 52,674	\$ 141,503
Net earnings per common share, as reported:		
Basic	\$ 0.45	\$ 1.23
Diluted	\$ 0.45	\$ 1.23
Net earnings per common share, pro forma:		
Basic	\$ 0.41	\$ 1.09
Diluted	\$ 0.40	\$ 1.09

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

	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005
Average risk-free interest rate	4.20%	3.65%
Expected life (in years)	4.5	4.5
Sabre Holdings dividend yield	1.9%	1.7%
Sabre Holdings implied volatility	48.9%	49.8%
Fair value	\$ 7.50	\$ 8.26

Restricted Stock Shares of restricted stock are awarded at no cost to employees. Restricted shares generally grade vest from one to five years following the date of grant. Dividends issued with respect to restricted shares may be paid in cash or treated as additional shares of restricted stock that are subject to the same restrictions and other terms and conditions that apply to the shares with respect to which such dividends are issued. During 2005 and for the first three quarters

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of 2006, the dividends were paid in cash. We recognize the expense for restricted stock grants over the requisite service period of the grant using the market value on the date of the grant. Certain restricted stock issued to employees of lastminute.com contains performance conditions which could result in the acceleration of vesting. In these cases, we are recognizing compensation expense over the longer service period. If it becomes probable that the performance conditions will be met, we will recognize compensation expense over the shorter performance period.

The following table summarizes the activity for our restricted stock plan during the nine months ended September 30, 2006:

Restricted Stock	Shares	Weighted-Average Grant Date Fair Value
Nonvested at December 31, 2005	1,757,084	\$ 20.81
Granted	1,169,050	23.37
Vested	(543,550)	20.64
Forfeited	(261,091)	21.17
Nonvested at September 30, 2006	2,121,493	\$ 22.11

As of September 30, 2006, there was \$37 million of total unrecognized compensation cost related to our restricted stock plan, including grants that we believe will eventually forfeit. This cost is expected to be recognized over a weighted-average period of three years.

Performance Shares In February 2006, we issued 910,750 performance shares under the Amended and Restated 2005 Long-Term Incentive Plan and Performance Share Unit Agreement. The shares are divided equally into tranches that may vest annually over a four-year period. The number of shares received by the recipients each year, if any, will be determined by the cumulative performance of our Common Stock including dividends ("Total Shareholder Return") when compared to the performance of the Standard & Poor's 500. For example, the number of shares which vest in year three of the grant will be determined based on the three-year cumulative Total Shareholder Return of our Common Stock when compared to the performance of the Standard & Poor's 500 over the same period. Each tranche of these shares was valued using a Monte Carlo simulation model. The average fair value of these shares was estimated at \$11.55 per share. Certain assumptions used in the model include (but are not limited to) the following:

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

For the three and nine months ended September 30, 2006, we recorded \$1 million and \$3 million, respectively, in compensation expense related to these shares. As of September 30, 2006, we have approximately \$7 million in unrecognized compensation expense (including shares we expect to ultimately forfeit) that will be recognized over the next four years.

As of September 30, 2006, we have several other stock-based compensation plans under which there are outstanding awards, including the following:

The Amended and Restated 2005 Long-Term Incentive Plan Under our Amended and Restated 2005 Long-Term Incentive Plan (the "LTIP"), executives, non-employee directors, managers and other key employees may be granted restricted stock, deferred stock, stock options, stock

appreciation rights, stock purchase rights, other stock-based awards and/or performance-related awards. Under the LTIP:

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

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

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

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

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

The LTIP will terminate in May 2015. At September 30, 2006, 10,575,196 shares remained available for future grants of stock-based awards under the LTIP.

Sabre Holdings Corporation Stock Option Plan In 2000, we established the Sabre Holdings Corporation Stock Option Plan (the "2000 Plan") to attract, retain and reward our employees by offering stock incentives. Under the 2000 Plan, employees may be granted stock options or stock appreciation rights. The total number of shares of Class A Common Stock authorized for distribution under the 2000 Plan is 7,000,000 shares. At September 30, 2006, 1,522,636 shares remained available for future grants.

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

Directors' Stock Incentive Plan Under the 1996 Director Stock Incentive Plan, non-employee directors received awards of options. Shares were granted from the plan through 1998. Beginning in 1999, stock options granted to non-employee directors were granted under the LTIP. As of December 31, 2005, 109,026 options had been granted to directors at a weighted-average exercise price of \$25.20. As of September 30, 2006, 36,342 of those options have been exercised, and 72,684 are still outstanding. These amounts are also included in the stock options outstanding table below.

Stock Options Outstanding All stock options have an exercise price equal to the fair market value of our Class A Common Stock on the date of grant, although the Board of Directors has the discretion to grant options with an exercise price at or above fair market value. Stock options generally vest over one to five years and are not exercisable more than ten years after the date of grant. For valuation purposes, the entire grant is valued using the Black-Scholes method for options issued prior to adoption of SFAS 123R on January 1, 2006. We began using a lattice model for any options granted after January 1, 2006. Options are amortized on a straight-line basis over the requisite service period for the entire award.

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In June 2006, we granted 15,561 stock options to our non-employee directors which had an immaterial impact on our financial statements. There have been no other stock option issuances in the nine months ended September 30, 2006.

