



FORM 10-K

SABRE HOLDINGS CORP – TSG

Filed: February 27, 2004 (period: December 31, 2003)

Annual report which provides a comprehensive overview of the company for the past year

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

FORM 10-K

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

For the fiscal year ended **December 31, 2003**

OR

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

Commission file number **1-12175**



SABRE HOLDINGS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

75-2662240

(I.R.S. Employer Identification No.)

**3150 Sabre Drive
Southlake, Texas**

(Address of principal executive offices)

76092
(Zip Code)

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

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

Title of each class

Class A common stock, par value \$.01 per share

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

Name of exchange on which registered

New York Stock Exchange

NONE

(Title of Class)

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

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

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

The aggregate market value of the voting and non-voting stock held by non-affiliates of the registrant as of June 30, 2003 was approximately \$2,900,342,886 based on the closing price per share of Class A common stock of \$24.65 on such date.

As of February 20, 2004, 140,096,197 shares of the registrant's Class A common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Form 10-K incorporates by reference certain information from the Proxy Statement for the Annual Meeting of Stockholders to be held May 4, 2004.

In this Annual Report on Form 10-K, the words "Sabre Holdings," "company," "we," "our," "ours" and "us" refer to Sabre Holdings Corporation and its consolidated subsidiaries unless otherwise stated or the context otherwise requires.

ITEM 1. BUSINESS

Overview

Sabre Holdings Corporation is a Delaware holding company incorporated on June 25, 1996. Sabre Inc. is the principal operating subsidiary and sole direct subsidiary of Sabre Holdings Corporation. Sabre Inc. or its direct or indirect subsidiaries conduct all of our businesses.

We are a world leader in travel commerce, marketing travel offerings and providing distribution and technology solutions for the travel industry. We operate in multiple travel distribution channels: the travel agency channel, the consumer-direct channel and the business-direct channel. Through our *Sabre*[®] global distribution system (the "*Sabre* system" or "*Sabre* GDS") subscribers can access information about, and can book reservations for, among other things, airline trips, hotel stays, car rentals, cruises and tour packages. Our Sabre Travel Network business operates the *Sabre* GDS and markets and distributes travel-related products and services through the travel agency channel. We engage in consumer-direct and business-direct travel marketing and distribution through our Travelocity business. In addition, our Sabre Airline Solutions business is a leading provider of technology and services, including development and consulting services, to airlines and other travel providers.

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

In 2003, we generated approximately 71.3% of our revenue from Sabre Travel Network, 18.1% from Travelocity and 10.6% from Sabre Airline Solutions based on segment results that include intersegment revenues.

- Sabre Travel Network: Our *Sabre Travel Network*[™] segment markets and distributes travel-related products and services through the travel agency channel. Travel agencies, both online and brick and mortar, subscribe to our services. Our services provide travel agency subscribers information about and the ability to purchase travel-related products and services from airlines, hotels, car rental companies, cruise lines and others. We also provide travel agency office automation tools and enable travel agencies to provide services via the Internet.
- Travelocity: Our *Travelocity*[™] segment markets and distributes travel-related products and services directly to individuals, including leisure travelers and business travelers, through Websites that we own, websites owned by our distribution partners and our call centers. Our customers can access offerings, pricing and information about airlines, hotels, car rental companies, cruise lines, vacation and last-minute travel packages and other travel-related services. In 2003, Travelocity launched Travelocity Business, which combines the integrated online corporate travel technology and full-service offering products of GetThere with the expertise of Travelocity.

Sabre Airline Solutions: Our *Sabre Airline Solutions*TM segment is a global leader in providing airline software systems and airline and airport consulting services. Sabre Airline Solutions' comprehensive software portfolio provides integrated technology and services to airlines. Sabre Airline Solutions hosts airline reservation systems for over 90 airlines and also offers systems ranging from inventory and departure control to decision support software that enable airlines to improve operational efficiency and maximize revenues. Sabre Airline Solutions also provides consulting services to optimize airline and airport operations.

The Sabre Global Distribution System

The *Sabre* system and other global distribution systems are a primary means of air travel distribution in the United States and in many international regions. The *Sabre* system, like other global distribution systems, creates an electronic marketplace where airlines, hotels, and other travel providers ("associates") display information about their products and services. Through the *Sabre* system, travel agents and other users ("subscribers") can access information about, book reservations for and purchase travel and travel-related products and services. In 2003, over 980 associates displayed information about their products and services through the *Sabre* system. We estimate that more than \$70 billion of travel-related products and services were sold through the *Sabre* system during 2003. During 2003, more airline bookings were made through the *Sabre* system than through any other global distribution system.

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

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

In October 2002 we announced a new Direct Connect Availability ("DCA") 3-Year Pricing Option to airlines. Airlines selecting this option under their *Sabre* GDS participating carrier agreements receive a discount of approximately 12.5% from the applicable 2003 DCA rates, and are locked into that booking fee rate for three years. As a consequence, we will not be able to raise the booking fee rate on those bookings during that three-year period. We anticipate that by the end of 2004, approximately 50% of our global direct bookings will fall under the DCA 3-Year Pricing Option. As of the date of this report, more than 30 airlines, including American Airlines, Inc., Delta Airlines, Inc., Northwest Airlines Corporation, Continental Airlines, Inc., United Air Lines, Inc., US Airways, Inc., British Airways and Alitalia have elected to participate in the DCA 3-Year Pricing Option. As of February 2, 2004, we are no longer marketing the DCA 3-Year Pricing Option to carriers. Through the *Sabre* DCA 3-Year Pricing Option, participating airlines agree to commit to the highest level of participation in the *Sabre* system (DCA level) for three years. Participating airlines provide all *Sabre* GDS users with broad access to schedules, seat availability and published fares, including Web fares and other promotional fares but excluding certain fares such as "opaque" fares (where the airline's identity is not disclosed until after the sale) and private discounts. Participating airlines also furnish generally the same customer perquisites and amenities to passengers booked through the *Sabre* GDS as those afforded through other GDS's and websites. As a consequence, we believe that the participation of carriers in the program may help slow the present shift of bookings away from the *Sabre* GDS to supplier-controlled outlets. See "*Risk Factors—Travel Suppliers are Seeking to Bypass...*"

Subscriber Access. Access to the *Sabre* system enables subscribers to electronically locate, price, compare and purchase travel products and services provided by associates. We tailor the interface and functionality of the *Sabre* system to the needs of our different types of subscribers.

Sabre Travel Network

Sabre Travel Network markets the *Sabre* GDS to associates and travel agency subscribers (online and brick and mortar). As of December 31, 2003, travel agencies with approximately 53,000 locations in over 113 countries on 6 continents subscribed to the *Sabre* system, which enabled these subscribers to make reservations with approximately 430 airlines, 41 car rental companies, 220 tour operators, 9 cruise lines, 35 railroads and 249 hotel companies covering approximately 60,600 hotel properties worldwide.

Approximately 71.3%, 74.6% and 76.0% of our revenue (including intersegment revenues) from continuing operations in 2003, 2002 and 2001, respectively, was generated by the *Sabre* Travel Network, primarily through booking fees paid by associates.

Travel agents may access the *Sabre* system on their own hardware over communications circuits contracted from telecommunications vendors or may contract with *Sabre* Travel Network for the hardware, software, technical support and other services needed to use the *Sabre* system. Increasingly, travel agents are providing the majority of their own hardware. Fees for our services are payable over the term of the travel agent's agreement with us, generally five years in the United States and Latin America, three years in Canada, and one year in Europe. In addition, we pay incentives to many travel agencies based on their booking productivity.

Because travel agencies have differing needs, we have modified the *Sabre* system interface to meet the specific needs of different categories of travel agents. The *Sabre* system interfaces are available in English, Spanish, Portuguese, French, German, Italian and Japanese. *Turbo Sabre*® software is an advanced point-of-sale interface and application development tool that enables advanced functionality, such as customized screens, automated quality control and database integration, and eliminates complex commands, reducing keystrokes and training requirements. In addition, we offer *Sabre eVoya*® *Webtop*, a Web-based travel agency portal combining the breadth of the Internet with the power of the *Sabre* GDS. It provides access to the content of the *Sabre* GDS, as well as Web-based booking tools for cruises, restaurants, ground transportation, theatre, local events and theme parks.

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

Although the substantial majority of Sabre Travel Network's revenues are derived from booking fees paid by associates, we recently entered into agreements that do not follow this traditional business model, and are currently evaluating the desirability of similar transactions. Under such agreements, we may generally derive revenues from transaction fees based on the number of segments booked, but the structure and source of those transaction fees may be modified to take advantage of specific market conditions. In addition, in October of 2003, we launched *Jurni Network*TM, a unique offline travel agency consortium that combines a preferred sales network and consolidated purchasing power with technology-driven marketing tools to sell preferred offerings.

Travelocity

Travelocity is a leading provider of consumer direct travel services for the leisure and business traveler. Through Travelocity.com and certain co-branded Websites such as AOL and Yahoo!, individual leisure and business travelers can shop and compare prices and make travel reservations online with airlines, car rental agencies, hotel companies and cruise and vacation providers. Travelocity is the exclusive provider of travel booking services for various America Online, Inc. services, including AOL, AOL.com, Netscape, and CompuServe in the United States and Canada and Digital City in the United States. Travelocity is also the exclusive provider of air, car and hotel booking services on Websites operated by Yahoo!, Inc. in the United States and Canada. In addition, we offer access to a database of information regarding specific destinations and other information of interest to travelers. During 2003, customers purchased approximately \$3.9 billion in travel and related services through the Travelocity Websites.

In addition to Travelocity's main U.S. Website, we also operate *Travelocity Business*TM. Travelocity Business is a comprehensive travel service available for corporations and other business travelers which combines the integrated online corporate travel technology and full-service offering products of GetThere with the expertise of Travelocity.

Travelocity also operates multiple businesses tailored to customers outside the United States. In 2002, Travelocity and Otto Versand, a global leader in direct marketing and Europe's top direct marketing firm, launched Travelocity Europe, a multi-channel travel company that has become one of the leading European consumer direct travel agencies. Travelocity also operates *Travelocity.ca*[®] for its Canadian customers, providing comprehensive French and English language online planning and buying choices across air, car, hotel, rail and vacation travel vendors. Travelocity is also marketed in Asia Pacific through two joint venture arrangements, which are discussed in "*International*" below.

In November 2003, Travelocity completed the acquisition of World Choice Travel, Inc., the U.S.-based hotel room consolidation and distribution business of MyTravel Group PLC, a global leisure travel services company based in the United Kingdom. This acquisition adds over 1,700 online affiliates operating over 2,900 websites to Travelocity's hotel distribution network and offers another outlet for Travelocity's merchant hotel offerings.

Travelocity receives fees from travel providers for purchases of their travel products and services made through its system. In addition, we receive advertising revenues from our Travelocity Websites.

Travelocity instituted a merchant business model in 2001 for air travel and in 2002 for hotels and vacation packages. Travelocity has negotiated access to discounted travel offerings from airlines, hotels and car rental companies. More than 10,000 hotels currently participate in the merchant model hotel program and participants are being added regularly. These components are sold individually or combined to create vacation and last-minute deal packages for sale to end consumers at prices determined by Travelocity. Travelocity generally does not have purchase obligations for unsold offerings. Under the Merchant Model, Travelocity recognizes as revenue the amount paid by the traveler minus its payment to the travel supplier. Travelocity recognizes merchant revenue for stand-alone air travel at the time the travel is sold to the consumer and for vacation packages and hotel stays at the date of check-in.

On April 8, 2002 we completed a \$28 per share cash tender offer for all of the approximately 16.7 million outstanding publicly held common shares of Travelocity that we did not previously own. Accordingly, Travelocity became our indirect 100% owned subsidiary on April 11, 2002. The Travelocity transaction supports our continuing strategy of delivering value to suppliers and travelers across multiple distribution channels.

Sabre Airline Solutions

Sabre Airline Solutions is a global leader in providing software products, passenger management systems and consulting services to help airlines simplify operations and lower costs. Over 200 airlines worldwide use Sabre Airline Solutions' broad portfolio of software solutions for decision-support tools to increase revenues and improve operations. More than 90 airlines worldwide rely on Sabre Airline Solutions for airline reservation systems, with 15 new carriers added and nine carrier renewals for *SabreSonic Res* advanced reservations and departure control systems in 2003. In addition, more than 100 clients worldwide have turned to Sabre Airline Solutions consulting group for strategic, commercial and operational consulting.

Airline Passenger Solutions. Sabre Airline Solutions provides airline reservations, inventory and check-in hosting solutions that help airlines address the challenge of building and retaining customer loyalty through enhanced customer centric offerings and service while also reducing costs. With support of e-ticketing and passenger self-service options, Sabre Airline Solutions' departure control systems equip airlines with the tools to increase sales through every distribution channel. Built on open-systems technology, the recently introduced new generation *SabreSonic™ Passenger Solution* offers passenger-facing systems to airlines regardless of size, location, business model, or current reservations system.

Airline Products and Services. Sabre Airline Solutions provides decision-support software and technology necessary for airlines to improve profitability, increase revenue, streamline operations and improve workflow. We offer flexible product and service configurations to meet unique business needs, allowing airlines to choose a single, stand-alone system for a specific operational area or a bundled solution of multiple systems to address a variety of functional requirements and increase information sharing across a greater number of departments. Additionally, we offer the *Sabre® eMergo®* Web-enabled and dedicated network solutions, an applications service provider ("ASP") offering to airlines. Providing convenient remote access to secure data, the *eMergo* solutions help significantly lower or eliminate expenses associated with upfront capital outlay, staffing, data storage, ongoing maintenance and installation. Our decision-support tools are designed exclusively to meet the needs of airlines, regardless of size or business model, and assist in every key functional area of an airline, such as crew and cargo management, flight operations and revenue management.

Consulting Services. Sabre Airline Solutions' offers a complete range of consulting services to the airline industry. Assignments range from one time engagement to extended engagements. Typical engagements include projects such as achieving the necessary standards to join an alliance, preparing for privatization and optimizing current operations. Clients include airlines, airports, manufacturers and governments, as well as individuals, travel agencies and members of the financial community.

Agreements with EDS

We have an agreement with Electronic Data Systems Corporation ("EDS") through which EDS manages our information technology systems. Under a 10-year agreement through June 2011, EDS provides us with information technology services, including data center management, applications hosting, applications development, data assurance and network management. Among the services provided is transaction processing for our travel marketing and distribution businesses, including operation of the *Sabre* system. The agreement was entered into as part of the 2001 sale to EDS of our infrastructure outsourcing business and information technology infrastructure assets and the associated real estate ("Outsourcing Business"). See Note 3 to the Consolidated Financial Statements for more information related to the sale.

In connection with the sale, we also entered into agreements with EDS to jointly market information technology services and software solutions to the travel and transportation industries.

International

Sabre Travel Network is actively involved in marketing the *Sabre* system internationally directly and through joint venture and distributorship arrangements. Our global marketing partners principally include foreign airlines that have strong relationships with travel agents in their primary markets and entities that operate smaller global distribution systems ("GDS") or other travel-related network services.

Sabre Travel Network has long-term agreements with ABACUS International Holdings Ltd., which created ABACUS International Ltd, a Singapore-based joint venture company that manages travel distribution in the Asia Pacific region. We own 35% of the joint venture and provide it with transaction processing and product development services on the *Sabre* system. Sabre Travel Network also provides distribution products and services to Infini and Axess, Japan's two largest GDS travel agency marketing companies. Infini is owned 40% by ABACUS and 60% by All Nippon Airways. Axess is owned 25% by Sabre and 75% by Japan Airlines. Sabre Travel Network also provides travel marketing and distribution services in Mexico through our 51% owned (48% voting rights) joint venture, Sabre Sociedad Technologica S.A. de C.V.

Travelocity is marketed internationally both directly and through joint venture arrangements. In Canada, Travelocity directly markets its Travelocity.ca site, launched in 1999. In Europe, Travelocity has partnered with Otto Versand and established a joint venture company (Kommanditgesellschaft Travel Overland GmbH & Co.) that distributes Travelocity in the region. Travelocity owns 50% of this joint venture. In Japan, Travelocity and Tabini Holdings, whose primary stockholders include Japan Airlines and All Nippon Airways, launched the Tabini travel Website in 2002. Travelocity has approximately a 30% equity stake in this joint venture. In the rest of the Asia Pacific region, Travelocity is distributed through Zuji Enterprises Pte. Ltd., a joint venture established in 2002 with 16 airlines in the Asia Pacific region, of which we have approximately a 13% equity stake.

Additionally, Sabre Airline Solutions distributes software solutions and consulting services through a sales and marketing organization that spans four continents, with primary sales offices in the Dallas/Ft. Worth area, London, Hong Kong and Sydney. Sabre Airline Solutions also maintains agency relationships to support sales efforts in key markets, including countries in Asia and the Middle East.

Competition

The marketplace for travel distribution is large, multi-faceted and highly competitive. Factors affecting competitive success include: depth and breadth of information, ease of use, reliability, service and incentives to travel agents, and the price and range of offerings available to travel providers, travel agents and consumers. Global distribution systems such as the *Sabre* system continue to be important to online and offline travel distribution. Although the traditional travel agency channel continues to be an important method of travel distribution, other rapidly growing channels are allowing travel suppliers to distribute directly to businesses and consumers, particularly via the Internet. Our product and service offerings are well positioned to compete in all channels of travel distribution. Those include our Travelocity segment in the consumer-direct channel (through Travelocity.com and related Websites) and in the business-direct channel (through Travelocity Business). We also offer traditional travel agencies a wide array of tools that allow them to market their services over the Internet.

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

We face many new competitors as travel distribution channels emerge and mature, including the growing Internet-based business-direct and consumer-direct channels. Many of these competitors continue to utilize services from a global distribution system such as the *Sabre* system. Our *Sabre* system offers transaction processing and other services to online travel agencies, including some that compete with the Travelocity.com and Travelocity Business Websites.

We market travel in the consumer-direct channel primarily through Travelocity. Competitors of Travelocity include Priceline.com and InterActiveCorp (which owns Expedia, Hotels.com and Hotwire.com). Airline joint ventures, such as Orbitz (controlled by major U.S. airlines) and Opodo (controlled by large European carriers) provide booking services for airline travel, hotel accommodations and other travel services offered by multiple vendors. Many travel suppliers have developed their own websites, some of which offer an array of products and services directly to consumers. In addition, virtually all-major airlines have their own websites allowing direct bookings. Five large U.S. hotel chains, along with a hotel technology provider and Priceline.com operate Travelweb.com, which provides booking services for hotel accommodations. Certain owners of these sites do (or appear to have the intention to) make certain discounted fares and prices available exclusively on their proprietary or multi-vendor websites. See further discussion under "*Risk Factors—Our business plans call for the significant growth of our merchant model business....*"

We market travel in the business-direct channel principally through Travelocity Business. The corporate marketplace for Internet-based travel procurement and supply services is highly competitive and rapidly evolving. Travelocity's competitors in the business-direct channel include travel agencies such as Carlson Wagonlit Travel, global distribution systems such as Amadeus' E-Travel and Galileo's TravelPort and more recently, travel websites such as Orbitz.com and Expedia.com.

In the products and services business, we compete with a number of boutique firms in specific product areas, as well as across our portfolio with vendors such as Lufthansa Systems. In the airline passenger solutions business, we compete with Amadeus, Navitaire, Worldspan, IBM and others.

The marketplace for travel products and services is intensely competitive, and the travel distribution industry is currently undergoing rapid consolidation. Consolidation among our competitors, such as the acquisitions of Expedia, Hotels.com and Hotwire by InterActiveCorp, may give these competitors increased negotiating leverage with travel suppliers. New or consolidated competitors may emerge and rapidly acquire significant market share. The development of competing technologies or the emergence of new industry standards may also adversely affect our competitive position. Competition could result in reduced margins on our services and products. See "*Risk Factors—We face competition—...*"

Another form of competition derives from airlines, which have aggressively worked to divert travel bookings onto channels that they control. Many of those airlines have withheld inventory from independent travel distributors, have greatly reduced commissions paid to online and traditional travel agencies and have conditioned independent distributors' access to inventory on their acceptance of pricing offered by channels that those airlines control. Their collective efforts have resulted in travel bookings being diverted from traditional distribution channels toward supplier-controlled channels, such as Orbitz, individual airline websites and call centers. Several hotels now have similar multi-vendor websites for booking hotels and other accommodations. Additionally, as discussed below under "*Risk Factors—Regulatory Developments...*" proposed government regulations in Europe, if adopted, could also contribute to the shift of bookings from the Sabre GDS to supplier-controlled outlets. In the last two quarters of 2003, we saw a slight slowing in the rate of channel shift, possibly due to the DCA 3-Year Pricing Option discussed below in "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Business Trends—DCA 3-Year Pricing Option*".

Merchant Model

Independent travel distributors, including our companies, are attempting to reduce their reliance on supplier-paid commissions and booking or transaction fees by increasingly promoting a merchant model of travel retailing whereby the travel distributors obtain access to content from travel suppliers at a pre-determined price and sell the content, either individually or in a package, to travelers at a purchase price which the distributor determines. Merchant model content can include air, hotel, vacation, and dynamically packaged offerings (for example, via the *Travelocity TotalTrip™* or *Sabre Exclusives™* offerings). Merchant content is good for travelers because they can often purchase travel at a price lower than traditional offerings. For us, merchant content generally delivers higher revenue per transaction than comparable sales under the agency/booking fee model. Under the merchant model, we recognize as revenue the amount paid by the traveler minus our payment to the travel supplier. We generally do not have purchase obligations for unsold offerings. We are dependent on our merchant model hotel businesses as a significant source of growth for our business. Please see "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Business Trends—Merchant Model*" and "*Risk Factors—Our business model calls for the significant growth of our merchant model business...*"

Computer Reservation System Industry Regulation

Aspects of our travel marketing and distribution businesses are subject to the computer reservation systems ("CRS") regulations in the United States, the European Union, Canada and Peru. These regulations generally address the relationships among the CRSs, the airline suppliers and subscribers such as travel agencies. Generally, these regulations do not address our relationships with non-airline suppliers. The regulations in the European Union, however, do include rail suppliers in certain circumstances. Among the topics addressed in the current regulations are:

- no preferencing CRS displays based upon airline identity,
- equal treatment of airlines by the CRSs,
- equal participation by airlines that own a CRS in other systems and

- limits on travel agency contract terms.

As part of its comprehensive review of its CRS rules, the U.S. Department of Transportation ("DOT") announced, on December 31, 2003, that it would not adopt the new rules that it proposed in November 2002. Instead, the DOT will allow the existing CRS rules to expire entirely. Nearly all of the existing CRS rules expired on January 31, 2004. Two requirements will remain in effect through July 31, 2004, at which time they too will expire. Therefore, the CRS industry in the United States will be completely deregulated by the DOT after July 31, 2004.

The two transitional requirements effective until July 31, 2004 are:

- A ban on "preferenced displays," which prohibits a CRS from listing airline flight segments based on the identity of the airline; and

- A ban on the enforcement of two types of contractual "parity clauses" which, as a condition for an airline's participation in a CRS, require either that the airline:

- maintain a certain level of participation in that CRS or buy enhancements based on the level and nature of its participation in other CRSs; or

- provide the CRS with all of the airline's published fares.

We believe that DOT deregulation will give us a much greater ability to find creative ways to market and promote airline services, thus enhancing our value proposition for airlines and supporting our transition to the merchant model. The DOT indicated that our current DCA 3-Year Pricing Option Agreements, which represent three-year participation commitments from more than 30 airlines, including the 6 largest United States airlines, are not affected by deregulation or the transition requirements. We expect that deregulation will affect our relationships with airlines in many ways, including:

- The previous rules broadly imposed a one-size-fits-all model on our relationships with airlines. Under deregulation, Sabre Travel Network will have the flexibility to tailor specific proposals to individual airlines.

- Beginning August 1, 2004, we will have increased flexibility to construct our displays of airline services in new ways—a right we have always had for displays of hotel services.

DOT deregulation will also allow us to freely negotiate with travel agencies, which will permit us to choose to have contracts of any duration, to have exclusive agreements with travel agents, and/or to vary incentives by the identity of the airline.

In addition, both the European Commission and Canada are in the process of reviewing their regulations governing the CRS industry for possible changes, including eliminating some or all of these regulations. The European Commission has not yet published any proposed rules changes, so it is not clear when the Commission may issue amended final rules or what form they may take. Transport Canada has proposed amendments to its CRS rules that would eliminate many of the current rules, but would retain, unchanged or with modifications, certain existing rules which could continue to limit our business flexibility, such as retaining a ban on display preferences for airlines. Transport Canada has not yet published its final rules, so it is not clear when the Department may issue amended final rules or what form they may take.

Other Regulation

Our businesses continue to be subject to regulations affecting issues such as: exports of technology, telecommunications, data privacy and electronic commerce. Any such regulations may vary among jurisdictions. We believe that we are capable of addressing these regulatory issues as they arise.

Seasonality

The travel industry is seasonal in nature. Travel bookings, and the revenue we derive from those bookings, decrease significantly each year in the fourth quarter, primarily in December. Customers generally book their November/December holiday leisure travel earlier in the year, and business travel declines during the November/December holiday season. See the discussion on Seasonality in *Management's Discussion and Analysis of Financial Condition and Results of Operations* for additional information.

Research and Development Expenses

Research and development costs represent costs incurred to investigate and gain new knowledge that could be useful in developing a new product or service and then translating those findings into a plan or design for a product or service. Our research and development costs included in continuing operations approximated \$48 million, \$40 million and \$73 million for 2003, 2002 and 2001, respectively.

Segment Information

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

Intellectual Property

We use software, business processes and other proprietary information to carry out our business. These assets and related patents, copyrights, trade secrets, trademarks and other intellectual property rights are significant assets of our business. We rely on a combination of patent, copyright, trade secret and trademark laws, confidentiality procedures and contractual provisions to protect these assets. We seek patent protection on key technology and business processes of our business. Our software and related documentation are also protected under trade secret and copyright laws where appropriate. We also seek statutory and common-law protection of our trademarks where appropriate. The laws of some foreign jurisdictions may provide less protection than the laws of the United States for our proprietary rights. Unauthorized use of our intellectual property could have a material adverse effect on us and there can be no assurance that our legal remedies would adequately compensate us for the damages to our business caused by such use.

Employees

As of December 31, 2003, we had approximately 6,200 employees. A central part of our philosophy is to attract and maintain a highly capable staff. We consider our current employee relations to be good. Our employees based in the United States are not represented by a labor union.

Available Information

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended, and in accordance therewith, we file reports, proxy and information statements and other information with the Securities and Exchange Commission ("SEC"). Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, proxy and information statements and other information and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available through the Investor Relations section of our Website under the links to "—Financial Highlights—SEC Filings." Our internet address is (www.sabre-holdings.com). Reports are available free of charge as soon as reasonably practicable after we electronically file them with, or furnish them to, the SEC. In addition, our officers and directors file with the SEC initial statements of beneficial ownership and statements of change in beneficial ownership of our securities with the SEC, which are also available on our Website at the same location. We are not including this or any other information on our Website as a part of, nor incorporating it by reference into, this Form 10-K.

In addition to our Website, you may read and copy public reports we file with or furnish to the SEC at the SEC's Public Reference Room at 450 Fifth Street, NW., Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains our reports, proxy and information statements, and other information that we file electronically with the SEC at (www.sec.gov).

ITEM 2. PROPERTIES

Our principal executive offices are located in Southlake, Texas and consist of three leased buildings. The initial term of the lease expires in 2013 with an option to purchase these facilities prior to or upon expiration of the lease. Additionally, we lease office facilities in Westlake, Texas under leases expiring in 2008. These facilities are utilized by each of our three business units. We also lease office facilities for our business units in approximately 90 other locations worldwide. Additionally, our lease of a Travelocity office facility in Fort Worth, Texas, will terminate in June of 2004. We intend to let this lease expire.

In connection with the sale of our outsourcing assets to EDS effective July 1, 2001, we assigned nine facility leases to EDS. Four of the assigned facilities are located in Tulsa, Oklahoma and include our principal data center, a data tape archive facility, an operations center and a computer center. EDS also subleases a large office facility from us in Fort Worth, Texas, under a sublease that will expire in 2011. Additionally, in July 2002 we purchased a data center facility constructed on our behalf in Tulsa, Oklahoma for approximately \$92 million and immediately sold it as part of the sale of the Outsourcing Business. We received proceeds of approximately \$68 million in cash and realized a previously accrued loss of approximately \$24 million. See Note 3 to the Consolidated Financial Statements.

In June 2003, Sabre Inc. refinanced the syndicated lease arrangement regarding our corporate headquarters facility in Southlake, Texas, and entered into a ten-year master lease of that facility. We have accounted for this master lease, which is guaranteed by Sabre Holdings Corporation, as a capital lease. See Note 6 to the Consolidated Financial Statements.

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

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

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

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

ITEM 3. LEGAL PROCEEDINGS

None.

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

No matters were submitted to a vote of our security holders during the fourth quarter of the fiscal year ended December 31, 2003.

PART II

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

Our Class A common stock is traded on the New York Stock Exchange (symbol TSG). The approximate number of record holders of our Class A common stock at February 20, 2004 was 12,011.

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

	<u>High</u>	<u>Low</u>
Quarter Ended:		
December 31, 2003	\$ 23.00	\$ 19.58
September 30, 2003	\$ 27.50	\$ 21.14
June 30, 2003	\$ 26.68	\$ 15.68
March 31, 2003	\$ 20.78	\$ 14.00
Quarter Ended:		
December 31, 2002	\$ 22.25	\$ 14.85
September 30, 2002	\$ 35.80	\$ 18.42
June 30, 2002	\$ 49.35	\$ 33.26
March 31, 2002	\$ 49.98	\$ 36.85

We paid no dividends on our common stock during 2001 and 2002. We began paying a quarterly dividend of \$.07 per share during the second quarter of 2003, and paid dividends of the same amount during the third and fourth quarters of 2003. On January 20, 2004 we announced an increased dividend of \$.075 per share for the first quarter of 2004, and subsequently paid that dividend on February 17, 2004. If these quarterly dividends are continued, and assuming that the current number of outstanding shares of our common stock remains constant, we would expect to pay an aggregate of \$10.6 million for each dividend, or approximately \$42 million on an annual basis. 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 of our Board of Directors that dividends continue to be in the best interests of the Company and its stockholders.

During 2003, 2002 and 2001, we repurchased 2,159,597, 2,234,400 and 374,000 shares of Class A common stock, respectively, pursuant to authorizations by our Board of Directors. On October 20, 2003 our Board of Directors approved a share repurchase program authorizing us to repurchase up to \$100 million of our common stock. At December 31, 2003, we had remaining authorization to repurchase approximately \$72 million of our common stock under this program. On October 20, 2003 our Board of Directors authorized the purchase of shares of our common stock to satisfy our obligations to deliver shares under our Employee Stock Purchase Plan and our Long-Term Incentive Plan (the "Alternative Share Settlement Program"). Under these two separate authorizations, 2,159,597 shares were repurchased for approximately \$46 million during the fourth quarter of 2003. The timing, volume and price of any future repurchases will be made pursuant to 10b5-1 trading plans, unless such plans are terminated at the discretion of management.

The following table summarizes the share repurchases made during the fourth quarter of the fiscal year ended December 31, 2003:

Period	Total Number of Shares Purchased	Weighted Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly Announced Program (1)	Maximum Dollar Value of Shares That May Yet be Purchased Under the Program
October 10/01/03–10/31/03	231,000	\$ 21.57	231,000	\$ 95,018,392
November 11/01/03–11/30/03	813,200	\$ 21.53	813,200	\$ 77,506,188
December 12/01/03–12/31/03	1,115,397	\$ 20.65	265,397(2)	71,755,943
Total 4 th Quarter 2003 Repurchases	2,159,597	\$ 21.08	1,309,597	

(1) On October 23, 2003 we announced a \$100 million share repurchase program.

(2) 850,000 shares were repurchased from December 4, 2003 through December 22, 2003 under a non-expiring Alternative Share Settlement Program, approved by the Board of Directors on October 20, 2003, for settlement of delivery obligations for the Employee Stock Purchase Program or restricted shares under the Long Term Incentive Program.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

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

- During 2003, we completed the purchase of the remaining 49% interest in Dillon Communication Systems GmbH ("Dillon") that we did not own, as well as the assets and liabilities of World Choice Travel, Inc. During 2002, we completed the purchase of Site59, and during 2001 we completed the acquisition of Sabre Pacific. During 2000, we acquired Preview Travel, Gradient Solutions Limited (now known as Sabre Travel International Limited), GetThere and our initial 51% ownership interest in Dillon. These transactions affect the comparability of the data presented. See Management's Discussion and Analysis of Financial Condition and Results of Operations and the Notes to the Consolidated Financial Statements for further information regarding these transactions and their impact on our financial condition and results of operations.
- We began paying a quarterly dividend of \$.07 per share during the second quarter of 2003, and have declared and paid this dividend during the third and fourth quarters of 2003.
- On April 8, 2002, we completed a \$28 per share cash tender offer for all of the approximately 16.7 million outstanding publicly held common shares of Travelocity.com that we did not own. Prior to the tender offer, we had an approximate 70% ownership stake in Travelocity.com. We consolidated Travelocity.com and accounted for the 30% outside ownership as minority interest. After the tender offer, we effected a short-form merger on April 11, 2002, whereby Travelocity.com became our indirect 100% owned subsidiary.

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

Effective on July 1, 2001 we completed the sale of our information technology infrastructure outsourcing business ("Outsourcing Business") to Electronic Data Systems Corporation ("EDS"). The results of operations of the Outsourcing Business have been presented as a discontinued operation for the years ended December 31, 2001, 2000 and 1999. See Note 3 to the Consolidated Financial Statements.

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

The following table presents selected historical financial data for each of the five years in the period ended December 31, 2003.

	Year Ended December 31,				
	2003(4)	2002(4)	2001(4)	2000(2)	1999(2)
	(in millions, except per share data and other data where indicated)				
Income Statement Data (1) (2) (3) (9):					
Revenues	\$ 2,045.2	\$ 2,056.5	\$ 2,145.0	\$ 1,955.5	\$ 1,705.4
Operating expenses, excluding amortization of goodwill and intangible assets	1,822.7	1,685.6	1,876.2	1,673.3	1,399.9
Amortization of goodwill and intangible assets	56.3	53.4	277.5	109.4	—
Operating income (loss)	166.2	317.5	(8.7)	172.8	305.5
Other income (expense), net (10)	(38.4)	21.4	20.2	(13.9)	155.4
Minority interests	(.4)	.2	22.5	30.7	—
Income from continuing operations before income taxes	127.4	339.1	34.0	189.6	460.9
Income taxes	44.1	125.0	81.0	93.5	170.4
Income (loss) from continuing operations	83.3	214.1	(47.0)	96.1	290.5
Income from discontinued operations, net (1) (5)	—	—	75.1	48.0	41.4
Cumulative effect of accounting change, net (6)	—	—	3.1	—	—
Net earnings	\$ 83.3	\$ 214.1	\$ 31.2	\$ 144.1	\$ 331.9
Earnings (loss) per common share—basic:					
Income (loss) from continuing operations (1)	\$.59	\$ 1.53	\$ (.35)	\$.74	\$ 2.24
Income from discontinued operations, net (1)	—	—	.57	.37	.32
Cumulative effect of accounting change, net (6)	—	—	.02	—	—
Net earnings	\$.59	\$ 1.53	\$.24	\$ 1.11	\$ 2.56
Earnings (loss) per common share—diluted:					
Income (loss) from continuing operations (1)	\$.58	\$ 1.50	\$ (.35)	\$.74	\$ 2.22
Income from discontinued operations, net (1)	—	—	.57	.37	.32
Cumulative effect of accounting change, net (6)	—	—	.02	—	—
Net earnings	\$.58	\$ 1.50	\$.24	\$ 1.11	\$ 2.54

Balance Sheet Data (at end of period) (1):						
Current assets	\$ 1,368.3	\$ 1,311.6	\$ 1,092.2	\$ 693.0	\$ 976.4	
Goodwill and intangible assets, net	\$ 888.2	\$ 855.7	\$ 672.1	\$ 891.5	\$ —	
Total assets	\$ 2,956.2	\$ 2,760.1	\$ 2,376.0	\$ 2,650.4	\$ 1,951.2	
Current liabilities	\$ 503.4	\$ 499.9	\$ 564.5	\$ 1,266.4	\$ 525.1	
Minority interests	\$ 6.5	\$ 10.3	\$ 219.7	\$ 239.5	\$ —	
Long-term capital lease obligations	\$ 160.7	\$ —	\$ —	\$ —	\$ —	
Notes payable	\$ 427.4	\$ 435.8	\$ 400.4	\$ 149.0	\$ —	
Stockholders' equity (11)	\$ 1,680.1	\$ 1,641.6	\$ 1,041.8	\$ 791.0	\$ 1,262.0	
Other Data:						
Direct reservations booked using the Sabre system (4) (7)	309	340	372	394	370	
Total reservations processed using the Sabre system (4) (7)	366	397	431	467	439	
Operating margin	8.1%	15.4%	(0.4)%	8.8%	17.9%	
Ratio of earnings to fixed charges (8)	5.34	11.69	0.97	4.75	29.44	
Cash flows from operating activities	\$ 261.5	\$ 291.7	\$ 390.2	\$ 310.8	\$ 495.4	
Capital expenditures	\$ 71.5	\$ 62.7	\$ 158.4	\$ 190.1	\$ 168.0	

- (1) Effective July 1, 2001, we completed the sale of our Outsourcing Business and also entered into agreements with EDS for (i) EDS to manage our IT systems for 10 years and (ii) to jointly market certain IT services and software solutions to the travel and transportation industries. See Note 3 to the Consolidated Financial Statements. The results of operations of the Outsourcing Business have been reclassified and presented as income from discontinued operations, net, for 2001, 2000 and 1999. Balance sheet and cash flow data for periods prior to the sale have not been revised for the effects of our sale of the Outsourcing Business.
- (2) Prior to AMR's divestiture of its entire ownership interest in us in the first quarter of 2000, we had significant related party transactions with AMR and American Airlines. The terms of many of the agreements with AMR and its affiliates were revised in connection with the divestiture.
- (3) The results of operations for the periods presented were impacted by our merger and acquisition activities and the amortization expense related to the goodwill and intangible assets recorded in those transactions. Amortization of goodwill and certain indefinite lived intangible assets ceased on January 1, 2002 upon our adoption of SFAS 142, resulting in approximately \$212 million, net of tax and minority interest, less amortization expense being recognized in 2002 compared with 2001. See Notes 2 and 5 to the Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations for additional information regarding mergers and acquisitions, the change in accounting for goodwill and certain intangible assets and their impacts on our financial condition and results of operations.

