

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 |
| | <hr/> | <hr/> |
| 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 |
| | <hr/> | <hr/> |
| | 749,759 | 670,257 |
| Less accumulated depreciation and amortization | (388,241) | (318,021) |
| | <hr/> | <hr/> |
| 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 |
| | <hr/> | <hr/> |
| 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 |
| | <hr/> | <hr/> |
| 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 |
|---|-----------------------------|-----------------------------|
| | <u> </u> | <u> </u> |
| 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) |
| | <u> </u> | <u> </u> |
| Total stockholders' equity | 1,827,572 | 1,643,112 |
| | <u> </u> | <u> </u> |
| Total liabilities and stockholders' equity | \$ 4,464,009 | \$ 4,374,111 |
| | <u> </u> | <u> </u> |

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.

1

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 prerequisites 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 |
| | | <hr/> |

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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

months ended September 30, 2006 or 2005. The estimated fair value of the interest rate swaps was a liability of \$9 million at September 30, 2006 which was recorded in other liabilities on the Consolidated Balance Sheet. The estimated fair value of the interest rate swaps was a net liability of \$5 million at December 31, 2005, of which \$2 million was recorded in other assets and \$7 million in other liabilities on the Consolidated Balance Sheet.

In order to protect ourselves against the impacts of interest rate fluctuations occurring prior to the issuance of \$400 million of senior unsecured notes in March 2006, we entered into two interest rate hedges on the Ten Year U.S. Treasury Note, which locked in the treasury component of our borrowing rate on the notes. We hedged \$250 million on February 16, 2006, at a rate of 4.628%, and we hedged \$150 million on March 3, 2006, at a rate of 4.69%. The hedges were sold on March 8, 2006, simultaneously with the pricing of the bonds. The resulting gain on the sale of \$3 million was recorded in other comprehensive income and will be recognized over the life of the notes, using the effective yield method.

8. Debt

Capital Lease Obligation

In June 2003, Sabre Inc. entered into a ten-year master lease for our corporate headquarters facility in Southlake, Texas, which is accounted for as a capital lease. The interest rate on the capital lease financing is fixed at 5.37%. At the inception of the lease, we recorded an asset of approximately \$168 million, along with a liability of approximately \$168 million, representing the present value of the minimum lease payments due under the lease and the residual value guarantee discussed below.

At any time during the lease term, we have the option to terminate the lease and purchase the properties for approximately \$179 million, plus a make-whole amount, if applicable. We also have the option at any time up to one year prior to the lease expiration to cause the properties to be sold. If this sell option is exercised, we have guaranteed that proceeds on a sale will be at least approximately \$159 million, and we are responsible for the first dollar loss up to approximately \$159 million due to a decrease in the value of the property below approximately \$179 million. If the sales proceeds exceed approximately \$179 million plus any sales-related expenses, we retain the excess.

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 intend to use the proceeds from the sale of the Property to repay a portion of our capital lease obligation. See Sale and Leaseback of a Portion of our Southlake, Texas Headquarters Facilities in Note 3 Significant Events for additional information on this transaction.

Bridge Financing Arrangement

During the three months ended March 31, 2006, we prepaid the entire \$800 million outstanding under the bridge facility we used to acquire lastminute.com in July 2005 with \$580 million of debt (see Publicly Issued Senior Unsecured Notes and Revolving Credit Agreement below) and \$220 million of our existing cash.

Publicly Issued Senior Unsecured Notes

In March 2006, Sabre Holdings Corporation issued \$400 million in senior unsecured notes ("Notes"), bearing interest at a fixed rate of 6.35% and maturing March 15, 2016, in an underwritten public offering resulting in net cash proceeds after expenses of approximately \$397 million. The Notes include certain non-financial covenants, including restrictions on incurring certain types of debt or entering into certain sale and leaseback transactions. The pending transaction to sell and subsequently lease back a portion of our corporate headquarters facilities (see Note 3 to the Consolidated Financial Statements) is not in violation of any covenants under our Notes. We used all of the net proceeds plus available cash and marketable securities to prepay \$400 million of the bridge facility. Under the terms of the Notes we are obligated to pay \$13 million in interest charges in 2006, and \$25 million per year afterwards until 2016. As of September 30, 2006, we were in compliance with all covenants under the indenture for the Notes.

Revolving Credit Agreement

On March 17, 2006, we borrowed \$180 million under our revolving credit agreement. We used the proceeds to prepay \$180 million of the outstanding principal on the bridge facility. The interest rate on this indebtedness is based on the London Interbank Offered Rate ("LIBOR") plus a borrowing spread, and is sensitive to our credit rating. At September 30, 2006, the interest rate was 5.93%. All or part of this indebtedness can be extended month-to-month at our option but it must be repaid on or before June 15, 2009. The indebtedness may be accelerated in certain circumstances that are described in the revolving credit agreement. We may repay the revolving credit loans outstanding under the revolving credit agreement at any time without significant penalty prior to the maturity date.

In May 2006, we repaid \$25 million of the outstanding borrowings under the revolving credit agreement. Based on the terms of this agreement, we have \$205 million of unused borrowing capacity under this facility at September 30, 2006.

As of September 30, 2006, we were in compliance with all covenants under our revolving credit agreement including the following financial covenants:

| Covenant | Requirement | Level at September 30, 2006 |
|--|-------------------|-----------------------------------|
| Consolidated Leverage Ratio (Debt to EBITDA) | 3.50 to 1 maximum | 2.67 |
| Consolidated Net Worth | \$1.3 billion | \$1.7 billion |

Our leverage ratio covenants under the revolving credit agreement are as follows:

| As amended on July 22, 2005 | Requirement |
|--|-------------------|
| Consolidated Leverage Ratio (Debt to EBITDA) for the quarters ended: | |
| June 30, 2006 through September 30, 2006 | 3.50 to 1 maximum |
| December 31, 2006 through March 31, 2007 | 3.25 to 1 maximum |
| June 30, 2007 and thereafter | 3.00 to 1 maximum |

There were no material changes to our \$400 million of public notes issued in August 2001 during the three and nine months ended September 30, 2006.

9. Business Segments

We are a world leader in travel commerce, marketing travel products and providing distribution and technology solutions for the travel industry. Through our *Sabre* global distribution system 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, including distribution through the lastminute.com business in Europe. 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.

Our reportable segments are strategic business segments that offer different products and services and are managed separately because each business requires different market strategies. The accounting policies of the segments are the same as those used in our consolidated results. We account for significant intersegment transactions as if the transactions were to third parties, that is, at estimated current market prices. The majority of the intersegment revenues and cost of revenues are between Travelocity and Sabre Travel Network, consisting mainly of incentives paid by Sabre Travel Network to Travelocity for transactions processed through the *Sabre* GDS, data processing fees paid by Travelocity to Sabre Travel Network for transactions processed through the *Sabre* GDS, transaction fees paid by Travelocity to Sabre Travel Network for transactions facilitated through the *Sabre* GDS in which the travel supplier pays Travelocity directly, and fees paid by Sabre Travel Network to Travelocity for corporate trips booked through the *Travelocity* online booking technology. In addition, Sabre Airline Solutions pays fees to Travelocity for airline trips booked through the *Travelocity* online booking technology. Personnel and related costs for the corporate headquarters, certain legal and professional fees, and other corporate charges are allocated to the segments through a management fee based on the relative size of the segments and usage of corporate resources or services. Depreciation expense on the corporate headquarters buildings and related facilities costs are allocated to the segments through a facility fee based on headcount. Benefits expense, including pension expense, postretirement benefits, medical insurance and workers' compensation are allocated to the segments based on headcount.

In the third quarter of 2006, we consolidated our online travel community business, IgoUgo, into Travelocity. This business had previously been included in our Sabre Travel Network segment. This change reduces operating income for Travelocity by approximately \$1 million and \$2 million for the three months ended September 30, 2006 and 2005, respectively, and \$5 million for both the nine months ended September 30, 2006 and 2005, with corresponding increases to operating income for our Sabre Travel Network segment.

The segment operating results are presented on a basis that excludes certain adjusting items that are summarized below, except where noted. 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 three reportable segments for the three and nine months ended September 30, 2006 and 2005 follows (in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|-------------------|------------------------------------|---------------------|
| | 2006 | 2005 | 2006 | 2005 |
| Revenues from external customers, excluding adjusting items: | | | | |
| Sabre Travel Network | \$ 383,134 | \$ 388,961 | \$ 1,224,504 | \$ 1,220,549 |
| Travelocity | 285,848 | 240,965 | 728,420 | 485,535 |
| Sabre Airline Solutions | 71,965 | 67,140 | 204,496 | 196,757 |
| Total | \$ 740,947 | \$ 697,066 | \$ 2,157,420 | \$ 1,902,841 |
| Intersegment revenues: | | | | |
| Sabre Travel Network | \$ 9,829 | \$ 7,499 | \$ 30,017 | \$ 22,291 |
| Travelocity | 35,236 | 38,687 | 108,928 | 120,155 |
| Total | \$ 45,065 | \$ 46,186 | \$ 138,945 | \$ 142,446 |
| Equity in net income (loss) of equity method investees: | | | | |
| Sabre Travel Network | \$ 4,958 | \$ 5,727 | \$ 10,894 | \$ 7,288 |
| Travelocity | 224 | (3,087) | 615 | (9,280) |
| Total | \$ 5,182 | \$ 2,640 | \$ 11,509 | \$ (1,992) |
| Consolidated revenues: | | | | |
| Sabre Travel Network | \$ 397,921 | \$ 402,187 | \$ 1,265,415 | \$ 1,250,128 |
| Travelocity | 321,308 | 276,565 | 837,963 | 596,410 |
| Sabre Airline Solutions | 71,965 | 67,140 | 204,496 | 196,757 |
| Elimination of intersegment revenues | (45,065) | (46,186) | (138,945) | (142,446) |
| Total | \$ 746,129 | \$ 699,706 | \$ 2,168,929 | \$ 1,900,849 |

Our Chief Executive Officer as our Chief Operating Decision Maker allocates resources to and assesses the performance of each segment using adjusted operating income. A summary of the adjusting items and reconciliation of adjusted operating income to consolidated operating income is set forth below (in thousands). Starting in the first quarter of 2006, we began including stock-based compensation expense as an adjusting item (see Note 5). In addition to the segment data,

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see Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|-------------------|------------------------------------|-------------------|
| | 2006 | 2005 | 2006 | 2005 |
| Segment operating income (loss) excluding adjusting items: | | | | |
| Sabre Travel Network | \$ 75,103 | \$ 61,236 | \$ 226,618 | \$ 216,181 |
| Travelocity | 57,459 | 40,939 | 59,980 | 33,687 |
| Sabre Airline Solutions | 13,508 | 10,877 | 30,087 | 32,447 |
| Net corporate allocations | (796) | (982) | (1,493) | (753) |
| Total | \$ 145,274 | \$ 112,070 | \$ 315,192 | \$ 281,562 |
| Impact of adjusting items on operating income (increase)/decrease: | | | | |
| Sabre Travel Network: | | | | |
| Other intangibles amortization | \$ 3,407 | \$ 3,454 | \$ 10,054 | \$ 12,306 |
| Stock-based compensation | 4,225 | | 12,861 | |
| Total Sabre Travel Network | \$ 7,632 | \$ 3,454 | \$ 22,915 | \$ 12,306 |
| Travelocity: | | | | |
| Other intangibles amortization | \$ 13,900 | \$ 11,560 | \$ 42,794 | \$ 15,936 |
| Stock-based compensation | 2,658 | 371 | 8,317 | 1,202 |
| Total Travelocity | \$ 16,558 | \$ 11,931 | \$ 51,111 | \$ 17,138 |
| Sabre Airline Solutions: | | | | |
| Other intangibles amortization | \$ 349 | \$ 558 | \$ 1,469 | \$ 1,691 |
| Stock-based compensation | 1,175 | | 3,822 | |
| Total Sabre Airline Solutions | \$ 1,524 | \$ 558 | \$ 5,291 | \$ 1,691 |
| Corporate: | | | | |
| Other | \$ | \$ (3,444) | \$ | \$ (3,444) |
| Total Corporate | \$ | \$ (3,444) | \$ | \$ (3,444) |
| Total operating income adjusting items | \$ 25,714 | \$ 12,499 | \$ 79,317 | \$ 27,691 |
| Consolidated operating income (loss): | | | | |
| Sabre Travel Network | \$ 67,471 | \$ 57,782 | \$ 203,703 | \$ 203,875 |
| Travelocity | 40,901 | 29,008 | 8,869 | 16,549 |
| Sabre Airline Solutions | 11,984 | 10,319 | 24,796 | 30,756 |
| Net corporate allocations | (796) | 2,462 | (1,493) | 2,691 |
| Total | \$ 119,560 | \$ 99,571 | \$ 235,875 | \$ 253,871 |

Corporate operating income adjusting items for the third quarter of 2005 includes a \$3 million reversal of an accrual relating to disputes with former employees arising from the sale of our IT outsourcing business to EDS in 2001. A majority of these disputes

were resolved in the third quarter of 2005.

10. Supplemental Guarantor/Non-Guarantor Financial Information

All indebtedness of Sabre Holdings has been guaranteed by its 100%-owned operating subsidiary, Sabre Inc. pursuant to an intercompany guaranty executed by Sabre Inc. in favor of Sabre Holdings. There are no restrictions on Sabre Holdings' ability to obtain funds from Sabre Inc. in the form of a dividend or loan, other than those that would exist under Delaware law. Additionally, there are no significant restrictions on Sabre Inc.'s ability to obtain funds from its direct or indirect subsidiaries, other than those that would exist under state or foreign law. Sabre Inc. is the sole direct subsidiary of Sabre Holdings. All other subsidiaries of the Company are direct or indirect subsidiaries of Sabre Inc. These subsidiaries are all included in the non-guarantor financial statements. 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. Certain reclassifications have been made to the 2005 financial statements to conform to the 2006 presentation.

Sabre Inc. conducts the domestic operations of the Company's Sabre Travel Network segment and the Sabre Airline Solutions segment. The operations of the Travelocity segment, as well as the principal international operations of the Sabre Travel Network segment, are conducted by the non-guarantor subsidiaries.

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, tradenames, 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 nine months ended September 30, 2006 and 2005, Sabre Inc. recognized operating expenses in connection with these agreements totaling approximately \$191 million and \$252 million, respectively. These amounts, and the corresponding amounts recognized by the non-guarantor subsidiaries, are eliminated in consolidation.