For stock options only, we recognized \$4 million and \$13 million in stock compensation expense for the three and nine months ended September 30, 2006, respectively. At September 30, 2006, we have approximately \$21 million in unrecognized compensation expense (including options that we expect will ultimately forfeit) which will be recognized over the next four years.

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

Stock Options	Shares	Weighted-Average Exercise Price per Share	Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding at December 31, 2005	16,929,727	\$ 30.08	6.33	\$ 509,246,188
Granted	15,561	21.37		
Exercised	(776,165)	19.77		
Cancelled	(1,532,106)	33.38		
Outstanding at September 30, 2006	14,637,017	\$ 30.27	5.57	\$ 443,062,505

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Shares	Weighted-Average Remaining Life (Years)	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
\$0.16-\$15.99	23,965	3.49	\$ 7.36	23,765	\$ 7.28
\$16.00-\$25.99	7,027,496	7.01	20.65	4,242,171	20.59
\$26.00-\$35.99	1,257,575	3.09	31.75	1,252,648	31.77
\$36.00-\$48.99	5,277,785	4.67	38.29	5,277,785	38.29
\$49.00-\$60.99	941,277	3.49	49.93	941,277	49.93
\$61.00-\$105.06	108,919	3.44	80.25	108,919	80.25
Total	14,637,017	5.57	\$ 30.27	11,846,565	\$ 32.51

Stock appreciation rights ("SAR") may be granted in conjunction with all or part of any stock option granted. All SARs will be forfeited upon termination or exercise of the related option and will be exercisable only during the time that the related option is exercisable. If a SAR is exercised, the related stock option will be deemed to have been exercised. As of September 30, 2006, an insignificant number of stock appreciation rights remained outstanding.

2003 Directors' Deferred Compensation and Deferred Stock Unit Plan Under the 2003 Directors' Deferred Compensation and Deferred Stock Unit Plan, directors may be issued deferred stock units. Additionally, directors may defer their cash fees into stock equivalent units at their individual elections. Through May 17, 2005, each director was granted 400 deferred stock units for each regularly scheduled Board of Directors meeting attended. On December 17, 2004, the Compensation Committee approved a new

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compensation arrangement for directors effective after the 2005 Annual Meeting. Under the new arrangement, directors receive \$60,000 in deferred stock units annually, granted in two semiannual payments on June 1 and December 1 each year. The

units are marked to the current fair market value through expense until the deferral period ends. Fair market value is determined based on an average range of our stock price over the most recent valuation period. At September 30, 2006, 91,354 deferred stock units and 77,482 stock equivalent units at a fair market value of \$21.65 per share have been deferred.

Employee Stock Purchase Plan We sponsor an Employee Stock Purchase Plan (the "ESPP"). Effective January 1, 2005, we amended the terms of the ESPP. The amended terms allow participating employees to purchase stock on a quarterly basis at 95% of the market price of the stock at the end of a three-month period. Employees may continue to purchase stock up to an aggregate maximum purchase price of 10% of the employee's annual compensation, subject to certain limitations. We issued approximately 30,000 shares of Common Stock in 2006 under the ESPP. On May 4, 2004, shareholders approved an authorization of an additional 2,000,000 shares of Class A Common Stock under the ESPP, bringing the total number of shares reserved under the plan to 4,000,000. At September 30, 2006, 2,091,154 shares remained available for future issuance.

6. Income Taxes

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Income tax provision at statutory federal income tax rate	\$ 37,259	\$ 32,729	\$ 64,306	\$ 89,066
State income taxes, net of federal tax effects	585	1,454	2,374	4,640
Reversal of previously accrued taxes	(919)		(5,692)	
Other, net	1,957	831	4,607	704
Total provision for income taxes	\$ 38,882	\$ 35,014	\$ 65,595	\$ 94,410

7. Derivatives

In order to hedge our operational exposure to foreign currency movements, we are a party to certain foreign currency forward contracts. We have also used options in the past, but have no options currently outstanding. We have designated these instruments as cash flow hedges. Amounts reclassified from other comprehensive income to earnings due to the settlement of forward contracts were gains of approximately \$1 million during the three months ended September 30, 2006 and 2005 and losses of approximately \$3 million and gains of approximately \$5 million during the nine months ended September 30, 2006 and 2005, respectively. No hedging ineffectiveness was recorded in earnings relating to the forwards during the nine months ended September 30, 2006 and 2005. The estimated fair values of the foreign currency forward contracts were assets related to unrealized gains of \$3 million at September 30, 2006 and liabilities related to the unrealized losses of \$6 million at December 31, 2005, respectively. These foreign currency forward contracts were recorded in prepaid assets at September 30, 2006 and other accrued liabilities at December 31, 2005 on the Consolidated Balance Sheets. We also have entered into short-term forward contracts through some of our lastminute.com subsidiaries that hedge a portion of our foreign currency exposure related to travel supplier liability payments. The impact of these contracts on the financial statements for the quarter ended September 30, 2006 was not significant.

We are also a party to certain interest rate swap contracts. We have designated the swaps as fair value hedges of our public notes payable, which mature in 2011, and capital lease obligation. No hedging ineffectiveness relating to our interest rate swaps was recorded in earnings during the nine