- (4) On September 11, 2001, the United States was the target of terrorist attacks of unprecedented scope involving the hijacking and destruction of multiple passenger aircraft operated by commercial air carriers. After those attacks, all of our business segments were adversely affected by the state of the United States economy, by the possibility of terrorist attacks, government hostilities and military action, by the financial instability of many air carriers, by delays resulting from added security measures at airports and from channel shift. Our revenues and results of operations for the years ended December 31, 2001, 2002 and 2003 were negatively affected by this continued reduction in travel and from channel shift. Our total global bookings for 2002 were down 7.8% and total bookings for 2002 in the United States were down approximately 11.9% compared with 2001, while our total global bookings for 2003 were down 8.0% and total bookings for 2003 in the United States were down approximately 10.8% from 2002.
- (5) Income from discontinued operations for the year ended December 31, 2001 includes a gain of approximately \$39 million, net of related income taxes of approximately \$25 million, recognized upon completion of the sale of our Outsourcing Business to EDS effective July 1, 2001.
- (6) On January 1, 2001 we adopted Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*. See Note 7 to the Consolidated Financial Statements.
- (7) Reservations as to which we are entitled to a booking fee directly from the travel service provider ("associate").
- (8) For purposes of computing the ratio of earnings to fixed charges, earnings consist of the sum of income from continuing operations before income taxes and the cumulative effect of change in accounting method, interest expense and the portion of rent expense deemed to represent interest. Fixed charges consist of interest incurred, whether expensed or capitalized, including amortization of debt issuance costs, if applicable, and the portion of rent expense deemed to represent interest. Earnings for the year ended December 31, 2001 were inadequate to cover fixed charges by \$1.3 million.
- (9) See Note 6 to the Consolidated Financial Statements for discussion of the impact of other significant events and transactions on the periods presented.

(10)

Prior to June 30, 2001, American held for our economic benefit certain depository certificates representing beneficial ownership of common stock of Equant N.V., which was acquired by France Telecom in the first half of 2001. During 1999 we recognized a gain of \$138 million related to the liquidation of a majority of these certificates. During 2001, our remaining ownership position in these holdings was liquidated and we received proceeds totaling approximately \$47 million. Because our carrying value of these holdings was nominal, a gain approximating the proceeds received was recorded in other income during 2001.

(11)

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

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

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

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

Overview

We are a world leader in travel commerce, marketing and distributing travel products and services and providing technology solutions to the travel industry. During 2003, we generated revenues by providing travel marketing and distribution services to travel agencies, corporate travel departments and travel suppliers through our Sabre Travel Network business segment, to consumers through our Travelocity business segment, and to businesses through our former GetThere business segment. We also generated revenues in 2003 by selling products and services through our Sabre Airline Solutions business segment. During the fourth quarter of 2003 we integrated the products, services and operations of our GetThere business unit into our other three business units. This resulted in moving GetThere's corporate trip business to Sabre Travel Network, GetThere's supplier Website to Sabre Airline Solutions, and GetThere's technology and development infrastructure to Travelocity. Accordingly, we no longer report GetThere as a separate segment.

In 2003, approximately 71.3% of our revenue was generated from Sabre Travel Network, 18.1% from Travelocity and 10.6% from Sabre Airline Solutions based on segment results that include intersegment revenues.

Business. We are an industry leader in multiple travel distribution channels: the travel agency channel, the consumer-direct channel and the business-direct channel. We are a leading distributor of travel in each of those channels through the following business segments:

- Sabre Travel Network: Our *Sabre Travel Network*TM segment markets and distributes travel-related products and services through the travel agency channel. Travel agencies, both online and brick and mortar, subscribe to our services. Our services provide travel agency subscribers information about and the ability to purchase travel-related products and services from airlines, hotels, car rental companies, cruise lines and others. We also provide travel agency office automation tools and enable travel agencies to provide services via the Internet.
- Travelocity: Our *Travelocity*TM segment markets and distributes travel-related products and services directly to individuals, including leisure travelers and business travelers, through Websites that Travelocity owns, and websites owned by its distribution partners and its call centers. Travelocity customers can access offerings, pricing and information about airlines, hotels, car rental companies, cruise lines, vacation and last-minute travel packages and other travel-related services. In 2003, Travelocity launched Travelocity Business, which combines the integrated online corporate travel technology and full-service offering products of GetThere with the expertise of Travelocity.

• Sabre Airline Solutions: Our *Sabre Airline Solutions*[™] segment is a global leader in providing airline software systems and airline and airport consulting services. Sabre Airline Solutions' comprehensive software portfolio provides integrated technology and services to airlines. Sabre Airline Solutions hosts airline reservation systems for more than 90 airlines. It also offers systems ranging from inventory and departure control to decision support software that enable airlines to improve operational efficiency and maximize revenues. Sabre Airline Solutions also provides consulting services to optimize airline and airport operations.

We believe that in 2003, air travel in the United States was adversely affected by a decline in travel resulting from several factors including unfavorable economic conditions in the United States, political and economic instability abroad, ongoing travel security concerns, fear of potential terrorist attack, and travelers' fear of exposure to contagious diseases such as Severe Acute Respiratory Syndrome ("SARS"). As further discussed in the *Reduced Volume of Travel Bookings* Section of *Business Trends* below, we have experienced significant decreases in bookings volumes due to reduced travel in the United States and, to a lesser degree, internationally due to these trends.

For the three years ended December 31, 2003, operating expenses from continuing operations have increased at a compound annual rate of 1.8%. Amortization of goodwill and intangible assets resulting from acquisitions of GetThere, Preview, Gradient Solutions Limited (now Sabre Travel International Limited), Sabre Pacific, Dillon Communications, Site59 and the purchase of the remaining publicly held common shares of Travelocity.com was \$56 million in 2003, \$53 million in 2002 and \$277 million in 2001. Amortization of goodwill and certain indefinite lived intangible assets ceased on January 1, 2002 upon our adoption of SFAS 142 (Note 2 to the Consolidated Financial Statements), resulting in approximately \$237 million less amortization expense during 2002 than in 2001. Absent the effect of the amortization of goodwill and intangible assets, operating expenses from continuing operations have grown at a compound annual growth rate of 2.9%. Our primary operating expenses consist of salaries, benefits, other employee-related costs, communication costs, advertising and customer incentives, representing approximately 65.8%, 66.8% and 59.5% of total operating expenses in 2003, 2002 and 2001, respectively. Those expenses increased at a compound annual rate of 8.8% for the three years ended December 31, 2003, primarily due to higher customer incentives expenses.

Business Trends

Reduced Volume of Travel Bookings. Since 2001, we have experienced declines in year-over-year bookings volume in our Sabre Travel Network business segment. The factors producing this trend have also affected the growth in the volume of bookings for our Travelocity business segment. We attribute the declines to several factors that have occurred during this period, including unfavorable economic conditions in the United States, political and economic instability abroad, ongoing travel security concerns (due to the war in Iraq and the aftermath of the September 11, 2001 terrorist attacks), fear of potential terrorist attack, travelers' fear of exposure to contagious diseases such as SARS, and channel shift (discussed below under "Supplier Efforts to Control Travel Distribution").

• Total bookings during the fourth quarter of 2003, including air and non-air bookings, were down 3.5% in the United States and were up 1.8% globally as compared to the year-ago quarter. For the year ended December 31, 2003 our total bookings were down 10.8% in the United States and 8.0% globally as compared to the year-ago period.

• Total air bookings during the fourth quarter of 2003 were down 5.2% in the United States, but were up 1.0% globally as compared to the year ago quarter. During the year ended December 31, 2003 our total air bookings were down 12.3% in the United States and 9.0% globally as compared to the year-ago period.

Supplier Efforts to Control Travel Distribution. Airlines have aggressively worked to move travel bookings onto channels that they control. Some airlines have withheld content from independent travel distributors, have greatly reduced commissions paid to online and traditional travel agencies and have conditioned independent distributors' access to content on their acceptance of distribution cost savings offered by channels that those airlines control. Their collective efforts have contributed to "channel shift," or travel bookings being moved from independent GDS channels toward supplier-controlled channels, individual supplier websites and call centers. Similarly, several hotels now have similar multi-vendor websites for booking hotels and other accommodations. Additionally, as discussed below under "*Risk Factors—Regulatory Developments...*," current proposed government regulations in Europe, if adopted as proposed, could also contribute to the shift of bookings from independent computer reservation systems ("CRS") to supplier-controlled CRSs. In the last two quarters of 2003, we saw a slight slowing in the rate of channel shift, possibly due to the DCA 3-Year Pricing Option Program discussed below. Although we see this slight trend as an encouraging indicator, we do not know if this represents a permanent slowing in the shift of GDS bookings to supplier-direct booking channels.

DCA 3-Year Pricing Option. In October 2002, we announced a new Direct Connect Availability ("DCA") 3-Year Pricing Option to airlines. Airlines selecting this option under their *Sabre* GDS participating carrier agreements receive a discount of approximately 12.5% from the applicable 2003 DCA booking fee rates, and are locked into that booking fee rate for three years. As a consequence, we will not be able to raise the booking fee rate on those DCA bookings during that three-year period. We anticipate that by the end of 2004, approximately 50% of our global direct bookings will fall under the DCA 3-Year Option. As of the date of this report, more than 30 airlines, including American, Delta Airlines, Inc., Northwest Airlines Corporation, Continental Airlines, Inc., United Air Lines, Inc., US Airways, Inc., British Airways and Alitalia have elected to participate in the DCA 3-Year Pricing Option. As of February 2, 2004, we are no longer marketing the DCA 3-Year Pricing Option to carriers. Through the *Sabre* DCA 3-Year Pricing Option, participating airlines commit to the highest level of participation in the *Sabre* system (DCA level) for three years. Participating airlines provide all *Sabre* GDS users with broad access to schedules, seat availability and published fares, including Web fares and other promotional fares but excluding certain fares such as "opaque" fares (where the airline's identity is not disclosed until after the sale) and private discounts. Participating airlines also furnish generally the same customer perquisites and amenities to passengers booked through the *Sabre* GDS as those afforded through other GDS's and websites. As a consequence, we believe that the participation of carriers in the program may help slow the present shift of bookings away from the *Sabre* GDS to supplier-controlled outlets. See "*Risk Factors—Travel Suppliers are Seeking to Bypass...*"

Consolidation. The marketplace for travel products is intensely competitive, and consolidation is occurring among both online and brick and mortar travel agencies. Consolidation among our competitors, such as the acquisitions of Expedia, Hotels.com and Hotwire consummated by InterActiveCorp, may give these competitors increased negotiating leverage with travel suppliers. New or consolidated competitors may emerge and rapidly acquire significant market share. The development of competing technologies or the emergence of new industry standards may also adversely affect our competitive position. Competition could result in reduced margins on our offerings and services. See "*Risk Factors—We face competition...*"

Merchant Model. Independent travel distributors, including our companies, are attempting to reduce their reliance on supplier-paid commissions and booking or transaction fees by increasingly promoting a merchant model of travel distribution whereby the travel distributors obtain access to content from travel suppliers at a pre-determined price and sell the content, either individually or in a package, to travelers at a price which the distributor determines. Merchant model content can include air, hotel, vacation, and dynamically packaged offerings (via Travelocity TotalTrip™). Merchant content is good for travelers because they can often purchase travel at a lower price than regularly published offerings. For us, merchant content generally delivers higher revenue per transaction than comparable sales under the agency/booking fee model. Under our arrangements with travel suppliers, we generally do not have any purchase obligations for unsold offerings. Under the merchant model, we recognize as revenue the amount paid by the traveler minus our payment to the travel supplier.

Our business strategy depends on our merchant model offering as a significant source of revenue. We remain subject to numerous risks in the operation and growth of that business. Our merchant model hotel strategy is particularly dependent upon our ability to obtain adequate access to hotel rooms to offer, through Travelocity or through our *Sabre Exclusives* program, which require pre-payment by the consumer at the time of booking. Our strategy calls for us to increase or maintain the number of hotel rooms we can offer under our merchant model hotel program based upon merchant arrangements we make directly with individual hotel properties and hotel chains. If improved economic conditions create increased demand for hotel rooms, hotel managers may limit the amount of hotel rooms available to us or increase the negotiated rates at which they provide rooms to us. Similarly, heightened competition from our competitors' own merchant rate programs may result in less available rooms or increases in negotiated rates for our merchant offerings. These types of events could exert downward pressure on the margins we expect to achieve in our merchant model offering.

Termination of Affiliation Agreement with Hotels.com. On August 29, 2003, Travelocity exercised its right, pursuant to its affiliation agreement with Hotels.com, to expand the distribution of our own merchant hotel offerings. As a result, we subsequently agreed with Hotels.com to terminate the affiliation agreement and settled all amounts outstanding between the parties. Due to the termination, we wrote-off an intangible asset associated with this contract of approximately \$8.8 million. Additionally, we recognized revenue of approximately \$7.8 million related to warrants received from Hotels.com pursuant to this agreement, which had previously been deferred and was being recognized over the term of the agreement. We believe that this contract termination will not have a material adverse effect on our future results of operations, and that the termination provides us increased flexibility to control the content and pricing of our merchant model hotel offering.

AOL Agreement. In 1999, we entered into an agreement with America Online ("AOL") that provided, among other things, that Travelocity would be the exclusive reservations engine for AOL's Internet properties. We were initially obligated for payments of up to \$200 million and we shared advertising revenues and commissions with AOL. In January 2004, we revised the terms of this agreement and extended the agreement through March 2006. Travelocity will continue to be the exclusive reservations engine for AOL's Internet properties under the revised agreement. Under the new terms of the agreement, we will benefit from more strategically aligned terms for placement within AOL's brands. Further, we are obligated for fixed payments of up to \$28 million over the two-year term of the agreement. These fixed payments, along with fixed payments previously paid under the original contract, are being expensed on a straight-line basis over the term of the agreement. For 2004, this expense will be approximately \$23 million. Additionally, in exchange for lower fixed annual payments, we agreed to a reduced share of advertising revenues generated through the AOL properties. The agreement also contains a productivity component, whereby AOL is paid a percentage of the transactions services revenue generated through the AOL network. While specific operating earnings benefits from this agreement will depend upon the volume of transactions, we anticipate approximately \$10 million to \$15 million in such benefits during 2004.

WNS Agreement. On January 30, 2004, we entered into a multi-year master services agreement with WNS North America, Inc. ("WNS"). Under the agreement, we will outsource to WNS a portion of our Travelocity contact center operations, primarily front-line customer service calls and back-office fulfillment. By the end of the first quarter of 2005, WNS should be handling Travelocity's front-line customer service calls and emails, as well as some mid- and back-office functions. WNS will transition these day-to-day operations of the customer service functions to its contact centers. Travelocity employees will continue to handle sales calls, as well as advanced customer service issues and quality control. We do not expect any severance and related costs incurred due to this agreement to be significant.

While specific savings from this agreement will depend upon the volume of transactions, we anticipate approximately \$10 million in such savings during 2004. We also expect these savings to increase over the term of the agreement as transaction volumes increase. See Note 17 to the Consolidated Financial Statements.

Cost Reductions. Beginning in the fourth quarter of 2003, we have implemented plans to reduce costs in an effort to enhance our competitive advantage, reduce our operating expense and better align expenses with revenue targets. As part of these cost management efforts, we reduced our workforce in the fourth quarter of 2003, and the full-year impact of these reductions on our financial results will be realized in 2004. The AOL and WNS agreements described above are also components of this initiative. Through all of these initiatives we expect to generate savings of approximately \$80 million in 2004. We will continue to examine numerous cost-reduction alternatives, including global sourcing, as we seek to reduce costs to enhance our competitive advantages.

Changing Business Model. Although the substantial majority of our travel distribution revenues are derived from booking fees paid by travel suppliers, we recently have entered into agreements that do not follow this traditional business model, and are currently evaluating the desirability of similar transactions. Under such agreements, we may generally derive revenues from transaction fees based on the number of segments booked, but the structure and source of those transaction fees may be modified to take advantage of specific market conditions. In addition, in October of 2003, we launched our Jurni Network™ consortium, a unique offline travel agency consortium that combines a preferred sales network and consolidated purchasing power with technology-driven marketing tools to sell preferred offerings.

Computer Reservation System Industry Regulation. Aspects of our travel marketing and distribution businesses are subject to the computer reservation systems ("CRS") regulations in the United States, the European Union, Canada and Peru. These regulations generally address the relationships among the CRSs, the airline suppliers and subscribers such as travel agencies. Generally, these regulations do not address our relationships with non-airline suppliers. The regulations in the European Union, however, do include rail suppliers in certain circumstances. Among the topics addressed in the current regulations are:

- no preferencing CRS displays based upon airline identity,
- equal treatment of airlines by the CRSs,
- equal participation by airlines that own a CRS in other systems and
- limits on travel agency contract terms.

As part of its comprehensive review of its CRS rules, the U.S. Department of Transportation ("DOT") announced, on December 31, 2003, that it would not adopt the new rules that it proposed in November 2002. Instead, the DOT will allow the existing CRS rules to expire entirely. Nearly all of the existing CRS rules expired on January 31, 2004. Two requirements will remain in effect through July 31, 2004, at which time they too will expire. Therefore, the CRS industry in the United States will be completely deregulated by the DOT after July 31, 2004.

The two transitional requirements effective until July 31, 2004, are:

- A ban on "preferenced displays," which prohibits a CRS from listing airline flight segments based on the identity of the airline; and
- A ban on the enforcement of two types of contractual "parity clauses" which, as a condition for an airline's participation in a CRS, require either that the airline:
 - maintain a certain level of participation in that CRS or buy enhancements based on the level and nature of its participation in other CRSs; or
 - provide the CRS with all of the airline's published fares.

We believe that DOT deregulation will give us a much greater ability to find creative ways to market and promote airline services, thus enhancing our value proposition for airlines and supporting our transition to the merchant model. The DOT indicated that our current DCA 3-Year Pricing Option Agreements, which represent three-year participation commitments from more than 30 airlines, including the 6 largest United States airlines, are not affected by deregulation or the transition requirements. We expect that deregulation will affect our relationships with airlines in many ways, including:

- The previous rules broadly imposed a one-size-fits-all model on our relationships with airlines. Under deregulation, Sabre Travel Network will have the flexibility to tailor specific proposals to individual airlines.
- Beginning August 1, 2004, we will have increased flexibility to construct our displays of airline services in new ways—a right we have always had for displays of hotel services.

DOT deregulation will also allow us to freely negotiate with travel agencies, which will permit us to choose to have contracts of any duration, to have exclusive agreements with travel agents, and/or to vary incentives by the identity of the airline.

In addition, both the European Commission and Canada are in the process of reviewing their regulations governing the CRS industry for possible changes, including eliminating some or all of these regulations. The European Commission has not yet published any proposed rules changes, so it is not clear when the Commission may issue amended final rules or what form they may take. Transport Canada has proposed amendments to its CRS rules that would eliminate many of the current rules, but would retain, unchanged or with modifications, certain existing rules which could continue to limit our business flexibility, such as retaining a ban on display preferences for airlines. Transport Canada has not yet published its final rules, so it is not clear when the Department may issue amended final rules or what form they may take.

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

Components of Revenues and Expenses

Revenues. Sabre Travel Network primarily generates revenues from booking fees charged to airlines and non-air travel-suppliers who process their bookings through the *Sabre* system. Sabre Travel Network also earns revenue through equipment service charges paid by subscribers, the sale of other products and services (including GetThere offerings, merchant hotel sales in the Sabre Exclusives program and the Jurni Network) to travel-suppliers, subscribers and other customers, as well as earnings derived from interests in joint ventures and other investments. Sabre Travel Network also earns intersegment revenues from data processing fees paid by Travelocity. Travelocity primarily generates revenues from commissions or transaction fees from travel-suppliers for the purchase of travel products and services pursuant to reservations made through our system. Travelocity also generates merchant revenue on a net basis, defined as the amount paid by the customer for products or services, minus our payment to the travel supplier. Additional Travelocity revenues include other fees charged to customers and advertising revenues from our Websites. Travelocity derives intersegment revenues from Sabre Travel Network, consisting mainly of incentives and marketing fees for Travelocity bookings made through the *Sabre* GDS, and fees paid by Sabre Travel Network and Sabre Airline Solutions for corporate and airline trips booked through Travelocity's online booking technology. Sabre Airline Solutions generates revenues from the sale of airline reservations hosting services, inventory and check-in hosting solutions, decision-support software and technology, and airline consulting services.

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

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

Financial Results

The following table presents operating results for the three years ended December 31, 2003, 2002 and 2001 (in thousands of dollars). The segment revenues and cost of revenues are shown including intersegment activity. We have included the elimination of intersegment activity below to agree to the results of operations presented in the consolidated financial statements:

	Year Ended December 31,		
	2003	2002	2001
Segment revenues:			
Sabre Travel Network	\$ 1,560,232	\$ 1,630,213	\$ 1,714,682
Travelocity	394,508	338,772	324,137
Sabre Airline Solutions	232,354	216,847	216,178
Elimination of intersegment revenues	(141,931)	(129,366)	(110,036)
Total	\$ 2,045,163	\$ 2,056,466	\$ 2,144,961
Cost of revenues:			
Sabre Travel Network	\$ 1,031,735	\$ 930,860	\$ 1,070,727
Travelocity	203,392	187,612	175,610
Sabre Airline Solutions	177,769	165,674	163,609
Elimination of intersegment expenses	(141,931)	(129,366)	(111,224)
Other corporate expenses	(1,836)	6,505	8,754
Total	\$ 1,269,129	\$ 1,161,285	\$ 1,307,476
Selling, general and administrative:	\$ 553,503	\$ 524,257	\$ 568,672
Amortization of acquisition intangibles:			
Sabre Travel Network	\$ 12,788	\$ 16,588	\$ 89,393
Travelocity	41,554	35,042	179,473
Sabre Airline Solutions	1,959	1,794	8,656
Total	\$ 56,301	\$ 53,424	\$ 277,522
Operating income (loss):	\$ 166,230	\$ 317,500	\$ (8,709)

Results of Operations: 2001—2003

Total revenues of \$2,045 million for the year ended December 31, 2003 were \$100 million, or 4.7%, lower than revenues of \$2,145 million for the year ended December 31, 2001. Cost of revenues of \$1,269 million for the year ended December 31, 2003 were 2.9% lower than the cost of revenues of \$1,307 million for the year ended December 31, 2001. These reported revenues and expenses are net of intersegment revenues and expenses which were eliminated in consolidation.

Management's following discussion and analysis of revenues and cost of revenues by business segment are based upon the information contained in the above table, where segment results include intersegment revenues and cost of revenues of approximately \$142 million, \$129 million and \$110 million for the years ended December 31, 2003, 2002 and 2001, respectively. We account for significant intersegment transactions as if the transactions were to third parties, that is, at estimated current market prices. The majority of the intersegment revenues and cost of revenues are between Travelocity and Sabre Travel Network, consisting mainly of incentives and marketing fees for Travelocity bookings made through the *Sabre* GDS, data processing fees paid by Travelocity to Sabre Travel Network, and fees paid by Sabre Travel Network and Sabre Airline Solutions for corporate and airline trips booked through Travelocity's online booking technology. All intersegment revenues and corresponding cost of revenues have been eliminated in consolidation. Disaggregated results by segment are presented in Note 14 to the Consolidated Financial Statements.

Revenues. The compounded annual growth rate of revenues by segment for 2001 through 2003 was (4.6)% for Sabre Travel Network, 10.3% for Travelocity and 3.7% for Sabre Airline Solutions. Each of our business segments was negatively affected by the September 11, 2001 terrorist attacks, and a decline in the U.S. economy, in general, and the travel industry, in particular, since that time. Other macroeconomic factors that negatively impacted our business during this period included the war and continued conflict in Iraq, ongoing travel security concerns and fear of potential terrorist attacks and SARS. These negative impacts to the general economy and the travel industry specifically negatively impacted each of our business segments, with the most pronounced effect being on Sabre Travel Network, where 2003 revenues remained below 2001 revenue levels.

We have also seen continued pressure on Sabre Travel Network revenues resulting from travel bookings being diverted from independent GDS channels toward supplier-controlled channels, individual airline websites and call centers, as well as various other travel distribution websites on the internet. The combination of channel shift, an economic downturn, and travel security concerns has resulted in a cumulative 21.6% decrease in annual bookings processed through the *Sabre* system since 2000. We believe that the signing of the DCA 3-Year Pricing Option Agreements will help slow the effects of channel shift from the *Sabre* system, but the DCA 3-year Pricing Option Agreements will lower our effective yield on bookings.

Travelocity has experienced 10.3% compounded annual growth in revenues from 2001 to 2003 due to the growth in bookings made through our Websites and increased yields stimulated by increased merchant hotel activity and improved packaging of offerings. Although Travelocity was negatively affected by the terrorist attacks and the negative factors noted above and by declining internet advertising revenue, the growth in the internet travel business combined with Travelocity merchant model and packaging initiatives offset the negative impacts.

Sabre Airline Solutions' revenues increased 3.7% per year from 2001 to 2003. Although Sabre Airline Solutions and its customers were negatively affected by the terrorist attacks and the negative factors noted above, we were able to grow revenues in each of the past two years. This increase in revenues during a turbulent time for the airline industry is the result of increased sales of decision support products and services and web-enabled solutions that offer cost savings and more efficient operations to our customers.

Expenses. From 2001 to 2003, our operating expenses decreased by approximately 12.8%. These decreases reflect lower intangible asset amortization charges in each business unit due to the adoption of SFAS 142 effective January 1, 2002 and lower data processing costs in each business unit achieved through the EDS contract. In addition, Sabre Travel Network hardware and communications costs have decreased as a result of the migration to lower cost solutions and the adoption of third-party solutions by subscribers. These decreases were partially offset by increases in Sabre Travel Network technology spending due to the phased implementation of new functionality that requires running legacy systems as well as the new technology, and increases in Sabre Travel Network customer incentives due to competitive pressures on renewals and conversions.

We experienced growth in Travelocity cost of revenues and selling, general and administrative expenses commensurate with the growth in business. We increased our expenditures for advertising in order to drive additional travelers to Travelocity, and expenses have increased as a result of increases in transaction volumes for our merchant offerings. Our technology infrastructure related expenses have also increased in order to support our growth and new offerings. These increases in expenses were offset by reduced intangible asset amortization expenses resulting from our adoption of SFAS 142 effective January 1, 2002.

Sabre Airline Solutions operating expenses grew commensurate with the growth in revenues during the 2001 to 2003 period.

2003 Compared to 2002

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

Management's discussion and analysis of revenues and cost of revenues by business segment are based upon segment results including intersegment revenues and cost of revenues of approximately \$142 million and \$129 million for the years ended December 31, 2003 and 2002, respectively. We account for significant intersegment transactions as if the transactions were to third parties, that is, at estimated current market prices. The majority of the intersegment revenues and cost of revenues are between Travelocity and Sabre Travel Network, consisting mainly of incentives and marketing fees for Travelocity bookings made through the *Sabre* GDS, data processing fees paid by Travelocity to Sabre Travel Network, and fees paid by Sabre Travel Network for corporate and airline trips booked through Travelocity's online booking technology. All intersegment revenues and corresponding cost of revenues have been eliminated in consolidation. Disaggregated results by segment are presented in Note 14 to the Consolidated Financial Statements.

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

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

Sabre Travel Network—Revenues decreased \$70 million or 4.3%, from \$1,630 million in 2002 to \$1,560 million in 2003.

- Booking and other fees from associates decreased by \$86 million due to economic conditions in the United States, the ongoing travel security concerns discussed above and channel shift. This \$86 million decrease includes a \$127 million reduction due to lower volumes, partially offset by a \$41 million increase attributable to an increase in average rate per booking, which includes the impact of DCA 3-Year Pricing Option. Total worldwide travel bookings processed through the *Sabre* system, which include direct connect bookings and joint venture bookings for which we or our distribution partners earn a booking fee, were 365.6 million for the year ended December 31, 2003, a decrease of 8.0% from 397.4 million bookings in 2002. Booking volumes have not recovered to the levels we experienced prior to 2001. Additionally, bookings made under the DCA 3-Year Pricing Option Agreements were at a discount of approximately 12.5% from 2003 rates. The effect on revenues from the decreases in booking volumes were partially offset by a 2.9% increase in the average price per booking charged to air associates during 2003, notwithstanding the impact of DCA 3-Year Pricing Option.

- Subscriber revenue increased by \$22 million, driven by settlement revenue from a canceled subscriber contract. Excluding the settlement, subscriber revenue would have decreased by \$14 million driven by a declining base of equipment leased to subscribers.

- Other revenue decreased by \$6 million, driven primarily by decreased equity income and development revenue from our joint ventures.

Travelocity—Revenues increased approximately \$56 million or 16.5%, from \$339 million to \$395 million.

- Transaction revenue increased \$74 million or 34.4%, primarily driven by a \$54 million increase in non-air transaction revenue (including revenue resulting from sales of merchant model and package offerings) and a \$20 million increase in stand-alone air transaction revenue. Transaction revenue from our distribution partners' websites increased approximately 8% compared to a 47% increase in transaction revenue from the *Travelocity.com* Websites.

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

- Stand-alone hotel revenue growth of \$17 million due to bookings volume growth of 12.4%, and the growth of our own merchant model hotel offering launched in October 2002. Total merchant hotel room nights increased by 63.3%. Approximately 50% of our total hotel room nights sold in 2003 were under our merchant model;

- Packaged trip revenue increased approximately \$26 million due to growth in Last Minute packages (*Site59* products), and the launch of our *TotalTrip* offering in June 2003;

- Cruise revenue increased \$9 million due primarily to successful promotions like our Cruise Super Sale during the peak cruise seasons; and

- The remaining \$2 million increase in non-air transaction revenue was driven by car revenues.

The increase in stand-alone air transaction revenue was primarily due to a \$5 service fee implemented on January 16, 2003 for most stand-alone air tickets, partially offset by the growth in air tickets sold as part of packaged sales (which increased significantly and is included in non-air transaction revenues).

- Non-transaction revenue decreased \$18 million, or 14.9% consisting of the following:

- We recognized revenue of approximately \$8 million due to the termination of our affiliation with *Hotels.com*. This revenue was related to the warrants received from *Hotels.com* pursuant to this affiliation that had previously been deferred and was being recognized over the term of the affiliation agreement. See Note 7 to the Consolidated Financial Statements for additional information on these warrants.

- Advertising revenues decreased \$11 million primarily due to a decrease in advertising revenue from AOL.
- The recognition of net losses from our equity investments in joint ventures resulted in a \$10 million decrease. These net losses from joint ventures relate to our investments in joint ventures for the establishment of online travel reservation sites in the Far East and Europe. These joint ventures began operations during 2002 and losses in 2003 were in line with expectations as we continue investment in these markets. See Note 2 to the Consolidated Financial Statements for additional information on the accounting policies for our joint ventures.
- All other non-transaction revenues decreased by approximately \$5 million driven by reduced fees to handle paper tickets resulting from increased usage of electronic tickets, partially offset by an increase in fees for ticket reissues and offline services.

Sabre Airline Solutions—Revenues increased approximately \$15 million or 6.9%, from \$217 million to \$232 million. This increase was driven primarily by the following:

- \$17 million increase in revenues from decision support products and services provided to various travel providers. Key components of this increase included revenues from a large resource management contract and growth in the eMergo offering, which is a web-enabled application service provider (ASP) product line;
- \$6 million increase in airline reservation hosting revenue due to an increase in the number of signed carriers as well as transaction fees linked to an increase in passenger volumes on existing airline customers;
- \$3 million increase in revenues from airline consulting services due to additional service offerings that we acquired during the fourth quarter of 2002; and
- \$11 million decrease in development revenues from major customers as those airlines slowed purchases to reduce costs during the industry downturn.

Cost of Revenues. Total cost of revenues (including intersegment cost of revenues) for the year ended December 31, 2003 increased approximately \$120 million or 9.3%, compared to the year ended December 31, 2002, from \$1,291 million to \$1,411 million.

Sabre Travel Network—Cost of revenues increased \$101 million or 10.8%, from \$931 million to \$1,032 million. This increase was due to a \$79 million increase in technology spending, a \$20 million increase in subscriber support costs and an increase in other expense of \$2 million.

- The \$79 million increase in technology spending includes \$28 million in technology costs including depreciation and various technology maintenance and investments activities, \$20 million related to the phased implementation of new functionality which required us to operate legacy systems as well as the new systems, \$20 million related to a partial restructuring of our information technology outsourcing agreement with EDS and \$11 million due to the expiration of other vendor credits. The phased implementation of our new functionality is expected to be completed in 2005.

The \$20 million increase in subscriber support costs includes a \$63 million increase in customer incentives, partially offset by \$43 million of reductions in hardware support and communications costs. The increase in customer incentives includes \$33 million related to increases in the average incentive per booking driven by competitive pressure on renewals and conversions, \$20 million related to lower incentive levels in 2002 associated with the aftermath of September 11, 2001, and the loss of customers that reimbursed us for one-time data processing charges in 2002 and \$10 million related to incentive payments to Travelocity. The \$43 million reduction in hardware support and communications costs are driven by migration to lower cost solutions and the adoption of third-party solutions by subscribers.

Travelocity—Cost of revenues increased \$15 million or 8.0%, from \$188 million to \$203 million. This increase was primarily the result of an increase of \$11 million in credit card fee expense primarily associated with strong growth of our merchant model business. Data processing and technology infrastructure related expenses also increased \$5 million driven by volume growth. All other expenses decreased by \$1 million.

Sabre Airline Solutions—Cost of revenues increased approximately \$12 million or 7.2%, from \$166 million to \$178 million. This increase was the result of higher labor costs of \$9 million due to increased salaries and higher employee benefit costs, increased depreciation and amortization of \$5 million as a result of continued investment in the eMergo solutions infrastructure and the reservations hosting system; increased communications and data processing costs of \$3 million due to an increase in hosted customers and passenger volumes, and a \$2 million increase in other operating expenses. These increases were partially offset by a decrease in development labor of \$7 million resulting from a decline in demand for development labor because of reduced spending by airlines.

Selling, General and Administrative Expenses. Selling, general and administrative expenses for the year ended December 31, 2003 increased \$29 million or 5.5%, compared to the year ended December 31, 2002 from \$524 million to \$553 million. The increase is primarily due to higher Travelocity advertising costs of \$39 million to drive additional travelers to our Websites and a \$16 million increase in Travelocity payments to distribution partners. Corporate facilities costs increased approximately \$10 million as a result of the facilities consolidation in 2003. These increases were partially offset by an \$11 million decrease in Travelocity salaries and benefits primarily due to a decrease in stock compensation expense. During 2002 Travelocity incurred legal expenses for our tender offer for the common stock of Travelocity which we did not own, so that 2003 legal expenses were \$7 million lower as compared to 2002. Sabre Travel Network marketing expenses decreased by \$8 million resulting from the renegotiation of a marketing agreement. Other selling, general and administrative expenses decreased \$10 million.

Amortization of Goodwill and Intangible Assets. Amortization of goodwill and intangible assets increased \$3 million, or 5.7%, from \$53 million for the year ended December 31, 2002 to \$56 million for the year ended December 31, 2003. This increase was primarily due to a \$9 million write-off of an intangible asset resulting from the termination of the Hotels.com agreement, partially offset by decreases totaling \$6 million due to the full amortization of other intangible assets.

Operating Income. Operating income for the year ended December 31, 2003 decreased \$152 million, as compared to the year ended December 31, 2002 from \$318 million to \$166 million. Operating margins decreased from 15.4% in 2002 to 8.1% in 2003 due to an 8.0% increase in operating expenses while revenues remained unchanged. Sabre Travel Network's operating income decreased \$159 million or 38.1%, due primarily to decreased bookings revenues and increases in technology spending and customer incentives during 2003 as compared to 2002. Travelocity's operating loss decreased \$5 million or 4.8%, due primarily to an increase in transaction revenue which outpaced higher advertising and customer incentives. Sabre Airline Solutions' operating income increased by \$3 million due to increases in product and services revenues which outpaced the increase in operating expenses.

Interest Income. Interest income decreased by \$11 million or 39.3%, from \$28 million for the year ended December 31, 2002 to \$17 million for the year ended December 31, 2003, due primarily to lower average rates of return on our portfolio of cash and marketable securities investment accounts, as well as slightly lower average balances held in these investments.

Interest Expense. Interest expense for the year ended December 31, 2003 increased \$1 million or 4.3%, from \$23 million to \$24 million. This increase was primarily due to an approximately \$3 million increase in interest expense resulting from the capital lease on our headquarters buildings, partially offset by a \$2 million decrease resulting from lower interest rates on our LIBOR-based interest rate swaps.

Other, net. Other, net decreased \$48 million or 282.4%, from other income of \$17 million to other expense of \$31 million, from 2002 to 2003. Other, net during 2002 was primarily due to an \$18 million gain from the sale of our former corporate headquarters building, a \$7 million gain realized from the sale of France Telecom (formerly Equant N.V.) shares and other investment gains of \$3 million, partially offset by \$11 million in writedowns of investments in companies developing emerging travel technologies. During 2003 we incurred a \$28 million loss relating to the required residual value guarantee payment in connection with terminating our syndicated lease facility. We also realized a \$3 million loss on the sale of a building during 2003.