UNAUDITED CONSOLIDATING CONDENSED STATEMENTS OF INCOME
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2006
(In thousands)

| | <u>Sabre Holdings</u> | <u>Sabre Inc.</u> | <u>Non-Guarantor Subsidiaries</u> | <u>Eliminations</u> | <u>Sabre Consolidated</u> |
|---|-----------------------|-------------------|-----------------------------------|---------------------|---------------------------|
| Revenues | \$ | \$ 364,638 | \$ 507,015 | \$ (125,524) | \$ 746,129 |
| Operating expenses | 1,151 | 324,193 | 426,749 | (125,524) | 626,569 |
| Operating income (loss) | (1,151) | 40,445 | 80,266 | | 119,560 |
| Other income (expense) | | | | | |
| Interest income | 38,804 | 2,319 | 8,514 | (44,351) | 5,286 |
| Interest expense | (16,221) | (47,201) | (1,031) | 44,351 | (20,102) |
| Income from subsidiaries | 53,789 | 56,224 | | (110,013) | |
| Other, net | | 785 | 925 | | 1,710 |
| Total other income (expense) | 76,372 | 12,127 | 8,408 | (110,013) | (13,106) |
| Income before provision for income taxes | 75,221 | 52,572 | 88,674 | (110,013) | 106,454 |
| Provision (credit) for income taxes | 7,649 | (1,217) | 32,450 | | 38,882 |
| Net earnings | \$ 67,572 | \$ 53,789 | \$ 56,224 | \$ (110,013) | \$ 67,572 |

UNAUDITED CONSOLIDATING CONDENSED STATEMENTS OF INCOME
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2005
(In thousands)

| | <u>Sabre Holdings</u> | <u>Sabre Inc.</u> | <u>Non-Guarantor Subsidiaries</u> | <u>Eliminations</u> | <u>Sabre Consolidated</u> |
|---|-----------------------|-------------------|-----------------------------------|---------------------|---------------------------|
| Revenues | \$ | \$ 380,833 | \$ 451,966 | \$ (133,093) | \$ 699,706 |
| Operating expenses | 648 | 342,538 | 390,042 | (133,093) | 600,135 |
| Operating income (loss) | (648) | 38,295 | 61,924 | | 99,571 |
| Other income (expense) | | | | | |
| Interest income | 32,935 | 3,729 | 4,965 | (36,326) | 5,303 |
| Interest expense | (12,586) | (38,733) | (808) | 36,326 | (15,801) |
| Income from subsidiaries | 45,588 | 43,981 | | (89,569) | |
| Other, net | | 1,775 | 2,662 | | 4,437 |
| Total other income (expense) | 65,937 | 10,752 | 6,819 | (89,569) | (6,061) |
| Income before provision for income taxes | 65,289 | 49,047 | 68,743 | (89,569) | 93,510 |
| Provision for income taxes | 6,793 | 3,459 | 24,762 | | 35,014 |
| Net earnings | \$ 58,496 | \$ 45,588 | \$ 43,981 | \$ (89,569) | \$ 58,496 |

UNAUDITED CONSOLIDATING CONDENSED STATEMENTS OF INCOME
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006
(In thousands)

| | Sabre Holdings | Sabre Inc. | Non-Guarantor Subsidiaries | Eliminations | Sabre Consolidated |
|---|-----------------------|-------------------|-----------------------------------|---------------------|---------------------------|
| Revenues | \$ | \$ 1,158,029 | \$ 1,386,042 | \$ (375,142) | \$ 2,168,929 |
| Operating expenses | 3,443 | 1,039,448 | 1,265,305 | (375,142) | 1,933,054 |
| Operating income (loss) | (3,443) | 118,581 | 120,737 | | 235,875 |
| Other income (expense) | | | | | |
| Interest income | 112,233 | 6,524 | 20,024 | (126,972) | 11,809 |
| Interest expense | (48,316) | (135,208) | (2,613) | 126,972 | (59,165) |
| Income from subsidiaries | 77,570 | 77,749 | | (155,319) | |
| Other, net | 1,831 | 1,071 | (7,691) | | (4,789) |
| Total other income (expense) | 143,318 | (49,864) | 9,720 | (155,319) | (52,145) |
| Income before provision for income taxes | 139,875 | 68,717 | 130,457 | (155,319) | 183,730 |
| Provision (credit) for income taxes | 21,740 | (8,853) | 52,708 | | 65,595 |
| Net earnings | \$ 118,135 | \$ 77,570 | \$ 77,749 | \$ (155,319) | \$ 118,135 |

UNAUDITED CONSOLIDATING CONDENSED STATEMENTS OF INCOME
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2005
(In thousands)

| | Sabre Holdings | Sabre Inc. | Non-Guarantor Subsidiaries | Eliminations | Sabre Consolidated |
|---|-----------------------|-------------------|-----------------------------------|---------------------|---------------------------|
| Revenues | \$ | \$ 1,179,481 | \$ 1,091,527 | \$ (370,159) | \$ 1,900,849 |
| Operating expenses | 2,474 | 1,013,071 | 1,001,592 | (370,159) | 1,646,978 |
| Operating income (loss) | (2,474) | 166,410 | 89,935 | | 253,871 |
| Other income (expense) | | | | | |
| Interest income | 83,173 | 11,583 | 13,160 | (92,144) | 15,772 |
| Interest expense | (23,243) | (99,120) | (1,584) | 92,144 | (31,803) |
| Income from subsidiaries | 122,419 | 79,420 | | (201,839) | |
| Other, net | | (7,982) | 24,616 | | 16,634 |
| Total other income (expense) | 182,349 | (16,099) | 36,192 | (201,839) | 603 |
| Income before provision for income taxes | 179,875 | 150,311 | 126,127 | (201,839) | 254,474 |
| Provision for income taxes | 19,811 | 27,892 | 46,707 | | 94,410 |
| Net earnings | \$ 160,064 | \$ 122,419 | \$ 79,420 | \$ (201,839) | \$ 160,064 |

UNAUDITED CONSOLIDATING CONDENSED BALANCE SHEETS
SEPTEMBER 30, 2006
(In thousands)

| | <u>Sabre Holdings</u> | <u>Sabre Inc.</u> | <u>Non-Guarantor Subsidiaries</u> | <u>Eliminations</u> | <u>Sabre Consolidated</u> |
|---|---------------------------|-----------------------|---------------------------------------|-----------------------|-------------------------------|
| Assets | | | | | |
| Current Assets | | | | | |
| Cash and marketable securities | \$ | \$ 197,880 | \$ 313,081 | \$ | \$ 510,961 |
| Restricted cash | | | 8,815 | | 8,815 |
| Accounts receivable, net | | 227,727 | 277,404 | | 505,131 |
| Intercompany accounts receivable (payable) | | (208,330) | 208,330 | | |
| Other current assets | | 91,946 | 102,702 | | 194,648 |
| | | <u>309,223</u> | <u>910,332</u> | | <u>1,219,555</u> |
| Property and equipment | | | | | |
| Property and equipment, net | | 263,122 | 98,396 | | 361,518 |
| Investments in subsidiaries | 910,180 | 2,808,356 | | (3,718,536) | |
| Intercompany notes | 1,882,467 | (1,882,467) | | | |
| Investments in joint ventures | | 4,896 | 144,303 | | 149,199 |
| Goodwill and intangible assets, net | | 10,927 | 2,465,763 | | 2,476,690 |
| Assets held for sale | | 75,988 | | | 75,988 |
| Other assets, net | 5,198 | 146,077 | 29,784 | | 181,059 |
| | | <u>1,736,122</u> | <u>3,648,578</u> | <u>(3,718,536)</u> | <u>4,464,009</u> |
| Total assets | \$ 2,797,845 | \$ 1,736,122 | \$ 3,648,578 | \$ (3,718,536) | \$ 4,464,009 |
| Liabilities and stockholders' equity | | | | | |
| Current liabilities | | | | | |
| Accounts payable | \$ | \$ 76,145 | \$ 89,910 | \$ | \$ 166,055 |
| Travel supplier liabilities and deferred revenue | | | 470,761 | | 470,761 |
| Accrued compensation and related benefits | | 46,274 | 12,766 | | 59,040 |
| Other current accrued liabilities | 7,266 | 336,006 | 211,637 | | 554,909 |
| | | <u>7,266</u> | <u>458,425</u> | | <u>1,250,765</u> |
| Deferred income taxes | (445) | 4,635 | 31,880 | | 36,070 |
| Pensions and other postretirement benefits | | 185,419 | 180 | | 185,599 |
| Other liabilities | 2,768 | 21,503 | 1,927 | | 26,198 |
| Minority interests | | | 6,085 | | 6,085 |
| Long-term capital lease obligation | | 155,960 | | | 155,960 |
| Public and other notes payable | 960,684 | | 15,076 | | 975,760 |
| Total stockholders' equity | 1,827,572 | 910,180 | 2,808,356 | (3,718,536) | 1,827,572 |
| | | <u>1,736,122</u> | <u>3,648,578</u> | <u>(3,718,536)</u> | <u>4,464,009</u> |
| Total liabilities and stockholders' equity | \$ 2,797,845 | \$ 1,736,122 | \$ 3,648,578 | \$ (3,718,536) | \$ 4,464,009 |

UNAUDITED CONSOLIDATING CONDENSED BALANCE SHEETS
DECEMBER 31, 2005
(In thousands)

| | <u>Sabre Holdings</u> | <u>Sabre Inc.</u> | <u>Non-Guarantor Subsidiaries</u> | <u>Eliminations</u> | <u>Sabre Consolidated</u> |
|---|---------------------------|-----------------------|---------------------------------------|-----------------------|-------------------------------|
| Assets | | | | | |
| Current Assets | | | | | |
| Cash and marketable securities | \$ | \$ 380,898 | \$ 130,920 | \$ | \$ 511,818 |
| Restricted cash | | 11,237 | 45,782 | | 57,019 |
| Accounts receivable, net | | 251,408 | 235,626 | | 487,034 |
| Intercompany accounts receivable (payable) | | (158,906) | 158,906 | | |
| Other current assets | | 81,192 | 111,225 | | 192,417 |
| Total current assets | | 565,829 | 682,459 | | 1,248,288 |
| Property and equipment, net | | 266,847 | 85,389 | | 352,236 |
| Investments in subsidiaries | 744,562 | 2,583,474 | | (3,328,036) | |
| Intercompany notes | 2,122,011 | (2,122,011) | | | |
| Investments in joint ventures | | 4,189 | 152,088 | | 156,277 |
| Goodwill and intangible assets, net | | 11,361 | 2,321,779 | | 2,333,140 |
| Assets held for sale | | 77,332 | | | 77,332 |
| Other assets, net | 4,106 | 169,509 | 33,223 | | 206,838 |
| Total assets | \$ 2,870,679 | \$ 1,556,530 | \$ 3,274,938 | \$ (3,328,036) | \$ 4,374,111 |
| Liabilities and stockholders' equity | | | | | |
| Current liabilities | | | | | |
| Accounts payable | \$ 3,559 | \$ 77,478 | \$ 84,668 | \$ | \$ 165,705 |
| Travel supplier liabilities and deferred revenue | | | 303,557 | | 303,557 |
| Accrued compensation and related benefits | | 56,710 | 17,918 | | 74,628 |
| Other accrued liabilities | 11,013 | 309,983 | 227,577 | | 548,573 |
| Bridge Facility | 800,000 | | | | 800,000 |
| Total current liabilities | 814,572 | 444,171 | 633,720 | | 1,892,463 |
| Pensions and other postretirement benefits | | 190,486 | 967 | | 191,453 |
| Other liabilities | 1,692 | 19,123 | 2,753 | | 23,568 |
| Minority interests | | | 38,948 | | 38,948 |
| Long-term capital lease obligation | | 158,188 | | | 158,188 |
| Public and other notes payable | 411,303 | | 15,076 | | 426,379 |
| Total stockholders' equity | 1,643,112 | 744,562 | 2,583,474 | (3,328,036) | 1,643,112 |
| Total liabilities and stockholders' equity | \$ 2,870,679 | \$ 1,556,530 | \$ 3,274,938 | \$ (3,328,036) | \$ 4,374,111 |

UNAUDITED CONSOLIDATING CONDENSED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006
(In thousands)

| | <u>Sabre Holdings</u> | <u>Sabre Inc.</u> | <u>Non-Guarantor Subsidiaries</u> | <u>Eliminations</u> | <u>Sabre Consolidated</u> |
|--|---------------------------|-----------------------|---------------------------------------|---------------------|-------------------------------|
| Operating Activities | | | | | |
| Cash provided by operating activities | \$ | \$ 204,553 | \$ 166,130 | \$ | \$ 370,683 |
| Investing Activities | | | | | |
| Additions to property and equipment | | (43,872) | (37,359) | | (81,231) |
| Net sales of marketable securities | | 193,315 | 90 | | 193,405 |
| Proceeds from sale of investments | | | 1,940 | | 1,940 |
| Acquisitions (net of cash acquired) | | (19,727) | (30,711) | | (50,438) |
| Proceeds from release of restricted cash | | | 37,211 | | 37,211 |
| Other investing activities | | (956) | 5,699 | | 4,743 |
| Cash provided by (used for) investing activities | | 128,760 | (23,130) | | 105,630 |
| Financing Activities | | | | | |
| Proceeds from issuance of Common Stock | 11,661 | | | | 11,661 |
| Dividends paid | (39,567) | | | | (39,567) |
| Contributions (distributions) from affiliates, net | 299,674 | (333,243) | 33,569 | | |
| Prepayment of Bridge Facility | (800,000) | | | | (800,000) |
| Proceeds from borrowings on revolving credit agreement | 180,000 | | | | 180,000 |
| Payment of borrowings on revolving credit agreement | (25,000) | | | | (25,000) |
| Proceeds from issuance of Notes | 395,936 | 1,200 | | | 397,136 |
| Excess tax benefits from stock-based compensation arrangements | 683 | | | | 683 |
| Purchases of treasury stock | (23,387) | | | | (23,387) |
| Other financing activities | | 8,992 | (10,453) | | (1,461) |
| Cash provided by (used for) financing activities | | (323,051) | 23,116 | | (299,935) |
| Effect of exchange rate changes on cash and cash equivalents | | | 16,135 | | 16,135 |
| Increase in cash | | 10,262 | 182,251 | | 192,513 |
| Cash at beginning of period | | 4,418 | 130,815 | | 135,233 |
| Cash at end of period | \$ | \$ 14,680 | \$ 313,066 | \$ | \$ 327,746 |

UNAUDITED CONSOLIDATING CONDENSED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2005
(In thousands)

| | <u>Sabre Holdings</u> | <u>Sabre Inc.</u> | <u>Non-Guarantor Subsidiaries</u> | <u>Eliminations</u> | <u>Sabre Consolidated</u> |
|--|---------------------------|-----------------------|---------------------------------------|---------------------|-------------------------------|
| Operating Activities | | | | | |
| Cash provided by operating activities | \$ | \$ 143,532 | \$ 97,043 | \$ | \$ 240,575 |
| Investing Activities | | | | | |
| Additions to property and equipment | | (41,821) | (20,906) | | (62,727) |
| Net sales of marketable securities | | 316,755 | 24,237 | | 340,992 |
| Proceeds from sale of investment | | | 40,920 | | 40,920 |
| Loans to and investments in joint venture partners | | | (16,538) | | (16,538) |
| Acquisitions (net of cash acquired) | | (41,708) | (1,130,612) | | (1,172,320) |
| Purchase of foreign currency options | | (10,000) | (7,697) | | (17,697) |
| Cash provided by (used for) investing activities | | 223,226 | (1,110,596) | | (887,370) |
| Financing Activities | | | | | |
| Proceeds from Bridge Facility | 800,000 | | | | 800,000 |
| Proceeds from issuance of Common Stock | 4,093 | | | | 4,093 |
| Dividends paid | (35,480) | | | | (35,480) |
| Contributions (distributions) from affiliates, net | (705,400) | (366,702) | 1,072,102 | | |
| Purchases of treasury stock | (63,213) | | | | (63,213) |
| Other financing activities | | (1,210) | | | (1,210) |
| Cash provided by (used for) financing activities | | (367,912) | 1,072,102 | | 704,190 |
| Effect of exchange rate changes on cash and cash equivalents | | | (2,344) | | (2,344) |
| Increase (decrease) in cash | | (1,154) | 56,205 | | 55,051 |
| Cash at beginning of period | | 7,467 | 42,204 | | 49,671 |
| Cash at end of period | \$ | \$ 6,313 | \$ 98,409 | \$ | \$ 104,722 |

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

**SABRE HOLDINGS CORPORATION
RESULTS OF OPERATIONS**

We begin Management's Discussion and Analysis of Financial Condition and Results of Operations with an overview of our business by segment. This is followed by a discussion of various trends that are occurring in our business and how those trends are impacting our business. We follow the discussion on trends with a description of the revenues and expenses by segment, which is followed by our period over period results of operations for the described revenues and expenses. We then discuss our balance sheet and statement of cash flows in the Liquidity and Capital Resources section. Lastly, we discuss any material changes to our critical accounting policies that we believe are important in understanding judgments and assumptions incorporated into our financial results.