Minority Interests. Minority interests include minority owners' interests in our consolidated subsidiaries. As discussed in Note 5 to the Consolidated Financial Statements, in April 2002, we acquired the approximately 16.7 million publicly held common shares of Travelocity.com that we did not previously own. Accordingly, minority interests during 2002 only reflect these interests in Travelocity.com for the period prior to acquisition. During the year ended December 31, 2003 the net income allocated to minority interests was less than \$1 million compared to less than \$1 million of net loss allocated to remaining minority interests during the year ended December 31, 2002.

Income Taxes. The provision for income taxes was \$44 million and \$125 million for 2003 and 2002, respectively. Our effective tax rate for 2003 was approximately 34.6%, which varies from the statutory U.S. federal income tax rate of 35% primarily due to foreign tax credits that we claimed related to joint venture activities accounted for under the equity method and for which the offsetting foreign tax expense was recorded in pre-tax income. This reduction in the tax rate was partially offset by additional state income taxes. Our effective tax rate for 2002 of 36.8% varied from the statutory U.S. federal income tax rate of 35% primarily due to state income taxes. See Note 11 to the Consolidated Financial Statements for additional information regarding income taxes.

Net Earnings. Net earnings decreased \$131 million or 61.2%, from \$214 million to \$83 million, primarily due to increases in cost of revenues of \$108 million, increases in selling, general and administrative expenses \$29 million, a decrease in Other, net income of \$48 million and a decrease in interest income of \$11 million. These decreases in net earnings were partially offset by lower income taxes of \$81 million.

Results of Operations

2002 Compared to 2001

Total revenues for the year ended December 31, 2002 decreased approximately \$89 million, or 4.1%, compared to the year ended December 31, 2001, from \$2,145 million to \$2,056 million. Cost of revenues for the year ended December 31, 2002 decreased approximately \$146 million, or 11.2%, compared to the year ended December 31, 2001, from \$1,307 million to approximately \$1,161 million.

Management's discussion and analysis of revenues and cost of revenues by business segment are based upon segment results including intersegment revenues and cost of revenues of approximately \$129 million and \$110 million for the years ended December 31, 2002 and 2001, respectively. The majority of the intersegment revenues and cost of revenues are between Travelocity and Sabre Travel Network, consisting mainly of incentives and marketing fees for Travelocity bookings made through the *Sabre* GDS and data processing fees paid by Travelocity to Sabre Travel Network, and trip fees paid by Sabre Travel Network and Sabre Airline Solutions for trips booked through Travelocity's online booking technology. All intersegment revenues and corresponding cost of revenues have been eliminated in consolidation. Disaggregated results by segment are presented in Note 14 to the Consolidated Financial Statements.

Revenues. Total revenues (including intersegment revenues) for the year ended December 31, 2002 decreased approximately \$69 million, or 3.1%, compared to year ended December 31, 2001, from \$2,255 million to \$2,186 million.

Sabre Travel Network—Revenues decreased \$85 million or 5.0%, from \$1,715 million in 2001 to \$1,630 million in 2002.

- Booking and other fees from associates decreased by \$93 million. Total worldwide travel bookings processed through the *Sabre* system, which include direct connect bookings and joint venture bookings for which we or our distribution partners earn a booking fee, were 397 million for the year ended December 31, 2002, a decrease of 7.8% from 431 million bookings in 2001. The effect on revenues from the decreases in booking volumes were partially offset by a 4.3% increase in average price per booking charged to associates during 2002.
- Subscriber revenue decreased by \$3 million driven by a declining base of equipment leased to subscribers.
- Other revenue increased by \$11 million, driven by higher volumes through the GetThere booking tool.

Travelocity—Revenues increased approximately \$15 million or 4.6%, from \$324 million to \$339 million.

- Transaction revenue increased \$9 million, primarily driven by a \$25 million increase in non-air transaction revenue, partially offset by a \$16 million decrease in stand-alone air transaction revenue.
 - The increase in non-air transaction revenue consisted of:
 - Stand-alone hotel revenue increased \$9 million due to an increase in merchant volumes;
 - Cruise, vacation, and Last Minute packages revenues increased \$19 million. See Note 5 to the Consolidated Financial Statements regarding the March 2002 acquisition of Site59.com, Inc. which significantly contributed to the growth of Last Minute packages;
 - Car revenue decreased \$3 million due to lower volumes.
 - Much like our Sabre Travel Network segment, we believe that the decreases in stand-alone air and car revenues can primarily be attributed to economic conditions in the United States and travel security concerns. Additionally, average revenues per transaction were lower due to changes made by carriers in our air commission structure.
- Non-transaction revenue increased \$6 million, or 4.7%, consisting of the following:
 - Advertising revenue decreased \$10 million due primarily to the general softening of the online advertising market.

- Corporate revenues from Sabre Travel Network increased \$8 million due to higher volumes by Sabre Travel Network for the use of our corporate booking tool.

- The recognition of losses from our equity investments in joint ventures resulted in a \$5 million revenue decrease. These losses from joint ventures relate to our investments in joint ventures for the establishment of online travel reservation sites in the Far East and Europe. These joint ventures began operations during 2002 and the losses were anticipated. See Note 2 to the Consolidated Financial Statements for additional information on the accounting policies for our joint ventures.

- Other revenues increased \$13 million primarily due to the recognition of additional revenue related to warrants received from Hotels.com (Note 7 to the Consolidated Financial Statements) and revenue earned from services provided to our joint ventures.

Sabre Airline Solutions—Revenues increased approximately \$1 million or .5%, from \$216 million to \$217 million, as a result of:

- \$6 million increase in revenues from applications development products and services provided to various travel providers. The increase in products and services was due to acquisitions and various product sales in 2002; and

- \$5 million decrease in passenger solutions revenue. This decrease resulted from a decline in revenue from services provided to air travel providers, such as United Airlines, for hosting their consumer websites. The decline reflects the decrease in travel as well as the loss of several customers. This decline was partially offset by an increase in airline reservation hosting revenue generated by the signings of 11 new carriers coupled with an increase in access fees.

Cost of Revenues. Cost of revenues (including intersegment cost of revenues) for the year ended December 31, 2002 decreased approximately \$128 million or 9.0%, compared to the year ended December 31, 2001, from \$1,419 million to \$1,291 million.

Sabre Travel Network—Cost of revenues decreased \$140 million or 13.1%, from \$1,071 million to \$931 million. This decrease was primarily due to lower communications and data processing costs of \$36 million resulting from lower transaction volumes and savings resulting from our IT infrastructure outsourcing services contract with EDS, which was effective July 1, 2001. The outsourcing agreement also resulted in lower depreciation and amortization of \$43 million due to the sale of subscriber equipment to EDS in this transaction. Customer incentives decreased \$21 million due to lower booking volumes attributable to the decline in travel after the terrorist attacks in September 2001. Employee related costs decreased \$27 million due to December 2001 workforce reductions and lower incentive compensation expenses and all other operating expenses decreased \$13 million.

Travelocity—Cost of revenues increased \$12 million or 6.8%, from \$176 million to \$188 million. This increase was primarily the result of approximately \$7 million higher data processing and technology infrastructure related expenses, \$2 million in additional call center expenses, \$2 million in additional facility expenses due to higher sales volumes and to support our growth, and \$1 million increase in all other expenses.

Sabre Airline Solutions—Cost of revenues increased approximately \$2 million or 1.2%, from \$164 million to \$166 million. This increase was primarily the result of increased labor costs.

Selling, General and Administrative Expenses. Selling, general and administrative expenses for the year ended December 31, 2002 decreased \$45 million or 7.9%, compared to the year ended December 31, 2001 from \$569 million to \$524 million. The decrease is partially due to lower salaries and benefits of \$29 million resulting from reduced headcount in 2002. Bad debt expense decreased \$18 million in 2002 compared to 2001. After nearly doubling our allowance for bad debts in 2001 to \$41 million, we reduced this allowance by \$7 million, or 17.1%, to \$34 million at December 31, 2002. This reduction was due, in part, to a large payment from a customer in a bankruptcy dispute which resulted in an approximate \$6 million reduction in the allowance. These expense decreases were partially offset by a net \$2 million increase in all other expenses.

Amortization of Goodwill and Intangible Assets. Amortization of goodwill and intangible assets decreased \$225 million, or 80.9%, from \$278 million for the year ended December 31, 2001 to \$53 million for the year ended December 31, 2002. Goodwill and intangible assets of approximately \$1 billion were recorded in connection with the merger of Travelocity.com and Preview Travel, the acquisitions of GetThere, Gradient Solutions Limited (now Sabre Travel International Limited) and a 51% interest in Dillon Communications Systems during 2000, as well as the acquisition of Sabre Pacific in March 2001. Acquired goodwill and intangible assets were being amortized over periods ranging from one to seven years. Amortization of this goodwill and certain indefinite lived intangible assets ceased on January 1, 2002 upon our adoption of Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* ("SFAS 142"). Our adoption of SFAS 142 resulted in approximately \$237 million less of gross amortization expense related to these acquisitions during 2002 compared with 2001. This reduction was offset by an increase in amortization expense of \$12 million for intangible assets still subject to amortization due to the acquisition of Site59.com, Inc., the acquisition of the Travelocity.com minority interest and the impact of having a full year of amortization for intangible assets related to the acquisition of Sabre Pacific. See the discussion in Note 2 of the Consolidated Financial Statements for additional information about the effect of adopting SFAS 142 on accounting for acquired goodwill and certain intangible assets.

Operating Income. Operating income for the year ended December 31, 2002 increased \$327 million, as compared to the year ended December 31, 2001 from a \$9 million operating loss to a \$318 million operating income. Operating margins increased from (0.4)% in 2001 to 15.4% during 2002 due to a 19.3% decrease in operating expenses while revenues only declined 4.1%. This expense decrease was primarily due to reduced goodwill and certain indefinite lived intangible asset amortization resulting from our adoption of SFAS 142 effective January 1, 2002. Sabre Travel Network's operating income increased \$153 million or 57.8%, due primarily to decreases in communications, data processing, depreciation and amortization, customer incentives, and salaries and benefits during 2002 as compared to 2001 that more than offset the decline in revenue. Travelocity's operating loss decreased \$112 million or 51.5%, due primarily to lower goodwill amortization charges. Sabre Airline Solutions' operating income decreased by \$8 million due to increases in operating expenses while revenues remained constant. Further, although we cannot precisely quantify the effect, we believe that 2001 and 2002 operating incomes in all operating segments were negatively impacted by the events of September 11, 2001, and the decline in the travel industry and the general economy both domestically and internationally.

Interest Income. Interest income increased by \$3 million or 12.0%, from \$25 million for the year ended December 31, 2001 to \$28 million for the year ended December 31, 2002, due primarily to higher average balances maintained in our cash and marketable securities accounts, partially offset by lower average interest rates.

Interest Expense. Interest expense for the year ended December 31, 2002 decreased \$18 million or 43.9%, from \$41 million to \$23 million. This decrease was primarily due to the retirement of \$859 million of debt in July and August 2001, partially offset by interest on the \$400 million in aggregate principal amount of Notes we issued August 2001.

Other, net. Other, net decreased \$20 million or 54.1%, from \$37 million to \$17 million, from 2001 to 2002. Other, net during 2001 was due primarily to a \$47 million gain from the sale of France Telecom (formerly Equant N.V.) shares, partially offset by writedowns of investments we had made in companies developing emerging travel technologies totaling \$10 million. The \$17 million in other, net during 2002 was primarily due to an \$18 million gain from the sale of our former corporate headquarters building, a \$7 million gain realized from the sale of France Telecom shares and other investment gains of \$3 million, partially offset by \$11 million in writedowns of investments in companies developing emerging travel technologies.

Minority Interests. Minority interests include minority owners' interests in our consolidated subsidiaries. As discussed in Note 5 to the Consolidated Financial Statements, in April 2002 we acquired the approximately 16.7 million publicly held common shares of Travelocity.com that we did not previously own. Accordingly, minority interests during 2002 only reflect these interests in Travelocity.com for the period prior to acquisition. During 2001, the full year net loss of Travelocity.com resulted in minority interests of approximately \$22 million.

Income Taxes. The provision for income taxes was \$125 million and \$81 million for 2002 and 2001, respectively. Our effective tax rate for 2002 was approximately 36.8% which varies from the statutory U.S. federal income tax rate of 35% due primarily to state income taxes. Our effective tax rate for 2001 was 238% primarily as a result of the effect of the recognition of non-deductible amortization expense for goodwill recorded in conjunction with the acquisitions of GetThere and Preview Travel in 2000. Excluding the effects of the goodwill amortization, our effective tax rate for 2001 was 34.7%. See Note 11 to the Consolidated Financial Statements for additional information regarding income taxes.

Income from Continuing Operations. Income from continuing operations increased \$261 million from a loss of \$47 million during 2001 to income of \$214 million in 2002. This increase is primarily due to the \$327 million increase in operating income, partially offset by a \$22 million decrease in minority interests and a \$44 million increase in income taxes.

Income from Discontinued Operations. As noted in Note 3 to the Consolidated Financial Statements, we sold our information technology infrastructure outsourcing business to EDS effective July 1, 2001 which resulted in net income from discontinued operations of \$75 million. There were no discontinued operations during 2002.

Cumulative Effect of Accounting Change. We adopted Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* ("SFAS 133"), effective January 1, 2001. We recognized a non-recurring cumulative gain in earnings for the year ended 2001 upon adoption of SFAS 133 of approximately \$3 million, net of minority interests of approximately \$2 million and deferred income taxes of approximately \$2 million, relating to the Hotels.com warrants. See Note 7 to the Consolidated Financial Statements.

Net Earnings. Net earnings increased \$183 million or 590.3%, from \$31 million to \$214 million, primarily due to decreases in operating expenses of 19.3%, which exceeded the 4.1% decrease in revenues between years.

Liquidity and Capital Resources

We require cash to pay our operating expenses, make capital expenditures, invest in our products and offerings, pay dividends, and service our debt and other long-term liabilities. While our primary source of funds has been from our operations, we have occasionally raised external funds through the sale of stock and debt in the capital market and in privately negotiated transactions. In assessing our liquidity, key components include our net income 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 future minimum non-cancelable contractual obligations as of December 31, 2003 are as follows (in thousands of dollars):

Contractual Obligations	Payments Due by Period				
	Total	2004	2005-2006	2007-2008	2009 and Thereafter
Notes payable (1)	\$ 635,200	\$ 29,400	\$ 58,800	\$ 58,800	\$ 488,200
Capital lease obligations (2)	251,701	10,742	19,214	19,214	202,531
Operating lease obligations	54,519	15,825	18,206	12,402	8,086
IT Outsourcing Agreement (3)	279,236	95,729	168,071	15,436	—
AOL Agreement (Note 9)	28,000	15,000	13,000	—	—
Yahoo Agreement (Note 9)	63,700	34,700	29,000	—	—
Other long-term obligations (4)	111,375	56,215	33,752	2,412	18,996
Amounts receivable under non-cancelable subleases (5)	(47,833)	(6,592)	(13,141)	(13,400)	(14,700)
Total contractual cash obligations	\$ 1,375,898	\$ 251,019	\$ 326,902	\$ 94,864	\$ 703,113

- (1) Includes all interest and principal related to \$400 million unsecured Note. Excludes the effect of interest rate swaps. (Note 8)
- (2) Consists primarily of headquarters facility lease. Remainder consists of leases held by Travelocity. Excludes the effect of interest rate swap. (Note 9)
- (3) Represents minimum amounts due to EDS under the terms of the IT Outsourcing Agreement (Note 3).
- (4) Consists primarily of minimum payments due under various marketing agreements. Also, includes liabilities owed to a joint venture partner and related interest.
- (5) EDS subleases an office facility from us in Fort Worth, Texas, that will expire in 2011.

In the near term, we anticipate that cash flows from our operations, existing balances in cash and short-term investments of \$923 million and funds available under our revolving credit facility will be sufficient to fund our operating expenses, capital expenditures, investments in our products and offerings and interest payments on our debt. We plan to renew the credit facility before it expires on September 14, 2004. We believe that capital expenditures in 2004 will be approximately \$80 million to \$90 million, approximately \$20 million higher than the \$71 million that was expended in 2003, due to strategic investments in technology. However, we expect future capital expenditures to remain significantly lower than the \$158 million expended in 2001. Additionally, we sponsor The Sabre Inc. Legacy Pension Plan ("LPP"), which is a tax-qualified defined benefit pension plan for employees meeting certain eligibility requirements. We also sponsor a defined benefit pension plan for certain of our employees in Canada. We are currently not required to make contributions to our defined benefit pension plans in 2004.

On January 30, 2004 we entered into a multi-year master services agreement with WNS North America, Inc. ("WNS"). Under the agreement, we will outsource to WNS a portion of our Travelocity contact center operations, primarily front-line customer service calls and back-office fulfillment. For 2004, we have minimum commitments to WNS of \$18 million. Thereafter, we are committed to minimum payments based on a calculation that considers both current and historical volumes compared to thresholds established in the agreement. For 2005 through 2010, the starting thresholds for calculating our minimum commitment for each year ranges from approximately \$17 million to \$31 million, and actual commitments could be lower than these amounts, depending on volumes. See Note 17 to the Consolidated Financial Statements.

In the long-term, we expect to use our existing funds and cash flows from operations to satisfy our debt and other long-term liability obligations.

We may also consider using our funds available or possibly external sources of funds for acquisitions of or investments in complementary businesses, products, services and technologies when such opportunities become available. Such additional activities might affect our liquidity requirements or cause us to issue additional equity or debt securities.

During 2003, we began using our available funds to pay quarterly dividends to our stockholders and to repurchase our shares of stock, as approved by our Board of Directors. We have \$72 million left of a \$100 million stock repurchase authorization from our Board of Directors. We also have separate authority from our Board of Directors to repurchase shares as needed to settle our share delivery obligations under the Employee Stock Purchase Plan and to issue restricted stock under the Long Term Incentive Plan. We anticipate continuing to use our funds for such purposes as approved by our Board. We could also use our funds to retire debt as appropriate, based on market conditions and our desired liquidity and capital structure.

Risk factors that could possibly affect the availability of our internally generated funds include:

- Reduced sales due to declining booking volumes and lower prices under the DCA 3-Year Pricing Option
- Diversion of bookings from our channel offering and other competitive pressures
- Changes in our working capital

However, with our strong cash position of \$923 million and working capital of \$865 million as of December 31, 2003, we have significant resources available to us and we continue to implement cost controlling efforts to ensure our operating expenses are in line with the impacts of the factors listed above and other factors.

We periodically evaluate opportunities to sell additional equity and/or debt securities, obtain credit facilities from lenders, or restructure our long-term debt for strategic reasons or to further strengthen our financial position. We cannot be assured that financing will be available in amounts or on terms acceptable to us, if at all. Risk factors that could possibly affect our ability to obtain cash from external sources include:

- Volatility in the markets for corporate debt in general
- Disruptions in the travel industry could preclude access to the capital markets
- A ratings downgrade could limit our ability to access the corporate debt market
- Violation of covenants could prevent us from drawing under our credit facility

Cash Investments

We invest cash in highly liquid instruments, including high credit quality money market mutual funds, certificates of deposit, banker's acceptances, commercial paper, repurchase agreements, mortgage-backed and receivables-backed securities and corporate and government notes, including tax-exempt municipal securities.

We try to invest all excess cash in marketable securities. Therefore, our annual investments will fluctuate depending on the levels of cash provided or used by all of our other investing, operating and financing activities. We invested excess cash of approximately \$242 million and \$506 million in marketable securities, net of marketable securities sold, during 2002 and 2001, respectively. In 2003, we used cash from the sale of marketable securities, net of marketable securities purchased, of approximately \$10 million in other investing and financing activities.

Capital Activities

Common Stock. In April 2002, we completed an underwritten public offering of 9.43 million shares of Class A common stock at \$44.50 per share, which resulted in net proceeds to us of approximately \$400 million, net of transaction fees. We are using the proceeds from the offering for general corporate purposes.

Dividends. We paid no dividends on our common stock during 2001 and 2002. We began paying a quarterly dividend of \$.07 per share during the second quarter of 2003, and paid dividends of the same amount during the third and fourth quarters of 2003. On January 20, 2004 we announced an increased dividend of \$.075 per share for the first quarter of 2004, and subsequently paid that dividend on February 17, 2004. If quarterly dividends in that amount were to be continued, and assuming that the current number of outstanding shares of our common stock remains constant, we would expect to pay an aggregate of \$10.6 million for each dividend, or approximately \$42 million on an annual basis. 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 of our Board of Directors that dividends continue to be in the best interests of the Company and its stockholders.

Repurchases of Stock. During 2003, 2002 and 2001, we repurchased 2,159,597, 2,234,400 and 374,000 shares of Class A common stock, respectively, pursuant to authorizations by our Board of Directors. On October 20, 2003 our Board of Directors approved a share repurchase program authorizing us to repurchase up to \$100 million of our common stock. At December 31, 2003, we had remaining authorization to repurchase approximately \$72 million of our common stock under this program. On October 20, 2003 our Board of Directors authorized the 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"). Under these two separate authorizations, 2,159,597 shares were repurchased for approximately \$46 million during the fourth quarter of 2003. The timing, volume and price of any future repurchases will be made pursuant to 10b5-1 trading plans, unless such plans are terminated at the discretion of management.

Financing Arrangements

Revolving Credit Agreement. In February 2000, we entered into a \$300 million, senior unsecured, revolving credit agreement that expires on September 14, 2004. We plan to renew this credit facility before it expires. Interest on this agreement is variable, based upon LIBOR or the prime rate plus a margin, at our option. At December 31, 2003, 2002 and 2001, we did not have any outstanding borrowings under this agreement and the entire \$300 million is available for us to draw upon, if necessary. We are currently in compliance with all covenant requirements under this agreement.

Notes Payable. During 2000, we borrowed approximately \$859 million, primarily to finance the acquisition of GetThere. We repaid these borrowings during 2001 primarily using proceeds from the sale of our Outsourcing Business and the issuance in August of 2001 by Sabre Holdings Corporation of \$400 million in unsecured notes ("Notes"), bearing interest at 7.35% and maturing August 1, 2011, in an underwritten public offering resulting in net cash proceeds to us of approximately \$397 million. We are currently in compliance with all covenant requirements under this agreement. See Note 8 to the Consolidated Financial Statements for further discussion of debt transactions. Sabre Inc., a 100% owned subsidiary of Sabre Holdings Corporation, unconditionally guarantees all debt obligations of Sabre Holdings Corporation, as detailed in Note 16 to the Consolidated Financial Statements. In conjunction with these Notes, we have entered into two interest rate swaps through 2011 for a total of \$300 million, which pay us 7.35% and on which we pay a variable rate based on a six-month LIBOR plus 231 basis points. See Note 7 to the Consolidated Financial Statements for more information on these swaps.

Capital Lease Obligations—In June 2003, we entered into a ten-year master lease for our corporate headquarters facility in Southlake, Texas, which is accounted for as a capital lease. 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 lease expiration to cause the properties to be sold. If the 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.

Off-Balance Sheet Arrangements

Other than presented in the table above, at December 31, 2003 we have no off-balance sheet arrangements that have or are reasonably likely to have a material current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Cash Flows

	Year Ended December 31,		
	2003	2002	2001
Cash provided by operating activities	\$ 261,538	\$ 291,671	\$ 390,237
Cash used for investing activities	(146,058)	(669,022)	(17,750)
Cash provided by (used for) financing activities	(95,794)	379,672	(361,410)

Operating Activities. Cash provided by operating activities declined by \$30 million from 2002 to 2003 due primarily to decreases in net earnings adjusted for non-cash and non-operating items. Cash provided by operating activities for 2003 was \$262 million, which was primarily from net earnings adjusted for non-cash and non-operating items. Non-cash adjustments to net earnings of \$83 million for 2003 included depreciation and amortization of \$136 million, stock compensation expense of \$12 million, and a \$28 million loss on the refinancing of a facilities lease on our headquarters building.

Cash provided by operating activities for 2002 was \$292 million and was primarily from net earnings adjusted for non-cash and non-operating items offset by uses of cash for working capital items, which includes accounts receivable, prepaid expenses, accrued compensation and benefits, accounts payable and other accrued liabilities. Non-cash adjustments to net earnings of \$214 million for 2002 included depreciation and amortization of \$117 million, deferred tax benefits of \$53 million, tax benefits for stock options exercised of \$10 million, stock compensation expense of \$31 million and an \$18 million gain on the sale of our former headquarter's building.

Cash provided by operating activities declined by \$99 million from 2001 to 2002 resulting primarily from cash flows received during 2001 for accounts receivable from the Outsourcing Business, which was sold to EDS in July 2001, with no corresponding billings and collections in 2002.

Investing Activities. The \$523 million decrease in cash used for investing activities from 2002 to 2003, primarily results from a \$402 million reduction in cash spent on acquisitions. We expended cash for acquisitions of \$499 million in 2002 compared to expending \$96 million in 2003. Acquisitions in 2003 included purchasing the assets of World Choice Travel, Inc. for \$50 million, purchasing the remaining 49% interest that we did not own in Dillon Communication Systems for \$30 million, making \$10 million in payments on outstanding shares of Travelocity.com related to the 2002 acquisition and \$6 million for other miscellaneous acquisition activity. Acquisitions in 2002 included the cash tender offer for the outstanding publicly-held common shares of Travelocity.com for \$456 million, the acquisition of Site59.com, Inc. for \$44 million, including cash received of \$4 million, and \$3 million in other miscellaneous acquisition activity. Capital expenditures were slightly higher in 2003 than in 2002 due to an increase in capitalized labor costs of \$26 million for investments in new platforms for Sabre Travel Network, our reservations hosting software for Sabre Airline Solutions and a dynamic packaging tool for Travelocity (TotalTrip). This increase was offset by a decrease in purchases of equipment of \$13 million due to leasing equipment for our technology enhancements rather than buying it.

The \$651 million increase in cash used for investing activities from 2001 to 2002 primarily results from the 2001 proceeds of \$661 million from the sale of our Outsourcing Business to EDS coupled with a \$443 million increase in cash spent on acquisitions in 2002. The increase in cash spent on acquisitions was attributable to the cash tender offer for the outstanding publicly-held common shares of Travelocity.com for \$456 million, the acquisition of Site59 for \$44 million, including cash received of \$4 million, and the purchase of the data center facility from the lessor, netted against the proceeds of selling the same data center to EDS, of \$24 million in 2002. These increases in cash used during 2002 were offset by a reduction in cash invested in marketable securities of \$264 million, a reduction in capital expenditures of \$96 million due to reduced acquisitions of IT assets resulting from our IT infrastructure outsourcing services contract with EDS and \$80 million of cash received from the sale of our former headquarters building in 2002. The remaining \$6 million offset to the increase in cash used for investing was due to other miscellaneous investing activities.

Financing Activities. The \$475 million decrease in cash provided by financing activities from 2002 to 2003 was mainly due to receiving \$400 million in proceeds from the public offering of our common stock in 2002. The decrease in cash provided from financing activities also included \$30 million in payments during 2003 to our stockholders in dividends and \$28 million to our former leaseholders to terminate a lease on our headquarters buildings. The remaining \$17 million decrease results primarily from lower proceeds from the exercise of stock options in 2003.

The \$741 million increase in cash provided by financing activities from 2001 to 2002 resulted primarily from the 2001 repayment of \$859 million in notes payable related to the GetThere acquisition in 2000 coupled with the \$400 million in proceeds received from the public offering of our common stock in 2002. These increases in cash provided by financing activities were offset by the \$397 million in proceeds from the issuance of the \$400 million in unsecured notes in 2001 and a reduction in the proceeds received from exercise of stock options and issuance of stock under the employee stock purchase plan of \$73 million and a \$48 million increase in the cash used to purchase treasury stock. During the third quarter of 2001, we made an unsecured \$30 million loan to a customer in the travel industry, which was repaid in March 2002.

Critical Accounting Policies

The preparation of our financial statements requires that we adopt and follow certain accounting policies. Certain amounts presented in the financial statements have been determined based upon estimates and assumptions. Although we believe that our estimates and assumptions are reasonable, actual results may differ.

We have included below a discussion of the accounting policies involving material estimates and assumptions that we believe are most critical to the preparation of our financial statements, how we apply such policies and how results differing from our estimates and assumptions would affect the amounts presented in our financial statements. We have discussed the development, selection and disclosure of these accounting policies with our audit committee. Although we believe these policies to be the most critical, other accounting policies also have a significant effect on our financial statements and certain of these policies also require the use of estimates and assumptions. Note 2 to the Consolidated Financial Statements discusses each of our significant accounting policies.

Accounts Receivable: We generate a significant portion of our revenues and corresponding accounts receivable from services provided to commercial airlines. As of December 31, 2003, approximately 66% of our accounts receivable were attributable to these customers. Our other accounts receivable are generally due from other participants in the travel and transportation industry.

We evaluate the collectibility of our accounts receivable based on a combination of factors. In circumstances where we are aware of a specific customer's inability to meet its financial obligations to us (e.g., bankruptcy filings, failure to pay amounts due to us or others), we record a specific reserve for bad debts against amounts due to reduce the net recognized receivable to the amount we reasonably believe will be collected. For all other customers, we recognize reserves for bad debts based on past write-off history (average percentage of receivables written off historically) and the length of time the receivables are past due.

During 2003, 2002 and 2001, the commercial air travel industry in particular, and the travel and transportation industry in general, was adversely affected by a decline in travel resulting from a softening economy. Our airline customers are negatively affected by the continuing lower levels of travel activity. Several major domestic air carriers are experiencing liquidity problems. Some airlines have sought bankruptcy protection and others may consider bankruptcy relief. We believe that we have appropriately considered the effects of these factors, as well as any other known customer liquidity issues, on the ability of our customers to pay amounts owed to us. However, if demand for commercial air travel softens, due to prevailing economic conditions, terrorist acts, war or other incidents involving commercial air transport, or other factors, the financial condition of our customers may be adversely impacted. If we begin, or estimate that we will begin, to experience higher than expected defaults on amounts due us, our estimates of the amounts that we will ultimately collect could be reduced by a material amount. In 2003, we reduced our allowance for bad debt by \$19.1 million to a balance of \$15.4 million at December 31, 2003, mainly driven by the write-off of \$17.4 million of aged receivables against reserves we had established in prior years for those specific receivables. The amounts written-off related to customers who had filed for bankruptcy in previous years and we have exhausted all methods of collection.

Booking Fee Cancellation Reserve: We record revenue for airline travel reservations processed through the *Sabre* system at the time of the booking of the reservation. However, if the booking is canceled in a later month, the booking fee must be refunded to the customer (less a small cancellation fee). Therefore we record revenue net of an estimated amount reserved to account for future cancellations. This reserve is calculated 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 significant percentage of cancellations are followed by an immediate re-booking, without loss of revenue. This assumption is based on historical rates of cancellations/re-bookings and has a significant impact on the amount reserved. If circumstances change, such as higher than expected cancellation rates or changes in booking behavior, our estimates of future cancellations could be increased by a material amount and our revenue decreased by a corresponding amount. At December 31, 2003 and 2002, our booking fee cancellation reserves were approximately \$17.0 million and \$18.4 million, respectively. In 2003, the cancellation reserve declined by \$1.4 million due to declining booking levels and a rate change under the DCA 3-Year Pricing Option Agreements. This reserve is sensitive to changes in booking levels and the number of bookings priced under the terms of the DCA 3-Year Pricing Option Agreements. For example, if 2003 booking volumes had been 10% lower or the weighted-average booking fee rate had been 10% lower, the reserve balance would have been reduced by \$1.7 million.

Business Combinations: During 2003, 2002 and 2001, we completed a number of acquisitions of other companies using the purchase method of accounting. The amounts assigned to the identifiable assets and liabilities acquired in connection with these acquisitions were based on estimated fair values as of the date of the acquisition, with the remainder recorded as goodwill. The fair values were determined by our management, generally based upon information supplied by the management of the acquired entities and valuations prepared by independent appraisal experts. The valuations have been based primarily upon future cash flow projections for the acquired assets, discounted to present value using a risk-adjusted discount rate. For certain classes of intangible assets, the valuations have been based upon estimated cost of replacement. In connection with these acquisitions, we have recorded a significant amount of intangible assets, including goodwill.

Long-Lived Assets and Goodwill: Prior to January 1, 2002, we reviewed all of our long-lived assets, including identifiable intangible assets, for impairment when changes in circumstances indicated that the carrying amount of an asset might not be recoverable. If we determined that such indicators were present, we prepared an undiscounted future net cash flow projection for the asset. In preparing this projection, we made a number of assumptions concerning such things as future booking volume levels, price levels, commission rates, rates of growth in our consumer and corporate direct booking businesses, rates of increase in operating expenses, etc. If our projection of undiscounted future net cash flows was in excess of the carrying value of the recorded asset, no impairment was recorded. If the carrying value of the asset exceeded the projected undiscounted net cash flows, an impairment was recorded. The amount of the impairment charge was determined by discounting the projected net cash flows. Intangible assets subject to amortization continue to be evaluated for impairment as discussed above.

Through the end of 2001, we evaluated goodwill for impairment based on undiscounted projected future cash flows. If the carrying value of the goodwill was less than the undiscounted projected future cash flows, no impairment would be recognized. Upon adoption of Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* ("SFAS No. 142") on January 1, 2002, we began to evaluate our goodwill for impairment on an annual basis or whenever indicators of impairment exist. The evaluation is based upon a comparison of the estimated fair value of the unit of our business to which the goodwill has been assigned to the sum of the carrying value of the assets and liabilities of that unit. The fair values used in this evaluation are estimated based upon discounted future cash flow projections for the unit. These cash flow projections are based upon a number of assumptions, as discussed above. Under SFAS No. 142 intangible assets deemed to have indefinite lives are subject to impairment tests annually or when changes in circumstances indicate that the carrying value may not be recoverable. If the carrying value of an indefinite lived intangible asset exceeds its fair value, as generally estimated using a discounted future net cash flow projection, the carrying value of the asset is reduced to its fair value.

In 2003 we wrote-off an intangible asset of approximately \$9 million associated with a supplier agreement that was terminated early. No other significant impairments of our goodwill or intangible assets have been recorded. We believe that assumptions we have made in projecting future cash flows for the evaluations described above are reasonable. However, if future actual results do not meet our expectations, we may be required to record an impairment charge, the amount of which could be material to our results of operations. See Note 2 to the Consolidated Financial Statements for further discussion.

Seasonality

The travel industry is seasonal in nature. Bookings, and our revenues for the use of the *Sabre* system, decrease significantly each year in the fourth quarter, primarily in December. Customers generally book their November and December holiday leisure travel earlier in the year, and business travel declines during the holiday season. All quarters presented were negatively affected by unfavorable economic conditions in the United States, political and economic issues abroad, ongoing travel security concerns and fear of potential terrorist attacks. The first half of 2003 was affected by travelers' fear of exposure to contagious diseases such as SARS. See Note 6 to the Consolidated Financial Statements for other items impacting our quarterly results.

The following table sets forth our quarterly financial data (in thousands, except per share data):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
2003				
Revenues	\$ 543,833	\$ 507,189	\$ 526,793	\$ 467,348
Operating income	\$ 103,894	\$ 40,392	\$ 43,866	\$ (21,922)
Net earnings	\$ 64,879	\$ 6,816	\$ 25,449	\$ (13,843)
Earnings per common share:				
Basic	\$.46	\$.05	\$.18	\$ (.10)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Diluted	\$.45	\$.05	\$.18	\$ (.10)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2002				
Revenues	\$ 549,358	\$ 536,748	\$ 517,374	\$ 452,986
Operating income	\$ 119,994	\$ 104,304	\$ 87,474	\$ 5,728
Net earnings	\$ 87,387	\$ 67,965	\$ 57,921	\$ 871
Earnings per common share:				
Basic	\$.66	\$.48	\$.40	\$.01
	<hr/>	<hr/>	<hr/>	<hr/>
Diluted	\$.64	\$.47	\$.40	\$.01
	<hr/>	<hr/>	<hr/>	<hr/>

Recent Accounting Pronouncements

In July 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 146, *Accounting for Costs Associated with Exit or Disposal Activities* ("SFAS 146"). This statement nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)*. The standard requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of commitment to an exit or disposal plan. This statement was applicable prospectively to exit or disposal activities initiated after December 31, 2002. The adoption of this standard did not have a significant effect on our financial position or results of operations.

In January 2003, the FASB issued Interpretation No. 46, *Consolidation of Variable Interest Entities, an interpretation of ARB No. 51* ("FIN 46"). In December 2003, the FASB modified FIN 46 to make certain technical corrections and address certain implementation issues that had arisen. FIN 46 provides a new framework for identifying variable interest entities ("VIEs") and determining when a company should include the assets, liabilities, noncontrolling interests and results of activities of a VIE in its consolidated financial statements.

In general, a VIE is a corporation, partnership, limited-liability corporation, trust, or any other legal structure used to conduct activities or hold assets that either:

- (1) has an insufficient amount of equity to carry out its principal activities without additional subordinated financial support;
- (2) has a group of equity owners that are unable to make significant decisions about its activities; or
- (3) has a group of equity owners that do not have the obligation to absorb losses or the right to receive returns generated by its operations.

FIN 46 requires a VIE to be consolidated if a party with an ownership, contractual or other financial interest in the VIE is obligated to absorb a majority of the risk of loss from the VIEs activities, is entitled to receive a majority of the VIEs residual returns (if no party absorbs a majority of the VIEs losses), or both. A variable interest holder that consolidates the VIE is called the primary beneficiary. Upon consolidation, the primary beneficiary generally must initially record all the VIEs assets, liabilities and noncontrolling interests at fair value and subsequently account for the VIE as if it were consolidated based on majority voting interest. FIN 46 also requires disclosures about VIEs that the variable interest holder is not required to consolidate but in which it has a significant variable interest.

We do not have an interest in any special purpose entity that is required to be consolidated under FIN 46. We are currently evaluating our involvement in other entities pursuant to the revised guidance; however, we do not anticipate a significant effect as a result of its application.

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity*. The standard requires companies that issue certain types of freestanding financial instruments to treat them as liabilities on their balance sheet, measured at fair value, even though the instruments have characteristics of equity. Generally this standard is effective for the interim period beginning July 1, 2003. Currently, we do not have any financial instruments that are impacted by the new standard.