The following discussion and analysis contains forward-looking statements about trends, uncertainties and our plans and expectations of what may happen in the future. Forward-looking statements are based on a number of assumptions and estimates that are inherently subject to significant risks and uncertainties, and our results could differ materially from the results anticipated by our forward-looking statements as a result of many known or unknown factors, including, but not limited to, those factors referred to under Part II, Item 1A: Risk Factors.

Overview of Business

We operate our business through the following business segments:

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

Sabre Travel Network primarily generates revenues from transaction fees charged to airlines and non-air travel suppliers who distribute their products and services through the *Sabre* system. Sabre Travel Network markets the *Sabre* GDS to travel suppliers, travel agency subscribers (online and brick and mortar) and corporations. A "transaction" is defined as any travel reservation that generates a fee paid directly to us including but not limited to the following: traditional booking fees paid by travel suppliers, non-traditional transaction fees paid by travel suppliers, transaction fees paid by travel agency subscribers, and transaction fees paid by corporations related to our online booking tool.

Travelocity: Our Travelocity segment markets and distributes travel-related products and services directly to individuals, including leisure travelers and business travelers, through Travelocity-owned websites and contact centers, and indirectly through websites and contact centers owned by its supplier, travel agency and distribution partners. Travelocity customers can access offerings, pricing and information about airlines, hotels, car rental companies, cruise lines, vacation and last-minute travel packages from *Site59.com*® and *lastminute.com*, and other travel-related services such as show tickets and tours from *lastminute.com*, *Showtickets.com* or *Travelocity on Location*. For business travelers, the *Travelocity Business*® service provides the integrated online corporate travel technology and full-service offering of our *GetThere*® product along with the online expertise of Travelocity. For corporations, Travelocity Business offers a full-service corporate travel agency and

GetThere provides a corporate online travel reservation system that works in conjunction with any travel agency a company chooses.

Travelocity facilitates transactions between travel suppliers and consumers for the booking of, and payment for, travel accommodations. Travelocity generates net revenue from providing such facilitation services equal to the total amount paid by the customer for products and services, minus its payment to the travel supplier. Travelocity also generates revenues from commissions or transaction fees from travel suppliers for the purchase of travel products and services pursuant to reservations made through our system. Additionally, Travelocity revenues include service fees charged to customers and advertising revenues.

Sabre Airline Solutions: Sabre Airline Solutions is a global leader in providing passenger management solutions, software products and related services, and consulting services to help airlines simplify operations and lower costs. We provide airline reservations, inventory and check-in hosting solutions that help airlines address the challenge of building and retaining customer loyalty through enhanced customer-centric offerings and service while also reducing costs. We also supply the decision-support software and technology necessary for airlines to improve profitability, increase revenue, streamline operations and improve workflow. We also offer a complete range of consulting services to the airline industry, ranging from one time to extended engagements. Typical engagements include projects such as achieving the necessary standards to join an alliance, preparing for privatization and optimizing current operations. Clients include airlines, airports, manufacturers and governments, as well as individuals, travel agencies and members of the financial community.

In the nine months ended September 30, 2006, approximately 54.8% of our revenue was generated from Sabre Travel Network, 36.3% from Travelocity and 8.9% from Sabre Airline Solutions based on segment results that include intersegment revenues. For the nine months ended September 30, 2005, revenues (including intersegment revenue) as a percentage of total revenues were 61.2% for Sabre Travel Network, 29.2% for Travelocity and 9.6% for Sabre Airline Solutions.

Business Trends

The following is a discussion of trends that we believe are the most significant opportunities and challenges currently impacting our business and industry. The discussion also includes management's assessment of what effects these trends are having on our businesses. In considering this discussion, you should also review the factors referred to in Part II, Item 1A: Risk Factors.

Trends Affecting Our Airline-Related Businesses

As a result of price competition, air travel has become increasingly affordable. Airlines seeking incremental revenue have made seat inventory available through lower-priced, non-traditional methods such as last-minute offerings, opaque sales and reverse auctions. Airlines have aggressively sought to reduce distribution costs and to control their relationships with travel purchasers. This has resulted in airline efforts to divert transactions away from GDS networks and towards their own reservation centers and websites and other distribution channels that airlines believe offer a lower expense per travel transaction. In addition, low-price airlines represent a growing share of revenue passenger miles, and they are less likely to fully participate in a GDS than are traditional full-service airlines. Some of the advantages that airlines offer when their products and services are purchased through their preferred distribution channels, such as bonus loyalty awards, may not be available for purchases made through other intermediaries, or those intermediaries must accept lower transaction fees in exchange for access to the same advantages. These trends put pressure on airline-paid travel agency commissions and GDS revenues and the level of GDS-paid incentives to travel agencies.

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Our business segments have performed well despite the trends affecting our airline-related businesses. Increasingly, we are offering airlines a portfolio of services across our business segments offerings that are not easily matched by competitors who lack similar portfolios. We believe that our competitive position enables us to make value-based offerings to airlines and other suppliers, rather than merely cost-based offerings of transaction processing and other technology. We believe that our actions, including reducing booking fees, have mitigated the rate at which transactions have left the GDS channel for supplier-controlled channels. Sabre Travel Network's annual transaction volumes and transaction revenue have remained relatively stable since 2002.

Trends Affecting Travel Industry Globalization and Consolidation

The travel industry is experiencing consolidation among travel suppliers, such as major hotels and airlines, as well as among travel agencies and other travel distributors. As a result of this consolidation and global expansion, large travel suppliers, agencies and distributors increasingly have greater scale and are able to provide a broader set of product offerings in a greater number of geographic marketplaces.

We are responding to these trends by growing our global reach and our scale. For example, we significantly expanded our presence in the European region through the acquisition of lastminute.com in 2005. We expect longer term growth opportunities there, as well as in Asia (particularly China and India) and in the Pacific Basin. As our operations grow in both size and scope, we are increasing the diversification of our product and service offerings and revenue sources. Broader global marketing reach and more points of sale improve our value proposition for travel suppliers, and increased scale enables cost synergies.

Trends Affecting Competition in Travel Commerce

Travelers, travel agents and travel suppliers are increasingly able to choose from a number of alternative distribution systems that enable travel shopping, booking and purchasing, including websites run by search engine companies and travel suppliers' proprietary systems. Many of these alternative distribution systems lack the functionality and global reach of our services, deliver bookings with lower average yields, lack the infrastructure to adequately service and support travelers, and offer travelers more limited alternatives. The scale and functionality of our *Sabre* GDS provides a more complete travel distribution solution for travel suppliers and travel agencies and positions us well to compete in the travel commerce marketplace. We are responding to this increased competition by emphasizing our value proposition, focusing on our ability to offer services across our business segments, offering cost efficient products to suppliers, providing broader functionality and wider access to content, enabling greater geographic reach, and supporting higher average yields.

Trends Affecting Our Revenue Models

Historically, the vast majority of our revenues were derived from transaction fees paid by travel suppliers, measured by subscriber bookings generated through the *Sabre* GDS. From those fees, Sabre Travel Network pays incentives to its travel agency subscribers as a cost of revenue. Since 2000, we have increasingly become a travel marketing company, rather than a travel transaction processing company, as our revenue has become less directly tied to transaction processing volumes. Our revenue is also increasingly less dependent on air travel and more geographically diversified.

Travelocity, and to a lesser extent Sabre Travel Network, are increasingly promoting our net rate program, commonly referred to in the industry as a "merchant model program" due to the fact that we act as the merchant of record for credit card processing. Net rate travel offerings can

include air travel, hotel stays, car rentals and combinations. Many hoteliers utilize net rate programs to dispose of excess hotel rooms at discounted rates. Under the net rate model, we act as an intermediary by agreeing to market products, services and other offerings for travel suppliers at predetermined net rates. We market these net rate offerings to travelers at a price that includes service fees that we retain, plus an amount sufficient to pay the travel supplier for its charge for providing the travel accommodations, along with any applicable taxes. For this type of business model, we require prepayment by the traveler at the time of booking. In addition, as long as the net rate program is growing, we experience improved operating cash flows as a result of receiving prepayments from customers while paying suppliers after the customer has traveled.

Trends Affecting Our Consumer-Related Businesses

Consumer use of the Internet for travel shopping and purchasing is increasing, but varies by geographic region. We believe that there are significant near-term growth opportunities in Europe, and longer term in Asia, while Internet travel commerce is more mature in the United States. The online travel marketplace is highly competitive, with independent online travel agencies, suppliers' proprietary websites, travel search engines and others competing for customers. Online travel shoppers tend to compare alternatives and are sensitive to small price differences.

An increasing percentage of our revenues is derived from sales directly to travelers, principally through our Travelocity segment. Travelocity's revenue growth depends on increasing purchases through our online travel websites, particularly of higher margin offerings. Travelocity's business strategy also depends on differentiated, customer relationship management-based targeted marketing of a complete travel experience, rather than travel component sales. We are, therefore, focused on expanding our dynamically packaged offerings, growing our access to broad supplier offerings, and developing awareness of our brand in a cost-effective manner.

Trends Affecting Our Travel Agency-Related Businesses

Travel agencies are able to deliver value to travelers, corporations and the travel suppliers themselves by providing expertise and supporting the travel experience across multiple travel suppliers. Some travel suppliers, seeking to reduce distribution costs, have reduced or eliminated commissions paid to travel agencies, which has caused travel agencies to become more dependent on other sources of revenues, such as traveler-paid service fees and GDS-paid incentives. Supplier efforts to reduce distribution costs are also putting pressure on booking fees and the level of GDS-paid incentives to travel agencies based on booking volumes. Continued consolidation of travel agencies may increase competition among GDS companies for agency subscribers, and thereby increase the ability of those agencies to negotiate higher GDS-paid incentives. We recently introduced into the travel agency marketplace our Efficient Access Solution program, which reduces airline booking fees and travel agency incentives, while providing travel agencies with long-term assurances of access to full content from airlines and protection against airline-imposed service fees.

Our *Sabre* GDS competes to attract and retain travel agencies through a variety of qualities, including its breadth of content, ease of use, functionality, dependability, back office systems (e.g., *TRAMS*), client management systems (e.g., *ClientBase*®), consortia (*Jurni Network*®) and host agency services (*Nexion*®), as well as through the payment of incentives. We are increasingly focused on managing our incentive costs. The *Sabre* GDS has a leading share of large travel agencies, and competition to attract and retain large travel agency subscribers, including online travel agencies, is particularly intense. We are experiencing a trend of increasing bookings from online agencies, including Expedia, Priceline and lastminute.com. Expedia recently activated their long-term technology partnership with Sabre Travel Network and began processing reservations

through our *Sabre* GDS. They also signed an extension of their relationship with us through 2012 and announced their support of our newly introduced Efficient Access Solution program.

Trends Affecting Our Hotel-Related Businesses

The majority of hotel stays are booked directly with an individual hotel property, or through the centralized call center for hotel chains or a marketing company.

We believe we are competitively well positioned to take advantage of significant opportunities to offer travel marketing services to hotel operators. As described under *Trends Affecting Our Revenue Models*, Travelocity, and to a lesser extent Sabre Travel Network, are increasingly promoting our net rate offerings, which can include air travel, hotel stays, car rentals and dynamically packaged combinations.

Trends in Cost Reduction

As part of our cost leadership strategy we are, as a standard practice, evaluating efficiency opportunities across the company to ensure that we optimally manage our operational costs. Some of these cost-saving opportunities have involved and may continue to involve globally-sourcing some of our operations (either by contracting with companies that work for us, such as through the opening of call centers we operate abroad, or by expanding our own operations abroad). We are also working to rationalize facilities costs. We have entered into an agreement to sell and subsequently lease back a portion of our headquarters facilities which we expect will generate approximately \$10 million in annual pre-tax savings starting in 2008. See Note 3 to the Consolidated Financial Statements for a detailed discussion of this pending transaction. Additionally, with the launch of our Efficient Access Solution (see Note 3 to the Consolidated Financial Statements) we expect to lower incentive costs over time.

Components of Revenues and Expenses

Revenues. Sabre Travel Network primarily generates revenues from transaction fees paid directly to us related to a travel reservation including the following: traditional booking fees paid by travel suppliers, non-traditional transaction fees paid by travel suppliers, transaction fees paid by travel agency subscribers, and transaction fees paid by corporations related to our booking tool. Sabre Travel Network also earns revenue through equipment service charges paid by subscribers. In addition, Sabre Travel Network earns revenue through the sale of other products and services (including the *Hotel Spotlight*SM program, which offers premium marketing opportunities to hoteliers through the *Sabre* GDS, the *Jurni Network* consortia, as well as *Nexion* and *SynXis* offerings to hoteliers) and the *Sabre*® *Surround*SM program (which bundles the *Hotel Spotlight* services with other advertising products) to travel suppliers, subscribers and other customers. Earnings (or losses as the case may be) derived from interests in joint ventures and other investments are also included in revenues. Sabre Travel Network earns intersegment revenues from data processing fees and transaction fees paid by Travelocity.

Travelocity generates revenues from commissions or transaction fees from suppliers for the purchase of travel, lifestyle products and services pursuant to reservations made through our system. Travelocity also generates net rate revenue from providing facilitation services equal to the amount paid by the customer for travel and non-travel products and services, minus Travelocity's payment to the supplier. Additional Travelocity revenues include other fees charged to customers, advertising revenues from our websites and GDS incentives. Travelocity derives intersegment revenues from Sabre Travel Network, consisting of incentives earned for Travelocity transactions processed through the *Sabre* GDS, and fees paid by Sabre Travel Network for corporate trips and Sabre Airline Solutions for airline trips booked through the *Travelocity* online booking technology.

Sabre Airline Solutions generates revenues from the sale of airline reservations hosting services, product revenues including inventory and check-in hosting solutions, decision-support software and technology, and airline consulting services.

Cost of Revenues. Sabre Travel Network cost of revenues consists primarily of incentives paid to subscribers, data processing charges resulting from the operation of the *Sabre* system, and salaries and other operating expenses. Sabre Travel Network also incurs intersegment expenses paid to Travelocity for incentives for Travelocity transactions processed through the *Sabre* GDS, as well as fees for corporate trips booked through the *Travelocity* online booking technology. Travelocity cost of revenues consists primarily of customer service costs, technology costs, salaries, benefits and other employee expenses, data processing fees and transaction fees paid to Sabre Travel Network, credit card fees, charges related to fraudulent bookings, service compensation and depreciation and amortization charges. In addition, Travelocity cost of revenues includes recovery of certain VAT payments which are treated as a contra-expense. Sabre Airline Solutions cost of revenues is comprised of labor cost incurred in the development and delivery of software and consulting services and depreciation and amortization. Sabre Airline Solutions also incurs intersegment expenses paid to Travelocity for airline trips booked through the *Travelocity* online booking technology. Purchased technology includes amortization of acquired software and other technology that is used to support various revenue generating activities.

Operating Expenses. Sabre Travel Network selling, general and administrative expenses and other operating expenses consist primarily of salaries, benefits and employee related expenses for staff who sell our services to new customers and other staff functions required to support the business as well as bad debt expense. Travelocity selling, general and administrative and other operating expenses consist primarily of advertising and promotion expenses, payments made to our travel agency and distribution partners and salaries, benefits and employee related expenses for staff functions required to support the business. Sabre Airline Solutions operating expenses consist of the costs of the sales organization and the staff functions required to support the business and bad debt expense.

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.

Matters affecting comparability:

Mergers and Acquisitions

Our discussion of the results of operations for the three and nine months ended September 30, 2005 and 2006 is affected by significant mergers and acquisitions that have occurred as summarized in the following table. For a more detailed discussion of our mergers and acquisitions see Note 3 to the Consolidated Financial Statements.

| Year acquired | Entity | Segment | Purchase price (in millions) | |
|---------------|--|----------------------|------------------------------|-------|
| 2006 | Zuji Holdings Limited(1) TRAMS, Inc. | Travelocity | \$ | 35 |
| | | Sabre Travel Network | \$ | 22 |
| 2005 | SynXis Corporation lastminute.com plc | Sabre Travel Network | \$ | 41 |
| | | Travelocity | \$ | 1,171 |

(1)

Zuji Holdings Limited was consolidated on November 7, 2005 in compliance with FIN 46R. (See Note 3 to the Consolidated Financial Statements for further discussion.)

Expensing of Stock Options

On January 1, 2006 we adopted SFAS 123R, using the modified prospective method, which requires that the measurement and recognition of share based payment awards to employees and directors of the company be made at the estimated fair value on the grant date. Stock options that had been granted but for which the requisite service period to earn the award had not been completed at January 1, 2006 will be expensed over their remaining requisite service period using the fair value calculated on their grant date. All options granted prior to January 1, 2006 utilized the Black-Scholes method of valuation. In the past, compensation expense related to our stock options was generally only included in pro forma financial statements and was not recognized in our financial statements. For the three months ended September 30, 2006, we recognized \$4 million in stock option compensation expense before taxes, \$2 million of which went to Sabre Travel Network and \$2 million to Travelocity. For the nine months ended September 30, 2006, we recognized \$13 million in stock option compensation expense before taxes, \$5 million of which went to Sabre Travel Network, \$5 million to Travelocity and the remainder recorded on Sabre Airline Solutions.

Changes in Estimates

Sabre Travel Network pays incentive payments to our subscribers, generally travel agents, based upon volume and rates contained within the travel agency contracts. For our larger subscribers, we have always accrued the incentive expense as 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 were 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 paid. 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 results 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.

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Financial Results

The following tables present operating results for the three and nine months ended September 30, 2006 and 2005 (in thousands of dollars). The segment revenues and cost of revenues include intersegment activity. We have included the elimination of intersegment activity below in order to agree to the results of operations presented in the Consolidated Financial Statements:

Three Months Ended September 30,

| | Sabre Travel Network | | Travelocity | | Sabre Airline Solutions | | Corporate | | Eliminations | | Total | |
|--------------------------------------|----------------------|------------|-------------|------------|-------------------------|-----------|-----------|----------|--------------|-------------|------------|------------|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Segment revenues | \$ 397,921 | \$ 402,187 | \$ 321,308 | \$ 276,565 | \$ 71,965 | \$ 67,140 | \$ | \$ | \$ (45,065) | \$ (46,186) | \$ 746,129 | \$ 699,706 |
| Cost of revenues | 269,462 | 273,866 | 100,067 | 98,441 | 50,314 | 45,131 | 809 | 1,115 | (45,065) | (46,186) | 375,587 | 372,367 |
| Amortization of purchased technology | 1,029 | 1,146 | 7,327 | 5,706 | 162 | 147 | | | | | 8,518 | 6,999 |
| Gross profit | 127,430 | 127,175 | 213,914 | 172,418 | 21,489 | 21,862 | (809) | (1,115) | | | 362,024 | 320,340 |
| Selling, general & administrative | 57,578 | 66,996 | 166,440 | 137,555 | 9,236 | 10,971 | (13) | (3,577) | | | 233,241 | 211,945 |
| Amortization of intangible assets | 2,381 | 2,397 | 6,573 | 5,855 | 269 | 572 | | | | | 9,223 | 8,824 |
| Operating income (loss) | \$ 67,471 | \$ 57,782 | \$ 40,901 | \$ 29,008 | \$ 11,984 | \$ 10,319 | \$ (796) | \$ 2,462 | \$ | \$ | \$ 119,560 | \$ 99,571 |

Nine Months Ended September 30,

| | Sabre Travel Network | | Travelocity | | Sabre Airline Solutions | | Corporate | | Eliminations | | Total | |
|--------------------------------------|----------------------|--------------|-------------|------------|-------------------------|------------|-----------|---------|--------------|--------------|--------------|--------------|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Segment revenues | \$ 1,265,415 | \$ 1,250,128 | \$ 837,963 | \$ 596,410 | \$ 204,496 | \$ 196,757 | \$ | \$ | \$ (138,945) | \$ (142,446) | \$ 2,168,929 | \$ 1,900,849 |
| Cost of revenues | 867,539 | 846,784 | 325,677 | 244,942 | 148,182 | 133,142 | 1,532 | 1,251 | (138,945) | (142,446) | 1,203,985 | 1,083,673 |
| Amortization of purchased technology | 3,021 | 3,966 | 22,194 | 6,605 | 485 | 441 | | | | | 25,700 | 11,012 |
| Gross profit | 394,855 | 399,378 | 490,092 | 344,863 | 55,829 | 63,174 | (1,532) | (1,251) | | | 939,244 | 806,164 |

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Nine Months Ended September 30,

| | | | | | | | | | | | |
|---|------------|------------|----------|-----------|-----------|-----------|------------|----------|----|------------|------------|
| Selling, general & administrative | 184,109 | 186,933 | 460,623 | 318,984 | 29,802 | 30,686 | (39) | (3,942) | | 674,495 | 532,661 |
| Amortization of intangible assets | 7,043 | 8,570 | 20,600 | 9,330 | 1,231 | 1,732 | | | | 28,874 | 19,632 |
| Operating income (loss) | \$ 203,703 | \$ 203,875 | \$ 8,869 | \$ 16,549 | \$ 24,796 | \$ 30,756 | \$ (1,493) | \$ 2,691 | \$ | \$ 235,875 | \$ 253,871 |

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Three Months Ended September 30, 2006 and 2005

Three Months Ended September 30,

| | Total revenues before eliminations | | | | Eliminations | | Total consolidated revenues | | | |
|------------------------|------------------------------------|------------|-----------|----------|--------------|-------------|-----------------------------|------------|-----------|----------|
| | 2006 | 2005 | change | % change | 2006 | 2005 | 2006 | 2005 | change | % change |
| | (thousands) | | | | (thousands) | | (thousands) | | | |
| Revenues | \$ 791,194 | \$ 745,892 | \$ 45,302 | 6.1% | \$ (45,065) | \$ (46,186) | \$ 746,129 | \$ 699,706 | \$ 46,423 | 6.6% |
| Total cost of revenues | 429,170 | 425,552 | 3,618 | 0.9% | (45,065) | (46,186) | 384,105 | 379,366 | 4,739 | 1.2% |

Total revenues after intercompany eliminations for the three months ended September 30, 2006 increased approximately \$46 million, or 6.6%, compared to the three months ended September 30, 2005, from \$700 million to \$746 million. Total cost of revenues after intercompany eliminations for the three months ended September 30, 2006 increased approximately \$5 million, or 1.2%, compared to the three months ended September 30, 2005, from \$379 million to \$384 million.

Management's discussion and analysis of revenues, cost of revenues, selling, general and administrative expenses, amortization of intangible assets (including purchased technology) and operating income by business segment is based upon segment results including intersegment revenues and cost of revenues of approximately \$45 million and \$46 million for the three months ended September 30, 2006 and 2005, respectively. We account for significant intersegment transactions as if the transactions were entered into with third parties, that is, at estimated current market prices. The majority of the intersegment revenues and cost of revenues is between Travelocity and Sabre Travel Network, consisting mainly of incentives paid to Travelocity for Travelocity transactions processed through the *Sabre* GDS, data processing fees and transaction fees paid by Travelocity to Sabre Travel Network (including for transactions processed through the *Sabre* GDS), and fees paid by Sabre Travel Network to Travelocity for corporate trips booked through the *Travelocity* online booking technology. In addition, Sabre Airline Solutions pays fees to Travelocity for airline trips booked through the *Travelocity* online booking technology. All intersegment revenues and corresponding cost of revenues have been eliminated in consolidation.

Total revenues (before eliminations) for the three months ended September 30, 2006 increased approximately \$45 million, or 6.1%, as compared to the three months ended September 30, 2005, from \$746 million to \$791 million. Total cost of revenues (before eliminations) for the three months ended September 30, 2006 increased \$4 million, or 0.9%, as compared to the three months ended September 30, 2005, from \$425 million to \$429 million.

Sabre Travel Network

| | Three Months Ended September 30, | | | |
|--------------------------------------|----------------------------------|------------|------------|----------|
| | 2006 | 2005 | change | % change |
| | (thousands) | | | |
| Segment revenues | \$ 397,921 | \$ 402,187 | \$ (4,266) | (1.1)% |
| Cost of revenues | 269,462 | 273,866 | (4,404) | (1.6)% |
| Amortization of purchased technology | 1,029 | 1,146 | (117) | (10.2)% |
| Gross profit | 127,430 | 127,175 | 255 | 0.2% |
| Selling, general & administrative | 57,578 | 66,996 | (9,418) | (14.1)% |
| Amortization of intangible assets | 2,381 | 2,397 | (16) | (0.7)% |
| Operating income | \$ 67,471 | \$ 57,782 | \$ 9,689 | 16.8% |

Revenues

The \$4 million decrease in revenues is due to the following:

Transaction revenue (see *Components of Revenues and Expenses*) decreased by \$8 million, or 2.3%. Higher transaction volumes driven by the growth in transactions from online agencies accounted for a \$5 million increase in revenue. This increase was offset by a \$13 million decrease driven by a lower average rate per transaction, due to growth in lower-priced, non-traditional transactions and the renegotiation of our agreements with the major U.S. carriers. These rate declines were partially offset by one month of higher booking fees related to our negotiation with a major U.S. airline whose previous agreement expired during the quarter. Total transactions were 86.7 million for the three months ended September 30, 2006, an increase of 1.6% from the three months ended September 30, 2005.

Subscriber revenue decreased by \$1 million reflecting the trend towards the adoption of third-party equipment solutions by subscribers.

Other revenue increased by \$5 million driven by a \$4 million increase from GDS hotel products including *Hotel Spotlight*, *PromoSpots*SM, *Sabre Surround* and *SynXis* and a \$1 million increase in other revenues.

Cost of Revenues

The decrease in cost of revenues of \$4 million includes a \$9 million decrease in subscriber support costs primarily driven by the continuing trend of subscribers moving to customer-owned equipment. This reduction in subscriber support costs also includes a \$3 million year over year decline in incentive expense due to growth in lower priced transactions and the impact of our Efficient

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Access Solution program. These reductions are partially offset by growth in other expenses. Depreciation expenses increased \$3 million primarily related to the migration of our technology systems onto open-platforms. Services purchased increased by \$2 million driven by costs related to a higher volume of *GetThere* trips and *Hotel Spotlight*, *PromoSpots* and *Sabre Surround* revenue growth.

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Selling, General and Administrative Expenses

The \$9 million decrease in selling, general and administrative expenses was driven by a \$5 million reduction in marketing expenses related to the signing of new airline contracts and a \$4 million decline in overhead expenses due to the growth in Travelocity, which has resulted in a shift in corporate services away from Sabre Travel Network toward Travelocity.

Operating Income

The decline in transaction revenue due to the growth in non-traditional transactions was offset by the decline in subscriber support costs. Therefore, the increase in operating income was primarily attributable to the year over year decrease in selling, general and administrative expenses.

Travelocity

| | Three Months Ended September 30, | | | |
|--------------------------------------|---|-------------|---------------|---------------------|
| | 2006 | 2005 | change | % change |
| | (thousands) | | | |
| Segment revenues | \$ 321,308 | \$ 276,565 | \$ 44,743 | 16.2% |
| Cost of revenues | 100,067 | 98,441 | 1,626 | 1.7% |
| Amortization of purchased technology | 7,327 | 5,706 | 1,621 | 28.4% |
| | 213,914 | 172,418 | 41,496 | 24.1% |
| Gross profit | 213,914 | 172,418 | 41,496 | 24.1% |
| Selling, general & administrative | 166,440 | 137,555 | 28,885 | 21.0% |
| Amortization of intangible assets | 6,573 | 5,855 | 718 | 12.3% |
| | 40,901 | 29,008 | 11,893 | 41.0% |
| Operating income | \$ 40,901 | \$ 29,008 | \$ 11,893 | 41.0% |

Revenues

The \$45 million increase in revenue is comprised of an increase in transaction revenue of \$39 million and an increase in non-transaction revenue of \$6 million.