On December 17, 2003, the Staff of the Securities and Exchange Commission (or SEC) issued Staff Accounting Bulletin No. 104 ("SAB 104"), *Revenue Recognition*, which supersedes Staff Accounting Bulletin No. 101, *Revenue Recognition in Financial Statements* ("SAB No. 101"). SAB 104's primary purpose is to rescind the accounting guidance contained in SAB No. 101 related to multiple-element revenue arrangements that was superseded as a result of the issuance of EITF 00-21, *Accounting for Revenue Arrangements with Multiple Deliverables*. Additionally, SAB 104 rescinds the SEC's related *Revenue Recognition in Financial Statements Frequently Asked Questions and Answers* issued with SAB No. 101 that had been codified in SEC Topic 13, *Revenue Recognition*. While the wording of SAB 104 has changed to reflect the issuance of EITF 00-21, the revenue recognition principles of SAB No. 101 remain largely unchanged by the issuance of SAB 104, which was effective upon issuance. The adoption of SAB 104 did not have a material effect on our financial position or results of operations.

Mergers and Acquisitions

During 2003 we completed the acquisition of the assets and liabilities of World Choice Travel, Inc and we acquired the 49% share of Dillon Communications that we did not own. We also completed other acquisitions during 2003 which did not materially affect our financial statements. During 2002 we completed the tender offer for the outstanding publicly held shares of Travelocity.com common stock that we did not previously own, completed the acquisition of Site 59.com, Inc. and completed other acquisitions which did not materially affect our financial statements.

Inflation

We believe that inflation has not had a material effect on our results of operations.

SABRE HOLDINGS CORPORATION CAUTIONARY STATEMENT

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

RISK FACTORS

Risks associated with an investment in our securities, and with achieving the forward-looking statements contained in this report or in our news releases, websites, public filings, investor and analyst conferences or elsewhere, include, but are not limited to, the risk factors described below. Any of the risk factors described below could have a material adverse effect on our business, financial condition or results of operations. We may not succeed in addressing these challenges and risks.

Our revenues are highly dependent on the travel and transportation industries, and particularly on airlines, and a prolonged substantial decrease in travel bookings volumes could adversely affect us.

Most of our revenue is derived from airlines, hotel operators, car rental companies, cruise operators and other suppliers in the travel and transportation industries. Our revenue increases and decreases with the level of travel and transportation activity and is therefore highly subject to declines in or disruptions to travel and transportation due to factors entirely out of our control. The travel industry is seasonal and our revenue varies significantly from quarter to quarter. Factors that may adversely affect travel and transportation activity include:

- economic downturns and recessions,
- global security issues, acts of terrorism, future hostilities and war,
- increased airport security that could reduce the convenience of air travel,
- inclement weather,
- fuel price escalation,
- increased occurrence of travel-related accidents,
- travelers' concerns about exposure to contagious diseases such as SARS,
- economic and political issues in the Middle East, Asia, Latin America and elsewhere, and
- the financial condition of travel suppliers.

The economic downturn that preceded and was worsened by the September 11, 2001 terrorist attacks may continue to adversely affect us and the travel industry. Additionally, the continuing conflict in Iraq, the possibility of further terrorist attacks, hostilities and war (in the Middle East, the Indian subcontinent or elsewhere) and the resulting security measures at airports, and the financial instability of many of the air carriers may continue to adversely affect the travel industry. Airlines may reduce the number of their flights, making fewer offerings available to us. Several major airlines are experiencing liquidity problems, some have sought bankruptcy protection and still others may consider bankruptcy relief. Travelers' perceptions of passenger security or airlines' financial stability may have an adverse effect on demand. A prolonged substantial decrease in travel bookings volumes could have an adverse impact on our financial performance, operations, liquidity, or capital resources and could impair our ability to recover the carrying value of certain of our assets, including capitalized software, other intangible assets and goodwill.

We face competition from established and emerging travel distribution channels, which could divert customers to our competitors and adversely affect our results of operations.

Our business includes channels of distribution that support the travel agency, business–direct and consumer–direct segments of the global travel distribution market. In all of these distribution channels, we face significant competition. In the travel agency channel, our *Sabre* global distribution system competes primarily against other large and well–established global distribution systems. With the deregulation of the CRS industry in the United States, our CRS business will be competing in a free–market system. Our current and potential customers may elect to use a competing GDS offering lower prices. Furthermore, one or more airlines (other than those participating in our DCA 3–Year Pricing Option) may elect to discontinue or to lower their levels of participation in our global distribution system, given the expiration in the United States of non–discriminatory CRS participation rules (although only Iberia, Lufthansa and Air France are currently subject to these rules). Losing access to supplier inventory would make our global distribution system less attractive to travel agencies and travel purchasers, which could reduce our booking fee revenue. In order to gain access to suppliers' inventory, it might become necessary for us to reduce the fees charged to suppliers, which could reduce our booking fee revenue. In addition, we face increasing competition in the travel agency channel, including competition from travel suppliers that distribute directly to travel agencies.

In the business–direct channel, Travelocity Business competes against similar offerings from other travel agencies. Some competitors market business travel systems that are bundled with financial and other non–travel software systems that we do not offer. As a result, our current and potential customers may choose the convenience or cost–effectiveness of our competitors' bundled products and services.

In the consumer–direct channel, our Travelocity offering competes not only against similar offerings from affiliates of other global distribution systems, but also with a large number of online travel agencies, including those operated by airlines and other travel suppliers.

We expect existing competitors, business partners and new entrants to the travel business to constantly revise and improve their business models in response to challenges from competing businesses, including ours. If these or other travel industry participants introduce changes or developments that we cannot meet in a timely or cost–effective manner, our business may be adversely affected. In addition, consumers frequently use our Websites for route pricing and other travel information, and then choose to purchase travel offerings from a source other than our Website, including travel suppliers' own websites. Such use may increase our costs without producing revenue.

In addition, consolidation among our competitors may give our competitors increased negotiating leverage with travel suppliers and corresponding competitive advantages over us. Consolidation among travel suppliers, including airline mergers, may increase competition from distribution channels related to those suppliers and place more leverage in the hands of those suppliers to negotiate lower booking fees. If we are unable to compete effectively, competitors could divert our customers away from our travel distribution channels and, unless we substitute alternative revenue streams, it could adversely affect our results of operations.

Some travel suppliers are seeking to bypass intermediaries, which may have the effect of adversely affecting our results of operations.

Some travel suppliers are seeking to decrease their reliance on distribution intermediaries, including global distribution systems such as our *Sabre* GDS. Travel suppliers may give advantages to distribution intermediaries in which they have an economic stake. For instance, airlines own a significant stake in Amadeus and Orbitz. Various airlines, hotels, car rental companies and cruise operators have established their own travel distribution websites. Several airlines and hotels have formed joint ventures that offer multi-supplier travel distribution websites. From time to time travel suppliers offer advantages, such as bonus miles, lower transaction fees, or discounted prices, when their products and services are purchased from these supplier-related websites. Some of these offers have not been made to unrelated intermediaries. In addition, the airline industry has experienced a shift in market share from full-service carriers to low-cost carriers that focus primarily on discount fares to leisure destinations. Some low-cost carriers do not distribute their tickets through the *Sabre* GDS or through other third-party intermediaries. These developments may have the effect of diverting customers from our distribution system to supplier-related websites and have the potential to put downward pressure on GDS pricing.

Consolidation in the travel agency industry and increased competition for travel agency subscribers may result in increased expenses, lost bookings and reduced revenue.

The number of bookings produced by our travel agency subscriber base is an important factor in our success. Some travel suppliers have reduced or eliminated commissions paid to travel agencies (including consumer direct travel sites like Travelocity). The loss of commissions causes travel agencies to become more dependent on other sources of revenues, such as traveler-paid service fees and GDS-paid incentives. The reduction or elimination of supplier-paid commissions has forced some smaller travel agencies to close or to combine with larger travel agencies. Although we have a leading share of large travel agencies, competition is particularly intense among global distribution systems for larger travel agency subscribers. Consolidation of travel agencies may result in increased competition for these subscribers. In order to compete effectively, we may need to increase incentives, pre-pay incentives, increase spending on marketing or product development, or make significant investments to purchase strategic assets.

Travelocity's growth cannot be assured.

The online travel space is highly competitive, with both the independent internet travel agencies and suppliers' proprietary websites competing for customers. Our business strategy is dependent on expanding Travelocity's transaction revenues, increasing its percentage of merchant transactions, maintaining the breadth of its merchant suppliers, and increasing its site traffic (including from Travelocity's distribution partners). Key components of this strategy include the growth of revenue from our merchant model hotel business, last-minute packaging and the TotalTrip dynamic packaging offering. We also plan to broaden the appeal of Travelocity Business to corporate travelers. If any of these initiatives is not successful, Travelocity's growth may be limited and it may be unable to achieve or maintain profitability.

Our business plans call for the significant growth of our merchant model business, and we may be unsuccessful in managing or expanding that business.

Our business strategy is dependent upon our merchant model business, primarily our merchant model hotel business, as a significant source of revenue. We remain subject to numerous risks in the operation and growth of this business. Our merchant model hotel strategy is particularly dependent upon our ability to obtain an adequate number of hotel rooms to offer, through Travelocity or through our *Sabre Exclusives* program, which require pre-payment by the consumer at the time of booking. Our strategy calls for us to increase the number of hotel rooms we can offer under our merchant-model hotel program based upon merchant arrangements we make directly with individual hotel properties and hotel chains. Under our merchant model hotel program, we contract with hotels for access to rooms at a negotiated rate and then we determine the price at which we offer the rooms to travelers. There are significant risks associated with the merchant model. In particular, we cannot ensure that we will continue to be successful in signing up hotel properties in a sufficient number of domestic or international geographic markets. Many hoteliers utilize merchant arrangements with us and with our competitors as a channel to dispose of excess hotel rooms at discounted rates. We may be unable to achieve our financial objectives for the merchant model hotel program, especially if economic conditions improve or if competition increases. If improved economic conditions create increased demand for hotel rooms, hotel managers may reduce the amount of merchant hotel rooms made available to us and may increase the negotiated rates at which they provide merchant hotel rooms to us. Similarly, heightened competition from our competitors' own merchant rate programs may result in offering reductions and increases in negotiated rates for our merchant model rooms. These types of events could exert downward pressure on the margins we expect to achieve in our merchant hotel business. Similar risks could also impact our businesses should we choose to explore applying the merchant model to our other lines of business, such as air travel, in the future.

We may be unsuccessful in pursuing and integrating business combinations and strategic alliances, which could result in increased expenditures or cause us to fail to achieve anticipated cost savings or revenue growth.

We plan to examine possible business combinations, investments, joint ventures or other strategic alliances with other companies in order to maintain and grow revenue and market presence. We may be unable to successfully complete these acquisitions due to multiple factors, such as issues related to regulatory review of the proposed transactions. In addition, there are risks inherent in these types of transactions, such as: difficulty in assimilating the operations, technology and personnel of the combined companies; disruption of our ongoing business, including loss of management focus on existing businesses and market developments; problems retaining key technical and managerial personnel; expenses associated with the amortization of identifiable intangible assets; additional or unanticipated operating losses, expenses or liabilities of acquired businesses; impairment of relationships with existing employees, customers and business partners; and fluctuations in value and losses that may arise from equity investments. In addition, we may not be able to: identify suitable candidates for additional business combinations and strategic investments; obtain financing on acceptable terms for such business combinations and strategic investments; or otherwise consummate such business combinations and strategic investments on acceptable terms.

We cannot assure you that our ongoing cost reduction plans will be successful.

Our strategy depends, to a substantial degree, on reducing and controlling operating expenses. In furtherance of this strategy, we have engaged in ongoing, company-wide activities intended to reduce costs. These activities included significant personnel reductions, reductions in Travelocity fulfillment costs (in part through global sourcing) and realigning and streamlining operations and consolidating facilities. We cannot assure you that our efforts will result in the increased profitability, cost savings or other benefits that we expect.

Rapid technological changes and new distribution channels or unauthorized use of our intellectual property may adversely affect the value of our current or future technologies to us and our customers, which could cause us to increase expenditures to upgrade and protect our technology or develop and protect competing offerings in new distribution channels.

New distribution channels and technology in our industry are evolving rapidly. Our ability to compete and our future results depend in part on our ability to make timely and cost-effective enhancements and additions to our technology, to introduce new products and services that meet customer demands, to keep pace with rapid advancements in technology, and to protect our technology. Unauthorized use of our intellectual property could have a material adverse effect on us, and our legal remedies may not adequately compensate us for the damages to our business caused by such use. Maintaining flexibility to respond to technological and market dynamics may require substantial expenditures and lead-time. We cannot assure you that we will successfully identify and develop new products or services in a timely manner, that offerings, technologies or services developed by others will not render our offerings obsolete or noncompetitive, or that the technologies in which we focus our research and development investments will achieve acceptance in the marketplace and provide a return on our investment.

Our systems may suffer failures, capacity constraints and business interruptions, which could increase our operating costs and cause us to lose customers.

Our businesses are largely dependent on the computer data centers and network systems operated for us by Electronic Data Systems Corporation. We rely on several communications service suppliers and on the global Internet to provide network access between our computer data center and end-users of our services. Like any company in our industry, we occasionally experience system interruptions that make some or all of our global distribution system or other data processing services unavailable, which may prevent us from efficiently providing services to our customers or other third parties. System capacity limits or constraints arising from unexpected increases in our volume of business could cause interruptions, outages or delays in our services, or a deterioration in their performance, or could impair our ability to process transactions. Much of the computer and communications hardware upon which we depend is located in a single facility. Our systems might be damaged or interrupted by fire, flood, power loss, telecommunications failure, break-ins, earthquakes, terrorist attacks, hostilities or war or similar events. Computer viruses, physical or electronic break-ins and similar disruptions affecting the global Internet or our systems might cause service interruptions, delays and loss of critical data, and could prevent us from providing our services. Problems affecting our systems might be expensive to remedy and could significantly diminish our reputation and brand name and prevent us from providing services. We could be harmed by outages in, or unreliability of, the data center or network systems.

State and local tax issues have the potential to have an adverse effect on our financial condition and results of operations.

Some state and local taxing authorities impose taxes on the sale, use or occupancy of hotel room accommodations, which are called transient, occupancy, accommodation, sales or hotel room taxes. Hotel operators generally collect and remit these occupancy taxes. Consistent with that practice, when a customer books a hotel room through one of our travel services, we collect from the customer an amount sufficient to pay the hotel its room charge and the occupancy taxes on that charge, as well as additional amount representing our fee.

We do not collect or remit occupancy taxes on our fee. Some tax authorities claim that occupancy taxes should be collected on some or all of that fee. We believe there are strong arguments that our fee is not subject to occupancy taxes (although tax laws vary among the jurisdictions). We are attempting to resolve this issue with tax authorities in various jurisdictions, but we cannot predict the resolution in any particular jurisdiction.

We have established a reserve for potential occupancy tax liability, consistent with applicable accounting principles and in light of all current facts and circumstances. The reserve represents our best estimate of our contingent liability for occupancy taxes. A variety of factors could affect any actual liability for occupancy taxes, such as the number of jurisdictions that prevail in either assessing additional occupancy taxes or negotiating a settlement with us, the fees potentially subject to tax in each jurisdiction, changes in applicable tax laws, and the timing of any or all of the foregoing. We cannot assure you that the amount of our liability on occupancy taxes will not exceed that reserve and will not have a material adverse effect on our financial results.

Regulatory developments abroad could limit our ability to compete by restricting our flexibility to respond to competitive conditions, which could cause our customers to be diverted to our competitors and adversely affect our revenue and results of operations.

The Commission of the European Union (the "Commission") and Transport Canada are engaged in a comprehensive review of their rules governing CRS systems. It is unclear at this time when these bodies will complete their reviews and what changes, if any, will be made to their respective CRS rules. We could be unfairly and adversely affected if, for example, these rules are retained as to traditional global distribution systems used by travel agencies but are not applied to travel distribution websites owned by more than one airline. We could also be adversely affected if restrictions are imposed or continued on CRS advertising and displays or if additional limitations are placed upon our right to contract with travel agents or airlines.

We could also be adversely affected if changes to any of the foregoing CRS rules increase our cost of doing business, weaken the non-discriminatory participation rules to allow one or more large airlines owning a competing CRS to discontinue or to lower its level of participation in our global distribution system, or cause us to be subject to rules that do not also apply to our global distribution competitors.

Our international operations are subject to other risks, which may impede our ability to grow internationally and adversely affect our overall results of operations.

We face risks inherent in international operations, such as risks of:

- currency exchange rate fluctuations,
- local economic and political conditions, including conditions resulting from the conflict in Iraq and potential conflict between India and Pakistan,
- restrictive governmental actions, such as trade protection measures, including export duties and quotas and custom duties and tariffs,
- changes in legal or regulatory requirements,
- limitations on the repatriation of funds,
- difficulty in obtaining distribution and support,
- different accounting practices and potentially longer payment cycles,
- seasonal reductions in business activity,
- consumer protection laws and restrictions on pricing or discounts,
- lack of, or the failure to implement, the appropriate infrastructure to support our technology,
- lesser protection in some jurisdictions for our intellectual property,
- laws and policies of the U.S. affecting trade, foreign investment and loans and
- foreign tax and other laws.

These risks may adversely affect our ability to conduct and grow business internationally, which could cause us to increase expenditures and costs, decrease our revenue growth or both.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

As of December 31, 2003, our exposure to interest rates relates primarily to our marketable securities portfolio. Largely offsetting this exposure are our notes payable, as hedged with fixed to floating interest rate swaps. The objectives of our marketable securities are safety of principal, liquidity maintenance, yield maximization and full investment of all available funds. As such, our investment portfolio consists primarily of high credit quality certificates of deposit, money market mutual funds, bankers' acceptances, commercial paper, repurchase agreements, mortgage-backed and receivables-backed securities and corporate and government notes including tax-exempt municipal securities. If short-term interest rates average 10% lower in 2004 than they were during 2003, our interest income from marketable securities would decrease by approximately \$1.2 million. In comparison, at December 31, 2002, we estimated that if short-term interest rates averaged 10% lower in 2003 than they were during 2002, our interest income from marketable securities would have decreased by approximately \$2.9 million. These amounts were determined by applying the hypothetical interest rate change to our marketable securities balances as of December 31, 2003 and 2002.

In addition, we had fixed rate notes of \$400 million ("Notes") as of December 31, 2003. We have entered into fixed to floating interest rate swaps related to \$300 million of the outstanding Notes, effectively converting \$300 million of the \$400 million fixed rate Notes into floating rate obligations. If short-term interest rates average 10% higher in 2004 than they were in 2003, our interest expense would increase by approximately \$0.4 million. This amount was determined by applying the hypothetical interest rate change to our floating rate borrowings balance at December 31, 2003.

In addition, we had a \$168 million capital lease at December 31, 2003. We have entered into fixed to floating interest rate swaps related to \$100 million of the outstanding capital lease, effectively converting \$100 million of the \$168 million fixed rate capital lease into a floating rate obligation. If short-term interest rates average 10% higher in 2004 than they were in 2003, our interest expense would increase by approximately \$0.1 million. This amount was determined by applying the hypothetical interest rate change to our floating rate borrowings balance at December 31, 2003.

Foreign Currency Risk

We have various foreign operations, primarily in North America, South America, Europe, Australia and Asia. As a result of these business activities, we are exposed to foreign currency risk. Since a significant portion of our business is transacted in the United States dollar, these exposures have historically related to a small portion of our overall operations. However, during times of devaluation of the U.S. dollar, such as in 2003, the increase in our foreign expenses can have a negative impact on our operating results. 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. These contracts, totaling \$89.0 million at December 31, 2003 and \$77.8 million at December 31, 2002, represented obligations to purchase foreign currencies at a predetermined exchange rate, to fund a portion of our expenses that are denominated in foreign currency exposures. The result of an immediate 10 percent devaluation of the U.S. dollar in 2004 from December 31, 2003 levels relative to our primary foreign currency exposures would result in an increase in the U.S. dollar-equivalent of foreign currency denominated expenses of approximately \$4.7 million, net of hedge instruments outstanding. This sensitivity analysis was prepared based upon 2004 projections of our primary foreign currency-denominated expenses and foreign currency forward contracts as of December 31, 2003.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

The Board of Directors and Stockholders
Sabre Holdings Corporation

We have audited the accompanying consolidated balance sheets of Sabre Holdings Corporation and subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2003. Our audits also included the financial statement schedule listed under Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sabre Holdings Corporation and subsidiaries at December 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 2 to the consolidated financial statements, effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*.

ERNST & YOUNG LLP

Dallas, Texas
January 21, 2004,
except for Note 17, as to which
the date is January 30, 2004

SABRE HOLDINGS CORPORATION

CONSOLIDATED BALANCE SHEETS

(in thousands)

	December 31,	
	2003	2002
Assets		
Current assets		
Cash	\$ 40,862	\$ 21,176
Marketable securities	881,749	890,584
Accounts receivable, net	348,988	298,498
Prepaid expenses	86,475	85,657
Deferred income taxes	10,237	15,728
Total current assets	1,368,311	1,311,643
Property and equipment		
Buildings and leasehold improvements	306,294	156,034
Furniture, fixtures and equipment	36,684	43,578
Computer equipment and software	275,664	236,639
Less accumulated depreciation and amortization	(234,262)	(196,179)
Total property and equipment	384,380	240,072
Investments in joint ventures	181,142	189,002
Goodwill and intangible assets, net	888,198	855,683
Other assets, net	134,122	163,674
Total assets	\$ 2,956,153	\$ 2,760,074
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	\$ 202,615	\$ 181,934
Accrued compensation and related benefits	62,557	54,770
Accrued subscriber incentives	70,178	69,132
Deferred revenues	34,791	46,252
Other accrued liabilities	133,254	147,826
Total current liabilities	503,395	499,914
Deferred income taxes	4,420	13,755
Pensions and other postretirement benefits	135,099	119,848
Other liabilities	38,543	38,914
Minority interests	6,463	10,300
Long-term capital lease obligation	160,725	—
Notes payable	427,400	435,765
Commitments and contingencies (Note 9)		
Stockholders' equity		
Preferred stock: \$0.01 par value; 20,000 shares authorized; no shares issued	—	—
Common stock: Class A: \$0.01 par value; 250,000 shares authorized; 145,652 and 144,775 Shares issued at December 31, 2003 and 2002, respectively	1,457	1,448
Additional paid-in capital	1,291,841	1,269,101
Retained earnings	495,372	442,130
Accumulated other comprehensive loss	(8,115)	(16,024)
Less treasury stock at cost; 4,322 and 2,172 shares, respectively	(100,447)	(55,077)
Total stockholders' equity	1,680,108	1,641,578
Total liabilities and stockholders' equity	\$ 2,956,153	\$ 2,760,074

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



SABRE HOLDINGS CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share amounts)

	Year Ended December 31,		
	2003	2002	2001
Revenues	\$ 2,045,163	\$ 2,056,466	\$ 2,144,961
Operating expenses			
Cost of revenues	1,269,129	1,161,285	1,307,476
Selling, general and administrative	553,503	524,257	568,672
Amortization of goodwill and intangible assets	56,301	53,424	277,522
Total operating expenses	1,878,933	1,738,966	2,153,670
Operating income (loss)	166,230	317,500	(8,709)
Other income (expense)			
Interest income	16,477	27,903	24,659
Interest expense	(24,077)	(23,350)	(41,165)
Other, net	(30,888)	16,801	36,756
Total other income (expense)	(38,488)	21,354	20,250
Minority interests	(365)	214	22,469
Income from continuing operations before provision for income taxes	127,377	339,068	34,010
Provision for income taxes	44,076	124,924	80,963
Income (loss) from continuing operations	83,301	214,144	(46,953)
Income from discontinued operations, net	—	—	36,305
Gain on sale of discontinued operations, net	—	—	38,772
Income before cumulative effect of accounting change	83,301	214,144	28,124
Cumulative effect of accounting change, net	—	—	3,103
Net earnings	\$ 83,301	\$ 214,144	\$ 31,227
Earnings (loss) per common share—basic			
Income (loss) from continuing operations	\$.59	\$ 1.53	\$ (.35)
Income from discontinued operations, net	—	—	.57
Cumulative effect of accounting change, net	—	—	.02
Net earnings	\$.59	\$ 1.53	\$.24
Earnings (loss) per common share—diluted			
Income (loss) from continuing operations	\$.58	\$ 1.50	\$ (.35)
Income from discontinued operations, net	—	—	.57
Cumulative effect of Accounting change, net	—	—	.02
Net earnings	\$.58	\$ 1.50	\$.24
Dividends per common share	\$.21	\$ —	\$ —

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

SABRE HOLDINGS CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Year Ended December 31,		
	2003	2002	2001
Operating activities			
Net earnings	\$ 83,301	\$ 214,144	\$ 31,227
Adjustments to reconcile net earnings to cash provided by operating activities:			
Depreciation and amortization	136,004	116,948	437,647
Stock compensation	11,586	31,142	7,624
Deferred income taxes	(3,837)	53,204	(87,409)
Tax benefit from exercise of stock options	736	9,687	31,126
Minority interests	365	(214)	(22,469)
Loss on facilities lease refinancing	27,947	—	—
Gain on sale of former headquarters building	—	(18,308)	—
Gain on sale of discontinued operations, net	—	—	(38,772)
Gain on sale of France Telecom shares	—	—	(47,303)
Cumulative effect of accounting change, net of tax	—	—	(3,103)
Loss on disposal of equipment	12,284	96	8,347
Other	806	(22,426)	2,536
Changes in operating assets and liabilities:			
Accounts receivable	(43,887)	175	159,794
Prepaid expenses	2,230	(29,101)	(2,601)
Other assets	4,057	22,104	(24,623)
Accrued compensation and related benefits	7,787	(18,505)	(18,702)
Accounts payable and other accrued liabilities	10,851	(26,456)	(723)
Pensions and other postretirement benefits	16,813	(3,950)	(21,133)
Other liabilities	(5,505)	(36,869)	(21,226)
Cash provided by operating activities	261,538	291,671	390,237
Investing activities			
Additions to property and equipment	(71,466)	(62,650)	(158,407)
Business combinations, net of cash acquired	(96,114)	(498,508)	(55,343)
Proceeds from exercise of Travelocity.com stock options	—	33,658	13,145
Proceeds from sale of former headquarters building	—	80,000	—
Purchase of data center facility from lessor	—	(92,092)	—
Proceeds from sale of data center facility	—	68,464	—
Proceeds from sale of minority interest in Sabre Pacific	—	23,466	—
Proceeds from sale of discontinued operations	—	—	660,763
Purchases of marketable securities	(7,751,087)	(4,695,307)	(3,340,225)
Sales of marketable securities	7,760,587	4,453,062	2,833,914
Proceeds from sales of investments	5,054	8,807	86,253
Purchases of Travelocity.com common stock	—	—	(17,908)
Other investing activities, net	6,968	12,078	(39,942)
Cash used for investing activities	(146,058)	(669,022)	(17,750)
Financing activities			
Proceeds from public offering of common stock	—	399,763	—
Proceeds from exercise of stock options and issuance of stock under employee stock purchase plan	10,541	36,609	109,262
Purchase of treasury stock	(45,596)	(56,610)	(9,064)
Dividends paid	(30,125)	—	—
Payment for facilities lease refinancing	(27,947)	—	—
Issuance of notes payable	—	—	397,392
Repayment of notes payable	—	—	(859,000)
Other financing activities, net	(2,667)	(90)	—
Cash provided by (used for) financing activities	(95,794)	379,672	(361,410)
Increase in cash	19,686	2,321	11,077
Cash at beginning of the period	21,176	18,855	7,778
Cash at end of the period	\$ 40,862	\$ 21,176	\$ 18,855
Cash payments for income taxes	\$ 18,715	\$ 44,069	\$ 177,415
Cash payments for interest	\$ 30,024	\$ 22,412	\$ 32,612

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



Other	—	—	112	66	—	—	178
Balance at December 31, 2003	\$ 1,457	\$ —	\$ 1,291,841	\$ 495,372	\$ (8,115)	\$ (100,447)	\$ 1,680,108

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

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 Annual Report on Form 10-K, 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. We operate in multiple travel distribution channels: the travel agency channel, the consumer-direct channel and the business-direct channel. Through our Sabre® global distribution system (the "Sabre system" or "Sabre GDS") subscribers can access information about, and can book reservations for, among other things, airline trips, hotel stays, car rentals, cruises and tour packages. Our Sabre Travel Network business operates the Sabre GDS and markets and distributes travel-related products and services through the travel agency channel. We engage in consumer-direct and business-direct travel marketing and distribution through our Travelocity business. In addition, our Sabre Airline Solutions business is a leading provider of technology and services, including development and consulting services, to airlines and other travel providers.

² Sabre, Direct Connect, eVoya, Turbo Sabre, eMergo, Travelocity, Travelocity.com, Travelocity.ca, Site59 and GetThere are registered trademarks, and Sabre Holdings, Sabre Travel Network, Sabre Airline Solutions, Basic Booking Request, Jurni Network, SabreSonic, Sabre Exclusives, Travelocity Business and TotalTrip are trademarks of an affiliate of Sabre Holdings Corporation. All other trademarks are the property of their respective owners. ©2004 Sabre Holdings Corporation. All rights reserved.

During the fourth quarter of 2003 we aligned our *GetThere*TM business segment, which engaged in business direct travel services and had previously been operated as a separate business segment, within our other three segments. This realignment resulted in *GetThere*[®] products, services and operations being integrated into the remaining three segments. Accordingly, GetThere will no longer be reported as a separate segment. Disaggregated information relating to our business segments as of December 31, 2003, is presented in Note 14 to the Consolidated Financial Statements.

2. Summary of Significant Accounting Policies

Basis of Presentation—We consolidate all of our majority-owned subsidiaries and companies over which we exercise control through majority voting rights. No 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 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 using the equity method, 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. See "Recent Accounting Pronouncements" below.

Certain reclassifications have been made to the 2002 and 2001 financial statements to conform to the 2003 presentation.

Use of Estimates—The preparation of these financial statements in conformity with generally accepted accounting principles requires that certain amounts be recorded based on estimates and assumptions made by management. Actual results could differ from these estimates and assumptions. Our accounting policies which include significant estimates and assumptions include estimation of the collectibility of accounts receivable, amounts for future cancellations of bookings processed through the *Sabre* system, the evaluation of the recoverability of the carrying value of intangible assets and goodwill and the evaluation of the recoverability of deferred tax assets. These policies are discussed in greater detail below.

Statement of Cash Flows—Marketable securities, without regard to remaining maturity at acquisition, are not considered cash equivalents for purposes of the statement of cash flows.

Depreciation and Amortization—Our depreciation and amortization policies are as follows:

Property and equipment:	
Buildings, including buildings under capital lease	Lesser of lease term or 35 years
Furniture and fixtures	5 to 15 years
Leasehold improvements	Lesser of lease term or useful life
Computer/service contract equipment	3 to 5 years
Computer software	3 to 7 years
Other assets:	
Capitalized software development costs	3 to 7 years
Intangible assets	1 to 20 years
Goodwill (prior to January 1, 2002)	3 to 20 years

We are currently depreciating the capital lease assets for our corporate headquarters buildings, furniture and fixtures to the amount of the residual value guarantee over the ten-year term of the lease. If we determine during the lease term that the estimated fair value of the capital lease assets has fallen below approximately \$179 million, we will increase the periodic depreciation expense over the remaining term of the lease. See Note 9.

Property and equipment are stated at cost less accumulated depreciation and amortization, which is calculated on the straight-line basis. Depreciation of property, capital lease assets and equipment included in continuing operations totaled approximately \$70 million, \$57 million and \$97 million in 2003, 2002 and 2001, respectively. Amortization of other assets included in continuing operations totaled approximately \$66 million in 2003, \$60 million in 2002 and \$292 million in 2001. Other assets are amortized on the straight-line basis over the periods indicated. Accumulated amortization of other assets approximated \$182 million and \$137 million at December 31, 2003 and 2002, respectively. As discussed in more detail below, we adopted Statement of Financial Accounting Standard No. 142, *Goodwill and Other Intangible Assets*, as of January 1, 2002 and no longer amortize goodwill and certain other indefinite lived intangible assets.

Revenue Recognition

Sabre Travel Network—We provide various travel marketing and distribution services using the *Sabre* system. As compensation for services provided, fees are collected from airline, car rental and hotel vendors and other providers of travel-related products and services ("associates") for reservations booked through the *Sabre* system. The fee per booking charged to associates is dependent upon the level of functionality within the *Sabre* system at which the associate participates. Revenue for airline travel reservations is recognized at the time of the booking of the reservation, net of estimated future cancellations. At December 31, 2003 and 2002, we have recorded booking fee cancellation reserves of approximately \$17 million and \$18 million, respectively. This reserve is calculated 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 significant percentage of cancellations are followed by an immediate re-booking, without loss of revenue. This assumption is based on historical rates of cancellations/re-bookings and has a significant impact on the amount reserved. If circumstances change (i.e., higher than expected cancellation rates or changes in booking behavior), our estimates of future cancellations could be increased by a material amount and our revenue decreased by a corresponding amount. Revenue for car rental, hotel bookings and other travel providers is recognized at the time the reservation is used by the customer.

We also enter into service contracts with subscribers (primarily travel agencies) for hardware, software, hardware maintenance and other support services. Fees billed on service contracts are recognized as revenue in the month earned. We receive fees from travel suppliers and corporate customers for transactions booked through our Web-based travel booking systems and recognize the associated revenues in the month of the transaction.

During 2002, we instituted a merchant business model whereby we have given our subscribers access to hotel rooms at discounted prices. Under the merchant model, we recognize as revenue the amount paid by the traveler minus our payment to the travel supplier. We recognize merchant revenue for hotel stays at the date of check-in. We generally do not have purchase obligations for unsold offerings.

Travelocity—We receive commissions from travel suppliers for air travel, hotel rooms, car rentals, vacation packages and cruises booked through our Travelocity Websites and advertising revenues from the delivery of advertising impressions on our Travelocity Websites. Commissions from air travel providers are recognized upon confirmation of pending payment of the commission. Commissions from other travel providers are recognized upon receipt. Advertising revenues are recognized in the period that advertising impressions are delivered.

Travelocity instituted a merchant business model in 2001 for air travel and in 2002 for hotels and vacation packages. Travelocity has negotiated access to discounted travel content from airlines, hotels and car rental companies. More than 10,000 hotels currently participate in the merchant model hotel program and we expect to continue to add more participants. These components are sold individually or combined to create vacation and last-minute deal packages for sale to end consumers at prices determined by Travelocity. Travelocity generally does not have purchase obligations for unsold offerings. Travelocity recognizes merchant revenue for stand-alone air travel at the time the travel is sold to the consumer and for vacation packages and hotel stays at the date of check-in.

Sabre Airline Solutions—We provide software solutions and airline reservation hosting services. Revenue from airline reservation hosting services is recognized in the period earned. Our software is generally sold as part of agreements which also require us to provide customization and implementation services. Such agreements are accounted for using contract accounting under the provisions of Statement of Position 97-2, *Software Revenue Recognition*. Revenue from license fees, when software is sold without associated customization or implementation services, is recognized when the software is delivered, fees are fixed and determinable, no undelivered elements are essential to the functionality of delivered software and collection is probable. Fees for software maintenance are recognized ratably over the life of the contract. The fees for software maintenance included in initial software license agreements is based on the vendor specific objective evidence of the fair value of the services determined using actual renewal rates for software maintenance services. We also provide our software solutions in a hosted environment. Revenue is recognized in the period earned.

Services on long-term software development and consulting contracts are provided under both a time-and-materials basis and a fixed fee basis. Revenues with respect to time-and-materials contracts are recognized as services are performed. Revenues from services provided under fixed fee contracts are recognized using the percentage-of-completion method of accounting, based on costs incurred to date in comparison to total cost projected at completion. A contract is considered substantially complete when the product has been delivered and performance specifications have been substantially met. Losses, if any, on long-term contracts are recognized when the current estimate of total contract costs indicates a loss on a contract is probable.

As a result of contractual billing terms, at December 31, 2003 and 2002 we had recorded accounts receivable of approximately \$21 million and \$12 million, respectively, that had not been billed to customers and deferred revenues of approximately \$22 million and \$27 million, respectively, related to advance payments from customers. Approximately \$0.3 million and \$1 million of these deferred revenues were noncurrent as of December 31, 2003 and 2002, respectively.

Prior to the EDS transaction in 2001 (Note 3), we provided information technology infrastructure outsourcing services to the travel and transportation industries. Revenues relating to long-term outsourcing contracts were recognized as services were performed.

Derivatives—We recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is designated as a hedge, depending on the nature of the hedge, changes in the fair value of derivatives are offset against the change in fair value of the hedged item through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of the change in fair value of a derivative designated as a hedge is immediately recognized in earnings. For derivative instruments not designated as hedging instruments, the gain or loss is recognized in current earnings during the period of change.

Advertising Costs—Advertising costs are generally expensed as incurred; however, we defer certain advertising costs within the fiscal year where the benefits extend beyond the quarter in which they were incurred. Advertising costs expensed in 2003, 2002 and 2001 totaled approximately \$138 million, \$109 million and \$109 million, respectively.

Customer Incentives—Certain service contracts with significant subscribers contain booking productivity clauses and other provisions that allow subscribers to receive cash payments and/or various amounts of additional equipment and other services from us at no cost. We establish liabilities for these commitments and recognize the related expense as the subscribers earn incentives based on the applicable contractual terms. Accrued incentives liabilities at December 31, 2003 and 2002 were approximately \$70 million and \$69 million, respectively. Periodically, we make cash payments to subscribers at inception or modification of a service contract which are deferred and amortized over the expected life of the service contract, generally three years. At December 31, 2003 and 2002, we had \$44 million and \$58 million, respectively, in deferred charges related to such contracts. The service contracts are priced so that the additional airline and other booking fees generated over the life of the contract will exceed the cost of the incentives provided.