Transaction revenue increased \$39 million, or 15%, driven by a \$35 million increase in non-air transaction revenue (including revenue resulting from sales of package offerings that include air travel as a component) and a \$4 million increase in stand-alone air transaction revenue.

The \$35 million increase in non-air transaction revenue consisted primarily of the following:

An \$8 million increase in North America, including Zuji, driven primarily by a \$6 million improvement in stand alone hotel revenue. Stand alone hotel experienced a higher revenue per transaction yield stemming from improvements in merchant mix. In addition, cruise revenue grew \$3 million as a result of increased volume growth. The acquisition of Zuji contributed \$2 million. These increases were offset by a \$4 million decline in packaging revenue due to reduced availability of discounted air fares that are used in package offerings. All other North America non-air transaction revenue increased \$1 million.

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A \$27 million increase in Europe driven primarily by the timing of the lastminute.com acquisition pursuant to which nineteen additional days of operations at lastminute.com were reported in the third quarter of 2006 compared to the third quarter of 2005. If we had acquired lastminute.com at the beginning of the third quarter of 2005, non-air transaction revenues for that period would have increased by approximately \$29 million. In addition,

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revenue declined by \$6 million due to Travelocity Europe's disposal of certain, primarily offline-focused, non-core businesses in the United Kingdom and France in 2006. These businesses generated \$6 million in revenue in the third quarter of 2005, but had been disposed of by the third quarter of 2006. See Note 3 to the Consolidated Financial Statements. All of our revenue streams were largely impacted this quarter by the effects of the World Cup Championship, and our United Kingdom business in particular was heavily impacted in the quarter as a result of the foiled terrorist attack in the United Kingdom on August 10, 2006.

The \$4 million increase in stand-alone air transaction revenue consisted primarily of the following:

In North America, slight volume growth in stand-alone air was offset by a decline in the average revenue per transaction resulting in a reduction of \$1 million in revenue. The reduced revenue per transaction was due to our renegotiated air deals and lower incentives from our Efficient Access Solution agreement with Sabre Travel Network.

The acquisition of Zuji represented a \$3 million increase.

Europe experienced a \$2 million improvement driven primarily by the timing of the lastminute.com acquisition. Outside of this, air transaction revenue remained broadly flat year over year, driven by an increase in air transaction revenues outside the United Kingdom, and a decline within the United Kingdom. The decline within the United Kingdom was driven by a reduction in marketing spend for our non-*lastminute.com* sub-brands and the impact of the World Cup and foiled terrorist attacks, both of which significantly affected our air volumes in the United Kingdom.

Non-transaction revenue which primarily consists of advertising revenue, corporate revenue, paper ticket fees and services, change fees and re-issue fees, increased \$6 million, or 22%, consisting primarily of the following:

A \$2 million increase related to North America, including Zuji, driven by a \$1 million increase in corporate revenue due to a higher volume of transactions booked by Sabre Travel Network and Sabre Airline Solutions through the *Travelocity* online booking technology and a \$1 million improvement in fees associated with customer service orders and paper tickets.

A \$4 million increase in Europe consisting of \$2 million related to the timing of the lastminute.com acquisition in 2005, \$1 million from eliminating the losses incurred in 2005 from our Travelocity Europe (Germany) joint venture, and \$1 million due to growth in advertising and other fees driven by higher traffic to our websites. We sold our interest in the Travelocity Europe (Germany) joint venture in December 2005.

Cost of Revenues

The \$2 million increase in cost of revenues includes a \$6 million increase in Europe and a \$2 million increase as a result of the Zuji acquisition. These increases were offset by reductions in North America of \$6 million.

The North America decline of \$6 million is a result of improvements in fraud performance as well as declines in customer service costs. These two expenses decreased by \$7 million this quarter. Technology-related expenses, including vendor credits related to the resolution of a service level agreement shortfall, decreased \$2 million. Offsetting these improvements, bank service charges increased \$1 million as a result of higher merchant volumes and stock-based compensation expense for North America employees increased \$1 million due to the

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adoption of SFAS 123R in the first quarter of 2006 (see *Matters Affecting Comparability: Expensing of Stock Options*). All other North America cost of revenues increased \$1 million.

Europe cost of revenues increased \$6 million primarily driven by the timing of the lastminute.com acquisition in 2005 which increased cost of revenues by \$7 million in the third quarter of 2006. Offsetting this increase was a reduction in cost of revenues from our exited businesses in the United Kingdom and France, which generated \$2 million in cost of revenues during the third quarter of 2005, offset by currency movement that resulted in a \$1 million incremental expense for the third quarter of 2006. We also incurred additional integration expenses in 2006 for integrating lastminute.com operations into Travelocity which were offset by declines in other cost of revenue categories as we continued to focus on reducing cost of revenues as a percentage of revenues.

Selling, General and Administrative Expenses

The \$29 million increase in selling, general and administrative expenses includes an increase of \$16 million from Europe and an increase of \$6 million resulting from the Zuji acquisition. North America selling, general and administrative expenses increased \$7 million.

In North America, marketing related expenses increased \$5 million due to increased advertising spend in the third quarter of 2006. Additionally, there was a \$4 million increase in overhead expenses due to the growth in Travelocity, which has resulted in a shift in corporate services away from Sabre Travel Network toward Travelocity. These increases were offset by a decrease in North America payments to distribution partners and affiliates of \$2 million as a result of renegotiating of certain distribution contracts.

Europe selling, general and administrative expenses increased \$16 million, \$14 million of which was due primarily to the timing of the lastminute.com acquisition in 2005. The remaining \$2 million increase was driven by a \$3 million increase due to currency movement, a \$2 million additional expense to bring lastminute.com into compliance with the requirements of Sarbanes-Oxley, including the engagement of a third party resource to review processes and assist in the establishment of controls, testing of controls and remediation efforts, and a \$3 million reduction related to Travelocity Europe's disposal of certain, primarily offline-focused businesses in the United Kingdom and France in 2006. See Note 3 to our Consolidated Financial Statements.

Amortization of Intangible Assets (including Amortization of Purchased Technology)

Amortization of intangible assets increased \$2 million due to amortization from intangible assets acquired in the lastminute.com acquisition.

Operating Income

Operating income increased \$12 million due in part to a \$3 million improvement in North America, including Zuji, driven by increased revenues. In addition, operating income in Europe improved \$9 million. This was primarily due to the timing of the lastminute.com acquisition, which would have added \$8 million to our 2005 third quarter operating income results had we completed the acquisition at the beginning of that quarter. Outside of this, operating income in Europe grew \$1 million.

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Sabre Airline Solutions

| Three Months Ended September 30, | | | | |
|--------------------------------------|-------------|-----------|----------|----------|
| | 2006 | 2005 | change | % change |
| | (thousands) | | | |
| Segment revenues | \$ 71,965 | \$ 67,140 | \$ 4,825 | 7.2% |
| Cost of revenues | 50,314 | 45,131 | 5,183 | 11.5% |
| Amortization of purchased technology | 162 | 147 | 15 | 10.2% |
| Gross profit | 21,489 | 21,862 | (373) | (1.7)% |
| Selling, general & administrative | 9,236 | 10,971 | (1,735) | (15.8)% |
| Amortization of intangible assets | 269 | 572 | (303) | (53.0)% |
| Operating income | \$ 11,984 | \$ 10,319 | \$ 1,665 | 16.1% |

Revenues

The \$5 million increase in revenues was driven primarily by a \$7 million increase in airline reservation hosting revenue due to effective average rate growth from our existing customer base, as well as new system and component sales. This growth was offset by a decline of \$2 million in other revenues primarily driven by a decrease in royalties. Additionally, revenues from standard products and services increased \$2 million offset by a decrease in consulting revenue of \$2 million due to the nonrenewal in 2006 of a consulting contract from 2005.

Cost of Revenues

The \$5 million increase in cost of revenues is due in part to a \$3 million increase in development activities associated with core reservation systems. Data processing expense increased \$1 million due to transaction growth in airline reservation hosting and supplier trip volumes. Other expenses increased by \$2 million due to expenses related to higher headcount associated with implementations. These were offset slightly by a \$1 million decrease in communications expenses because 2005 was inflated by a nonrecurring item associated with a retroactive charge from a service provider.

Non-operating Items

The following section describes our results of operations on a consolidated basis for non-operating income and expense items. (See Consolidated Statements of Income):

| Three Months Ended September 30, | | | | |
|----------------------------------|-------------|-----------|-----------|----------|
| | 2006 | 2005 | change | % change |
| | (thousands) | | | |
| Operating income | \$ 119,560 | \$ 99,571 | \$ 19,989 | 20.1% |
| Interest income | 5,286 | 5,303 | (17) | (0.3)% |
| Interest expense | (20,102) | (15,801) | (4,301) | (27.2)% |
| Gain on sale of investment | | (100) | 100 | (100.0)% |
| Gain on derivative instrument | | 1,746 | (1,746) | 100.0% |
| Other, net | 1,710 | 2,791 | (1,081) | (38.7)% |
| Less: Provision for income taxes | 38,882 | 35,014 | 3,868 | 11.0% |
| Net earnings | \$ 67,572 | \$ 58,496 | \$ 9,076 | 15.5% |

Three Months Ended September 30,

| | | | |
|--|--|--|--|
| | | | |
|--|--|--|--|

Interest Expense

The increase in interest expense is due to interest on the \$400 million in senior unsecured notes issued on March 13, 2006 as well as interest on the \$155 million balance owed under our revolving credit facility (See Note 8 to the Consolidated Financial Statements). Additionally, higher interest rates resulted in higher interest expense on our \$400 million of public notes issued in August 2001. These increases were partially offset by a reduction in interest expense related to the bridge facility for the lastminute.com acquisition. We borrowed \$800 million under the bridge facility on August 1, 2005 and repaid the entire amount in the first quarter of 2006. The borrowing was related to the acquisition of lastminute.com in July 2005.

Gain on Derivative Instrument

On June 29, 2005, we entered into forward contracts to purchase GBP 578 million and EUR 115 million to lock in the U.S. Dollar price of the lastminute.com acquisition. In the third quarter of 2005, these forward contracts matured resulting in a gain of \$2 million.

Other, net

Other, net decreased approximately \$1 million primarily due to a reduction in minority interests, driven by stronger performance from our Sabre Pacific joint venture in Australia.

Income Taxes

The increase in the provision for income taxes is due to the \$13 million increase in income before taxes, partially offset by a \$1 million reversal in the third quarter of 2006 of previously accrued taxes related to the expiration of certain statutes of limitations. See Note 6 to the Consolidated Financial Statements for additional information regarding income taxes.

Net Earnings

Net earnings increased for the quarter due to quarter-over-quarter improvements across all of our segments, partially offset by increases in interest expense due to interest on the \$400 million in senior notes issued on March 13, 2006 and on the \$155 million outstanding balance on our credit facility, both due to the lastminute.com acquisition.

Nine Months Ended September 30, 2006 and 2005

Nine Months Ended September 30,

| | Total revenues before eliminations | | | | Eliminations | | Total consolidated revenues | | | |
|------------------------|------------------------------------|--------------|------------|----------|--------------|--------------|-----------------------------|--------------|------------|----------|
| | 2006 | 2005 | change | % change | 2006 | 2005 | 2006 | 2005 | change | % change |
| | (thousands) | | | | (thousands) | | (thousands) | | | |
| Revenues | \$ 2,307,874 | \$ 2,043,295 | \$ 264,579 | 12.9% | \$ (138,945) | \$ (142,446) | \$ 2,168,929 | \$ 1,900,849 | \$ 268,080 | 14.1% |
| Total cost of revenues | 1,368,630 | 1,237,131 | 131,499 | 10.6% | (138,945) | (142,446) | 1,229,685 | 1,094,685 | 135,000 | 12.3% |

Total revenues after intercompany eliminations for the nine months ended September 30, 2006 increased approximately \$268 million, or 14.1%, compared to the nine months ended September 30, 2005, from \$1,901 million to \$2,169 million. Total cost of revenues after intercompany eliminations for the nine months ended September 30, 2006 increased approximately \$135 million, or 12.3%, compared to the nine months ended September 30, 2005, from \$1,095 million to \$1,230 million.

Management's discussion and analysis of revenues, cost of revenues, selling, general and administrative expenses, amortization of intangible assets (including purchased technology) and

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operating income by business segment is based upon segment results including intersegment revenues and cost of revenues of approximately \$139 million and \$142 million for the nine months ended September 30, 2006 and 2005, respectively. We account for significant intersegment transactions as if the transactions were entered into with third parties, that is, at estimated current market prices. The majority of the intersegment revenues and cost of revenues is between Travelocity and Sabre Travel Network, consisting mainly of incentives paid to Travelocity for Travelocity transactions processed through the *Sabre* GDS, data processing fees and transaction fees paid by Travelocity to Sabre Travel Network (including for transactions processed through the *Sabre* GDS), and fees paid by Sabre Travel Network to Travelocity for corporate trips booked through the *Travelocity* online booking technology. In addition, Sabre Airline Solutions pays fees to Travelocity for airline trips booked through the *Travelocity* online booking technology. All intersegment revenues and corresponding cost of revenues have been eliminated in consolidation.

Total revenues (before eliminations) for the nine months ended September 30, 2006 increased approximately \$265 million, or 12.9%, as compared to the nine months ended September 30, 2005, from \$2,043 million to \$2,308 million. Total cost of revenues (before eliminations) for the nine months ended September 30, 2006 increased \$131 million, or 10.6%, as compared to the nine months ended September 30, 2005, from \$1,237 million to \$1,368 million.

Sabre Travel Network

| Nine Months Ended September 30, | | | | |
|--|--------------|--------------|-----------|----------|
| | 2006 | 2005 | change | % change |
| (thousands) | | | | |
| Segment revenues | \$ 1,265,415 | \$ 1,250,128 | \$ 15,287 | 1.2% |
| Cost of revenues | 867,539 | 846,784 | 20,755 | 2.5% |
| Amortization of purchased technology | 3,021 | 3,966 | (945) | (23.8)% |
| <hr style="border-top: 1px solid black;"/> | | | | |
| Gross profit | 394,855 | 399,378 | (4,523) | (1.1)% |
| Selling, general & administrative | 184,109 | 186,933 | (2,824) | (1.5)% |
| Amortization of intangible assets | 7,043 | 8,570 | (1,527) | (17.8)% |
| <hr style="border-top: 1px solid black;"/> | | | | |
| Operating income | \$ 203,703 | \$ 203,875 | \$ (172) | (0.1)% |
| <hr style="border-top: 1px solid black;"/> | | | | |

Revenues

The \$15 million increase in revenues is due to the following:

Transaction revenue (see *Components of Revenues and Expenses*) decreased by \$10 million, or 1.0%. This \$10 million decrease includes a \$35 million decrease driven by a lower average rate per transaction due to growth in lower-priced, non-traditional transactions. This \$35 million decrease was offset by an \$18 million increase due to higher transaction volumes and a \$7 million increase due to a change in the cancellation rebook rate assumption in our air booking fee cancellation reserve (see *Matters Affecting Comparability: Changes in Estimates*). Total transactions were 272 million for the nine months ended September 30, 2006, an increase of 1.7% from the nine months ended September 30, 2005.