Income Taxes—The provision for income taxes has been computed using the liability method. For periods prior to the acquisition of the minority interest in Travelocity.com Inc. in April 2002 (Note 5), the provision for income taxes was computed as if we and Travelocity.com Inc. were separate taxpayers. Under the liability method, deferred income tax assets and liabilities are determined based on differences between financial reporting and income tax bases of assets and liabilities and are measured using the tax rates and laws in effect at the time of such determination. The measurement of deferred tax assets is adjusted by a valuation allowance, if necessary, to recognize the extent to which, based on available evidence, the future tax benefits more likely than not will not be realized.

The results of operations of our consolidated subsidiaries are included in our federal income tax return (except for Travelocity.com Inc.'s results of operations for periods prior to April 8, 2002). Through the date of purchase of the minority interest, Travelocity.com Inc. filed a separate federal income tax return. We included our proportionate share of the results of operations of the Travelocity partnership in our federal income tax return during periods prior to April 2002. Subsequent to the acquisition of the Travelocity.com minority interest, the results of operations of Travelocity.com have been included in our consolidated federal income tax return (Note 11).

Computer Software Developed or Purchased for Internal Use—Costs related to applications, infrastructure and graphics development for our Websites, are capitalizable under Statement of Position 98–1, *Accounting for Computer Software Developed or Obtained for Internal Use* and are included in property and equipment in the accompanying balance sheets. Capitalizable costs consist of (a) certain external direct costs of materials and services incurred in developing or obtaining internal–use computer software, (b) payroll and payroll–related costs for employees who are directly associated with and who devote time to the project and (c) interest costs incurred. Research and development costs incurred during the preliminary project stage or incurred for data conversion activities and training, maintenance and general and administrative or overhead costs are expensed as incurred. Costs that cannot be separated between maintenance of, and relatively minor upgrades and enhancements to, internal–use software are also expensed as incurred.

We amortize computer software using the straight–line method over the estimated useful life of the software, approximately three to seven years. At December 31, 2003 and 2002, unamortized computer software costs approximated \$91 million and \$70 million, respectively.

Capitalized Software Development Costs—All costs incurred in the development of software which is licensed to third parties that have the option to take possession of the software are classified as research and development costs and are expensed as incurred until technological feasibility has been established. Once technological feasibility has been established, such costs are capitalized until the product is ready for service. We define technological feasibility in accordance with Statement of Financial Accounting Standards No. 86, *Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed*. Technological feasibility is achieved upon completion of all planning, designing, coding and testing activities that are necessary to establish that a product can be produced according to its design specifications.

We amortize capitalized software development costs using the straight–line method over the estimated economic life of the software. At both December 31, 2003 and 2002, unamortized software development costs approximated \$15 million. Research and development costs incurred in software development approximated \$48 million, \$40 million and \$73 million for 2003, 2002 and 2001, respectively.

Long–Lived Assets and Goodwill—Prior to January 1, 2002, we reviewed all of our long–lived assets, including identifiable intangible assets, for impairment when changes in circumstances indicated that the carrying amount of an asset might not be recoverable. If we determined that such indicators were present, we prepared an undiscounted future net cash flow projection for the asset. In preparing this projection, we made a number of assumptions concerning such things as future booking volume levels, price levels, commission rates, rates of growth in our consumer and corporate direct booking businesses, rates of increase in operating expenses, etc. If our projection of undiscounted future net cash flows was in excess of the carrying value of the recorded asset, no impairment was recorded. If the carrying value of the asset exceeded the projected undiscounted net cash flows, an impairment was recorded. The amount of the impairment charge was determined by discounting the projected net cash flows. Intangible assets subject to amortization continue to be evaluated for impairment using this methodology.

Through the end of 2001, we evaluated goodwill for impairment based on undiscounted projected future cash flows. If the carrying value of the goodwill was less than the undiscounted projected future cash flows, no impairment would be recognized. Upon adoption of Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* ("SFAS No. 142") on January 1, 2002, we began to evaluate our goodwill for impairment on an annual basis or whenever indicators of impairment exist. The evaluation is based upon a comparison of the estimated fair value of the business unit to which the goodwill has been assigned to the sum of the carrying value of the assets and liabilities of that unit. Our business units evaluated under SFAS 142 are the same as our business segments presented in Note 14. The fair values used in this evaluation are estimated based upon discounted future cash flow projections for the unit. These cash flow projections are based upon a number of assumptions, as discussed above. Under SFAS No. 142 intangible assets deemed to have indefinite lives are subject to impairment tests annually or when changes in circumstances indicate that the carrying value may not be recoverable. If the carrying value of an indefinite lived intangible asset exceeds its fair value, as generally estimated using a discounted future net cash flow projection, the carrying value of the asset is reduced to its fair value.

We believe that assumptions we have made in projecting future cash flows for the evaluations described above are reasonable. However, if future actual results do not meet our expectations, we may be required to record an impairment charge, the amount of which could be material to our results of operations.

Upon adoption of SFAS 142, we no longer amortize goodwill and certain other indefinite lived intangible assets. Other intangible assets continue to be amortized over their useful lives. The following table reflects income from continuing operations and net income for 2001, adjusted to exclude amortization expense (including related tax effects) related to goodwill and other indefinite lived intangible assets (in thousands):

	Year Ended December 31, 2001
Reported loss from continuing operations	\$ (46,953)
Goodwill and indefinite lived intangible assets amortization, net of income taxes and minority interests	211,998
Adjusted income from continuing operations	\$ 165,045
Reported net earnings	\$ 31,227
Goodwill and indefinite lived intangible assets amortization, net of income taxes and minority interests	211,998
Adjusted net earnings	\$ 243,225
Earnings per share	
Basic:	
Reported loss from continuing operations	\$ (.35)
Goodwill and indefinite lived intangible assets amortization, net of income taxes and minority interest	1.60
Adjusted income from continuing operations	\$ 1.25
Reported net earnings	\$.24
Goodwill and indefinite lived intangible assets amortization, net of income taxes and minority interest	1.60
Adjusted net earnings	\$ 1.84
Diluted:	
Reported loss from continuing operations	\$ (.35)
Goodwill and indefinite lived intangible assets amortization, net of income taxes and minority interest	1.60
Adjusted income from continuing operations	\$ 1.25
Reported net earnings	\$.24
Goodwill and indefinite lived intangible assets amortization, net of income taxes and minority interests	1.60
Adjusted net earnings	\$ 1.84

Amortization expense relating to intangible assets subject to amortization totaled \$56 million, \$53 million and \$41 million during the years ended December 31, 2003, 2002 and 2001, respectively.

At December 31, 2003 and 2002, our intangible assets were comprised of the following (in thousands):

	Weighted Average Useful Lives	December 31, 2003		December 31, 2002	
		Gross Carrying Amount, at Cost	Accumulated Amortization	Gross Carrying Amount, at Cost	Accumulated Amortization
Not subject to amortization:					
Goodwill		\$ 872,711	\$ —	\$ 819,856	\$ —
Tradenames, trademarks and domain names		27,599	—	21,980	—
		<u>900,310</u>	<u>—</u>	<u>841,836</u>	<u>—</u>
Subject to amortization:					
Purchased technology	4 years	146,105	(102,670)	129,766	(68,961)
Acquired customer relationships and database	6 years	50,946	(18,140)	36,687	(10,834)
Non-competes agreements	3 years	18,204	(14,415)	17,059	(11,634)
Acquired contracts, supplier and distributor agreements	3 years	21,438	(19,503)	29,369	(13,526)
		<u>236,693</u>	<u>(154,728)</u>	<u>212,881</u>	<u>(104,955)</u>
Total		<u>\$ 1,137,003</u>	<u>\$ (154,728)</u>	<u>\$ 1,054,717</u>	<u>\$ (104,955)</u>

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

2004	\$ 42,822
2005	15,788
2006	9,716
2007	8,010
2008	5,629

Changes in the carrying amount of goodwill during the twelve months ended December 31, 2002 and 2003 are as follows (in thousands):

	Sabre Travel Network	Travelocity	Sabre Airline Solutions	Total
Balance at December 31, 2001	\$ 310,126	\$ 289,232	\$ 27,427	\$ 626,785
Goodwill acquired	—	198,341	1,457	199,798
Goodwill adjustments	(3,160)	(3,249)	(318)	(6,727)
Balance at December 31, 2002	306,966	484,324	28,566	819,856
Goodwill acquired	14,496	37,353	—	51,849
Goodwill adjustments	3,793	(4,367)	1,580	1,006
Balance at December 31, 2003	\$ 325,255	\$ 517,310	\$ 30,146	\$ 872,711

The goodwill balances at December 31, 2003 and 2002 include \$94 million of goodwill related to our investments in joint ventures. Goodwill resulting from joint ventures is included in investments in joint ventures in the accompanying balance sheet.

In connection with the acquisition of GetThere, Inc. in October 2000, certain warrants to obtain GetThere stock were converted into contingent warrants for Sabre stock. We included \$16 million for the value of these warrants in the purchase price recorded for our acquisition of GetThere. In March 2002, we made a cash payment of \$10 million to settle these warrants. To record this settlement, equity was reduced by the \$16 million recorded value of the warrants and goodwill was reduced by approximately \$6 million, the difference between the cash payment and the recorded value of the warrants.

Concentration of Credit Risk—Our customers are primarily located in the United States, Canada, Europe, Latin America and Asia, and are concentrated in the travel industry. We generate a significant portion of our revenues and corresponding accounts receivable from services provided to the commercial air travel industry. As of December 31, 2003, approximately 66% of our trade accounts receivable were attributable to these customers. Our other accounts receivable are generally due from other participants in the travel and transportation industry. Approximately 9%, 11% and 13% of revenues from continuing operations in 2003, 2002 and 2001, respectively, were related to American Airlines, Inc. ("American") and other subsidiaries of AMR Corporation ("AMR"). Each of our segments recognized revenues from transactions with American for 2003, 2002 and 2001. We generally do not require security or collateral from our customers as a condition of sale.

We regularly monitor the financial condition of the air transportation industry and have noted the financial difficulties faced by American and other air carriers. We believe the credit risk related to American's and other carriers' difficulties is mitigated somewhat by the fact that we collect a significant portion of the receivables from these carriers through the Airline Clearing House ("ACH"). We believe use of ACH mitigates our credit risk in cases of airline bankruptcies.

We maintained an allowance for losses of approximately \$15 million and \$35 million at December 31, 2003 and 2002, respectively, based upon the amount of accounts receivable expected to prove uncollectible. In 2003, we reduced our allowance for losses by \$19.1 million due primarily to the write-off of \$17.4 million of aged receivables against reserves we had established in prior years for those specific receivables. The amounts written-off related to customers who had filed for bankruptcy in previous years and we have now ended our collection efforts. We evaluate the collectibility of our accounts receivable based on a combination of factors. In circumstances where we are aware of a specific customer's inability to meet its financial obligations to us (e.g., bankruptcy filings, failure to pay amounts due to us or others), we record a specific reserve for bad debts against amounts due to reduce the net recognized receivable to the amount we reasonably believe will be collected. For all other customers, we recognize reserves for bad debts based on past write-off history (average percentage of receivables written off historically) and the length of time the receivables are past due.

During 2001, 2002 and 2003 the commercial air travel industry in particular, and the travel and transportation industry in general, was adversely affected by a decline in travel resulting from a declining economy, the September 11, 2001 terrorist attacks, the possibility of terrorist attacks, hostilities and war, the financial instability of many of the air carriers. We believe that we have appropriately considered the effects of these factors, as well as any other known customer liquidity issues, on the ability of our customers to pay amounts owed to us. However, if demand for commercial air travel softens, due to prevailing economic conditions, terrorist acts or other incidents involving commercial air transport, or other factors, the financial condition of our customers may be adversely impacted. If we begin, or estimate that we will begin, to experience higher than expected defaults on amounts due us, our estimates of the amounts which we will ultimately collect could be reduced by a material amount.

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 and career equity shares.

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

	Year Ended December 31,		
	2003	2002	2001
Denominator for basic earnings per common share — weighted-average shares	142,321	140,337	132,317
Dilutive effect of stock awards and options	1,086	2,222	—
Denominator for diluted earnings per common share — adjusted weighted-average shares	143,407	142,559	132,317

Options to purchase approximately 16,003,814, 8,413,000 and 4,936,000 weighted-average shares of common stock were outstanding during 2003, 2002 and 2001, respectively, but were excluded from the computation of diluted earnings per share because the effect would be antidilutive.

For additional information regarding stock awards and options, see Note 13.

Stock Awards and Options—At December 31, 2003, we have seven stock-based compensation plans, which are described more fully in Note 13. We account for stock awards and options 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. Generally, no compensation expense is recognized for stock option grants if the exercise price is at or above the fair market value of the underlying stock on the date of grant. Compensation expense relating to other stock awards is recognized over the period during which the employee renders service to us necessary to earn the award.

In accordance with Financial Accounting Standard Board's Interpretation No. 44, *Accounting for Certain Transactions Involving Stock Compensation* ("FIN 44"), an interpretation of APB 25, we record deferred compensation related to unvested employee stock options issued in connection with our acquisitions (Note 5). At December 31, 2003 and 2002, unamortized deferred stock compensation relating to acquisitions that we have made totaled approximately \$12 million and \$25 million, respectively, and is recorded as a reduction of additional paid-in capital.

The total charge for stock compensation expense recorded in accordance with APB 25 and included in wages, salaries and benefits expense for continuing operations was \$12 million, \$31 million and \$24 million for 2003, 2002 and 2001, respectively. The stock compensation expense resulted from vested and unvested stock options assumed in connection with acquisitions and our grants of restricted stock.

The following table illustrates the effect on net income and earnings per share if we had applied the fair value recognition provisions of Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* ("SFAS 123"), instead of APB 25's intrinsic value method to account for stock-based employee compensation (in thousands, except for per share amounts):

	Year Ended December 31,		
	2003	2002	2001
Net earnings as reported	\$ 83,301	\$ 214,144	\$ 31,227
Add stock compensation expense, net of income taxes determined under intrinsic value method	7,531	19,794	15,934
Less total stock-based employee compensation expense determined under fair value based method for all awards, net of income taxes	(48,063)	(41,928)	(48,373)
Pro forma net earnings (loss)	\$ 42,769	\$ 192,010	\$ (1,212)
Net earnings per common share, as reported:			
Basic	\$.59	\$ 1.53	\$.24
Diluted	\$.58	\$ 1.50	\$.24
Net earnings (loss) per common share, pro forma:			
Basic	\$.30	\$ 1.37	\$ (.01)
Diluted	\$.30	\$ 1.35	\$ (.01)

The above pro forma information regarding net income 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:

	Year Ended December 31,		
	2003	2002	2001
Average risk-free interest rate	2.8%	4.3%	4.6%
Expected life (in years)	4.5	4.5	4.5
Dividend yield	0.1%	0.0%	0.0%
Volatility	53.6%	53.3%	41.6%
Fair value	\$ 8.60	\$ 18.02	\$ 17.30

Comprehensive Income—Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. During 2003 and 2002 amounts included in comprehensive income other than net income were approximately a \$7.9 million gain and a \$19.2 million loss, respectively, primarily consisting of a minimum pension liability adjustment (Note 10) and unrealized gains on investments, foreign currency forward contracts and foreign currency translations.

At December 31, 2003, the components of accumulated other comprehensive income (loss) were as follows (in thousands):

	Minimum Pension Liability Adjustment	Unrealized Gains On Foreign Currency Forward Contracts	Unrealized Gains/(Losses) on Investments	Unrealized Foreign Currency Translation Gains/(Losses)	Total Accumulated Other Comprehensive Income (Loss)
Balance at, December 31, 2001	\$ —	\$ 802	\$ 2,483	\$ (109)	\$ 3,176
2002 other comprehensive income, net of income taxes	(21,638)	4,174	(1,867)	131	(19,200)
Ending balance, December 31, 2002	\$ (21,638)	\$ 4,976	\$ 616	\$ 22	\$ (16,024)
2003 other comprehensive income, net of income taxes	(1,223)	1,437	710	6,985	7,909
Ending balance, December 31, 2003	\$ (22,861)	\$ 6,413	\$ 1,326	\$ 7,007	\$ (8,115)

The 2002 and 2003 minimum pension liability adjustments are net of a \$13.4 million and \$0.8 million deferred tax effect, respectively. The income tax effects allocated to all other components of other comprehensive income during the years ended December 31, 2003, 2002 and 2001 were not significant. Unrealized gains from foreign currency forward contracts that were reclassified from other comprehensive income to net income during the years ended December 31, 2003 and 2002 were \$12 million and \$4 million, respectively, while the amounts reclassified during the year ended December 31, 2001 were not significant. Reclassifications from other comprehensive income to net income for all other components of other comprehensive income for the years ended December 31, 2003, 2002 and 2001 were not significant.

Financial Instruments—The carrying value of our financial instruments including cash, marketable securities, accounts receivable and short and long-term debt instruments approximate their respective fair values at December 31, 2003 and 2002. The carrying value of our derivative instruments (Note 7) approximated their fair value at December 31, 2003 and 2002.

Treasury Stock—We account for the purchase of treasury stock at cost. Upon reissuance of shares of treasury stock, we record any difference between the weighted-average cost of such shares and any proceeds received as an adjustment to additional paid-in capital.

Recent Accounting Pronouncements—Effective January 1, 2003, we adopted Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards No. 146, *Accounting for Costs Associated with Exit or Disposal Activities* ("SFAS 146"). This statement nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)*. The standard requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of commitment to an exit or disposal plan. The adoption of this standard did not have a significant effect on our financial position or results of operations.

In January 2003, the FASB issued Interpretation No. 46, *Consolidation of Variable Interest Entities, an interpretation of ARB No. 51* ("FIN 46"). In December 2003, the FASB modified FIN 46 to make certain technical corrections and address certain implementation issues that had arisen. FIN 46 provides a new framework for identifying variable interest entities ("VIEs") and determining when a company should include the assets, liabilities, noncontrolling interests and results of activities of a VIE in its consolidated financial statements.

In general, a VIE is a corporation, partnership, limited-liability corporation, trust, or any other legal structure used to conduct activities or hold assets that either:

- (1) has an insufficient amount of equity to carry out its principal activities without additional subordinated financial support;
- (2) has a group of equity owners that are unable to make significant decisions about its activities; or
- (3) has a group of equity owners that do not have the obligation to absorb losses or the right to receive returns generated by its operations.

FIN 46 requires a VIE to be consolidated if a party with an ownership, contractual or other financial interest in the VIE ("a variable interest holder") is obligated to absorb a majority of the risk of loss from the VIEs activities, is entitled to receive a majority of the VIEs residual returns (if no party absorbs a majority of the VIEs losses), or both. A variable interest holder that consolidates the VIE is called the primary beneficiary. Upon consolidation, the primary beneficiary generally must initially record all the VIEs assets, liabilities and noncontrolling interests at fair value and subsequently account for the VIE as if it were consolidated based on majority voting interest. FIN 46 also requires disclosures about VIEs that the variable interest holder is not required to consolidate but in which it has a significant variable interest.

We do not have an interest in any special purpose entity that is required to be consolidated under FIN 46. We are currently evaluating our involvement in other entities pursuant to the revised guidance; however, we do not anticipate a significant effect as a result of its application.

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity*. The standard requires companies that issue certain types of freestanding financial instruments to treat them as liabilities on their balance sheet, measured at fair value, even though the instruments have characteristics of equity. Generally this standard is effective for the interim period beginning July 1, 2003. Currently, we do not have any financial instruments that are impacted by the new standard.

On December 17, 2003, the Staff of the Securities and Exchange Commission (or SEC) issued Staff Accounting Bulletin No. 104 ("SAB 104"), *Revenue Recognition*, which supersedes Staff Accounting Bulletin No. 101, *Revenue Recognition in Financial Statements* ("SAB 101"). SAB 104's primary purpose is to rescind the accounting guidance contained in SAB 101 related to multiple–element revenue arrangements that was superseded as a result of the issuance of EITF 00–21, *Accounting for Revenue Arrangements with Multiple Deliverables*. Additionally, SAB 104 rescinds the SEC's related *Revenue Recognition in Financial Statements Frequently Asked Questions and Answers* issued with SAB 101 that had been codified in SEC Topic 13, *Revenue Recognition*. While the wording of SAB 104 has changed to reflect the issuance of EITF 00–21, the revenue recognition principles of SAB 101 remain largely unchanged by the issuance of SAB 104, which was effective upon issuance. The adoption of SAB 104 did not have a material effect on our financial position or results of operations.

3. EDS Transaction

On March 14, 2001, we entered into agreements with Electronic Data Systems Corporation ("EDS") which provide for (i) the sale of our technology infrastructure outsourcing business (the "Outsourcing Business") and information technology ("IT") infrastructure assets and associated real estate to EDS (the "Asset Purchase Agreement"), (ii) a 10–year contract with EDS to manage our IT systems (the "IT Outsourcing Agreement") and (iii) agreements between Sabre and EDS to jointly market IT services and software solutions to the travel and transportation industries (the "Marketing Agreements").

Effective July 1, 2001, we completed the sale to EDS of our Outsourcing Business including outsourcing contracts, Web hosting contracts and IT infrastructure assets and associated real estate to EDS for approximately \$661 million in cash. The assets transferred included, among other things, our outsourcing contracts with American, US Airways, Gulf Air and Dollar/Thrifty Rent–A–Car; and our data centers, network and desktop and mid–range computer systems. These assets were used for our Outsourcing Business and for transaction processing in our Sabre Travel Network segment, including the operation of the *Sabre* system. Approximately 4,000 of our employees, located mostly in the United States, were transitioned to employment with EDS upon closing of the transaction.

We retained contracts and assets that are directly related to our core Sabre Airline Solutions business. Those include our reservations hosting business, which provides internal reservation systems for airline customers; contracts to provide software applications development, maintenance and licensing; our intellectual property assets, including our software applications portfolios; and the eMergo suite of products offered by Sabre Airline Solutions as an online application service provider.

Under the IT Outsourcing Agreement, EDS provides, manages and operates our IT infrastructure, including data center management, applications hosting, selected applications development, data assurance and network management services. The term of the IT Outsourcing Agreement is 10 years. Fees paid to EDS under the IT Outsourcing Agreement are primarily based upon the usage of services.

Under the Marketing Agreements, Sabre and EDS agreed to jointly market certain IT services and software solutions to the travel and transportation industries. As part of the marketing relationship, EDS contributed \$20 million toward enhancing and promoting our portfolio of airline software solutions during 2001 and 2002. Such amounts were recognized as a reduction of our costs of such enhancements and promotions. EDS also moved its travel bookings to our *Sabre* system and implemented our *GetThere*TM corporate booking platform in its organization.

This disposition of the Outsourcing Business represents the disposal of a business segment under Accounting Principles Board Opinion No. 30, *Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions* ("APB 30"). As a result of this transaction, the consolidated statements of operations for the years ended December 31, 2001 have been reclassified to present the Outsourcing Business as a discontinued operation. The related statement of cash flows for the year ended December 31, 2001 has not been reclassified as permitted by APB 30.

Summarized financial information for the discontinued operations is as follows (in thousands):

	Year Ended December 31, 2001	
Revenues	\$	370,007
Income before provision for income taxes	\$	59,060
Provision for income taxes		22,755
Income from discontinued operations, net	\$	36,305

No interest expense has been allocated to the discontinued operations.

We recorded a gain during the third quarter of 2001 of approximately \$39 million, net of related income taxes of approximately \$25 million, as a result of the disposition of these assets.

4. Marketable Securities

Marketable securities consist of (in thousands):

	December 31,	
	2003	2002
Corporate notes	\$ 702,422	\$ 465,624
U.S. Government agency and treasury notes	105,850	185,602
Mortgages	26,797	158,146
Overnight investments and time deposits	35,028	58,495
Asset-backed securities	11,652	22,717
Total	\$ 881,749	\$ 890,584

The following table summarizes marketable securities by contractual maturity (in thousands):

	December 31,	
	2003	2002
Due in one year or less	\$ 260,174	\$ 145,709
Due after one year through three years	260,848	512,872
Due after three years	360,727	232,003
Total	\$ 881,749	\$ 890,584

Marketable securities, all of which are classified as available-for-sale, are stated at fair value based on market quotes. Net unrealized gains and losses, net of deferred taxes, have not been significant and are recorded as a component of other comprehensive income.

We expect that the majority of marketable securities will be sold within one year, regardless of maturity date. We primarily invest in high credit quality debt instruments with an active resale market and money market funds to ensure liquidity and the ability to readily convert these investments into cash to fund current operations, or satisfy other cash requirements as needed. Accordingly, we have classified all marketable securities as current assets in the accompanying balance sheets.

5. Mergers and Acquisitions

2003 Mergers and Acquisitions

During 2003, we completed the following acquisitions, each of which was accounted for using the purchase method of accounting for business combinations. The results of operations of the acquired entities have been included in our consolidated statements of income from the date of acquisition through December 31, 2003.

Acquisition of World Choice Travel ("WCT")

On November 19, 2003 we acquired the assets and liabilities of World Choice Travel, Inc. ("WCT") from MyTravel Group PLC, for approximately \$50 million in cash. World Choice Travel is a U.S.-based hotel room consolidation and distribution business that will complement our merchant model hotel offerings.

The assets and liabilities acquired were merged into our Travelocity business segment. The results of operations of WCT have been included in our consolidated statements of income and results of operations of our Travelocity business segment from the date of acquisition. Assets acquired and liabilities assumed have been recorded at their estimated fair values and the excess of the cost over the estimated fair value of the net assets has been recorded as goodwill. The acquired goodwill is deductible for income tax purposes. The fair values were determined by management based on an independent valuation of the net assets acquired, including intangible assets. The following table summarizes the allocation of the purchase price and the amounts allocated to goodwill (in thousands):

Current assets acquired	\$ 2,846
Liabilities assumed	(5,198)
Other assets acquired	65
Affiliate network (5 year useful life)	8,000
Brand names and domain names (indefinite life)	3,600
Purchased technology (3 year useful life)	2,100
Other intangible assets (weighted average life of 3 years)	1,700
Goodwill	37,353
	<hr/>
Total purchase price	\$ 50,466
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Acquisition of Dillon Communication Systems GmbH ("Dillon") Minority Interest

On November 17, 2003 we acquired the 49% of Dillon that we did not already own for approximately \$30 million in cash. Dillon is a supplier of electronic travel distribution services in Germany and the acquisition of the remaining interest will allow us to further integrate its product offering into our current offerings in that region. The purchase price was allocated to the estimated fair value of the net assets acquired, including intangible assets of \$15 million, with the remaining \$11 million recorded as goodwill. The acquired goodwill is not deductible for tax purposes. The fair values were determined by management based on an independent valuation of the intangible assets acquired. Intangible assets subject to amortization are being amortized over a weighted average of 5 years and relate to customer relationships and technology. The results of operations of the acquired interest are included in our consolidated statements of income and results of operations of our Sabre Travel Network segment from the date of the acquisition.

Pro Forma Statement of Operations Data for Mergers and Acquisitions During 2003

Pro forma information related to the mergers and acquisitions during 2003 has not been presented, as the effect of these acquisitions was not material to our historical results of operations.

2002 Mergers and Acquisitions

During 2002, we completed the following material acquisitions, each of which was accounted for using the purchase method of accounting for business combinations. The results of operations of the acquired entities have been included in our consolidated statements of income from the date of acquisition through December 31, 2002.

Acquisition of Travelocity.com Minority Interest

On April 8, 2002 we completed a \$28 per share cash tender offer for all of the approximately 16.7 million outstanding publicly held common shares of Travelocity.com that we did not own. Prior to the tender offer, we had an approximate 70% ownership stake in Travelocity.com. We then effected a short-form merger, whereby Travelocity.com became our indirect 100% owned subsidiary, on April 11, 2002. The Travelocity.com transaction supports our continuing strategy to deliver value to suppliers and travelers across multiple distribution channels. We believe it makes sense to combine the strengths of our segments to pursue new revenue opportunities, while optimizing investment decisions across segments.

The aggregate cost of the tender offer and the ensuing merger was approximately \$474 million. We used available balances of cash and marketable securities to complete the acquisition, of which approximately \$8 million remains to be paid at December 31, 2003. The results of operations of the acquired interest in Travelocity.com have been included in our consolidated statements of income and the results of operations from the date of the acquisition. The acquisition has been accounted for as a purchase. The proportionate share of the assets acquired and liabilities assumed from the minority interest have been recorded at their fair values and the excess of cost over the estimated fair value of the net assets has been recorded as goodwill. The recorded goodwill is not deductible for income tax purposes. The fair values were determined by management based on an independent valuation of the net assets acquired, including intangible assets. The following table summarizes the allocation of the purchase price and amounts allocated to goodwill (in thousands):

Minority interest assumed	\$	252,597
Deferred income tax asset, net		21,665
Supplier and distributor agreements (weighted-average life of 3 years)		20,208
Proprietary software (weighted-average life of 3 years)		2,256
Customer database (weighted-average life of 7 years)		3,739
Tradenames, trademarks and domain names (indefinite life)		13,698
Goodwill		160,146
		<hr/>
Total purchase price	\$	474,309
		<hr/>

As a result of the termination of the affiliation agreement between Travelocity and Hotels.com (Note 6), we wrote-off an intangible asset associated with this contract of approximately \$8.8 million. Additionally, we recognized revenue of approximately \$7.8 million related to warrants received from Hotels.com pursuant to this agreement (Note 7) that had previously been deferred and was being recognized over the term of the agreement.

We are also recognizing stock compensation based on the intrinsic value of awards that were converted at the date of the acquisition from options to purchase shares of Travelocity.com Inc. common stock into options to purchase shares of our common stock. Total stock compensation expense related to the converted Travelocity.com options for the year ended December 31, 2003 and 2002 was approximately \$5.3 million and \$22.3 million, respectively, including \$14.2 million of expense recognized at the date of acquisition relating to the conversion of vested employee options to purchase shares of Travelocity.com stock to purchase shares of our stock. At December 31, 2003 the amount of unrecognized stock compensation expense to be amortized over the remaining vesting period of the related options is approximately \$11.8 million.

Site59

On March 27, 2002, we completed the acquisition of Site59.com, Inc. ("Site59"), a consumer direct seller of last-minute merchant model air, hotel and rental car offerings, for approximately \$44 million in cash. Subsequent to the acquisition, Site59 is our indirect 100% owned subsidiary.

The acquisition of Site59 has provided Travelocity with a greater mix of merchant hotel offerings. These new offerings complement the merchant model hotel business that was launched in October 2002. Travelocity began offering hotel rooms from Site59 during the fourth quarter of 2002.

We are operating Site59 as a product offering within the Travelocity segment, generating revenue from last-minute travelers. The results of operations of Site59 have been included in our consolidated statements of income and the results of operations of our Travelocity segment from the date of acquisition. Assets acquired and liabilities assumed have been recorded 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 acquired goodwill is not deductible for income tax purposes. The fair values were determined by management based on an independent valuation of the net assets acquired, including intangible assets.

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

Working capital acquired	\$ 1,770
Property and equipment and other non-current assets	824
Software	1,352
Non-current liabilities	(75)
Supplier agreements (weighted-average life of 1.5 years)	900
Tradenames, trademarks and domain names (indefinite life)	600
Goodwill	38,195
	<hr/>
Total purchase price	\$ 43,566
	<hr/>

Pro Forma Statements of Operations Data for Mergers and Acquisitions During 2002

The unaudited pro forma statements of operations data in the table below presents the effects of the acquisition of the minority interest of Travelocity.com on our results of operations as if the acquisition occurred on January 1, 2001. Adjustments related to the acquisition that affect the statements of operations include stock compensation expense associated with the conversion of Travelocity.com options into options to purchase shares of Sabre's common stock, amortization of the fair value of amortizing intangible assets acquired and elimination of minority interests in the results of operations of Travelocity.com. Pro forma adjustments related to the acquisition of Site59 have not been included, as the effect of doing so would be immaterial. Amounts shown below are in thousands, except per share amounts.

	Year Ended December 31	
	2002	2001
	(Unaudited)	
Revenues	\$ 2,056,466	\$ 2,144,961
Income (loss) from continuing operations	\$ 220,777	\$ (80,233)
Income (loss) before cumulative effect of change in accounting method	\$ 220,777	\$ (5,156)
Net earnings (loss)	\$ 220,777	\$ (2,053)
Earnings (loss) from continuing operations per common share		
Basic	\$ 1.57	\$ (.61)
Diluted	\$ 1.55	\$ (.61)
Net earnings (loss) per common share		
Basic	\$ 1.57	\$ (.02)
Diluted	\$ 1.55	\$ (.02)

2001 Mergers and Acquisitions

Sabre Pacific

In March 2001, we purchased the Sabre Pacific travel distribution business for approximately \$46 million from Travel Industries Automated Systems Pty Limited (TIAS). Sabre Pacific was originally formed to distribute the *Sabre* system in Australia, New Zealand and the South Pacific under a licensing agreement with us. We did not previously have an ownership position in Sabre Pacific. Subsequent to the acquisition, Sabre Pacific was our indirect 100% owned subsidiary. The purchase provides travel suppliers, travel agents and travelers in the South Pacific region greater access to our global resources and technology, potentially boosting our bookings share in that region.

The acquisition has been accounted for as a purchase. Assets acquired and liabilities assumed have been recorded at their fair values and the excess of cost over the estimated fair value of the net assets has been recorded as goodwill. The recorded tax-deductible goodwill relates to the Sabre Travel Network segment. The fair values were determined by our management based on information furnished by Sabre Pacific's management and independent valuations of the net assets acquired, including intangible assets. The following table summarizes the allocation of the purchase price and amounts allocated to goodwill (in thousands):

Working capital acquired	\$ 745
Long term assets and liabilities	1,049
Non-compete agreements (weighted average life of 4 years)	13,200
Customer relationships (weighted life of 7 years)	24,800
Goodwill	6,594
	<hr/>
Total purchase price	\$ 46,388
	<hr/>

In October 2001, ABACUS, a joint venture of which we own a 35% economic interest, exercised its option to purchase 49% of Sabre Pacific. We capitalized the subsidiary that purchased Sabre Pacific with approximately \$15 million cash and loaned it approximately \$31 million to purchase Sabre Pacific for a total of \$46 million. ABACUS purchased 49% of Sabre Pacific by paying approximately \$8 million for 49% of its equity and purchased 49% of the outstanding loan balance for approximately \$15 million. This sale was completed in January 2002. No significant gain or loss was recognized upon the sale.

Pro Forma Statement of Operations Data for Mergers and Acquisitions During 2001

Pro forma information related to the mergers and acquisitions during 2001 has not been presented as the effect of these acquisitions was not material to our historical results of operations.

6. Significant Events and Transactions

Events of September 11, 2001—On September 11, 2001, the United States was the target of terrorist attacks of unprecedented scope involving the hijacking and destruction of multiple passenger aircraft operated by commercial air carriers. After those attacks, all of our business segments were adversely affected by the state of the United States economy, by the possibility of terrorist attacks, government hostilities and military action, by the financial instability of many air carriers by delays resulting from added security measures at airports and from channel shift. Our revenues and results of operations for the years ended December 31, 2001, 2002 and 2003 were negatively affected by this continued reduction in travel. Our total global bookings for 2002 were down 7.8% and total bookings for 2002 in the United States were down approximately 11.9% compared with 2001, while our total global bookings for 2003 were down 8.0% and total bookings for 2003 in the United States were down approximately 10.8% from 2002.

We attribute the declines to several factors that have occurred during this period, including unfavorable economic conditions in the United States, political and economic instability abroad, ongoing travel security concerns (due to the war in Iraq and the aftermath of the September 11, 2001 terrorist attacks), fear of potential terrorist attack, travelers' fear of exposure to contagious diseases such as SARS, and channel shift.

We expect that our company, the travel industry and the economy in general will continue to be adversely affected by the terrorist attacks, and by any subsequent terrorist-related activity, particularly if any such activity involves commercial air transportation, by the possibility of terrorist attacks, governmental hostilities and military action, by the financial instability of many air carriers and by delays caused by increased security at airports. Although we expect that the travel industry will gradually recover, it is not possible to predict either the severity or duration of such decreases in the medium or long term. A prolonged substantial decrease in travel bookings volumes could have an adverse impact on our financial performance, operations, liquidity, or capital resources and could impair our ability to recover the carrying value of certain of our assets, including capitalized software, other intangible assets and goodwill (Note 5).

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

Cost Reductions—As a result of decreased travel and booking volumes resulting from the September 11, 2001 terrorist attacks, we announced a workforce reduction in December 2001. This included an anticipated workforce reduction of approximately 700 employees, or approximately 12% of our workforce. In addition, we made provisions for the closing of some small leased office facilities in the United States and Canada. The total expense recorded for these actions was approximately \$28.2 million, of which approximately \$20.0 million was for severance payments and benefits continuation charges for affected employees and approximately \$8.2 million related to costs resulting from the cancellation of office leases. Most of the severance payments were made during the first half of 2002. Liabilities related to the vacated facilities are being paid over the applicable lease terms.

During the second quarter of 2002, it was determined that certain office space was not going to be vacated. Therefore, we reduced the facilities accrual by \$3.5 million. We further reduced the facilities accrual by \$0.4 million in the fourth quarter because certain of the facilities were vacated later than initially planned. In the fourth quarter of 2002, it was determined that only 615 employees were affected by the 2001 workforce reduction and we reduced the severance accrual by \$2.4 million, accordingly. No further adjustments are expected related to the 2001 workforce reduction.

Due to continued low travel and booking volumes as a result of a weakening economy, we further reduced our workforce in December 2002 by approximately 400 employees, or 6% of our workforce. Approximately \$15.8 million of expense was recorded for this reduction.

In an effort to further reduce our operating expenses and better align expenses with revenue targets for 2004 and future years, we reduced our workforce by approximately 538 employees, or 8.6% and recorded a charge for severance, salaries and benefits in the fourth quarter of 2003. The \$17.9 million charge included \$7.3 million at the corporate level, \$5.9 million for Sabre Travel Network, \$3.2 million for Travelocity and \$1.5 million for Sabre Airline Solutions. The remaining liability for this charge as of December 31, 2003 was \$7.3 million, or \$3.3 million at the corporate level, \$1.8 million for Sabre Travel Network, \$1.7 million for Travelocity, and \$.5 million for Sabre Airline Solutions.

In the fourth quarter of 2003, we also consolidated our operations and closed additional facilities in the United States. These actions resulted in a \$17.2 million charge, consisting of write-offs of leasehold improvements and other facility-related assets, employee relocation expenses and lease termination costs. The \$17.2 million charge included \$13.1 million at the corporate level, \$3.9 million for Travelocity, \$0.2 million for Sabre Travel Network and an immaterial amount for Sabre Airline Solutions. Of the \$13.1 million recorded at the corporate level, \$5.7 million represented assets written off due to the facilities consolidation and \$3.9 million was paid in 2003, leaving a remaining liability of \$3.5 million as of December 31, 2003. This liability consists primarily of lease payments for vacated facilities, which will be paid over the applicable lease terms. All of the amounts recorded to Travelocity, Sabre Travel Network and Sabre Airline Solutions represented assets written off due to the facilities consolidation and no liability remains for these reportable segments as of December 31, 2003.

The following table summarizes the severance and related costs and the facilities and related costs related to exit activities in 2001, 2002 and 2003, as well as the liabilities included in the balance sheets at December 31, 2002 and 2003 (in thousands).

	<u>Severance</u>	<u>Facilities</u>	<u>Total</u>
Estimated cost of 2001 workforce reduction	\$ 19,945	\$ 8,245	\$ 28,190
Amounts paid in 2001	(3,055)	(513)	(3,568)
	<u>16,890</u>	<u>7,732</u>	<u>24,622</u>
Remaining liability at December 31, 2001	16,890	7,732	24,622
Estimated cost of 2002 workforce reduction	15,791	—	15,791
Amounts paid in 2002	(17,520)	(2,672)	(20,192)
Revisions of estimated cost of 2001 workforce reduction	(2,365)	(3,889)	(6,254)
	<u>12,796</u>	<u>1,171</u>	<u>13,967</u>
Remaining liability at December 31, 2002	12,796	1,171	13,967
Estimated cost of 2003 workforce reduction	17,938	—	17,938
Estimated cost of 2003 facilities consolidation	—	17,241	17,241
Assets written off due to facilities consolidation	—	(9,844)	(9,844)
Amounts paid in 2003	(21,868)	(4,304)	(26,172)
Revisions of estimated cost of 2002 workforce reduction	(925)	—	(925)
	<u>7,941</u>	<u>4,264</u>	<u>12,205</u>
Remaining liability at December 31, 2003	\$ 7,941	\$ 4,264	\$ 12,205

The costs in the table above are included in the statements of income as cost of revenues or selling, general and administrative expense depending on the classification of the related employee or assets, or the primary use of the facility, as applicable.

Sale of Former Corporate Headquarters Office Facility—On January 31, 2002, we sold our former headquarters office facility in Fort Worth, Texas to a third party. We received proceeds of approximately \$80 million in cash and recognized a pre-tax gain of approximately \$18 million as a result of the sale, which is included in other income.

Sale of Data Center Facility—In July 2002 we purchased a data center facility constructed on our behalf in Tulsa, Oklahoma from the lessor under the provisions of the lease agreement for approximately \$92 million and immediately sold it to a third party. This sale of the data center was contemplated as part of the sale of the Outsourcing Business. We received proceeds of approximately \$68 million in cash and realized a loss of approximately \$24 million, which had been previously accrued in 2001 in connection with the EDS transaction (Note 3).

Contract Settlements—In the first quarter of 2003 we recognized revenue of approximately \$36 million, representing settlements from two travel agency subscribers (who were affiliated with each other and were acquired by a competitor of ours) in exchange for allowing them to cancel their existing subscriber agreements.

Syndicated Lease Financing—We were previously affiliated with a special purpose entity ("SPE"), as part of a syndicated lease arrangement that was terminated in June 2003. This SPE qualified for off-balance sheet treatment. In 1999, we arranged a syndicated lease financing facility of approximately \$310 million through this entity to purchase land and an existing office building and to construct a new corporate headquarters facility in Southlake, Texas, and a new data center in Tulsa, Oklahoma. The data center in Tulsa was sold during the third quarter of 2002. We accounted for the financing facility as an operating lease. As a result, neither the asset nor the related debt was recorded on our balance sheet.

The SPE leased the properties to us under a master lease agreement. At any time during the lease term, we had the option to purchase the properties or cause the properties to be sold. If the sell option was exercised, we guaranteed to the lessor that proceeds on a sale would be at least 84% of the original fair value of the leased facilities, and we were responsible for the first dollar loss on a decrease in the value of the property of up to 84% of the total funded value of the SPE, resulting in the \$28 million payment discussed below.

As a result of terminating the syndicated lease and entering into the capital lease arrangement in June 2003 described in Note 9, the properties were sold by the SPE to the capital lease lessor, we paid approximately \$28 million pursuant to the residual value guarantee under the syndicated lease and the SPE was terminated. This payment is recorded in other, net in the accompanying consolidated statement of income for 2003.

Termination of Affiliation Agreement with Hotels.com—On August 29, 2003, Travelocity exercised its right, pursuant to its affiliation agreement with Hotels.com, to expand the distribution of our own merchant hotel offerings. As a result, we subsequently agreed with Hotels.com to terminate an existing affiliation agreement and settled all amounts outstanding between the parties. Due to the termination, we wrote-off an intangible asset associated with this contract of approximately \$8.8 million. Additionally, we recognized revenue of approximately \$7.8 million related to warrants received from Hotels.com pursuant to this agreement (Note 7) that had previously been deferred and was being recognized over the term of the agreement.

DCA 3-Year Pricing Option—In October 2002 we announced a new Direct Connect Availability ("DCA") 3-Year Pricing Option to airlines. Airlines selecting this option under their *Sabre* GDS participating carrier agreements receive a discount of approximately 12.5% from the applicable 2003 DCA rates, and are locked into that booking fee rate for three years. As a consequence, we will not be able to raise the booking fee rate on those bookings during that three-year period. As of the date of this report, more than 30 airlines, including American, Delta Airlines, Inc., Northwest Airlines Corporation, Continental Airlines, Inc., United Air Lines, Inc., US Airways, Inc., British Airways and Alitalia have elected to participate in the DCA 3-Year Pricing Option. As of February 2, 2004, we are no longer marketing the DCA 3-Year Pricing Option to carriers. Through the DCA 3-Year Pricing Option, participating airlines agree to commit to the highest level of participation in the *Sabre* system (DCA level) for three years. Participating airlines provide all *Sabre* GDS users with broad access to schedules, seat availability and published fares, including Web fares and other promotional fares but excluding certain fares such as "opaque" fares (where the airline's identity is not disclosed until after the sale) and private discounts. Participating airlines also furnish generally the same customer perquisites and amenities to passengers booked through the *Sabre* GDS as those afforded through other GDS's and websites. As a consequence, we believe that the participation of carriers in the program may help slow the present shift of bookings away from the *Sabre* GDS to supplier-controlled outlets. See *"Risk Factors—Travel Suppliers are Seeking to Bypass..."*

7. Derivatives

During 2003, 2002 and 2001 we were a party to certain derivative instruments, including foreign currency forwards related to anticipated foreign currency expenditures over the next twelve months, warrants received in connection with an affiliation agreement and interest rate swaps entered into in connection with unsecured notes issued in 2001 and the capital lease entered into in June 2003.

We have designated the foreign currency forwards as cash flow hedges. As such, the effective portion of the gain or loss on the forwards is reported as a component of other comprehensive income and reclassified into earnings as a component of cost of revenues in the same period or periods during which the hedged transaction affects earnings. Effectiveness is measured by comparing the changes in the present value of the anticipated foreign currency denominated expenses, measured using forward rates, arising from the hedged forecasted expenses with the changes in the fair value of the forward contract using forward exchange rates. Any gain or loss on the forwards in excess of the cumulative change in the present value of the anticipated foreign currency denominated expenses, if any, is recognized in other income during the period of change. There was no hedging ineffectiveness recorded in earnings relating to the forwards during the years ended December 31, 2003, 2002 and 2001.

With the adoption of Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* on January 1, 2001, we recognized a cumulative gain in earnings of approximately \$3 million, net of minority interest of approximately \$2 million and deferred income taxes of approximately \$2 million, relating to the warrants received from Hotels.com ("Hotels.com warrants") in connection with an affiliation agreement entered into during 2000 by Travelocity. During March 2001, we extended our affiliation agreement with Hotels.com and expanded the scope of the Hotels.com relationship. In connection with the expanded and extended agreement, we received additional vested Hotels.com warrants with a fair value of approximately \$30 million on the date of receipt. We were recognizing this amount as revenue over the extended term of the agreement but recognized the remaining deferred balance of approximately \$7.8 million in September 2003 due to the termination of the affiliation agreement (Note 6).

On June 23, 2003, Hotels.com was acquired and became a wholly owned subsidiary of InterActiveCorp ("IAC"). IAC announced that, in connection with the acquisition, each outstanding share of Hotels.com Class A common stock would be converted into the right to receive 2.4 shares of IAC common stock. Warrants to purchase shares of Hotels.com common stock were converted into warrants to acquire IAC common stock at the same conversion rate.

During 2003, 2002 and 2001, we recognized revenue relating to amortization of the fair value of the warrants received at contract origination and modification totaling approximately \$5.9 million, \$8.6 million and \$7.4 million, respectively. We also vested in additional warrants based upon the achievement of certain performance metrics. During 2003 and 2002, we received additional Hotels.com and IAC warrants, based on achievement of these metrics, with a fair value of approximately \$9.9 million and \$8.6 million, respectively. Such amounts have been recognized as revenue in the periods the warrants were earned. During the year ended December 31, 2003, we completed cashless exercises of Hotels.com and IAC warrants and received approximately 82,000 shares of Hotels.com common stock and approximately 206,000 shares of IAC common stock, which was disposed of for cash proceeds totaling approximately \$12.4 million. During the year ended December 31, 2002 we completed cashless exercises of Hotels.com warrants and received 160,000 shares of Hotels.com common stock, which was disposed of for cash proceeds totaling approximately \$8.8 million. No significant gain or loss was realized relating to the exercise of the warrants or disposals of the Hotels.com common stock during 2003 and 2002. During 2002, we recorded a loss of approximately \$0.5 million in other income relating to changes in the fair value of the Hotels.com warrants. As of December 31, 2002, we held 57,285 unexercised Hotels.com warrants with a fair value of \$2.2 million. At December 31, 2003 we held no unexercised IAC warrants.

In connection with our issuance in August 2001 of \$400 million principal amount in unsecured notes (Note 8) with a fixed interest rate of 7.35% ("Notes"), we entered into two interest rate swaps. We had designated the swaps as fair value hedges of \$100 million and \$200 million principal amount, respectively, of the Notes. Because the critical terms of the Notes and the swaps matched, the swaps were considered a perfectly effective hedge against changes in the fair value of the Notes. On August 1, 2002 we terminated the swaps, resulting in a gain of approximately \$17 million. The gain was recorded as an increase in the carrying value of the Notes and will be amortized as an offset to interest expense over the remaining term of the Notes that mature in entirety on August 1, 2011. Also, on August 1, 2002, we entered into two new interest rate swaps. Under the terms of the two new interest rate swaps, which have notional amounts of \$100 million and \$200 million, we will receive semi-annual payments based on a fixed interest rate of 7.35% and will make semi-annual payments based on a six-month LIBOR plus 231 basis points. The reset dates on the swaps are February 1 and August 1 each year until maturity on August 1, 2011. We have designated the swaps as fair value hedges of \$100 million and \$200 million of the principal amount of the Notes. Because the critical terms of the Notes and the swaps matched, the swaps were considered a perfectly effective hedge against changes in the fair value of the Notes. Changes in the fair value of the swaps are recognized as a component of other income in each reporting period. Additionally, the carrying value of the Notes is adjusted by a like amount, with the adjustment recognized as a component of other income. As of December 31, 2003 and 2002, we had recorded hedging assets and corresponding increases in the carrying values of the Notes of approximately \$14.7 million and \$21.4 million, respectively.

In connection with the capital lease that we entered into in June 2003 (Note 9), we entered into a fixed-to-floating interest rate swap with a notional amount of \$100 million. We have designated the swap as a fair value hedge on \$100 million of the principal amount of the capital lease obligation. Under the terms of the swap, we will receive semi-annual payments based on a fixed interest rate of 5.37% and will make semi-annual payments based on six-month LIBOR plus 153.25 basis points. Changes in the fair value of this swap are recognized as a component of other income. Additionally, as long as the swap is determined to be an effective hedge of the capital lease obligation, the carrying value of the capital lease obligation is adjusted by a like amount, with the adjustment recognized as a component of other income. At December 31, 2003, the market value of this swap was a liability of approximately \$6 million.

The estimated fair values of our derivatives as of December 31, 2003 and 2002 are provided below (in thousands):

	December 31,	
	2003	2002
Foreign currency forwards	\$ 9,739	\$ 7,019
Warrants	—	2,213
Interest rate swaps	8,740	21,397
Total	\$ 18,479	\$ 30,629

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

8. Debt

On February 4, 2000, we entered into a \$300 million, senior unsecured, revolving credit agreement (the "Credit Facility"), which expires on September 14, 2004. Our current plan is to renew this credit facility prior to its expiration. Concurrently, we entered into a short-term \$200 million, senior unsecured, term loan agreement (the "Interim Loan"), with an original maturity of August 4, 2000 that was subsequently extended to February 4, 2001. On February 18, 2000, we utilized a portion of our available cash balance and marketable securities, as well as proceeds from both the Credit Facility and Interim Loan to fund a \$675 million dividend to stockholders (Note 12). In connection with the bridge credit agreement discussed below, the entire \$200 million balance outstanding under the Interim Loan was repaid and the Interim Loan agreement was terminated. At December 31, 2000, there were no outstanding borrowings under the Interim Loan and \$149 million outstanding under the Credit Facility at an average annual interest rate of 6.7%. These borrowings were retired during 2001.

On October 10, 2000, we entered into an \$865 million bridge credit agreement (the "Bridge Credit Agreement") expiring July 10, 2001. Proceeds of the Bridge Credit Agreement were used to fund the acquisition of GetThere and to repay the \$200 million outstanding under the Interim Loan. Interest on the Bridge Credit Agreement was variable, based upon the LIBOR, the prime rate or the federal funds rate plus a margin, at our option. At December 31, 2000, the outstanding balance of borrowings under the Bridge Credit Agreement was \$710 million at an average interest rate of 7.1%. These borrowings were retired during 2001. At December 31, 2003, 2002 and 2001, we did not have any borrowings outstanding under this agreement and the entire \$300 million is available for us to draw upon, if necessary. We are currently in compliance with all covenant requirements under this agreement.

On August 7, 2001, we issued \$400 million in unsecured notes with a fixed interest rate of 7.35% ("Notes") in an underwritten public offering, receiving net cash proceeds of approximately \$397 million. The principal of the Notes matures in entirety on August 1, 2011. We are currently in compliance with all covenant requirements under this agreement. In conjunction with these Notes, we have entered into two interest rate swaps through 2011 for a total notional amount of \$300 million, which pay us 7.35% and on which we will pay a variable rate based on a six-month LIBOR rate plus 231 basis points (Note 7). We used \$79 million of the proceeds from the Notes to repay the borrowings under the Credit Facility. The remaining proceeds from the sale of the Notes were added to working capital.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. Commitments and Contingencies

Capital Lease Financing—To refinance the syndicated lease arrangement described above, Sabre Inc. entered into a ten-year master lease of our corporate headquarters facility in Southlake, Texas in June 2003. We have accounted for this master lease, which is guaranteed by Sabre Holdings Corporation, as a capital lease. 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 lease expiration to cause the properties to be sold. If the 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.

Minimum lease payments as of December 31, 2003 under the capital lease and a reconciliation to the balance sheet are as follows (in thousands):

	Year Ending December 31,
2004	\$ 9,607
2005	9,607
2006	9,607
2007	9,607
2008	9,607
2009 and thereafter	202,531
	<hr/>
Total before interest	250,566
Amounts representing interest	(83,004)
	<hr/>
Total obligations under capital lease	167,562
Less fair value of interest rate swap (Note 7)	(5,966)
Less current portion	(871)
	<hr/>
Long-term capital lease obligation	\$ 160,725
	<hr/>

Yahoo! Agreement—During the second quarter of 2002, we entered into an agreement with Yahoo! whereby Travelocity will be the exclusive air, car and hotel booking engine on Yahoo! Travel. The agreement was effective July 1, 2002 and expires December 31, 2005. Under the terms of the agreement, we are obligated, pending adequate performance under the contract, for payments of \$100 million to purchase certain levels of advertising, corporate services and enterprise solutions from Yahoo! The agreement also contains a productivity component, whereby Yahoo! is paid a percentage of the transactions services revenue generated through the Yahoo! network. For 2002 and 2003, these payments amounted to approximately \$4 million and \$3 million, respectively. The agreement can be extended for up to two years at Yahoo!'s option.

Minimum remaining payments due to Yahoo! under the terms of the agreement at December 31, 2003 are as follows (in thousands):

2004	\$	34,700
2005		29,000
		<hr/>
	\$	63,700
		<hr/>

AOL Agreement—In 1999, we entered into an agreement with AOL that provided, among other things, that Travelocity would be the exclusive reservations engine for AOL's Internet properties. We were initially obligated for payments of up to \$200 million and we shared advertising revenues and commissions with AOL. In January 2004, we revised the terms of this agreement and extended the agreement through March 2006. Travelocity will continue to be the exclusive reservations engine for AOL's Internet properties under the revised agreement. We are now obligated for fixed payments of \$28 million over the final two years of the agreement. These fixed payments, along with fixed payments previously paid under the original contract, are being expensed on a straight-line basis over the term of the agreement. For 2004, this expense will be approximately \$23 million. In exchange for lower fixed annual payments, we agreed to a reduced share of advertising revenues generated through the AOL properties. The agreement also contains a productivity component, whereby AOL is paid a percentage of the transactions services revenue generated through the AOL network.

Payments under this agreement are included in other long-term obligations in the table below (in thousands).

2004	\$	15,000
2005		13,000
		<hr/>
	\$	28,000
		<hr/>

Future Minimum Payments Under Contractual Obligations—At December 31, 2003, future minimum payments required under the Notes, the capital lease for our corporate headquarters facility, operating lease agreements with terms in excess of one year for facilities, equipment and software licenses and other significant contractual cash obligations were as follows (in thousands):

Payments Due by Period

Contractual Obligations	Total	2004	2005–2006	2007–2008	2009 and Thereafter
Notes payable (1)	\$ 635,200	\$ 29,400	\$ 58,800	\$ 58,800	\$ 488,200
Capital lease obligations (2)	251,701	10,742	19,214	19,214	202,531
Operating lease obligations	54,519	15,825	18,206	12,402	8,086
IT Outsourcing Agreement (3)	279,236	95,729	168,071	15,436	—
AOL Agreement	28,000	15,000	13,000	—	—
Yahoo Agreement	63,700	34,700	29,000	—	—
Other long-term obligations (4)	111,375	56,215	33,752	2,412	18,996
Amounts receivable under non-cancelable subleases (5)	(47,833)	(6,592)	(13,141)	(13,400)	(14,700)
Total contractual cash obligations	\$ 1,375,898	\$ 251,019	\$ 326,902	\$ 94,864	\$ 703,113

- (1) Includes all interest and principal related to \$400 million unsecured Note. Excludes the effect of interest rate swaps. See Note 8.
- (2) Consists primarily of headquarters facility lease. Remainder consists of leases held by Travelocity. Excludes the effect of interest rate swap.
- (3) Represents minimum amounts due to EDS under the terms of the IT Outsourcing Agreement (Note 3).
- (4) Consists primarily of minimum payments due under various marketing agreements. Also, includes liabilities owed to a joint venture partner and related interest.
- (5) EDS subleases an office facility from us in Fort Worth, Texas, that will expire in 2011.

We believe available balances of cash and short-term investments, cash flows from operations and funds available under our revolving credit facility, which we plan to renew prior to its expiration on September 14, 2004, will be sufficient to meet our cash requirements for the foreseeable future. We continually evaluate opportunities to sell additional equity or debt securities, obtain credit facilities from lenders, or restructure our long-term debt for strategic reasons or to further strengthen our financial position. If market conditions warrant, we may engage in additional financing transactions. In addition, to the extent we consider additional acquisitions of or investments in complementary businesses, products, services and technologies, such additional activities might affect our liquidity requirements or cause us to issue additional equity or debt securities.

Rental expense from continuing operations was approximately \$30 million, \$26 million and \$23 million for the years ended December 31, 2003, 2002 and 2001, respectively.

We have established a reserve for potential occupancy tax liability. The reserve represents our best estimate of our contingent liability for occupancy taxes. We are involved in certain disputes and other matters arising in the normal course of business. Additionally, we are subject to review and assessment by various taxing authorities. Although the ultimate resolution of these matters cannot be reasonably estimated at this time, we do not believe that they will have a material, adverse effect on our financial condition or results of operations.

10. Employee Benefit Plans

We sponsor The Sabre Inc. 401(k) Savings Plan, which is a tax-qualified defined contribution plan that allows tax-deferred savings by eligible employees to provide funds for their retirement. We make a defined contribution and match a defined portion of employee contributions to the plan and have recorded expenses in continuing operations related to the 401(k) Savings Plan of approximately \$15 million, \$14 million and \$9 million in 2003, 2002 and 2001, respectively.

Additionally, we sponsor The Sabre Inc. Legacy Pension Plan ("LPP"), which is a tax-qualified defined benefit pension plan for employees meeting certain eligibility requirements. We also sponsor a defined benefit pension plan for certain of our employees in Canada.

We amended our retiree medical and life insurance plan effective January 1, 2001. Retiree life insurance is only available to those who have retired prior to January 1, 2001. The retiree medical plan was amended to offer subsidized retiree medical coverage only to employees hired prior to October 1, 2000. Employees hired after that date will be offered access to our company-sponsored plan but with no subsidy and therefore no liability to us.

Effective January 1, 2001, employee contributions for retiree medical prefunding were discontinued. As a result, approximately \$11 million of prefunding employer contributions from previous years was used to fund other benefits during 2002, which is presented as employer distributions in the Change in Plan Assets table. Previously established employee retiree medical prefunding account balances were refunded on December 31, 2001, to all active, retired and disabled participants. Additionally, effective January 1, 2001, participating retirees began paying premiums, representing approximately 10% of the postretirement plan's annual cost. Retiree contributions increased to 13% of the plan's annual cost on January 1, 2002, and will increase to 20% of the postretirement plan's annual cost on January 1, 2006.

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act") was signed into law. The measures of accumulated postretirement benefit obligation and net periodic cost presented below do not reflect the effects of the Act as regulations necessary to implement the Act and specific authoritative guidance on accounting for the provisions of the Act are currently pending. Such guidance, when issued, could impact our accumulated postretirement benefit obligation related to the retiree medical plan included in Other Benefits.

Effective July 1, 2001, we sold our Outsourcing Business to EDS. Additionally, American in-sourced certain IT functions that were previously performed by us. These two transactions caused a significant decrease in the number of active employees as they were transitioned to American and EDS. The transition of a large population of employees that had not met age and service requirements for retiree medical and travel benefit plans generated a curtailment gain of approximately \$6 million. This gain was recorded as a component of the gain recognized by us in connection with the sale of the Outsourcing Business (Note 3).

Pursuant to a Travel Privileges Agreement with AMR (American Airlines), we are entitled to purchase personal travel for certain retirees. To pay for the provision of flight privileges to certain of our future retired employees, we make a lump sum payment to American for each employee retiring in that year. The payment per retiree is based on the number of years of service with Sabre and AMR over the prior ten years of service. The cost of providing this privilege is accrued over the estimated service lives of the employees eligible for the privilege. This agreement will expire June 30, 2008.

The following tables provide a reconciliation of the changes in the plans' benefit obligations and fair value of assets for the years ended December 31, 2003 and 2002 and a statement of funded status as of December 31, 2003 and 2002 (in thousands):

	Pension Benefits		Other Benefits	
	2003	2002	2003	2002
Change in benefit obligation:				
Benefit obligation at January 1	\$ (315,050)	\$ (243,020)	\$ (97,966)	\$ (77,150)
Service cost	(6,153)	(7,052)	(3,594)	(3,213)
Interest cost	(20,251)	(19,219)	(6,990)	(5,671)
Actuarial gains (losses), net	16,391	(46,088)	(16,549)	(14,667)
Transfer	—	(4,166)	—	(171)
Settlements	1,122	—	—	—
Benefits paid	5,156	4,495	3,687	2,906
Benefit obligation at December 31	\$ (318,785)	\$ (315,050)	\$ (121,412)	\$ (97,966)
Change in plan assets:				
Fair value of assets at January 1	\$ 201,778	\$ 186,245	—	\$ 10,949
Actual return on plan assets	41,090	(14,256)	—	—
Transfers	354	3,481	—	—
Settlements	(1,443)	—	—	—
Employer contributions	15,860	30,805	3,690	(10,949)
Participant contributions	—	—	489	—
Benefits paid	(5,211)	(4,495)	(4,179)	—
Fair value at December 31	\$ 252,428	\$ 201,780	\$ —	\$ —
Funded status:				
Funded status at December 31	\$ (66,357)	\$ (113,270)	\$ (121,412)	\$ (97,966)
Unrecognized transition (asset) obligation	(241)	(334)	144	161
Unrecognized prior service cost	591	652	2,423	2,743
Unrecognized net losses	72,010	110,714	30,786	16,037
Prepaid (accrued) cost recognized	\$ 6,003	\$ (2,238)	\$ (88,059)	\$ (79,025)

The cumulative amounts recognized in the consolidated balance sheet consist of:

	Pension Benefits		Other Benefits	
	2003	2002	2003	2002
Prepaid benefit cost	\$ 13,556	\$ 3,505	\$ —	\$ 38
Accrued benefit liability	(45,346)	(40,785)	(88,059)	(79,063)
Accumulated other comprehensive income	37,793	35,042	—	—
Prepaid (accrued) cost recognized	\$ 6,003	\$ (2,238)	\$ (88,059)	\$ (79,025)

Pension and other postretirement benefits on the balance sheet as of December 31, 2003, includes approximately \$1.7 million for liabilities related to foreign pension plans that are not significant individually or in the aggregate.

The accumulated benefit obligation for all defined pension plans was \$283 million and \$239 million at December 31, 2003 and 2002, respectively.

The principal assumptions used in the measurement of our benefit obligations as of December 31, 2003 and 2002 are as follows:

	Pension Benefits		Other Benefits	
	2003	2002	2003	2002
Weighted-average assumptions:				
Discount rate	6.25%	6.75%	6.25%	6.75%
Rate of compensation increase	4.50%	6.60%	—	—

The following table provides the components of net periodic benefit costs for the three years ended December 31, 2003 (in thousands):

	Pension Benefits			Other Benefits		
	2003	2002	2001	2003	2002	2001
Components of total periodic benefit cost:						
Service cost	\$ 6,153	\$ 7,052	\$ 9,891	\$ 3,594	\$ 3,213	\$ 4,047
Interest cost	20,251	19,219	18,372	6,990	5,670	5,457
Expected return on plan assets	(21,911)	(20,848)	(16,376)	—	—	(1,003)
Amortization of transition asset	(19)	(24)	7	18	18	—
Amortization of prior service cost	61	61	57	321	321	410
Amortization of net loss	2,130	332	1,045	1,801	206	156
Net periodic benefit cost	6,665	5,792	12,996	12,724	9,428	9,067
Settlement gain	503	—	—	—	—	—
Curtailement gains	—	—	(69)	—	—	(5,491)
Total periodic benefit cost	\$ 7,168	\$ 5,792	\$ 12,927	\$ 12,724	\$ 9,428	\$ 3,576

Expenses included in income from continuing operations related to pensions and other postretirement benefits totaled approximately \$20 million, \$15 million and \$12 million in 2003, 2002 and 2001, respectively.

The principal assumptions used in the measurement of our net benefit costs for the three years ended December 31, 2003 are as follows:

	Pension Benefits			Other Benefits		
	2003	2002	2001	2003	2002	2001
Weighted-average assumptions:						
Discount rate	6.75%	7.25%	7.50%	6.75%	7.25%	7.50%
Expected return on plan assets	9.00%	9.50%	9.50%	—	—	—
Rate of compensation increase	6.60%	6.60%	6.60%	—	—	—

An 8% annual rate of increase in the per capita cost of covered retiree health care benefits was assumed for 2003. This rate was assumed to gradually decrease by 0.5% each year until it reaches an ultimate rate of 5.0%. A one-percentage point change in the assumed health care cost trend rates would have the following impact (in thousands):

	One percent increase	One percent decrease
Impact on 2003 service and interest cost	\$ 1,993	\$ (1,551)
Impact on postretirement benefit obligation as of December 31, 2003	\$ 18,902	\$ (15,086)

The following table provides the pension plans' target asset allocation as of December 31, 2003 and the actual weighted-average asset allocations at December 31, 2003, and 2002, by asset category:

Asset Category:	Asset Allocation at December 31,		
	Target 2003 Allocation	2003	2002
Equity securities	53%–59%	56%	67%
Debt securities	41%–47%	44%	33%
Total plan assets	100.0%	100.0%	100.0%

Defined benefit pension plan assets are invested in selected mutual funds and commingled pooled funds. Diversification is provided by using an asset allocation primarily between equity and debt securities in proportions expected to provide opportunities for reasonable long-term returns with acceptable levels of investment risk. The basis for the selected target asset allocation included consideration of the demographic profile of plan participants, expected future benefit obligations and payments, projected funded status of the plan and other factors.

The expected long-term rate of return on plan assets for each measurement date was selected after giving consideration to historical returns and expected rates of return based on asset allocations resulting from the implementation of selected changes in the plans' asset allocation strategy over the twelve month period ended September 2003. Previously, the target allocations for the plans' assets were approximately 68% in equity securities and 32% in debt securities.

We are currently not required to make contributions to the defined benefit plans in 2004.

11. Income Taxes

The provision (benefit) for income taxes from continuing operations is as follows (in thousands):

	Year Ended December 31,		
	2003	2002	2001
Current portion:			
Federal	\$ 29,216	\$ 56,045	\$ 66,547
State	1,547	2,072	3,306
Foreign	17,150	13,603	8,984
Total current	47,913	71,720	78,837
Deferred portion:			
Federal	(5,119)	42,579	720
State	1,282	10,625	1,406
Total deferred	(3,837)	53,204	2,126
Total provision for income taxes	\$ 44,076	\$ 124,924	\$ 80,963

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

	Year Ended December 31,		
	2003	2002	2001
Income tax provision at statutory federal income tax rate	\$ 44,582	\$ 118,674	\$ 11,718
State income taxes, net of federal tax benefit	1,839	8,253	3,063
Non-deductible goodwill amortization	—	—	69,970
Other, net	(2,345)	(2,003)	(3,788)
Total provision for income taxes	\$ 44,076	\$ 124,924	\$ 80,963

The expected cash payments for the current federal income tax expense reflected above for 2003, 2002 and 2001, respectively, were reduced by approximately \$1 million, \$10 million and \$31 million as a result of the exercise of nonqualified employee stock options. The income tax benefit resulting from the exercise of these options has been credited to additional paid-in capital.

The components of our deferred tax assets and liabilities were as follows (in thousands):

	December 31,	
	2003	2002
Deferred tax assets:		
Accrued expenses	\$ 47,970	\$ 50,982
Employee benefits other than pensions	33,857	30,825
Deferred revenue	1,966	2,139
Pension obligations	6,776	7,139
Net operating loss carryforwards	28,417	35,426
Deferred costs	40,534	40,770
	<hr/>	<hr/>
Total deferred tax assets	159,520	167,281
Deferred tax liabilities:		
Foreign operations	(4,991)	(4,471)
Depreciation and amortization	(18,828)	(28,981)
Amortization of computer software and intangible assets	(61,142)	(73,005)
Other	(68,742)	(58,851)
	<hr/>	<hr/>
Total deferred tax liabilities	(153,703)	(165,308)
	<hr/>	<hr/>
Net deferred tax asset	\$ 5,817	\$ 1,973
	<hr/>	<hr/>
Current deferred income tax asset	\$ 10,237	\$ 15,728
Noncurrent deferred income tax liability	(4,420)	(13,755)
	<hr/>	<hr/>
Net deferred tax asset	\$ 5,817	\$ 1,973
	<hr/>	<hr/>

As of December 31, 2003 the Company has net operating loss carryforwards (NOL's) of approximately \$81 million that begin expiring in 2016. These NOL's resulted from prior business acquisitions and are subject to limitation on their ability to be utilized under Section 382 of the Internal Revenue Code. Such limitation is not expected to have a significant impact on the Company's ability to utilize the NOL's and we believe, more likely than not, the Company will be able to utilize all of these NOL's. Accordingly, no valuation allowance has been established related to these NOL's.

In connection with our spin-off from AMR on March 15, 2000, we entered into an indemnity agreement with AMR (the "Agreement on Spin-off Taxes") pursuant to which we will be responsible for Spin-off related taxes, in certain circumstances, if the Spin-off is deemed to be taxable as a result of certain factual representations and assumptions relating to us being inaccurate or as a result of our subsequent actions. The Internal Revenue Service ("IRS") has issued a tax ruling to the effect that the Spin-off will be tax-free to us, AMR and AMR stockholders under Section 355 and certain other related Sections of the Internal Revenue Code of 1986, as amended (except to the extent that cash is received in lieu of fractional shares). Under the terms of the Agreement on Spin-off Taxes, we have also agreed to comply with certain restrictions on our future operations to assure that the Spin-off will be tax free, including restrictions with respect to a third party's acquisition of shares of our stock and our issuance of stock. The restrictions with respect to a third party's acquisition of shares of our stock are generally no longer applicable.

The entities comprising Sabre Holdings were included in the consolidated federal income tax return of AMR through March 15, 2000. We entered into a tax sharing agreement with AMR effective July 1, 1996 (the "Tax Sharing Agreement") that provides for the allocation of tax liabilities between AMR and us during the tax periods we are included in the consolidated federal, state and local income tax returns filed by AMR. The Tax Sharing Agreement generally requires us to pay to AMR the amount of federal, state and local income taxes that we would have paid had we ceased to be a member of the AMR consolidated tax group. We are severally liable for the federal income tax of AMR and the other companies included in its consolidated return for all periods in which we are included in the AMR consolidated group. AMR has agreed, however, to indemnify us for any liability for taxes reported or required to be reported on a consolidated return arising from operations of subsidiaries of AMR other than us. Except for certain items specified in the Tax Sharing Agreement, AMR generally is entitled to any tax benefit carryforwards and remains obligated to pay all taxes attributable to periods before July 2, 1996. The Tax Sharing Agreement also grants us certain limited participation rights in any disputes with tax authorities arising with respect to periods during which we were part of the AMR consolidated group.

12. Capital Stock

We paid no dividends on our common stock during 2001 and 2002. We began paying a quarterly dividend of \$.07 per share during the second quarter of 2003, and paid dividends of the same amount during the third and fourth quarters of 2003. If these quarterly dividends are continued, and assuming that the current number of outstanding shares of our common stock remains constant, we would expect to pay an aggregate of \$10.6 million for each dividend, or approximately \$42 million on an annual basis. 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 of our Board of Directors that dividends continue to be in the best interests of the Company and its stockholders.

We have only Class A common stock outstanding. We are authorized by our certificate of incorporation to issue up to 250 million shares of Class A common stock and up to 20 million shares of Preferred Stock.

During April 2002, we completed an underwritten public offering of 9.43 million shares of Class A common stock at \$44.50 per share, which resulted in net proceeds to us of approximately \$400 million, net of transaction fees. The net proceeds from this transaction were added to our working capital.

During 2003, 2002 and 2001, we repurchased 2,159,597, 2,234,400 and 374,000 shares of Class A common stock, respectively, pursuant to authorizations by our Board of Directors. On October 20, 2003 our Board of Directors approved a share repurchase program authorizing us to repurchase up to \$100 million of our common stock. At December 31, 2003, we had remaining authorization to repurchase approximately \$72 million of our common stock under this program. On October 20, 2003 our Board of Directors authorized the 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"). Under these two separate authorizations, 2,159,597 shares were repurchased for approximately \$46 million during the fourth quarter of 2003. The timing, volume and price of any future repurchases will be made pursuant to 10b5-1 trading plans, unless such plans are terminated at the discretion of management.

13. Options and Other Stock-Based Awards

The Amended and Restated 1996 Long-Term Incentive Plan—Under our Amended and Restated 1996 Long-Term Incentive Plan (the "LTIP"), officers, 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 Amended Plan:

- the total number of shares of Class A common stock reserved and available for distribution under the Plan is currently limited to an aggregate of 27,635,410;
- the number of restricted shares available for grant is limited to an aggregate of 2,000,000 shares issued on or after May 14, 2002 and the number of deferred stock, performance shares, stock purchase rights and other stock-based awards is limited to an aggregate of 1,000,000 shares issued on or after May 14, 2002;
- the number of stock options granted in replacement of a phantom award is limited to an aggregate of 50,000 shares;
- 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;
- 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 2012. At December 31, 2003, approximately 16,000,000 shares remained available for future grants of stock-based awards under the LTIP.

Shares of restricted stock are awarded at no cost to employees. Restricted shares generally 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 2003, the dividends were treated as additional shares of Restricted Stock. Restricted stock activity follows:

	Year Ended December 31,		
	2003	2002	2001
Outstanding at January 1	342,219	447,246	841,219
Granted	654,878	25,000	13,000
Issued	(45,358)	(118,423)	(342,785)
Canceled	(220,318)	(11,604)	(64,188)
	<u>731,421</u>	<u>342,219</u>	<u>447,246</u>
Outstanding at December 31	731,421	342,219	447,246

The weighted-average grant date fair market values of restricted stock granted during 2003, 2002 and 2001 were \$18.37, \$44.79 and \$37.68, respectively. The fair market values were calculated as the average of the high and low stock price on the grant date. We recognize stock compensation expense for these grants over the related vesting period.