Subscriber revenue increased by \$4 million primarily due to an accrual for subscriber revenue from smaller travel agencies that we previously accounted for when invoiced (see *Matters Affecting Comparability: Changes in Estimates*).

Other revenue increased by \$21 million driven by a \$14 million increase from GDS hotel products including *Hotel Spotlight*, *PromoSpots*, *Sabre Surround* and the *SynXis* hotel reservation system. The increase in GDS hotel products is mainly driven by strong organic

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growth from each product as well as the anniversary effect related to *Sabre Surround* and the *SynXis* hotel reservation system, which both started earning revenue in 2005. The remaining increase is driven by a \$6 million increase in revenue from our Asian joint venture due to improved performance over the prior year and a \$1 million increase from miscellaneous other revenue.

Cost of Revenues

The increase in cost of revenues of \$21 million includes a \$2 million decrease in subscriber support costs and a \$23 million increase in other costs. The \$2 million decrease in subscriber support costs includes a decline of \$23 million due primarily to the continuing trend of subscribers moving to customer-owned equipment. This decrease is almost entirely offset by a \$21 million increase in the accrual of incentives for smaller travel agencies which were previously accounted for as they were paid (see *Matters Affecting Comparability: Changes in Estimates*). The \$23 million increase in other costs includes an increase in headcount related costs of \$5 million primarily driven by an increase in stock-based compensation expense due to the adoption of SFAS 123R in the first quarter of 2006 (see *Matters Affecting Comparability: Expensing of Stock Options*). Additionally, depreciation expenses increased \$6 million primarily related to the migration of our technology systems onto open-platforms and services purchased increased by \$6 million driven by costs related to a higher volume of *GetThere* trips and *PromoSpots* revenue growth. Miscellaneous cost of revenues increased by \$6 million.

Selling, General and Administrative Expenses

The \$3 million decrease in selling, general and administrative expenses was primarily driven by year over year changes in overhead expenses due to the growth in Travelocity, which has resulted in a shift in corporate services away from Sabre Travel Network toward Travelocity.

Amortization of Intangible Assets (including Amortization of Purchased Technology)

The decrease in amortization of intangible assets is due to intangibles that fully amortized in 2005.

Travelocity

| | Nine Months Ended September 30, | | | |
|--------------------------------------|---------------------------------|------------|------------|----------|
| | 2006 | 2005 | change | % change |
| | (thousands) | | | |
| Segment revenues | \$ 837,963 | \$ 596,410 | \$ 241,553 | 40.5% |
| Cost of revenues | 325,677 | 244,942 | 80,735 | 33.0% |
| Amortization of purchased technology | 22,194 | 6,605 | 15,589 | 236.0% |
| Gross profit | 490,092 | 344,863 | 145,229 | 42.1% |
| Selling, general & administrative | 460,623 | 318,984 | 141,639 | 44.4% |
| Amortization of intangible assets | 20,600 | 9,330 | 11,270 | 120.8% |
| Operating income | \$ 8,869 | \$ 16,549 | \$ (7,680) | 46.4% |

Revenues

In July of 2005, we acquired United Kingdom-based lastminute.com. The results of lastminute.com are included in our financial results from the date of the acquisition on July 20, 2005.

The \$242 million increase in revenue is comprised of an increase in transaction revenue of \$219 million and an increase in non-transaction revenue of \$23 million.

Transaction revenue increased \$219 million, or 42%, primarily driven by a \$188 million increase in non-air transaction revenue (including revenue resulting from sales of package offerings that include air travel as a component) and a \$31 million increase in stand-alone air transaction revenue.

The \$188 million increase in non-air transaction revenue consisted primarily of the following:

A \$37 million increase related to North America, including Zuji, driven primarily by a \$26 million increase in stand-alone hotel revenue, resulting from higher revenue per transaction due to merchant mix. In addition, car revenue increased \$4 million driven by both transaction volume and average revenue per transaction, and cruise revenue increased \$2 million. The acquisition of Zuji contributed \$5 million. These increases were offset by a \$2 million decrease in packaging revenue due to reduced availability of discounted air fares that are used in package offerings. All other North America non-air transaction revenue increased \$2 million.

A \$151 million increase in Europe driven primarily by the acquisition of lastminute.com.

The \$31 million increase in stand-alone air transaction revenue was primarily due to the following:

A \$9 million increase related to North America, including Zuji. Volume growth in stand-alone air was partially offset by a decline in the average revenue per transaction resulting in growth of \$3 million. The lower average revenue per transaction was due to our renegotiated air deals and lower incentives from our Efficient Access Solution agreement with Sabre Travel Network. An additional \$6 million increase resulted from the Zuji acquisition.

A \$22 million increase in Europe driven primarily by the acquisition of lastminute.com.

Non-transaction revenue which primarily consists of advertising revenue, corporate revenue, paper ticket fees and services, change and re-issue fees, increased \$23 million, or 30%, consisting primarily of the following:

A \$5 million increase related to North America, including Zuji, driven primarily by a \$4 million increase in corporate revenue due to a higher volume of transactions booked by Sabre Travel Network and Sabre Airline Solutions through the *Travelocity* online booking technology. An additional \$1 million increase resulted from the Zuji acquisition.

An \$18 million increase in Europe, driven by \$15 million due to the acquisition of lastminute.com and a \$3 million increase related to reduced equity method losses in our Travelocity Europe (Germany) joint venture. We sold our interest in this joint venture in December 2005.

Cost of Revenues

The \$81 million increase in cost of revenues includes a \$74 million increase from the acquisition of lastminute.com and a \$1 million increase resulting from the Zuji acquisition. Additionally, North America increased \$6 million.

In North America, technology-related expenses increased \$4 million due to higher traffic, partially offset by vendor credits related to the resolution of a service level agreement shortfall. Bank service charges increased \$4 million as a result of higher merchant volumes. Stock-based compensation expense for North America employees increased \$3 million due to the adoption of SFAS 123R in the first quarter of 2006 (see *Matters Affecting Comparability: Expensing of Stock Options*). These increases were offset by improvements in fraud performance totaling \$5 million as

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well as declines in customer service costs which resulted in a decrease of \$3 million. All other North America cost of revenues increased \$3 million.

Selling, General and Administrative Expenses

The \$142 million increase in selling, general and administrative expenses includes an increase of \$109 million from the lastminute.com acquisition and an increase of \$21 million from the Zuji acquisition. North America increased \$12 million. In North America, marketing related expenses increased \$5 million due to increased advertising spending in the third quarter. Legal services expense increased \$2 million. In addition, Travelocity's share of corporate staff group and facility costs increased due to Travelocity's growth, which has resulted in a shift in corporate services away from Sabre Travel Network, resulting in \$10 million of additional expense. North America payments made to distribution partners and affiliates decreased by \$8 million driven by a performance-based reimbursement of past expenses we received and renegotiation of certain distribution contracts. Other selling, general and administrative expenses increased by \$3 million.

Amortization of Intangible Assets (including Amortization of Purchased Technology)

Amortization of intangible assets increased \$27 million due to amortization from intangible assets acquired in the lastminute.com acquisition.

Operating Income

Operating income decreased \$8 million due to a \$20 million decline in Europe resulting from the increased amortization from intangible assets acquired in the lastminute.com acquisition. The Europe decline was partially offset by a \$12 million increase in North America, including Zuji, driven by increased revenues.

Sabre Airline Solutions

Nine Months Ended September 30,

| | 2006 | 2005 | change | % change |
|--------------------------------------|------------|------------|------------|----------|
| (thousands) | | | | |
| Segment revenues | \$ 204,496 | \$ 196,757 | \$ 7,739 | 3.9% |
| Cost of revenues | 148,182 | 133,142 | 15,040 | 11.3% |
| Amortization of purchased technology | 485 | 441 | 44 | 10.0% |
| Gross profit | 55,829 | 63,174 | (7,345) | (11.6)% |
| Selling, general & administrative | 29,802 | 30,686 | (884) | (2.9)% |
| Amortization of intangible assets | 1,231 | 1,732 | (501) | (28.9)% |
| Operating income | \$ 24,796 | \$ 30,756 | \$ (5,960) | (19.4)% |

Revenues

The \$8 million increase in revenues was driven primarily by a \$14 million increase in airline reservation hosting revenue due to effective average rate growth from our existing customer base, as well as new system and component sales. This growth was offset by a \$3 million decrease in custom software due to the expiration of certain contracts and a strategic shift to standard product sales. Consulting revenue decreased \$1 million due to an uncommonly high third quarter in 2005. Product revenue also showed a decline of \$2 million. This decline is attributable to a shift from perpetual license agreements toward term license agreements, causing a longer revenue recognition cycle.

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Cost of Revenues

The \$15 million increase in cost of revenues is primarily due to a \$5 million increase in salaries and benefits driven primarily by higher headcount and related expenses which included \$2 million in increased stock-based compensation expense due to the adoption of SFAS 123R (see *Matters Affecting Comparability: Expensing of Stock Options*), \$1 million in variable compensation, and \$1 million in increased severance costs. Data processing expense increased \$5 million due to transaction growth in airline reservation hosting and supplier trip volumes. Development costs increased \$3 million due to activities associated with core reservation systems. Travel and incidentals increased by \$1 million due to higher travel expenses in new areas of business. There was also an aggregate \$2 million increase in depreciation and amortization and allocated corporate expenses. Other cost of revenues decreased by \$1 million.

Operating Income

The decrease in operating income is due primarily to increases in salary and benefit-related expenses that exceeded revenue growth for the period.

Non-operating Items

The following section describes our results of operations on a consolidated basis for non-operating income and expense items. (See Consolidated Statements of Income):

| | Nine Months Ended September 30, | | | |
|----------------------------------|---------------------------------|------------|-------------|-------------|
| | 2006 | 2005 | change | % change |
| | (thousands) | | | |
| Operating income | \$ 235,875 | \$ 253,871 | \$ (17,996) | (7.1)% |
| Interest income | 11,809 | 15,772 | (3,963) | (25.1)% |
| Interest expense | (59,165) | (31,803) | (27,362) | (86.0)% |
| Gain on sale of investments | | 20,494 | (20,494) | (100.0)% |
| Loss on derivative instrument | | (8,248) | 8,248 | 100.0% |
| Other, net | (4,789) | 4,388 | (9,177) | (209.1)% |
| Less: Provision for income taxes | 65,595 | 94,410 | (28,815) | (30.5)% |
| Net earnings | \$ 118,135 | \$ 160,064 | \$ (41,929) | (26.2)% |

Interest Income

The \$4 million decrease in interest income is due to the decrease in our cash and marketable securities balances from September 30, 2005 to September 30, 2006 related primarily to the lastminute.com acquisition in July 2005.

Interest Expense

The increase in interest expense is due to interest on the bridge facility for the lastminute.com acquisition, which was repaid in February and March 2006, interest on the \$400 million in senior unsecured notes issued on March 13, 2006 and interest on the \$180 million borrowings under our revolving credit facility, \$25 million of which was paid in May 2006 (see Note 8 to the Consolidated Financial Statements). The borrowing was related to the acquisition of lastminute.com in July 2005. Additionally, higher interest rates resulted in increased interest expense on our \$400 million of public notes issued in August 2001.

Gain on Sale of Investments

For the nine months ended September 30, 2006, there were no gains from the sale of investments. For the nine months ended September 30, 2005, we recorded a gain of \$21 million from the sale of our investment in Karavel SA, a French tour operator, offset by a \$1 million loss on the conversion of a note receivable and warrants from TRX.

Loss on Derivative Instrument

In the second quarter of 2005, we recorded a loss of \$10 million on the option we purchased in May 2005 to acquire GBP and EUR at a fixed rate at or near the closing of the acquisition on lastminute.com. This \$10 million loss was offset by a \$2 million gain on forward contracts we entered into to purchase GBP 578 million and EUR 115 million to lock in the U.S. Dollar price of the acquisition of lastminute.com. In the third quarter of 2005, these forward contracts matured resulting in a gain of \$2 million.

Other, net

Other, net decreased approximately \$9 million partially due to \$11 million in losses, before tax effect, recorded on the sale of three businesses that were a part of our Travelocity Europe and lastminute.com operations during 2006 (see Note 3 to the Consolidated Financial Statements). These losses were offset by a \$2 million adjustment for forfeitures related to our Restricted Stock Incentive Plan in conjunction with the adoption of SFAS 123R (see Note 5 to our Consolidated Financial Statements).

Income Taxes

The decrease in the provision for income taxes is due to the \$71 million decrease in income before taxes and a \$6 million reversal, in the first nine months of 2006, of previously accrued taxes related to the expiration of certain statutes of limitations. These tax reversals were not previously accrued as part of past business combinations. See Note 6 to the Consolidated Financial Statements for additional information regarding income taxes.

Net Earnings

Although all of our segments experienced positive revenue growth, net earnings decreased by \$42 million during the nine months ended September 30, 2006 as compared to the nine months ended September 30, 2005. The primary reason for this decline is a \$21 million gain in the first quarter of 2005 from the sale of our investment in Karavel SA for which we had no equivalent gain in the first quarter of 2006 and losses of approximately \$11 million related to the Travelocity Europe and lastminute.com business sales in the second quarter of 2006. Other factors adversely affecting our operations for the nine months ended September 30, 2006 were higher incentive costs (including the impact of a change in estimate of our incentive accrual from the first quarter) and headcount-related costs (including the impact of expensing stock options starting on January 1, 2006). Finally, we incurred higher interest expense in 2006 due primarily to the higher debt levels incurred to finance the lastminute.com purchase.

SABRE HOLDINGS CORPORATION

LIQUIDITY AND CAPITAL RESOURCES

We utilize cash to pay our operating expenses, make capital expenditures, invest in our products and offerings, pay dividends, repurchase shares of our Common Stock and service our debt and other long-term liabilities. Although our primary source of funds has been from our operations, we

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have in the past and may in the future raise external funds through the sale of stock or debt in the public capital markets or in privately negotiated transactions. In assessing our liquidity, key components include our net earnings adjusted for non-cash and non-operating items, and current assets and liabilities, in particular accounts receivable, accounts payable and accrued expenses. For the longer term, our debt and long-term liabilities are also considered key to assessing our liquidity.

Our current cash flows from operations, existing balances in cash and short-term investments and funds available under our revolving credit agreement are sufficient to fund our planned expenditures which include operating expenses, capital expenditures, investments in our products and offerings, interest payments on our debt and dividends. We may also consider using our funds available or possibly external sources of funds for additional acquisitions of, or investments in, complementary businesses, products, services and technologies when such opportunities become available (See Note 3 to the Consolidated Financial Statements for current year acquisitions and investment activity). These types of additional activities might affect our liquidity requirements or cause us to issue additional equity or debt securities.

In the long-term, we expect to use our existing funds and cash flows from operations to satisfy our debt and other long-term obligations, to repurchase our stock or increase dividend payments. We may also use our funds, as well as external sources of funds, to retire debt as appropriate, based upon market conditions and our desired liquidity and capital structure.

See the risk factors referred to under Part II, Item 1A: Risk Factors, which include certain risk factors that may affect the availability of our internally generated funds.

As a result of the additional debt incurred on August 1, 2005 to fund the lastminute.com acquisition, Standard & Poor's changed our credit rating from BBB+ to BBB and maintained a stable outlook, and Moody's Investors Service changed our credit rating from Baa2 to Baa3 and changed our outlook from stable to negative. The ratings change did not have a material impact on our cost of borrowing.

Aggregate Contractual Obligations

We have obligations for long-term debt, operating leases, a capital lease and other long-term obligations including pensions. Other than our repayment of the bridge facility, issuance of the senior unsecured notes due 2016 and borrowings under our revolving credit facility (See "*Financing Arrangements*" below and Note 8 to the Consolidated Financial Statements for a complete description) and the new extensions to the AOL and Yahoo! agreements (see Note 3 to the Consolidated Financial Statements), there have been no material changes to the table of future minimum payments under contractual obligations presented in our December 31, 2005 Form 10-K.

*Capital Activities***Dividends**

| Declaration Date | Payable Date | Amount per Share |
|-------------------------|---------------------|-------------------------|
| 2005: | | |
| February 1, 2005 | February 28, 2005 | \$ 0.090 |
| May 3, 2005 | May 26, 2005 | 0.090 |
| July 26, 2005 | August 18, 2005 | 0.090 |
| November 1, 2005 | November 29, 2005 | 0.090 |
| 2006: | | |
| January 30, 2006 | February 28, 2006 | \$ 0.100 |
| May 1, 2006 | May 25, 2006 | 0.100 |
| August 1, 2006 | August 28, 2006 | 0.100 |
| October 11, 2006 | November 10, 2006 | 0.130 |

In October 2006, the Board of Directors approved a 30 percent increase in our quarterly cash dividend to \$0.13 per share of common stock from \$0.10 per share. Based on a quarterly dividend of \$0.10 per share for the first three quarterly cash dividends and \$0.13 per share for our fourth quarterly cash dividend in 2006, we expect to pay an aggregate of approximately \$57 million in dividends during 2006. Our Board of Directors currently intends to consider declaring and paying comparable future dividends on a regular quarterly basis, subject to our ability to pay dividends and to a determination by management and our Board of Directors that dividends continue to be in our best interests and those of our stockholders.

Repurchases of Stock

| Date Authorized | Authorized for Repurchase | Repurchased | Repurchased under ASSP | Available for Repurchase |
|------------------------|----------------------------------|--------------------|-------------------------------|---------------------------------|
| October 20, 2003 | \$ 100 million | \$ 100 million | \$ 58 million | (1) |
| April 19, 2004 | \$ 100 million | \$ 100 million | | (2) |
| October 25, 2004 | \$ 100 million | \$ 100 million | | (3) |
| May 2, 2005 | \$ 100 million | | | \$ 100 million(4) |

(1)

On October 20, 2003, our Board of Directors approved a share repurchase program authorizing us to repurchase up to \$100 million of our Common Stock. At December 31, 2003, we had remaining authorization to repurchase approximately \$72 million of our Common Stock under this program. During the three months ended March 31, 2004, we repurchased 3,336,862 shares of our Common Stock for approximately \$72 million, thereby completing the remaining authorization to repurchase shares under that program. In addition, on October 20, 2003 our Board of Directors issued a standing annual authorization to purchase shares of our Common Stock to satisfy our obligations to deliver shares under our Employee Stock Purchase Plan and our Long-Term Incentive Plan (the "Alternative Share Settlement Program"). We spent \$17 million to purchase 850,000 shares of our Common Stock under this authorization in December 2003, \$18 million to purchase 840,000 shares of our Common Stock under this authorization in January 2005 and \$23 million to purchase 1,100,000 shares of our Common Stock under this authorization in May and June 2006.

(2)

On April 19, 2004, our Board of Directors approved another share repurchase program authorizing us to repurchase up to an additional \$100 million of our Common Stock. We repurchased 4,038,166 shares of our Common Stock under this authorization. This authorization was completed on November 1, 2004.

(3) On October 25, 2004, our Board of Directors approved a share repurchase program authorizing us to repurchase up to an additional \$100 million of our Common Stock. We repurchased 4,558,347 shares of our Common Stock under this authorization. This authorization was completed on March 14, 2005.

(4) On May 2, 2005, we received authorization from our Board of Directors to repurchase an additional \$100 million of our Common Stock. Due to the acquisition of lastminute.com in July 2005, no purchases of our Common Stock have been made, and none are planned, under this authorization as of the date of this report. As in the past, implementation of the program is at management's discretion and will depend on management's decision about the best uses for our available cash.

We will generally seek to make any future share repurchases pursuant to 10b5-1 trading plans, unless such plans are terminated at the discretion of management.

Financing Arrangements

Capital Lease Obligation

In June 2003, Sabre Inc. entered into a ten-year master lease for our corporate headquarters facility in Southlake, Texas, which is accounted for as a capital lease. The interest rate on the capital lease financing is fixed at 5.37%. At the inception of the lease, we recorded an asset of approximately \$168 million, along with a liability of approximately \$168 million, representing the present value of the minimum lease payments due under the lease and the residual value guarantee discussed below.

At any time during the lease term, we have the option to terminate the lease and purchase the properties for approximately \$179 million, plus a make-whole amount, if applicable. We also have the option at any time up to one year prior to the lease expiration to cause the properties to be sold. If this sell option is exercised, we have guaranteed that proceeds on a sale will be at least approximately \$159 million, and we are responsible for the first dollar loss up to approximately \$159 million due to a decrease in the value of the property below approximately \$179 million. If the sales proceeds exceed approximately \$179 million plus any sales-related expenses, we retain the excess.

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 intend to use the proceeds from the sale of the Property to repay a portion of our capital lease obligation. See Sale and Leaseback of a Portion of our Southlake, Texas Headquarters Facilities in Note 3 Significant Events for additional information on this transaction.

Bridge Financing Arrangement

During the three months ended March 31, 2006, we prepaid the entire \$800 million outstanding under the bridge facility we used to acquire lastminute.com in July 2005 with \$580 million of debt (See Publicly Issued Senior Unsecured Notes and Revolving Credit Agreement below) and \$220 million of our existing cash.

Publicly Issued Senior Unsecured Notes

In March 2006, Sabre Holdings Corporation issued \$400 million in senior unsecured notes ("Notes"), bearing interest at a fixed rate of 6.35% and maturing March 15, 2016, in an

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underwritten public offering resulting in net cash proceeds after expenses of approximately \$397 million. The Notes include certain non-financial covenants, including restrictions on incurring certain types of debt or entering into certain sale and leaseback transactions. The pending transaction to sell and subsequently lease back a portion of our corporate headquarters facilities (see Note 3 to the Consolidated Financial Statements) is not in violation of any covenants under our Notes. We used all of the net proceeds plus available cash and marketable securities to prepay \$400 million of the bridge facility. Under the terms of the Notes, we are obligated to pay \$13 million in interest charges in 2006, and \$25 million per year afterwards until 2016. As of September 30, 2006, we were in compliance with all covenants under the indenture for the Notes.

Revolving Credit Agreement

On March 17, 2006, we borrowed \$180 million under our revolving credit agreement. We used the proceeds to prepay \$180 million of the outstanding principal on the bridge facility. The interest rate on this indebtedness is based on the London Interbank Offered Rate ("LIBOR") plus a borrowing spread, and is sensitive to our credit rating. At September 30, 2006, the interest rate was 5.93%. All or part of this indebtedness can be extended month-to-month at our option but it must be repaid on or before June 15, 2009. The indebtedness may be accelerated in certain circumstances that are described in the revolving credit agreement. We may repay the revolving credit loans outstanding under the revolving credit agreement at any time without significant penalty prior to the maturity date.

In May 2006, we repaid \$25 million of the outstanding borrowings under the revolving credit agreement. Based on the terms of this agreement, we have \$205 million of unused borrowing capacity under this facility at September 30, 2006.

As of September 30, 2006, we were in compliance with all covenants under our revolving credit agreement including the following financial covenants:

| Covenant | Requirement | Level at September 30, 2006 |
|--|-------------------|-----------------------------------|
| Consolidated Leverage Ratio (Debt to EBITDA) | 3.50 to 1 maximum | 2.67 |
| Consolidated Net Worth | \$1.3 billion | \$1.7 billion |

Our leverage ratio covenants under the revolving credit agreement are as follows:

| As amended on July 22, 2005 | Requirement |
|--|-------------------|
| Consolidated Leverage Ratio (Debt to EBITDA) for the quarters ended: | |
| June 30, 2006 through September 30, 2006 | 3.50 to 1 maximum |
| December 31, 2006 through March 31, 2007 | 3.25 to 1 maximum |
| June 30, 2007 and thereafter | 3.00 to 1 maximum |

There were no material changes to our \$400 million in public notes issued on August 2001 during the nine months ended September 30, 2006.

Off-Balance Sheet Arrangements

We do not have any relationships or agreements as of September 30, 2006 that would be considered an off-balance sheet arrangement as defined by Item 303(a)(4)(ii) of Regulation S-K.

Cash Flows (in thousands)

| | Nine Months Ended September 30, | |
|--|------------------------------------|------------------|
| | 2006 | 2005 |
| Cash provided by operating activities | \$ 370,683 | \$ 240,575 |
| Cash provided by (used for) investing activities | 105,630 | (887,370) |
| Cash provided by (used for) financing activities | (299,935) | 704,190 |
| Effect of exchange rate changes on cash and cash equivalents | 16,135 | (2,344) |
| Total cash increase | \$ 192,513 | \$ 55,051 |

Operating Activities Cash provided by operating activities for the nine months ended September 30, 2006 was \$371 million, which arose from net earnings of \$118 million adjusted for non-cash and non-operating items (including a reduction for our excess tax benefits from stock-based compensation expense) and cash provided by favorable changes in working capital items of \$90 million. Non-cash adjustments were an increase to net earnings of \$163 million for the nine months ended September 30, 2006 and included depreciation and amortization of \$132 million, stock-based compensation expense of \$24 million, pre-tax loss on sale of subsidiaries of \$11 million, bad debt expense of \$11 million and deferred income taxes of \$14 million, offset by joint venture equity income of \$12 million and other non-cash adjustments of \$17 million.

Cash provided by operating activities during the nine months ended September 30, 2005 was \$241 million, which was primarily from net earnings of \$160 million adjusted for non-cash and non-operating items, offset by cash used for working capital items of \$15 million. Non-cash adjustments were an increase to net earnings of \$96 million for the nine months ended September 30, 2005 and included depreciation and amortization of \$92 million, equity losses of \$2 million in joint ventures, a loss on a foreign currency option of \$8 million, deferred income taxes of \$8 million and stock compensation expense of \$9 million offset by a gain on the sale of investments of \$20 million and other non-cash adjustments of \$3 million.

Cash provided by operating activities increased by \$130 million from September 30, 2005 to September 30, 2006. The increase was partially due to an increase in net earnings adjusted for non-cash items (including a reduction for our excess tax benefits from stock-based compensation expense) of \$25 million. Additionally, cash flows from favorable changes in working capital items increased by \$105 million, primarily resulting from increased use of our net rate program and seasonally favorable cash flows from lastminute.com, which generates most of its positive cash flows during the first part of the year.

Investing Activities The \$993 million increase in cash provided by investing activities for the nine months ended September 30, 2006 compared to the prior year period primarily results from a \$1 billion increase in cash provided by acquisition and joint venture investment activity compared to the cash used in the acquisition of lastminute.com in the third quarter of 2005, the release of \$37 million in cash which had previously been restricted to fulfill travel-related bonding requirements in Europe, and \$5 million in proceeds from loans. These increases were offset by a \$148 million decrease in net sales of our portfolio of marketable securities, a \$39 million decrease in proceeds from the sale of investments, and a \$19 million increase in capital expenditures. Additionally, cash used in investing activities for the nine months ended September 30, 2005 included \$17 million in loans and investments to joint ventures and a \$10 million foreign currency option purchase.

Financing Activities Cash used for financing activities increased \$1 billion from the nine months ended September 30, 2005 to the nine months ended September 30, 2006 primarily due to the

prepayment of the \$800 million bridge facility in the first quarter of 2006, the repayment of other short-term borrowings of \$25 million, and a \$4 million increase in dividends paid, offset by the issuance of senior unsecured notes of \$397 million and borrowings under our revolving credit agreement of \$180 million to refinance the bridge facility. In the nine months ended September 30, 2005, cash provided by financing activities also included proceeds of \$800 million from the bridge facility which were used to acquire lastminute.com in third quarter of 2005. Additionally, there was a \$40 million decrease in repurchases of our Common Stock under our Board authorized stock repurchase plans. There was also an \$8 million increase in proceeds from the issuance of Common Stock due to increased employee stock option exercises resulting from a generally higher price of our Common Stock, and \$1 million in excess tax benefits from stock-based compensation expense that was classified as a financing cash inflow during the first three quarters of 2006.

Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles ("GAAP") in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect our reported assets and liabilities, revenues and expenses and other financial information. Actual results may differ significantly from these estimates, and our reported financial condition and results of operations could vary under different assumptions and conditions. In addition, our reported financial condition and results of operations could vary due to a change in the application of a particular accounting standard.

We regard an accounting estimate underlying our financial statements as a "critical accounting estimate" if the accounting estimate requires us to make assumptions about matters that are uncertain at the time of estimation and if changes in the estimate are reasonably likely to occur and could have a material effect on the presentation of financial condition, changes in financial condition, or results of operations.

Other than the matters described below, there have been no significant changes to our critical accounting policies or significant changes in assumptions or estimates that would affect such policies in the three months ended September 30, 2006. Our critical accounting policies are described under the caption "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" in our Annual Report on Form 10-K for the year ended December 31, 2005. In addition, for a discussion of significant accounting policies, see Footnote 2 of our audited financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2005, as well as Note 2 to our unaudited interim financial statements included in this Quarterly Report on Form 10-Q.