Performance shares have been issued in past years. We recognized stock compensation expense for these grants over the related performance periods, which was not significant during 2003, 2002 or 2001. The Performance shares vested over a three-year performance period and we settled in cash. There were no new shares granted under the performance share plan during 2003, 2002 or 2001. Performance share activity follows:

	Year Ended December 31,		
	2003	2002	2001
Outstanding at January 1	145,124	292,509	466,147
Awards settled in cash	—	(133,201)	(153,405)
Canceled	(145,124)	(14,184)	(20,233)
Outstanding at December 31	—	145,124	292,509

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 December 31, 2003 approximately 2,000,000 shares remained available for future grants.

GetThere Stock Incentive Plans—In conjunction with the acquisition of GetThere in 2000, we assumed their two stock incentive plans and converted all outstanding GetThere options to Sabre options at the date of the acquisition. These converted options remain under the original GetThere plans and are administered under the original terms and conditions. We do not plan to use the GetThere plans for future grants.

Travelocity Stock Incentive Plans—In 2002, in conjunction with the tender offer to acquire the portion of Travelocity.com we did not already own, we assumed the Travelocity.com plans and converted options in Travelocity.com to Sabre options. 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 (Note 5). 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 SIP, non-employee directors received awards of options. Shares were granted from the plan through 1998. As of December 31, 2003, 109,026 options had been granted to directors at a weighted-average exercise price of \$25.20. As of December 31, 2003, 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.

Beginning in 1999, stock options granted to non–employee directors were granted under the LTIP. In 2003, 2002 and 2001, 27,600, 56,000 and 52,000 options were granted to non–employee directors at weighted–average exercise prices of \$20.70, \$35.61 and \$40.90, respectively. These amounts are also included in the stock options outstanding table below.

Stock Options Outstanding—All stock options are granted at the fair market value of Class A common stock on the date of grant, though the Board of Directors has the discretion to grant 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. Stock option activity follows:

Year Ended December 31,

	2003		2002		2001	
	Options	Weighted–Average Exercise Price	Options	Weighted–Average Exercise Price	Options	Weighted–Average Exercise Price
Outstanding at January 1	14,399,181	\$ 37.06	9,693,103	\$ 34.89	15,743,504	\$ 32.53
Granted	3,290,234	\$ 18.78	4,180,904	\$ 36.84	498,217	\$ 41.39
Exercised	(223,535)	\$ 22.25	(1,332,330)	\$ 38.64	(3,183,392)	\$ 21.51
Canceled	(2,310,548)	\$ 34.78	(1,787,717)	\$ 42.99	(3,365,226)	\$ 37.47
Converted Travelocity.com options	—		3,645,221	\$ 40.67	—	—
Outstanding at December 31	15,155,332	\$ 33.78	14,399,181	\$ 37.06	9,693,103	\$ 34.89
Exercisable options outstanding at December 31	8,705,297	\$ 37.03	5,094,143	\$ 35.31	3,268,815	\$ 30.56

The following table summarizes information about the stock options outstanding at December 31, 2003:

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	82,970	5.31	\$ 9.84	72,100	\$ 9.67	
\$16.00 – \$ 25.99	4,163,099	7.98	\$ 19.75	1,187,850	\$ 22.21	
\$26.00 – \$ 35.99	1,895,812	5.86	\$ 31.39	1,550,223	\$ 31.46	
\$36.00 – \$ 48.99	7,461,896	7.42	\$ 38.30	4,603,196	\$ 38.29	
\$49.00 – \$ 60.99	1,329,934	6.25	\$ 50.00	1,082,761	\$ 49.98	
\$61.00 – \$105.06	221,621	5.98	\$ 77.31	209,167	\$ 77.28	
Total	15,155,332	7.24	\$ 33.78	8,705,297	\$ 37.03	

Stock appreciation rights ("SAR") may be granted in conjunction with all or part of any stock option granted. All appreciation rights will terminate 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.

2003 Directors Deferred Compensation and Deferred Stock Unit Plan—Under the 2003 Directors Deferred Compensation and Deferred Stock Unit Plan, each director is granted 400 deferred stock units for each regularly scheduled Board of Directors meeting attended. Additionally, directors may defer their cash fees into stock equivalent units at their individual elections. Deferred stock units and stock equivalent units are fully vested and are expensed at the deferral date fair market value. The units are marked to the current fair market value through expense until the deferral period ends. Fair market value is determined based on our stock price on the last day of the elected deferral period. At December 31, 2003, 42,746 deferred stock units and 53,955 stock equivalent units at a fair market value of \$21.62 have been deferred.

Employee Stock Purchase Plan—We sponsor an Employee Stock Purchase Plan (the "ESPP"). The ESPP provides eligible employees the opportunity to purchase Class A common stock at a discount from the market price through automatic payroll deductions. The ESPP allows participating employees to purchase stock on a semiannual basis at 85% of the lower of the market price of the stock at the beginning or the end of a six-month period. In addition, the amended ESPP allows participating employees 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 480,000, 251,000 and 340,000 shares of common stock in fiscal 2003, 2002 and 2001, respectively under the ESPP. We have reserved 2,000,000 shares of Class A common stock under the ESPP. At December 31, 2003, less than 1,000,000 shares remained available for future issuance.

14. Business Segments

Prior to the divestiture of our Outsourcing Business in 2001 (Note 3), we had four reportable segments: Sabre Travel Network and Emerging Businesses ("Sabre Travel Network"), Travelocity, GetThere and Outsourcing and Software Solutions. Subsequent to the 2001 divestiture, we redefined our Outsourcing and Software Solutions segment as the Sabre Airline Solutions segment. During the fourth quarter of 2003, we integrated the products, services and operations of our GetThere business unit with related operations that are managed by our other business segments. The segment information presented below is based on the new segment definition for all periods presented.

The Sabre Travel Network segment distributes travel products and services through the travel agency and corporate channels. The Travelocity segment markets and distributes travel services to individual leisure and business travelers. Through our Travelocity Websites, consumers can compare prices, make travel reservations and obtain destination information online. Through Travelocity we also operate one of the world's largest Internet marketplaces focused on travel services for managed business travelers, travel arrangers and travel managers. The Sabre Airline Solutions segment primarily provides software development, reservations hosting and consulting solutions 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 described in the summary of significant accounting policies (Note 2). We account for significant intersegment transactions as if the transactions were to third parties, that is, at estimated current market prices. The majority of the intersegment revenues and cost of revenues are between Travelocity and Sabre Travel Network, consisting mainly of incentives and marketing fees for Travelocity bookings made through the *Sabre* GDS, data processing fees paid by Travelocity to Sabre Travel Network, and fees paid by Sabre Travel Network for corporate and airline trips booked through Travelocity's 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. The related assets are not allocated to the segments. Other assets not allocated to the segments include cash, marketable securities and deferred tax assets. Benefits expense, including pension expense, postretirement benefits, medical insurance and workers' compensation, are allocated to the segments based on headcount. Unallocated corporate expenses include depreciation expense and other costs associated with the corporate headquarters buildings, net of facility fees allocated to the reportable segments and affiliated companies and certain other corporate charges maintained at the corporate level.

The segment operating results are presented on a basis that excludes certain special 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 (in thousands).

	Year Ended December 31,		
	2003	2002	2001
Revenues from external customers excluding special items:			
Sabre Travel Network	\$ 1,482,435	\$ 1,584,564	\$ 1,668,825
Travelocity	286,207	242,079	241,917
Sabre Airline Solutions	232,354	216,847	216,178
Total	\$ 2,000,996	\$ 2,043,490	\$ 2,126,920
Intersegment revenues:			
Sabre Travel Network	\$ 26,883	\$ 27,706	\$ 27,816
Travelocity	115,048	101,660	82,220
Sabre Airline Solutions	—	—	—
Total	\$ 141,931	\$ 129,366	\$ 110,036
Equity in net income (loss) of equity method investees:			
Sabre Travel Network	\$ 14,456	\$ 17,943	\$ 18,041
Travelocity	(14,583)	(4,967)	—
Total	\$ (127)	\$ 12,976	\$ 18,041
Segment revenues, excluding special items:			
Sabre Travel Network	\$ 1,523,774	\$ 1,630,213	\$ 1,714,682
Travelocity	386,672	338,772	324,137
Sabre Airline Solutions	232,354	216,847	216,178
Elimination of intersegment revenues	(141,931)	(129,366)	(110,036)
Total	\$ 2,000,869	\$ 2,056,466	\$ 2,144,961
Revenue special items:			
Sabre Travel Network—settlement revenue from canceled subscriber contract	\$ 36,458	\$ —	\$ —
Travelocity—recognition of deferred warrant revenue upon termination of Hotels.com agreement	7,836	—	—
Total	\$ 44,294	\$ —	\$ —
Consolidated revenues:			
Sabre Travel Network	\$ 1,560,232	\$ 1,630,213	\$ 1,714,682
Travelocity	394,508	338,772	324,137
Sabre Airline Solutions	232,354	216,847	216,178
Elimination of intersegment revenues	(141,931)	(129,366)	(110,036)
Total	\$ 2,045,163	\$ 2,056,466	\$ 2,144,961

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

	Year Ended December 31,		
	2003	2002	2001
Segment operating income (loss) excluding special items:			
Sabre Travel Network	\$ 234,731	\$ 437,743	\$ 375,209
Travelocity	(54,900)	(37,456)	(25,524)
Sabre Airline Solutions	21,100	20,059	38,098
Net corporate allocations	(2,963)	(6,272)	(73,826)
Total	\$ 197,968	\$ 414,074	\$ 313,957
<i>Impact of special items on operating income—(increase)/decrease:</i>			
Sabre Travel Network:			
Settlement revenue from canceled subscriber contract	\$ (36,458)	\$ —	\$ —
Other intangibles amortization	12,789	16,588	89,393
Write-off of software which will not be utilized	—	—	5,975
Stock compensation	735	1,015	2,725
Restructuring expenses	(288)	3,685	13,218
Facilities consolidation	222	—	—
Total	(23,000)	21,288	111,311
Travelocity:			
Recognition of deferred revenue upon termination of Hotels.com agreement	(7,836)	—	—
Other intangibles amortization and impairment	41,554	35,003	179,474
Stock compensation	7,856	25,769	6,612
Restructuring expenses	(37)	19	5,461
Facilities consolidation	3,894	—	—
Tender offer expenses	—	7,111	—
Total	45,431	67,902	191,547
Sabre Airline Solutions:			
Other intangibles amortization	—	94	8,657
Stock compensation	118	105	255
Restructuring expenses	(231)	2,181	3,006
Facilities consolidation	42	—	—
Total	(71)	2,380	11,918
Corporate:			
Litigation insurance	(450)	1,350	—
Restructuring expenses	(370)	3,654	7,890
Facilities consolidation	10,198	—	—
Total	9,378	5,004	7,890
Total special items	\$ 31,738	\$ 96,574	\$ 322,666
Operating income (loss):			
Sabre Travel Network	\$ 257,731	\$ 416,455	\$ 263,898
Travelocity	(100,331)	(105,358)	(217,071)
Sabre Airline Solutions	21,171	17,679	26,180
Unallocated corporate expenses	(12,341)	(11,276)	(81,716)
Total	\$ 166,230	\$ 317,500	\$ (8,709)

Our segment results above include approximately \$17.9 million of severance costs in the fourth quarter of 2003 (Note 6) that were not considered special items in 2003 because of prior occurrences. During 2002 and 2001 segment results did not include approximately \$15.8 million and \$19.9 million, respectively of severance and related charges shown above as restructuring expenses.

	December 31,		
	2003	2002	2001
Depreciation and amortization included in income from continuing operations (in thousands):			
Sabre Travel Network	\$ 54,489	\$ 46,429	\$ 79,202
Travelocity	65,988	56,850	270,992
Sabre Airline Solutions	15,527	8,970	32,318
Unallocated depreciation and amortization	—	4,699	6,426
Total consolidated depreciation and amortization included in income from continuing operations	\$ 136,004	\$ 116,948	\$ 388,938
Amortization of goodwill and intangible assets included in income from continuing operations, including special items (in thousands):			
Sabre Travel Network	\$ 12,788	\$ 16,588	\$ 89,393
Travelocity	41,554	35,042	179,473
Sabre Airline Solutions	1,959	1,794	8,656
Total amortization of goodwill and intangible assets included in income from continuing operations	\$ 56,301	\$ 53,424	\$ 277,522
Segment assets (in thousands):			
Sabre Travel Network	\$ 872,165	\$ 874,289	\$ 699,718
Travelocity	677,965	714,436	618,321
Sabre Airline Solutions	363,017	339,401	358,840
Unallocated cash, investments, corporate headquarters and other	1,043,006	831,948	699,138
Total consolidated assets	\$ 2,956,153	\$ 2,760,074	\$ 2,376,017

Capital expenditures for the first half of 2001, as presented in the table below, have not been revised for the effects of the sale of the Outsourcing Business (in thousands).

	Year Ended December 31,		
	2003	2002	2001
Capital expenditures for segment assets:			
Sabre Travel Network	\$ 29,577	\$ 23,392	\$ 62,348
Travelocity	19,169	18,054	19,557
Sabre Airline Solutions	12,229	16,139	70,949
Unallocated capital expenditures	10,491	5,065	5,553
Total capital expenditures	\$ 71,466	\$ 62,650	\$ 158,407

Our revenues from continuing operations and long-lived assets, including goodwill and intangible assets, by geographic region are summarized below (in thousands). Revenues from continuing operations are attributed to countries based on the location of the customer.

	Year Ended December 31,		
	2003	2002	2001
Revenues from continuing operations:			
United States	\$ 1,142,893	\$ 1,248,314	\$ 1,459,075
Foreign	902,270	808,152	685,886
Total	\$ 2,045,163	\$ 2,056,466	\$ 2,144,961
	December 31,		
	2003	2002	2001
Long-lived assets:			
United States	\$ 1,313,023	\$ 1,186,873	\$ 1,025,923
Singapore (primarily investment in joint venture)	147,741	151,399	152,733
Other foreign	113,522	106,616	105,123
Total	\$ 1,574,286	\$ 1,444,888	\$ 1,283,779

15. Quarterly Financial Information (Unaudited)

The following is a summary of the unaudited quarterly financial information for the years ended December 31, 2003 and 2002 (in thousands except per share data):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
<u>2003</u>				
Revenues	\$ 543,833	\$ 507,189	\$ 526,793	\$ 467,348
Operating income (loss)	103,894	40,392	43,866	(21,922)
Net earnings (loss)	64,879	6,816	25,449	(13,843)
Earnings per common share:				
Basic	\$.46	\$.05	\$.18	\$ (.10)
Diluted	\$.45	\$.05	\$.18	\$ (.10)

	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>
<u>2002</u>				
Revenues	\$ 549,358	\$ 536,748	\$ 517,374	\$ 452,986
Operating income	119,994	104,304	87,474	5,728
Net earnings	87,387	67,965	57,921	871
Earnings per common share:				
Basic	\$.66	\$.48	\$.40	\$.01
Diluted	\$.64	\$.47	\$.40	\$.01

The travel industry is seasonal in nature. Bookings, and thus fees charged for the use of the *Sabre* system, decrease significantly each year in the fourth quarter, primarily in December, due to early bookings by customers for travel during the holiday season and a decline in business travel during the holiday season. All quarters presented have been negatively affected by unfavorable economic conditions in the United States, political and economic issues abroad, ongoing travel security concerns, fear of potential terrorist attacks and channel shift. The first half of 2003 was affected by travelers' fear of exposure to contagious diseases such as SARS. See Note 6 for further discussion of significant events impacting our quarterly results for these years.

16. Supplemental Guarantor/Non-Guarantor Financial Information

Certain obligations of Sabre Holdings Corporation ("Sabre Holdings") have been solely guaranteed by its 100% owned operating subsidiary, Sabre Inc. 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 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 2001 and 2002 financial statements to conform to the 2003 presentation.

Sabre Inc. conducts the domestic operations of the Company's Sabre Travel Network segment and conducts the operations of 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 2003, 2002 and 2001, Sabre Inc. recognized operating expenses totaling approximately \$218 million, \$291 million and \$328 million, respectively, in connection with these agreements. These amounts, and the corresponding amounts recognized by the non-guarantor subsidiaries, are eliminated in consolidation.

SABRE HOLDINGS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

CONDENSED CONSOLIDATING BALANCE SHEETS
DECEMBER 31, 2003
(in thousands)

	Sabre Holdings	Sabre Inc.	Non- Guarantor Subsidiaries	Eliminating Entries	Sabre Consolidated
Assets					
Current assets					
Cash and marketable securities	\$ —	\$ 889,638	\$ 32,973	\$ —	\$ 922,611
Accounts receivable—trade, net	—	254,656	94,332	—	348,988
Intercompany accounts receivable (payable)	1,529,296	(1,650,772)	121,476	—	—
Prepaid expenses	—	42,478	43,997	—	86,475
Deferred income taxes	—	8,736	1,501	—	10,237
Total current assets	1,529,296	(455,264)	294,279	—	1,368,311
Property and equipment, net	—	345,930	38,450	—	384,380
Investments in joint ventures	—	3,994	177,148	—	181,142
Goodwill and intangible assets, net	—	10,269	877,929	—	888,198
Investments in subsidiaries	572,696	1,260,428	—	(1,833,124)	—
Other assets, net	17,057	79,210	37,855	—	134,122
Total assets	\$ 2,119,049	\$ 1,244,567	\$ 1,425,661	\$ (1,833,124)	\$ 2,956,153
Liabilities and stockholders' equity					
Current liabilities					
Accounts payable	\$ 2,926	\$ 124,189	\$ 75,500	\$ —	\$ 202,615
Accrued compensation and related benefits	—	50,554	12,003	—	62,557
Other accrued liabilities	7,474	140,814	89,935	—	238,223
Total current liabilities	10,400	315,557	177,438	—	503,395
Deferred income taxes	(24)	41,022	(36,578)	—	4,420
Pensions and other postretirement benefits	—	133,508	1,591	—	135,099
Other liabilities	1,165	21,059	16,319	—	38,543
Minority interests	—	—	6,463	—	6,463
Capital lease obligations	—	160,725	—	—	160,725
Notes payable	427,400	—	—	—	427,400
Stockholders' equity	1,680,108	572,696	1,260,428	(1,833,124)	1,680,108
Total liabilities and stockholders' equity	\$ 2,119,049	\$ 1,244,567	\$ 1,425,661	\$ (1,833,124)	\$ 2,956,153

CONDENSED CONSOLIDATING BALANCE SHEETS
DECEMBER 31, 2002
(in thousands)

	Sabre Holdings	Sabre Inc.	Non- Guarantor Subsidiaries	Eliminating Entries	Sabre Consolidated
Assets					
Current assets					
Cash and marketable securities	\$ —	\$ 898,958	\$ 12,802	\$ —	\$ 911,760
Accounts receivable—trade, net	—	223,216	75,282	—	298,498
Intercompany accounts receivable (payable)	1,532,426	(2,094,913)	562,487	—	—
Prepaid expenses	—	38,994	46,663	—	85,657
Deferred income taxes	—	15,678	50	—	15,728
Total current assets	1,532,426	(918,067)	697,284	—	1,311,643
Property and equipment, net	—	187,783	52,289	—	240,072
Investments in joint ventures	—	4,169	184,833	—	189,002
Goodwill and intangible assets, net	—	10,605	845,078	—	855,683
Investments in subsidiaries	529,892	1,675,167	—	(2,205,059)	—
Other assets, net	24,058	100,326	39,290	—	163,674
Total assets	\$ 2,086,376	\$ 1,059,983	\$ 1,818,774	\$ (2,205,059)	\$ 2,760,074
Liabilities and stockholders' equity					
Current liabilities					
Accounts payable	\$ 88	\$ 163,071	\$ 18,775	\$ —	\$ 181,934
Accrued compensation and related benefits	—	44,752	10,018	—	54,770
Other accrued liabilities	8,381	169,783	85,046	—	263,210
Total current liabilities	8,469	377,606	113,839	—	499,914
Deferred income taxes	—	24,863	(11,108)	—	13,755
Pensions and other postretirement benefits	—	118,943	905	—	119,848
Other liabilities	564	8,679	29,671	—	38,914
Minority interests	—	—	10,300	—	10,300
Notes payable	435,765	—	—	—	435,765
Stockholders' equity	1,641,578	529,892	1,675,167	(2,205,059)	1,641,578
Total liabilities and stockholders' equity	\$ 2,086,376	\$ 1,059,983	\$ 1,818,774	\$ (2,205,059)	\$ 2,760,074

CONDENSED CONSOLIDATING STATEMENTS OF INCOME
YEAR ENDED DECEMBER 31, 2003
(in thousands)

	Sabre Holdings	Sabre Inc.	Non- Guarantor Subsidiaries	Eliminating Entries	Sabre Consolidated
Revenues	\$ —	\$ 1,466,162	\$ 1,021,897	\$ (442,896)	\$ 2,045,163
Operating expenses	2,632	1,327,518	991,679	(442,896)	1,878,933
Operating income (loss)	(2,632)	138,644	30,218	—	166,230
Other income (expense)					
Interest income	85,600	11,612	15,672	(96,407)	16,477
Interest expense	(17,004)	(100,798)	(2,682)	96,407	(24,077)
Income from subsidiaries	39,847	33,872	—	(73,719)	—
Other, net	—	(27,826)	(3,062)	—	(30,888)
Total other income (expense)	108,443	(83,140)	9,928	(73,719)	(38,488)
Minority interests	—	—	(365)	—	(365)
Income (loss) before income taxes	105,811	55,504	39,781	(73,719)	127,377
Provision for income taxes	22,510	15,657	5,909	—	44,076
Net income (loss)	\$ 83,301	\$ 39,847	\$ 33,872	\$ (73,719)	\$ 83,301

CONDENSED CONSOLIDATING STATEMENTS OF INCOME
YEAR ENDED DECEMBER 31, 2002
(in thousands)

	Sabre Holdings	Sabre Inc.	Non- Guarantor Subsidiaries	Eliminating Entries	Sabre Consolidated
Revenues	\$ —	\$ 1,577,252	\$ 964,889	\$ (485,675)	\$ 2,056,466
Operating expenses	1,389	1,361,926	861,326	(485,675)	1,738,966
Operating income (loss)	(1,389)	215,326	103,563	—	317,500
Other income (expense)					
Interest income	90,440	22,064	22,219	(106,820)	27,903
Interest expense	(19,047)	(108,449)	(2,674)	106,820	(23,350)
Income from subsidiaries	168,029	85,151	—	(253,180)	—
Other, net	—	19,134	(2,333)	—	16,801
Total other income (expense)	239,422	17,900	17,212	(253,180)	21,354
Minority interests	—	—	214	—	214
Income (loss) before income taxes	238,033	233,226	120,989	(253,180)	339,068
Provision for income taxes	23,889	65,197	35,838	—	124,924
Net income (loss)	\$ 214,144	\$ 168,029	\$ 85,151	\$ (253,180)	\$ 214,144

CONDENSED CONSOLIDATING STATEMENTS OF INCOME
YEAR ENDED DECEMBER 31, 2001
(in thousands)

	Sabre Holdings	Sabre Inc.	Non- Guarantor Subsidiaries	Eliminating Entries	Sabre Consolidated
Revenues	\$ —	\$ 1,660,384	\$ 891,077	\$ (406,500)	\$ 2,144,961
Operating expenses	1,843	1,607,671	951,844	(407,688)	2,153,670
Operating income (loss)	(1,843)	52,713	(60,767)	1,188	(8,709)
Other income (expense)					
Interest income	37,251	18,885	5,774	(37,251)	24,659
Interest expense	(9,581)	(88,359)	19,524	37,251	(41,165)
Income from subsidiaries	14,214	(74,844)	—	60,630	—
Other, net	—	42,385	(5,629)	—	36,756
Total other income (expense)	41,884	(101,933)	19,669	60,630	20,250
Minority interests	—	—	22,469	—	22,469
Income (loss) from continuing operations before income taxes	40,041	(49,220)	(18,629)	61,818	34,010
Provision for income taxes	8,814	10,938	61,211	—	80,963
Income (loss) from continuing operations	31,227	(60,158)	(79,840)	61,818	(46,953)
Income (loss) from discontinued operations, net	—	36,164	1,329	(1,188)	36,305
Gain on sale of discontinued operations, net	—	38,208	564	—	38,772
Income before cumulative effect of change in accounting method	31,227	14,214	(77,947)	60,630	28,124
Cumulative effect of accounting method, net of minority interests and income taxes	—	—	3,103	—	3,103
Net income (loss)	\$ 31,227	\$ 14,214	\$ (74,844)	\$ 60,630	\$ 31,227

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2003
(in thousands)

	Sabre Holdings	Sabre Inc.	Non-Guarantor Subsidiaries	Eliminating Entries	Sabre Consolidated
Operating Activities					
Net earnings	\$ 83,301	\$ 39,847	\$ 33,872	\$ (73,719)	\$ 83,301
Adjustments to reconcile net earnings to cash provided by operating activities:					
Depreciation and amortization	—	54,767	81,237	—	136,004
Stock compensation	—	2,522	9,064	—	11,586
Deferred income taxes	—	(3,837)	—	—	(3,837)
Tax benefit from exercise of stock options	—	—	736	—	736
Loss on building re-financing	—	27,947	—	—	27,947
Minority interests	—	—	365	—	365
(Income) loss from subsidiaries	(39,847)	(33,872)	—	73,719	—
Other	(1,608)	6,523	8,175	—	13,090
Changes in operating assets and liabilities	13,236	(458,837)	437,947	—	(7,654)
Cash provided by (used for) operating activities	55,082	(364,940)	571,396	—	261,538
Investing Activities					
Additions to property and equipment	—	(52,307)	(19,159)	—	(71,466)
Business combinations, net of cash acquired	—	(11,934)	(84,180)	—	(96,114)
Purchases of marketable securities	—	(7,750,255)	(832)	—	(7,751,087)
Sales of marketable securities	—	7,760,587	—	—	7,760,587
Proceeds from sale of investments	—	—	5,054	—	5,054
Investments in subsidiaries, net	9,986	457,129	—	(467,115)	—
Other investing activities, net	—	—	6,968	—	6,968
Cash provided by (used for) investing activities	9,986	403,220	(92,149)	(467,115)	(146,058)
Financing Activities					
Contributions from (repayments to) affiliates	—	(9,986)	(457,129)	467,115	—
Proceeds from exercise of stock options and issuance of stock under employee stock purchase plan	10,541	—	—	—	10,541
Purchase of treasury stock	(45,596)	—	—	—	(45,596)
Payment to re-finance buildings	—	(27,947)	—	—	(27,947)
Dividends paid	(30,125)	—	—	—	(30,125)
Other financing activities, net	112	—	(2,779)	—	(2,667)
Cash provided by (used for) financing activities	(65,068)	(37,933)	(459,908)	467,115	(95,794)
Increase in cash	—	347	19,339	—	19,686
Cash at beginning of the period	—	10,622	10,554	—	21,176
Cash at end of the period	\$ —	\$ 10,969	\$ 29,893	\$ —	\$ 40,862

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2002
(in thousands)

	Sabre Holdings	Sabre Inc.	Non-Guarantor Subsidiaries	Eliminating Entries	Sabre Consolidated
Operating Activities					
Net earnings	\$ 214,144	\$ 168,029	\$ 85,151	\$ (253,180)	\$ 214,144
Adjustments to reconcile net earnings to cash provided by operating activities:					
Depreciation and amortization	—	42,136	74,812	—	116,948
Stock compensation	—	—	31,142	—	31,142
Deferred income taxes	—	88,375	(35,171)	—	53,204
Tax benefit from exercise of stock options	9,687	—	—	—	9,687
Minority interests	—	—	(214)	—	(214)
(Income) loss from subsidiaries	(168,029)	(85,151)	—	253,180	—
Gain on sale of former headquarters building	—	(18,308)	—	—	(18,308)
Other	11,828	(12,866)	(21,292)	—	(22,330)
Changes in operating assets and liabilities	(453,859)	569,039	(207,782)	—	(92,602)
Cash provided by (used for) operating activities	(386,229)	751,254	(73,354)	—	291,671
Investing Activities					
Additions to property and equipment	—	(40,654)	(21,996)	—	(62,650)
Business combinations, net of cash acquired	—	(2,963)	(495,545)	—	(498,508)
Proceeds from exercise of Travelocity.com stock options	—	—	—	33,658	33,658
Proceeds from sale of former headquarters building	—	80,000	—	—	80,000
Purchase of data center facility from lessor	—	(92,092)	—	—	(92,092)
Proceeds from sale of data center facility	—	68,464	—	—	68,464
Proceeds from sale of minority interest in Sabre Pacific	—	—	23,466	—	23,466
Purchases of marketable securities	—	(4,373,678)	(321,629)	—	(4,695,307)
Sales of marketable securities	—	4,018,609	434,453	—	4,453,062
Proceeds from sale of investments	—	—	8,807	—	8,807
Investments in subsidiaries, net	(10,945)	(457,494)	—	468,439	—
Other investing activities, net	—	38,185	(26,107)	—	12,078
Cash provided by (used for) investing activities	(10,945)	(761,623)	(398,551)	502,097	(669,022)
Financing Activities					
Contributions from (repayments to) affiliates	—	10,945	457,494	(468,439)	—
Proceeds from issuance of common stock	399,763	—	—	—	399,763
Proceeds from exercise of stock options and issuance of stock under employee stock purchase plan	36,609	—	33,658	(33,658)	36,609
Purchase of treasury stock	(56,610)	—	—	—	(56,610)
Other financing activities, net	17,412	—	(17,502)	—	(90)
Cash provided by (used for) financing activities	397,174	10,945	473,650	(502,097)	379,672
Increase in cash	—	576	1,745	—	2,321
Cash at beginning of the period	—	10,046	8,809	—	18,855
Cash at end of the period	\$ —	\$ 10,622	\$ 10,554	\$ —	\$ 21,176

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2001
(in thousands)

	Sabre Holdings	Sabre Inc.	Non-Guarantor Subsidiaries	Eliminating Entries	Sabre Consolidated
Operating Activities					
Net earnings	\$ 31,227	\$ 14,214	\$ (74,844)	\$ 60,630	\$ 31,227
Adjustments to reconcile net earnings to cash provided by operating activities:					
Depreciation and amortization	—	111,862	325,785	—	437,647
Stock compensation	—	—	7,624	—	7,624
Deferred income taxes	—	(74,892)	(12,517)	—	(87,409)
Tax benefit from exercise of stock options	31,126	—	—	—	31,126
Minority interests	—	—	(22,469)	—	(22,469)
(Income) loss from subsidiaries	(14,214)	74,844	—	(60,630)	—
Gain on sale of discontinued operations, net	—	(38,208)	(564)	—	(38,772)
Gain on sale of France Telecom shares	—	(47,303)	—	—	(47,303)
Cumulative effect of accounting change, net	—	—	(3,103)	—	(3,103)
Loss on disposal of equipment	—	8,132	215	—	8,347
Other	—	9,858	(7,322)	—	2,536
Changes in operating assets and liabilities	(504,030)	681,994	(107,178)	—	70,786
Cash provided by (used for) operating activities	(455,891)	740,501	105,627	—	390,237
Investing Activities					
Additions to property and equipment	—	(121,196)	(37,211)	—	(158,407)
Business combinations, net of cash acquired	—	(9,387)	(45,956)	—	(55,343)
Proceeds from exercise of Travelocity.com stock options	—	—	—	13,145	13,145
Proceeds from sale of discontinued operations	—	607,525	53,238	—	660,763
Purchases of marketable securities	—	(2,883,251)	(456,974)	—	(3,340,225)
Sales of marketable securities	—	2,466,243	367,671	—	2,833,914
Proceeds from sale of investments	—	47,303	38,950	—	86,253
Purchases of Travelocity.com common stock	—	—	(17,908)	—	(17,908)
Investments in subsidiaries, net	(41,699)	292	—	41,407	—
Dividends received	—	13,758	—	(13,758)	—
Other investing activities, net	—	(36,023)	(3,919)	—	(39,942)
Cash provided by (used for) investing activities	(41,699)	85,264	(102,109)	40,794	(17,750)
Financing Activities					
Contributions from (repayments to) affiliates	—	41,699	(292)	(41,407)	—
Proceeds from exercise of stock options and issuance of stock under employee stock purchase plan	109,262	—	13,145	(13,145)	109,262
Purchase of treasury stock	(9,064)	—	—	—	(9,064)
Dividends paid	—	—	(13,758)	13,758	—
Issuance of notes payable	397,392	—	—	—	397,392
Repayments of notes payable	—	(859,000)	—	—	(859,000)
Cash provided by (used for) financing activities	497,590	(817,301)	(905)	(40,794)	(361,410)
Increase in cash	—	8,464	2,613	—	11,077
Cash at beginning of the period	—	1,582	6,196	—	7,778
Cash at end of the period	\$ —	\$ 10,046	\$ 8,809	\$ —	\$ 18,855



17. Subsequent Events

WNS Agreement—On January 30, 2004 we entered into a multi-year master services agreement with WNS North America, Inc. ("WNS"). Under the agreement, we will outsource to WNS a portion of our Travelocity contact center operations, primarily front-line customer service calls and back-office fulfillment. We do not expect any severance and related costs from this agreement to be significant.

For 2004, we have minimum commitments to WNS of \$18 million. Thereafter, we are committed to minimum payments based on a calculation that considers both current and historical volumes compared to thresholds established in the agreement. For 2005 through 2010, the starting thresholds for calculating our minimum commitment for each year ranges from approximately \$17 million to \$31 million, and actual commitments could be lower than these amounts, depending on volumes.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures. As of the end of the period covered by this report, our principal executive officer ("CEO") and principal financial officer ("CFO") evaluated the effectiveness of our disclosure controls and procedures. Based on these evaluations, our CEO and CFO believe (i) that our disclosure controls and procedures have been designed to ensure that information required to be disclosed by us in this Report 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 the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure; and (ii) that our disclosure controls and procedures are functioning as designed.

Limitations on the Effectiveness of Controls. The Company's management, including the CEO and CFO, does not expect that the Company's disclosure controls and procedures or our internal controls over financial reporting will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. Further, the design of any control system 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. Because of these inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Changes in internal controls over financial reporting. During the year ended December 31, 2003, there was no change in our internal control over financial reporting (or in other factors) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting, including any corrective actions required with regard to significant deficiencies or material weaknesses.

Conclusions regarding disclosure controls. Based upon the required evaluation of disclosure controls, the CEO and CFO have concluded, *as of December 31, 2003*, that, subject to the limitations noted above, the Company's disclosure controls are effective to ensure that material information relating to the Company and its consolidated subsidiaries is made known to management, including the CEO and CFO.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Incorporated herein by reference is the information set forth under the headings "Nominees for Election as Directors", "Continuing Directors," "Information Regarding the Board and Its Committees," "Director Nomination Process" and information concerning the executive officers set forth under the heading "Executive Officers of the Registrant" in our definitive Proxy Statement for the Annual Meeting of Stockholders to be held on May 4, 2004.

Corporate Governance Policy

Sabre Holdings Corporation is committed to conducting its business in a way that reflects best practices as well as the highest standards of legal and ethical conduct. We want to be a company of integrity and to be perceived as such by everyone who comes in contact with us.

To that end, the Board of Directors of the Corporation has approved a comprehensive system of corporate governance documents that collectively constitute the *Corporate Governance Policy* of Sabre Holdings Corporation. These documents meet the requirements established by the New York Stock Exchange's corporate governance listing standards and by the Securities Exchange Commission.

The Corporate Governance Policy describes the policies, processes and practices followed by our directors, officers and employees in governing the Corporation, and serves as a flexible framework for sound corporate governance. The Corporate Governance Policy, which includes the Charters of each of the Committees of our Board of Directors and our Business Ethics Policy, is available on the Corporate Governance section of our Website. Stockholders may request a free copy of the Corporate Governance Guidelines from:

Sabre Holdings Corporation
Attention: Investor Relations
3150 Sabre Drive
Southlake, TX 76092
682 605 1000

Code of Ethics

Sabre Holdings Corporation and its subsidiaries endeavor to do business according to the highest ethical and legal standards, complying with both the letter and spirit of the law. Our Board of Directors has approved a Business Ethics Policy that applies to the Corporation's directors, officers (including our principal executive officer, principal financial officer and controller), employees and contractors around the globe. Our Business Ethics Policy, a component of the Sabre Holdings Corporation Corporate Governance Policy (described below), is administered by our General Counsel, who acts as the Compliance Officer for the Corporation.

Our employees are encouraged to report any suspected violations of laws, regulations and the Business Ethics Policy, and all unethical business practices. We provide continuously monitored hotlines for anonymous reporting by employees, and also obtain annual compliance certifications from all officers and management level employees.

Our Business Ethics Policy is available on the Corporate Governance section of our Website and Stockholders may request a free copy of the Business Ethics Policy by contacting Investor Relations at the phone number and address set forth above under "Corporate Governance Policy."

In addition, within five business days of:

- Any amendment to a provision of our Business Ethics Policy that applies to our Chief Executive Officer, our Chief Financial Officer, or Controller; or
- The grant of any waiver, including an implicit waiver, from a provision of our Business Ethics Policy to one of these officers that relates to one or more of the items set forth in Item 406(b) of Regulation S-K.

We will provide information regarding any such amendment or waiver (including the nature of any waiver, the name of the person to whom the waiver was granted and the date of the waiver) on our Website at the Internet address above, and such information will be available on our Website for at least a 12-month period. In addition, we will disclose any amendments and waivers to our Business Ethics Policy as required by the listing standards of the New York Stock Exchange.