Booking Fee Cancellation Reserve

As noted in Note 2 to the Consolidated Financial Statements, we concluded during the first quarter of 2006 that the rebooking rate estimated in determining the booking fee cancellation reserve needed to be raised based upon recent levels of rebookings that we have been experiencing. 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, as compared to the previous rebook assumption, resulted in a \$7 million decrease in the booking fee cancellation reserve. We continue to use the new rebook rate; however, there has been no significant change since March 31, 2006.

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Stock-Based Compensation Expense

On January 1, 2006, we adopted SFAS 123R, using the modified prospective method, which requires that the measurement and recognition of share-based payment awards to employees and directors of the Company be made at the estimated fair value on the grant date. Determining the fair value of any share-based awards requires information about several variables including, but not limited to, share price, expected stock volatility over the terms of the awards, expected dividend yields and the predicted employee exercise behavior.

Stock options granted subsequent to the date of adoption of SFAS 123R will be valued using a lattice-binomial model as opposed to the Black-Scholes model used for all shares issued prior to adoption and used in our pro forma disclosures. During the three and nine months ended September 30, 2006, we recognized \$4 million and \$13 million, respectively, in compensation expense from stock options.

On February 13, 2006, we issued 910,750 performance shares to certain employees. 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 was valued separately using a Monte Carlo-based simulation. The average fair value of these awards is \$11.55 per share. Each tranche will expense ratably over its requisite service period regardless of whether the shares are ultimately issued or not. For the three and nine months ended September 30, 2006, we recognized \$1 million and \$3 million, respectively, in expense related to these shares. Significant assumptions used in determining the fair value of the performance shares include, but are not limited to:

| | |
|------------------------------------|-------------|
| 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% |

All stock-based compensation expense is being recorded net of an estimated forfeiture rate. The forfeiture rate is based upon historical activity and is analyzed at least quarterly as actual forfeitures come in.

Any changes in our current factors used to value share-based compensation expense could cause future grants to be valued differently.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

As of September 30, 2006, our exposure to interest rates relates primarily to our interest rate swaps and interest on our borrowings on the revolving credit agreement. Offsetting some of this exposure is interest income received from our marketable securities portfolio. The objectives of our marketable securities are preservation of principal, liquidity and yield. As such, our investment portfolio consists primarily of fixed or variable rate obligations issued by the U.S. Treasury, government agencies and municipalities, mutual funds, asset-backed securities issued by banks, corporations, and bankruptcy-remote trusts. If short-term interest rates had been 10% lower during the nine months ended September 30, 2006, our interest income from marketable securities would have decreased by \$1 million. This amount was determined by applying the hypothetical interest

rate change to our average marketable securities invested during the nine months ended September 30, 2006.

At September 30, 2006, we had obligations under our fixed rate notes of \$400 million due in 2016, fixed rate notes of \$400 million due in 2011, \$168 million capital lease obligation and \$155 million of borrowings under our revolving credit agreement. We have entered into fixed-to-floating interest rate swaps related to \$300 million of the outstanding 2011 notes, effectively converting \$300 million of the \$400 million fixed rate notes into floating rate obligations. We also entered into a fixed-to-floating interest rate swap that effectively converts \$100 million of the capital lease obligation into a floating rate obligation (see Note 7 to the Consolidated Financial Statements for additional details on the swaps). If short-term interest rates had been 10 percent higher during the nine months ended September 30, 2006, our interest expense would have increased by approximately \$3 million. This amount was determined by applying the hypothetical interest rate change to our floating rate borrowings balance, including the revolving credit agreement, during the nine months ended September 30, 2006. If our mix of interest rate-sensitive assets and liabilities changes significantly, we may enter into additional derivative transactions to manage our net interest rate exposure.

Foreign Currency Risk

We have various operations outside of the United States, primarily in North America, South America, Europe, Australia and Asia. As a result of these business activities, we are exposed to foreign currency risk. During times of volatile currency movements, this risk can materially impact our earnings. To reduce the impact of this earnings volatility, we hedge a portion of our foreign currency exposure by entering into foreign currency forward contracts on our three largest foreign currency exposures. The notional amounts of these forward contracts, totaling \$135 million at December 31, 2005 and \$184 million at September 30, 2006, represent obligations to purchase foreign currencies at a predetermined exchange rate to fund a portion of our expenses that are denominated in foreign currencies. The principal foreign currencies involved include the British Pound Sterling, Euro and the Australian Dollar. We also enter into short-dated forward contracts to hedge a portion of our foreign currency exposure related to lastminute.com's travel supplier liability payments denominated in a foreign currency.

The result of an immediate 10 percent appreciation of the U.S. dollar in 2006 from September 30, 2006 levels, relative to our primary foreign currency exposures, would result in a positive U.S. dollar impact of less than \$1 million for the remainder of 2006, net of hedge instruments outstanding. This sensitivity analysis was prepared based upon 2006 projections of our primary foreign currency-denominated expenses and foreign currency forwards as of September 30, 2006.

Item 4. Controls and Procedures

Controls Evaluation and Related CEO and CFO Certifications. Our management, with the participation of our principal executive officer ("CEO") and principal financial officer ("CFO") conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report. The controls evaluation was conducted by our Disclosure Controls Council, comprised of senior representatives from our Finance, Accounting, Internal Audit, Tax, Investor Relations, Corporate Communications and Legal Departments under the supervision of our CEO and CFO.

Attached as exhibits to this Quarterly Report are certifications of our CEO and our CFO, which are required in accordance with Rule 13a-14 of the Securities Exchange Act of 1934, as amended ("Exchange Act"). This "Controls and Procedures" section includes the information concerning the

controls evaluation referred to in the certifications and it should be read in conjunction with the certifications for a more complete understanding of the topics presented.

Limitations on the Effectiveness of Controls. We do not expect that our disclosure controls and procedures will prevent all errors and all fraud. A system of controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the system are met. Because of the limitations in all such systems, no evaluation can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. Furthermore, the design of any system of controls and procedures is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how unlikely. Because of these inherent limitations in a cost-effective system of controls and procedures, misstatements or omissions due to error or fraud may occur and not be detected.

Scope of the Controls Evaluation. The evaluation of our disclosure controls and procedures included a review of their objectives and design, the Company's implementation of the controls and procedures and the effect of the controls and procedures on the information generated for use in this Quarterly Report. In the course of the evaluation, we sought to identify whether we had any data errors, control problems or acts of fraud and to confirm that appropriate corrective action, including process improvements, were being undertaken if needed. This type of evaluation is performed on a quarterly basis so that conclusions concerning the effectiveness of our disclosure controls and procedures can be reported in our Quarterly Reports on Form 10-Q, which supplement our disclosures made in our Annual Report on Form 10-K. Many of the components of our disclosure controls and procedures are also evaluated by our Internal Audit Department, our Legal Department and by personnel in our Finance organization. The overall goals of these various evaluation activities are to monitor our disclosure controls and procedures on an ongoing basis, and to maintain them as dynamic systems that change as conditions warrant.

Conclusions Regarding Disclosure Controls. Based on the required evaluation of our disclosure controls and procedures, our CEO and CFO have concluded that, as of September 30, 2006, we maintain disclosure controls and procedures that are effective in providing reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Controls Over Financial Reporting. During the quarter ended September 30, 2006, there were changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Those changes to internal control were in response to identified material weaknesses at lastminute.com and are more fully described below under "*Remediation of Material Weaknesses in Internal Control Environment at lastminute.com.*"

Material Weaknesses in lastminute.com Internal Control Environment. Shortly after our acquisition of lastminute.com, we began to conduct our assessment of its internal controls, which had not been possible prior to the acquisition. As part of that ongoing assessment, we determined some identified deficiencies constituted material weaknesses in the internal controls over financial reporting at lastminute.com.

We previously reported that material weaknesses in the internal controls over financial reporting at lastminute.com exist with respect to information technology systems, including inadequate internal system access security and controls, inadequate change management processes and inadequate

financial systems interfaces. The inadequate financial systems interfaces also result in an inability to sufficiently reconcile at a detailed level certain accounts, primarily related to intercompany activity and account balances. We had also determined that a material weakness in the internal controls over financial reporting at lastminute.com exists due to a lack of standardized procedures with respect to accounting operations. This lack of standardization results in inconsistent and/or inadequate reconciliations, and in inconsistent and/or inadequate review and approval procedures.

We believe these material weaknesses in the internal controls over financial reporting at lastminute.com exist because of the complexity of its business and information technology structure, which resulted from lastminute.com having made fourteen business acquisitions that have not been fully integrated.

Remediation of Material Weaknesses in Internal Control Environment at lastminute.com. We continue to make progress in our ongoing remediation efforts, which are based on existing policies and procedures used elsewhere in our business. Independent assessment of these remediation efforts began during the third quarter of 2006 and will continue into the fourth quarter of 2006. We believe our remediation activities to date have resulted in material changes in internal controls over financial reporting at lastminute.com. Remediation efforts and material changes include the following:

We have implemented detailed information technology (IT) system security requirements that are now operational at the application, database, network and operating system levels. We are in the final stages of applying additional controls in certain areas where follow-up testing indicated enhanced controls are justified. We have also implemented detailed IT change management policies and procedures. In addition, we have reviewed our financial systems interfaces and we are continuing to address identified weaknesses through a combination of further systems development and other compensating manual controls.

We continue to implement at lastminute.com system modifications and policy and procedure changes to allow easier identification and elimination of intercompany balances and more detailed monthly reconciliations of accounts. We also developed and implemented at lastminute.com intercompany accounting policies and procedures.

We have documented and distributed standardized accounting policies at lastminute.com that correspond to those at Sabre Holdings. We have developed and renewed accounting policies or procedural documentation to ensure accounting practices at lastminute.com are in accordance with generally accepted accounting principles in the United States ("GAAP").

We have continued to emphasize to our staff the importance of review and approval procedures, and we continue to review lastminute.com's procedures regarding reconciliation of financial information, which are affected by the IT remediation efforts. We moved several senior finance and accounting team members over from our corporate headquarters to lastminute.com after the acquisition and we also added additional key personnel to the lastminute.com finance and accounting teams to help focus on these efforts.

Ongoing Assessment of Internal Control Environment at lastminute.com. We continue to assess the internal controls over financial reporting at lastminute.com. To date, our ongoing assessment has not resulted in any findings that would lead us to believe that there are any material misstatements in the Company's financial statements as of September 30, 2006 as a result of material weaknesses in internal controls over financial reporting at lastminute.com. We therefore concluded that our September 30, 2006 financial statements are fairly stated in accordance with GAAP in all material respects.

As we make further progress in our assessment, we might identify additional individual deficiencies, or combinations of deficiencies, which we might characterize as a material weakness in

the internal controls over financial reporting at lastminute.com. We will attempt to promptly resolve identified deficiencies, which may involve further material changes to lastminute.com's internal controls over financial reporting. We intend to continue to implement remediation plans to bring the internal controls over financial reporting at lastminute.com to a standard that is consistent with the rest of the Company. Until the remediation of the identified weaknesses in the existing systems, processes and procedures at lastminute.com can be completed, we will continue to perform additional procedures and reviews at lastminute.com as necessary to ensure that our financial statements are fairly stated in accordance with GAAP in all material respects.

PART II: OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2005, which could materially affect our business, financial condition or future results. There have been no material changes from the risk factors disclosed in our Annual Report. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a)-(b) None.

(c) ISSUER PURCHASES OF EQUITY SECURITIES

On October 20, 2003 our Board of Directors issued a standing annual authorization to purchase shares of our Common Stock to satisfy our obligations to deliver shares under our Employee Stock Purchase Plan and our Long-Term Incentive Plan (the "Alternative Share Settlement Program"). We purchased 850,000 shares of our Common Stock under this authorization in December 2003, 840,000 shares of our Common Stock under this authorization in January 2005 and 1,100,000 shares of our Common Stock under this authorization in May and June 2006 through the open market pursuant to 10b5-1 trading plans.

On May 2, 2005, we received authorization from our Board of Directors to repurchase an additional \$100 million of our Common Stock. Due to the subsequent acquisition of lastminute.com, no purchases of our Common Stock have been made under this authorization as of the date of this report. As in the past, implementation of the program is at management's discretion and will depend on the best uses for our available cash.

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

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The following table provides information about purchases by the Company (and its affiliated purchasers) during the three months ended September 30, 2006 of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act:

| Period | Total Number of Shares Purchased | Weighted Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Programs | Maximum Dollar Value of Shares That May Yet be Purchased Under the Program(1) |
|--------------------------------------|---|--|--|--|
| July 1, 2006-July 31, 2006 | | \$ | | 100,000,000 |
| August 1, 2006-August 31, 2006 | | \$ | | 100,000,000 |
| September 1, 2006-September 30, 2006 | | \$ | | 100,000,000 |
| <hr/> | | | | |
| Total Third Quarter 2006 Repurchases | | | | |
| <hr/> | | | | |

- (1) Our Board of Directors did not impose a set limit on the repurchase authority under the Alternative Shares Settlement Program described above. The amount purchased is dependent on the number of shares required to satisfy our obligations to deliver shares under the Employee Stock Purchase Plan and Long-Term Incentive Plan.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

- (a) None.
- (b) None.

Item 6. Exhibits

The following exhibits are included herein:

- 3.1 Third Restated Certificate of Incorporation of Sabre Holdings Corporation(1)
- 3.2 Amended and Restated Bylaws of Sabre Holdings Corporation(2)
- 10.1 Agreement to Sell and Purchase by and between Maguire Partners-Dallas, LTD. and Sabre Inc., dated September 7, 2006(3)
- 10.2 Amendment to Capital Lease Agreement dated August 31, 2006(3)

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12.1

Computation of Ratio of Earnings to Fixed Charges(3)

31.1

Written statement pursuant to 17 CFR 240.13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated November 3, 2006, signed by Michael S. Gilliland as Chief Executive Officer(3)

31.2

Written statement pursuant to 17 CFR 240.13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated November 3, 2006, signed by Jeffery M. Jackson as Chief Financial Officer(3)

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32.1

Written statement pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated November 3, 2006, by Michael S. Gilliland as Chief Executive Officer(4)

32.2

Written statement pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated November 3, 2006, by Jeffery M. Jackson as Chief Financial Officer(4)

(1)

Incorporated by reference to Exhibit 4.1 to our report on Form S-8 dated July 28, 2005.

(2)

Incorporated by reference to Exhibit 3.2 to our report on Form 8-K dated July 28, 2005.

(3)

Filed herewith.

(4)

We are furnishing, but not filing, the written statements pursuant to Title 18 United States Code 1350, as added by Section 906 to the Sarbanes-Oxley Act of 2002, of Michael S. Gilliland, the Chief Executive Officer of Sabre Holdings Corporation, and Jeffery M. Jackson, the Chief Financial Officer of the Sabre Holdings Corporation.