ITEM 11. EXECUTIVE COMPENSATION

Incorporated herein by reference is the information set forth under the heading "Executive Compensation" in our definitive Proxy Statement for the Annual Meeting of Stockholders to be held on May 4, 2004.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Incorporated herein by reference is the information set forth under the heading "Ownership of Securities" from our definitive Proxy Statement for the Annual Meeting of Stockholders to be held on May 4, 2004.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Incorporated herein by reference is the information set forth under the heading "Proposal 2—Selection of Auditors—Fees Paid to Ernst & Young LLP" from our definitive Proxy Statement for the Annual Meeting of Stockholders to be held on May 4, 2004.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

- (a)(1) The financial statements listed in the accompanying index to financial statements and the schedules are filed as part of this report.
- (2) The schedules listed in the accompanying index to financial statements and schedules are filed as part of this report.
- (3) Exhibits required to be filed by Item 601 of Regulation S-K. The exhibits listed in items 10.1 through 10.22 consist of management contracts or compensatory plans or arrangements.

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- 10.25 Amendment No. 1, to the Credit Agreement dated as of October 4, 2000, among Sabre Inc., Bank of America, N.A., and the other banks party thereto.(30)
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- 10.26(a) Participation Agreement dated as of June 15, 2003, among Sabre Inc., as Lessee, Sabre Holdings Corporation, as Lessee Guarantor, CSL Leasing Inc., as Lessor, the Institutional Investors named therein, as Purchasers, and Wilmington Trust Company, as Indenture Trustee.(31)
- 10.26(b) Master Lease and Deed of Trust dated as of June 15, 2003, between Sabre Inc., as Lessee, and CSL Leasing Inc., as Lessor.(31)
- 10.26(c) Lease Supplement No. 1 (Memorandum of Lease Supplement, Memorandum of Master Lease and Deed of Trust, Fixture Filing and Memorandum of Option to Purchase) dated June 26, 2003, between Sabre Inc., as the Lessee and grantor, and CSL Leasing Inc., as Lessor and beneficiary, and to Jeffrey A. Rattikin, as trustee and grantee.(31)
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- 23.1 Consent of Ernst & Young LLP.(9)
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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 February 27, 2004, signed by Michael S. Gilliland as Chief Executive Officer(32)

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 2. Incorporated by reference to Exhibit 2.2 to our report on Form 8-K on July 16, 2001.
 3. Incorporated by reference to Exhibit 2.3 to our report on Form 8-K on July 16, 2001.
 4. Incorporated by reference to Exhibit 3.1 to our report on Form 10-Q for the quarter ended June 30, 2000.
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 6. Incorporated by reference to Exhibit 4.1 to our report on Form 10-Q for the quarter ended March 31, 2000.
 7. Incorporated by reference to Exhibit 4.6 to our report on Form 8-K dated August 7, 2001.
 8. Incorporated by reference to Exhibit 4.7 to our report on Form 8-K dated August 7, 2001.
 9. Filed herewith.
 10. Incorporated by reference to Exhibit (e)(5) to Schedule 14D-9 filed by Travelocity.com, Inc. on March 18, 2002.
 11. Incorporated by reference to Exhibit 10.1 to our report on Form 10-Q for the quarter ended June 30, 2001.
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 17. Incorporated by reference to Exhibit 10.24 to our report on Form 10-K for the year ended December 31, 2001.
 18. Incorporated by reference to Exhibit 10.26 to our report on Form 10-K for the year ended December 31, 2002.
 19. Incorporated by reference to Exhibit 10.34 to our report on Form 10-K/A for the year ended December 31, 2002.
 20. Incorporated by reference to Exhibit 10.35 to our report on Form 10-K/A for the year ended December 31, 2002.
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21. Incorporated by reference to Exhibit 10.33 to our report on Form 10-K/A for the year ended December 31, 2002.
22. Incorporated by reference to Exhibit 10.1 to our report on Form 10-Q for the quarter ended March 31, 2003.
23. Incorporated by reference to Exhibit 10.2 to our report on Form 10-Q for the quarter ended March 31, 2003.
24. Incorporated by reference to Exhibit 10.3 to our report on Form 10-Q for the quarter ended March 31, 2003.
25. Incorporated by reference to Exhibit 10.26 to our Registration Statement on Form S-1 (Registration No. 333-09747).
26. Incorporated by reference to Exhibit B to our proxy statement on Schedule 14A filed April 17, 2000.
27. Incorporated by reference to Exhibit 10.16 to our report on Form 10-K for the year ended December 31, 2001.
28. Incorporated by reference to Exhibit 10.34 to our report on Form 10-K for the year ended December 31, 1997.
29. Incorporated by reference to Exhibit 10.1 to our report on Form 10-Q for the quarter ended June 30, 2000.
30. Incorporated by reference to Exhibit 10.30 to our report on Form 10-K for the year ended December 31, 2001.
31. Incorporated by reference to Exhibit 10.1 (a-g) to our report on Form 10-Q for the quarterly period ended June 30, 2003.
32. Sabre Holdings Corporation is furnishing, but not filing, the written statements pursuant to Title 18 United States Code Section 1350, as added by Section 906 of 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 Sabre Holdings Corporation.

(b)
Reports on Form 8-K:

Pursuant to General Instruction B.2. of Form 8-K, to the extent that the Forms 8-K listed below contain Item 9 and/or Item 12 disclosures, neither those Items of such Forms 8-K nor any exhibits or appendices incorporated by reference into those Items are incorporated into this Form 10-K or into any other form or report filed with the Commission into which this Form 10-K would be incorporated by reference.

- On October 16, 2003, Sabre Holdings Corporation submitted a report on Items 9 and 12 of Form 8-K reporting certain financial projections of the Company and announcing that its indirect subsidiary, Travelocity.com LP, and Hotels.com had entered into a mutually agreed settlement of all issues to end their affiliation agreement.
- On October 21, 2003, Sabre Holdings Corporation submitted a report on Item 9 of Form 8-K announcing the declaration of a quarterly cash dividend.
- On October 22, 2003, Sabre Holdings Corporation submitted a report on Item 9 of Form 8-K reporting that Travelocity.com LP had entered into an asset purchase agreement with MyTravel Group plc, an English public limited company, and certain of its indirect subsidiaries to purchase the assets of its U.S.-based hotel room consolidation and distribution businesses of World Choice Travel, Inc. and assume certain liabilities related thereto, for a purchase price of approximately \$50,000,000 in cash, subject to certain adjustments.

- On October 23, 2003, Sabre Holdings Corporation submitted a report on Items 9 and 12 of Form 8-K reporting the financial results of the Company for the quarter ended September 30, 2003.

- On November 20, 2003, Sabre Holdings Corporation submitted a report on Item 9 of Form 8-K announcing that Travelocity.com. L.P., an indirect subsidiary of Sabre Holdings Corporation, had successfully completed its acquisition of the assets of World Choice Travel, Inc.

- On December 2, 2003, Sabre Holdings Corporation filed a report on Item 9 of Form 8-K reporting the election of a new non-executive Chairman of the Board of Directors of the Company, a new President and CEO of the Company, and a new President and CEO of the Company's indirect subsidiary, Travelocity.

SABRE HOLDINGS CORPORATION
INDEX TO FINANCIAL STATEMENTS AND SCHEDULES
COVERED BY REPORT OF INDEPENDENT AUDITORS

[Item 15(a)]

Financial Statements

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Consolidated Balance Sheets at December 31, 2003 and 2002	55
Consolidated Statements of Income for the Years Ended December 31, 2003, 2002 and 2001	56
Consolidated Statements of Cash Flows for the Years Ended December 31, 2003, 2002 and 2001	57
Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2003, 2002 and 2001	58
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All other schedules are omitted because the required information is included in the financial statements or notes thereto, or because the required information is either not present or not present in sufficient amounts.

Sabre Holdings Corporation

Schedule II—Valuation and Qualifying Accounts

For Each of the Three Years in the Period Ended December 31, 2003

(in thousands)

Classification	Balance at Beginning of Year	Additions		Deductions (2)	Balance at End of Year
		Charged (Credited) to Costs and Expenses	Charged (Credited) to Other Accounts (1)		
Year Ended December 31, 2003					
Allowance for uncollectible accounts	\$ 34,500	\$ (495)(3)	\$ —	\$ (18,590)	\$ 15,415
Booking fee cancellation reserve	18,357	—	—	(1,404)	16,953
Associate reserves	7,170	21,247	—	(18,165)	10,252
Year Ended December 31, 2002					
Allowance for uncollectible accounts	\$ 41,317	\$ 12,812	\$ —	\$ (19,629)	\$ 34,500
Booking fee cancellation reserve	21,017	—	840	(3,500)	18,357
Associate reserves	2,189	10,831	—	(5,850)	7,170
Year Ended December 31, 2001					
Allowance for uncollectible accounts	\$ 21,053	\$ 35,099	\$ —	\$ (14,835)	\$ 41,317
Booking fee cancellation reserve	20,854	—	1,163	(1,000)	21,017
Associate reserves	1,600	5,283	—	(4,694)	2,189

(1) Amounts charged against revenue.

(2) Includes write-offs for uncollectible accounts and other reserve adjustments.

(3) Includes \$(1,678) expense adjustment to Travelocity reserve due to change in method of calculating reserve requirements and a cash settlement received from a customer.

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SABRE HOLDINGS CORPORATION

/s/ MICHAEL S. GILLILAND

Michael S. Gilliland
Chief Executive Officer (Principal Executive Officer)

/s/ JEFFERY M. JACKSON

Jeffery M. Jackson
*Executive Vice President, Chief Financial Officer and
Treasurer (Principal Financial and Accounting Officer)*

Date: February 27, 2004

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates noted:

Directors:

/s/ PAUL C. ELY, JR.

Paul C. Ely, Jr., Chairman

/s/ ROYCE S. CALDWELL

Royce S. Caldwell

/s/ MICHAEL S. GILLILAND

Michael S. Gilliland

/s/ RICHARD G. LINDNER

Richard G. Lindner

/s/ GLENN W. MARSCHEL, JR.

Glenn W. Marschel, Jr.

Date: February 27, 2004

/s/ BOB L. MARTIN

Bob L. Martin

/s/ PAMELA B. STROBEL

Pamela B. Strobel

/s/ MARY ALICE TAYLOR

Mary Alice Taylor

/s/ RICHARD L. THOMAS

Richard L. Thomas

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17. Incorporated by reference to Exhibit 10.24 to our report on Form 10-K for the year ended December 31, 2001.
 18. Incorporated by reference to Exhibit 10.26 to our report on Form 10-K for the year ended December 31, 2002.
 19. Incorporated by reference to Exhibit 10.34 to our report on Form 10-K/A for the year ended December 31, 2002.
 20. Incorporated by reference to Exhibit 10.35 to our report on Form 10-K/A for the year ended December 31, 2002.
 21. Incorporated by reference to Exhibit 10.33 to our report on Form 10-K/A for the year ended December 31, 2002.
 22. Incorporated by reference to Exhibit 10.1 to our report on Form 10-Q for the quarter ended March 31, 2003.
 23. Incorporated by reference to Exhibit 10.2 to our report on Form 10-Q for the quarter ended March 31, 2003.
 24. Incorporated by reference to Exhibit 10.3 to our report on Form 10-Q for the quarter ended March 31, 2003.
 25. Incorporated by reference to Exhibit 10.26 to our Registration Statement on Form S-1 (Registration No. 333-09747).
 26. Incorporated by reference to Exhibit B to our proxy statement on Schedule 14A filed April 17, 2000.
 27. Incorporated by reference to Exhibit 10.16 to our report on Form 10-K for the year ended December 31, 2001.
 28. Incorporated by reference to Exhibit 10.34 to our report on Form 10-K for the year ended December 31, 1997.
 29. Incorporated by reference to Exhibit 10.1 to our report on Form 10-Q for the quarter ended June 30, 2000.
 30. Incorporated by reference to Exhibit 10.30 to our report on Form 10-K for the year ended December 31, 2001.
 31. Incorporated by reference to Exhibit 10.1 (a-g) to our report on Form 10-Q for the quarterly period ended June 30, 2003.
 32. Sabre Holdings Corporation is furnishing, but not filing, the written statements pursuant to Title 18 United States Code Section 1350, as added by Section 906 of 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 Sabre Holdings Corporation.
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Sabre Holdings

DEFERRED COMPENSATION PLAN

ARTICLE I

Purpose

The purpose of the Sabre Holdings Deferred Compensation Plan ("the Plan"), as amended as of May 16, 2003, of Sabre Inc. (the "Company") is to provide a select group of key employees of the Company and designated Subsidiaries on the United States payroll the opportunity to defer receipt of base salary, cash bonuses and certain equity-based compensation to which they may become entitled for the periods provided herein. This Plan shall be considered an unfunded nonqualified deferred compensation "top hat" plan maintained for "a select group of management or highly compensated employees," as that phrase is used in Title I of the Employee Retirement Income Security Act of 1974, and shall be construed accordingly. The Plan is intended to replace and supercede The SABRE Group Deferred Compensation Plan as amended April 29, 1998.

ARTICLE II

Definitions

For purposes of this Plan, the following terms shall have the following meanings:

- 2.1 "**Account**" shall have the meaning set forth in Section 4.1.
 - 2.2 "**Administrator**" shall have the meaning set forth in Section 6.1.
 - 2.3 "**Base Salary**" shall mean a Participant's regular base salary for a Plan Year (and shall exclude Incentive Awards or other incentive compensation) payable by the Company to a Participant, but before reduction of base salary deferred pursuant to this Plan or any other plan of the Company.
 - 2.4 "**Beneficiary**" shall mean the person or persons designated from time to time in writing delivered to the Administrator by a Participant to receive payments under this Plan after the death of such Participant or, in the absence of any such designation or in the event that such designated person or persons shall predecease such Participant, the Participant's estate. A Participant shall designate a Beneficiary on his initial Deferral Election Form and thereafter may change his Beneficiary designation by filing with the Administrator an Election Change Form that may be obtained from the Administrator.
 - 2.5 "**Board of Directors**" shall mean the Board of Directors of the Company or a duly authorized committee thereof.
 - 2.6 "**Cause**" shall mean willful misconduct, violation of Company policy, refusal to perform reasonably assigned duties or any other conduct that the Administrator, in its sole discretion, determines is injurious to the business or reputation of the Company.
 - 2.7 "**Change in Control**" shall have the meaning ascribed to that term in the LTIP.
 - 2.8 "**Committee**" shall have the meaning set forth in Section 6.1.
 - 2.9 "**Company**" shall mean Sabre Inc., a Delaware corporation, or any successor thereto, and those designated Subsidiaries whose employees participate in this Plan.
 - 2.10 "**Deferral Election**" shall mean a Participant's election pursuant to Section 3.1 to have a specified percentage or dollar amount of his Eligible Base Salary or Incentive Award deferred pursuant to this Plan.
-
- 2.11 "**Deferral Election Form**" shall mean the form that a Participant submits to the Administrator on which the Participant documents his Deferral Election.
 - 2.12 "**Deferral Period**" shall mean the period of deferral of a Participant's Deferred Compensation as provided in Section 3.2.
 - 2.13 "**Deferred Amount**" shall mean as of any date the sum of all of a Participant's Deferred Compensation plus all gains or losses attributable thereto as of such date as reflected in the Account of such Participant, as provided herein.
 - 2.14 "**Deferred Compensation**" shall mean that portion of a Participant's Eligible Base Salary or Incentive Award, the payment of which the Participant has elected to defer under this Plan.
 - 2.15 "**Discretionary Transaction**" shall have the meaning set forth in Rule 16b-3 promulgated under the Exchange Act.
 - 2.16 "**Effective Date**" shall mean October 14, 1997, the date as of which the Plan was adopted by the Board of Directors.

2.17 "**Election Change Form**" shall mean the form that a Participant submits to the Administrator on which the Participant documents his election to change his Pay-Out Schedule.

2.18 "**Election Date**" shall mean the date by which a Participant must make a Deferral Election pursuant to Sections 3.5 and 3.6.

2.19 "**Eligible Base Salary**" shall mean for any Participant, the portion of the Participant's Base Salary that exceeds the dollar limit in effect at the time of Election Date under § 401(a)(17) of the Internal Revenue Code of 1986, as amended (the "Code").

2.20 "**Eligible Employee**" shall mean a select group of management and/or highly compensated individuals employed by the Company or designated Subsidiaries on or after the Effective Date and who are designated from time to time by the Board of Directors to be eligible for participation in the Plan.

2.21 "**Exchange Act**" means the Securities Exchange Act of 1934, as amended.

2.22 "**Incentive Award**" shall mean a payment, award or other benefit to which a Participant may become entitled pursuant to any incentive, commission, profit-sharing, bonus or other plan sponsored by the Company (including, but not limited to awards made pursuant to the LTIP) and which the Administrator shall from time to time determine is eligible for deferral pursuant to this Plan.

2.23 "**Insider**" shall mean any Participant who is subject to Section 16 of the Exchange Act.

2.24 "**Investment Choices**" shall mean the investment vehicles made available by the Administrator from time to time in which Participants' Deferred Compensation will be deemed to be invested pursuant to Section 4.2.

2.25 "**LTIP**" shall mean the Sabre Holdings Corporation 1996 Long-Term Incentive Plan, as amended from time to time.

2.26 "**Participant**" shall mean any Eligible Employee who makes a Deferral Election pursuant to Section 3.1.

2.27 "**Pay-Out Schedule**" shall mean, with respect to a Participant's Deferred Amount, the designated method of payment of such Deferred Amount following the end of the Deferral Period, as selected by a Participant pursuant to Section 3.1.

2.28 "**Plan**" shall mean the Sabre Holdings Deferred Compensation Plan, as amended as of May 16, 2003.

2.29 "**Plan Year**" shall mean from January 1, 2004 through December 31, 2004, and thereafter each January 1 through December 31 of the next succeeding years.

2.30 "**Subsidiary**" shall mean a corporation (other than Sabre Inc. or Sabre Holdings Corporation) in an unbroken chain of corporations beginning with Sabre Inc. or Sabre Holdings Corporation if each of the corporations (other than the last corporation in the unbroken chain) owns stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in the chain.

2.31 "**Substantial Hardship**" shall mean an unanticipated emergency that is caused by events outside of the control of the Participant (or in the event of the Participant's death, his Beneficiary) that would result in severe financial hardship to the Participant if early withdrawal were not permitted (or in the event of the Participant's death, his Beneficiary), as determined in the sole discretion of the Administrator.

ARTICLE III ***Deferral of Awards***

3.1 ***Deferral Election.*** Each Eligible Employee may elect to have the payment of a specified percentage or specified dollar amount of Eligible Base Salary or Incentive Award deferred pursuant to this Plan; *provided, however*, that the minimum amount of Deferred Compensation with respect to Eligible Base Salary and each type of Incentive Award with respect to which a Deferral Election may be made shall each be at least five thousand dollars (\$5,000) for any Plan Year. Each Deferral Election shall be made on a Deferral Election Form to be provided by the Administrator and shall specify the dollar amount or percentage of either Eligible Base Salary or Incentive Award to be deferred. The Deferral Election Form shall also specify the Deferral Period, the Investment Choices, if it is the Participant's initial Deferral Election Form, the Pay-Out Schedule (in accordance with Section 3.3) and a Beneficiary designation. Participants must make a separate Deferral Election on or before the applicable Election Date as specified in Section 3.5 or Section 3.6 (i) for each Plan Year in respect of Eligible Base Salary to be earned and (ii) for each Incentive Award in the manner designated by the Administrator to be eligible for deferral.

3.2 ***Deferral Period.*** The Deferral Period with respect to a Participant's Deferred Compensation is the period which shall commence on the date the Deferred Compensation would otherwise have been paid to the Participant and shall end on the March 1 of the next calendar year following the earlier of the date of the Participant's termination of employment with the Company for any reason, or the fixed date elected by the Participant and set forth in his Deferral Election Form. For the purposes of this Plan, it shall not be considered a termination of employment when a Participant is: (i) granted a military leave of absence by the Company; (ii) granted an approved personal leave of absence by the Company, *provided, however*, that the Administrator may from time to time determine that certain leaves of absence pursuant to this Section 3.2(ii) constitute a termination of employment for purposes of this Plan; (iii) on short-term disability leave; (iv) transferred to any other subsidiary of the Company; or (v) determined by the Administrator to not have been terminated.

3.3 ***Pay-Out Schedule.*** Each of the Deferral Elections made by a Participant shall specify a Pay-Out Schedule with respect to such Participant's Deferred Compensation, which shall be either: (i) a lump-sum pay-out or (ii) a pay-out in annual installments (not in excess of ten), which payments shall commence as soon as administratively possible after March 1 of the next calendar year following the date specified by the Participant in the Pay-Out Schedule or as soon as administratively possible after March 1 of the next calendar year following the Participant's termination of employment, whichever event occurs earlier; *provided* that the amount of each installment payable pursuant to clause (ii) shall equal the balance of the Participant's Account at the close of business at the end of February occurring immediately prior to the payment of the installment divided by the number of installments remaining to be paid. If a Pay-Out Schedule is not chosen by a Participant, he shall be deemed to have elected a lump-sum pay-out. There

may be different Pay-Out Schedules elected depending on the reason for the Participant's termination of employment. Each Participant may elect to change his Pay-Out Schedule by completing an Election Change Form that will be available from the Administrator and submitting it to the Administrator or his designated representative; *provided, however*, such change of Pay-Out Schedule shall be effective only if such completed Election Change Form is submitted by the Participant at least one year prior to the date of the previously elected date of payment. However, a change of a Pay-Out Schedule with respect to any Deferral Election can be made by the Participant only twice after the initial specification of the applicable Pay-Out Schedule. Notwithstanding the foregoing provisions of this Section 3.3 and the payment schedule set forth in any Pay-Out Schedule, no payment to an Insider with respect to the portion of his Account attributable to an Investment Choice relating to or based upon any equity security (within the meaning of Rule 16b-3 promulgated under the Exchange Act) of the Company shall be made sooner than six months after (i) if the payment would not constitute a Discretionary Transaction, the date of an acquisition of equity securities of the Company by such Participant which is not exempt pursuant to Section 16(b) of the Exchange Act and the rules promulgated thereunder, or (ii) if the payment would constitute a Discretionary Transaction, the date of an acquisition of equity securities of the Company which is a Discretionary Transaction.

3.4 Irrevocability. A Deferral Election, once made, shall be irrevocable; *provided, however*, that (i) upon a Participant's Substantial Hardship, the Participant may elect to cease any further deferrals pursuant to any Deferral Election with respect to which there are any amounts remaining to be deferred; and (ii) in the event of a Participant's termination of employment for any reason, no further deferrals will be made pursuant to this Plan. Amounts deferred pursuant to a Deferral Election prior to a Participant's election pursuant to clause (i) above or prior to his termination of employment will continue to be governed by the terms of this Plan.

3.5 Eligible Base Salary Election Date. A Deferral Election in respect of Eligible Base Salary must be made during the applicable enrollment period. The applicable enrollment period is determined by the Administrator and may change as deemed necessary by the Administrator. In the case of an employee who becomes an Eligible Employee for the first time, the Election Date shall be no later than thirty (30) days after such employee receives notice that he has become an Eligible Employee, and any Deferral Election in respect of a that Plan Year shall apply only to Eligible Base Salary to be earned by the Participant after the Election Date and before January 1 of the next succeeding Plan Year.

3.6 Incentive Award Election Date. For a Deferral Election in respect of an Incentive Award, the Election Date shall be: (i) in the event that the Incentive Award is based upon a performance period of no longer than one Plan Year, made during the applicable enrollment period as determined by the Administrator; (ii) in the event that an Incentive Award is based upon a performance period that exceeds one Plan Year, made no later than the enrollment period immediately preceding the last Plan Year of the performance period; or (iii) such other dates as the Administrator may from time to time determine; and *provided, further*, that in the case of an employee who becomes an Eligible Employee for the first time subsequent to the dates specified in clause (i) or (ii), the Election Date in respect of an Incentive Award shall be the date thirty (30) days after such employee receives notice that he has become an Eligible Employee but only if such date is not within twelve months of the expiration of the relevant performance period.

ARTICLE IV ***Treatment of Deferred Amounts***

4.1 Memorandum Account. The Company shall establish on its books a memorandum account (the "Account") for each Participant who has Deferred Compensation under this Plan. As promptly as practicable (but in no event more than thirty (30) days) following the date on which any Deferred Compensation would otherwise be payable to a Participant, the amount of such Deferred Compensation shall be reflected in such Participant's Account.

4.2 **Investment of Deferred Compensation.** A Participant's Deferred Compensation shall be deemed to be invested among the Investment Choices as selected by the Participant at the time a Deferral Election is made. Participants' Accounts shall be adjusted daily to reflect the performance of the Investment Choices of each Participant, so that, to the greatest extent practicable, the value of a Participant's Account shall be determined as if the Deferred Amount were actually invested among the Investment Choices as directed by such Participant. Notwithstanding the foregoing, on December 31 of any calendar year during the term of the Plan, the portion of a Participant's Account scheduled to be paid after March 1 of the next calendar year, shall no longer be deemed invested among the Investment Choices; provided, however, that the portion of a Participant's Account to be paid after March 1 of the next calendar year will increase from December 31 to March 1 using an interest rate as determined by the Administrator. Any payment scheduled to be made under the Plan shall reduce the amounts allocated among the Investment Choices on a pro rata basis. Participants may, on a monthly basis or such other period as determined by the Administrator, by Plan Year, elect to change the manner in which their Accounts are deemed invested among the Investment Choices as to then existing Deferred Amounts by completing the Election Change Form and submitting it to the Administrator or his designated representative. Any such change will become effective as soon as practicable after the Election Change Form is received by the Administrator or his designated representative.

4.3 **Assets.** Except as set forth in Section 7.2, the Plan and the crediting of Accounts hereunder shall not constitute a trust and shall be merely for the purpose of recording an unfunded, unsecured contractual obligation of the Company. A Participant shall have no rights against the Company under this Plan other than as an unsecured creditor. In order to satisfy its obligations hereunder, the Company may, but is not required to, make, or cause the trustee of the trust referred to in Article VII to make, actual investments in the Investment Choices.

4.4 **Reports.** Until the entire Deferred Amount in a Participant's Account shall have been paid in full, the Company will furnish to the Participant a report, at least annually, setting forth transactions in and the status of such Account.

ARTICLE V

Payment of Deferred Amounts

5.1 **Form of Payment.** All payments of Deferred Amounts under this Plan shall be made in cash.

5.2 **Payment of Deferred Amount.** Except as provided in Section 5.3 or 5.4, the Deferred Amount in a Participant's Account attributable to any Deferral Election shall be paid or commence to be paid to such Participant only in accordance with the applicable Pay-Out Schedule.

5.3 **Acceleration of Payments in the Event of Substantial Hardship.** Notwithstanding any other provision of this Plan to the contrary, upon a Participant's Substantial Hardship (or in the event of a Participant's death, his Beneficiary's Substantial Hardship), and with the consent of the Administrator, a Participant (or in the event of the Participant's death, his Beneficiary) may withdraw such portion of his Deferred Amount without a penalty charge as the Administrator determines is necessary to satisfy the Participant's financial emergency (or in the event of the Participant's death, his Beneficiary's financial emergency).

5.4 **Immediate Payment of Deferred Compensation.** Notwithstanding anything in the Plan to the contrary, a Participant may, upon 30 days' prior written notice to the Administrator, elect to receive all or a portion of the Deferred Amount in his Account, in which case the Administrator shall promptly after such 30-day period pay to such Participant 90% of the Deferred Amount so elected, and the remaining 10% thereof shall be canceled and the Company shall have no further obligation with respect thereto. If the Participant elects an immediate pay-out pursuant to this Section 5.4, the Participant may not participate in this Plan for a period of two years thereafter. The Participant is not eligible to participate in this Plan again if the Participant elects a withdrawal pursuant to this Section 5.4 more than once.

ARTICLE VI
Administration

6.1 **Plan Administrator.** From time to time a committee (the "Committee") will be appointed by the Board of Directors to be the administrator of the Plan (the "Administrator"). If the Board of Directors does not name the Committee, the executives in charge of the finance, human resources, and the legal departments of the Company or their designees are the Administrator of this Plan and shall have all of the powers and duties of the Committee. The Administrator may designate one or more individuals, committees or other entities to carry out any of its responsibilities under this Plan. The members of the Committee may be removed by the Board of Directors, with or without cause, and the Board of Directors shall have the power to fill any vacancy that may occur.

6.2 **General Powers and Responsibilities of the Administrator.** The Administrator shall have full authority to construe and interpret the terms and provisions of this Plan, to adopt, alter and repeal such administrative rules, guidelines and practices governing this Plan and perform all acts, including the delegation of its administrative responsibilities, as it shall, from time to time, deem advisable, and to otherwise supervise the administration of this Plan. The Administrator may correct any defect, supply any omission or reconcile any inconsistency in this Plan, or in any election hereunder, in the manner and to the extent it shall deem necessary to carry this Plan into effect. Any decision, interpretation or other action made or taken in good faith by or at the direction of the Administrator in connection with this Plan shall be within the absolute discretion of the Administrator and shall be final, binding and conclusive on the Company and all employees and Participants and their respective Beneficiaries, heirs, executors, administrators, successors and assigns. With the prior written consent of the Administrator, which may be given in his sole discretion, a Participant may increase his Account by the amount of his account balance in the American Airlines, Inc. Executive Deferral Program, which amount shall thereafter be deemed to be invested pursuant to Section 4.2 of this Plan. A Participant who is also the Administrator, a member of a committee that is the Administrator or a person to whom the Administrator has delegated responsibility pursuant to this Section 6.2 shall not participate in any decision involving a request made by him or relating in any way to his rights, duties, and obligations as a Participant (unless such decision relates to all Participants generally and in a similar manner).

6.3 **Liability.** No member of the Board of Directors of the Company, nor the Administrator nor an employee or agent of any Company or any of its subsidiaries, shall be liable for any act or action hereunder, whether of omission or commission, by any other member or employee or by any agent to whom duties in connection with the administration of this Plan have been delegated, or, except in circumstances involving his bad faith, gross negligence or fraud, for anything done or omitted to be done by himself. The Company or the Administrator may consult with legal counsel, who may be counsel for the Company or other counsel, with respect to its or his obligations or duties hereunder, or with respect to any action or proceeding or any question of law, and shall not be liable with respect to any action taken or omitted by it in good faith pursuant to the advice of such counsel.

6.4 **Indemnification of Employees.** The Company hereby indemnifies the Administrator and each employee to whom responsibilities are delegated under this Plan against any and all liabilities and expenses, including attorney's fees, actually and reasonably incurred by them in connection with any threatened, pending or completed legal action or judicial or administrative proceeding to which they may be a party, or may be threatened to be made a party, by reason of membership on such committee or due to a delegation of responsibilities, except with regard to any matters as to which they shall be adjudged in such action to have acted in bad faith and in a manner which they believed not to be in or opposed to the best interests of the Plan and, with respect to any criminal action, suit or proceeding, had reasonable cause to believe their conduct was unlawful. In addition, the Company may provide appropriate insurance coverage for any employee or member of any committee appointed by the Administrator or each such other individual indemnified pursuant to this Section 6.4 who is not otherwise appropriately insured.

ARTICLE VII

Funding

7.1 **Funding.** Benefits hereunder shall constitute an unfunded general obligation of the Company, but the Company may create reserves, funds and/or provide for amounts to be held in trust on the Company's behalf, whether or not in connection with, in anticipation of, or following, an actual or anticipated change in control of the Company. Payment of benefits may be made by the Company, such a trust, or through a service or benefit provider to the Company or such a trust. Any trust that may be established pursuant to this Section 7.1 shall be trustee by a banking or trust institution with recognized experience in serving as such a trustee, pursuant to documentation recommended by outside counsel to the Company, and funded so as to enable the trust to pay the benefits contemplated under this Plan, as determined by an independent compensation consultant selected by the Board of Directors.

7.2 **Springing Rabbi Trust Upon Change in Control.** Simultaneously with and following the occurrence of a Change in Control, the Company shall fully fund the benefits provided in this Plan in a so-called "Rabbi Trust" by contributing to the trust cash in an amount such that the amount of cash in the trust at any time shall as closely as possible equal the then aggregate amount of all of the Accounts. The trust so established shall be (i) with a nationally recognized banking institution with experience in serving as trustee for such matters, (ii) pursuant to such documentation as recommended by outside counsel to the Company, and (iii) funded so as to enable the trust to pay the benefits contemplated under this Plan as may be determined by the Company's independent financial consultant.

7.3 **Creditor Status.** A Participant or Beneficiary shall be a general creditor of the Company with respect to the payment of any benefit under this Plan, unless such benefits are provided under a contract of insurance or an annuity contract that has been delivered to the Participant, in which case the Participant or the Beneficiary shall look to the insurance carrier or annuity provider for payment, and not to the Company. The Company's obligation for such benefit shall be discharged by the purchase and delivery of such annuity or insurance contract.

ARTICLE VIII

Miscellaneous

8.1 **Participants' Rights.** A Participant, at all times, shall have an immediate one hundred percent (100%) vested interest in his Account.

8.2 **Amendment or Termination.** Notwithstanding any other provision of this Plan, the Company by action of the Board of Directors or its designated representative, or the Administrator may at any time, and from time to time, amend, in whole or in part, any or all of the provisions of this Plan, or suspend or terminate it entirely; *provided, however*, that any such amendment, suspension or termination may not, without a Participant's consent, adversely affect any Deferred Amount credited to his Account prior to such amendment, suspension or termination. The proviso in the preceding sentence shall not be construed to prohibit the Company from changing or eliminating any or all of the then available Investment Choices, *provided* that if all Investment Choices are eliminated, any remaining Deferred Amounts shall be credited with at least a reasonable rate of interest as determined by the Administrator from time to time. Notwithstanding the foregoing, upon any termination of this Plan, the Company may in its sole discretion accelerate the payment of all Deferred Amounts credited as of the date of termination of this Plan. This Plan shall remain in effect until terminated pursuant to this Section 8.2.

8.3 **Withholding.** To the extent required by the laws in effect when compensation is deferred and when amounts are distributed from a Participant's Account, the Company shall withhold from Participants' compensation, or from amounts payable hereunder, any federal, state or local taxes required by law to be withheld.

8.4 **No Obligation.** Neither this Plan nor any elections hereunder shall create any obligation on the Company to continue any existing incentive compensation plans or policies or to establish or continue any other programs, plans or policies of any kind. Neither this Plan nor any election made pursuant to this Plan shall give any Participant or other employee the right to receive benefits not specifically provided for by the Plan, nor any right with respect to continuance of employment by the Company, nor shall there be a limitation in any way on the right of the Company to terminate an employee's employment at any time.

8.5 **No Assignment.** Except by will or the laws of descent and distribution, no right or interest in any Account or Deferred Amount under this Plan may be assigned, transferred, pledged or hypothecated, and no right or interest of any Participant in any Account hereunder or to any Deferred Amount shall be subject to any lien, pledge, encumbrance, charge, garnishment, execution, alienation, obligation or liability of such Participant, whether voluntary or involuntary, including, but not limited to, any liability that is for alimony or other payments for the support of a spouse or former spouse, or for any other relative of a Participant.

8.6 **Facility of Payment.** Any amounts payable hereunder to any person who is under legal disability or who, in the judgment of the Administrator, is unable to manage his financial affairs, may be paid to the legal representative of such person or may be applied for the benefit of such person in any manner that the Company may select. Any such payment shall be deemed to be payment for such person's Account, and shall be a complete discharge of all liability of the Company with respect to the amount so paid.

8.7 **Applicable Law.** This Plan and the obligations of the Company hereunder shall be subject to all applicable federal and state laws, rules and regulations and to such approvals by any governmental or regulatory agency as may from time to time be required.

8.8 **Governing Law.** This Plan and actions taken in connection herewith shall be governed and construed in accordance with the laws of the State of Texas (regardless of the law that might otherwise govern under applicable Texas principles of conflict of laws). Any provision of this Plan prohibited by the law of any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition without invalidating the remaining provisions hereof.

8.9 **Construction.** Wherever any words are used in this Plan in the masculine gender they shall be construed as though they were also used in the feminine gender in all cases where they would so apply, and wherever any words are used herein in the singular form they shall be construed as though they were also used in the plural form in all cases where they would so apply. The titles to sections of this Plan are intended solely as a convenience and shall not be used as an aid in construction of any provisions thereof.

QuickLinks

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[DEFERRED COMPENSATION PLAN](#)

[SABRE HOLDINGS LETTERHEAD]

December 1, 2003

Mr. Michael S. Gilliland
3518 Gillon Avenue
Dallas, Texas 75205

Dear Sam:

This letter agreement ("Agreement") will confirm our mutual understanding with respect to your employment by Sabre Inc. effective as of December 1, 2003.

1. Job Description / Title / Duties

On or about December 1, 2003, you will be nominated by the Governance and Nominating Committee of the Board of Directors ("Governance and Nominating Committee") for election by the Board of Directors to the position of President and Chief Executive Officer ("CEO") of Sabre Holdings Corporation ("Sabre Holdings," and collectively with Sabre Inc., "the Company"). You will be elected to those positions by the Board of Directors to be effective at 7:30 PM on December 1, 2003 (the "Election Time"). At the Election Time, you will give up your current position as Executive Vice President of the Company, and as President and CEO of Travelocity, and will assume the position of President and CEO of the Company. Thereafter, you will perform all of the functions that are consistent with that position, as described in the Bylaws of the Company and as determined by the Board of Directors. You shall perform all such duties faithfully, industriously, and to the best of your experience and talent, and to the satisfaction of the Board of Directors. Except as otherwise expressly provided in this Agreement, you shall agree to abide by all the Company policies and directives applicable to you.

2. Director Position

On or about December 1, 2003, you will also be nominated by the Governance and Nominating Committee for election as a Director of the Company. You will be elected effective at the Election Time to the class of Directors with terms expiring at the annual meeting in May 2005.

3. Reporting Relationship

You shall report directly and solely to the Board of Directors. Effective at the Election Time, Paul C. Ely Jr. will be elected by the Board of Directors to serve as the non-executive Chairman of the Board of Directors ("Chairman"). You shall work closely with and coordinate appropriately with the Chairman. The Chairman shall oversee your interaction with the Board of Directors and your fulfillment of your duties to the Board of Directors.

4. Employment at Will / Notice Required

Either you or the Board of Directors may terminate your employment with the Company at any time, and for any reason or no reason, with or without Cause. You and the Board of Directors shall provide at least 15 days, and not more than 60 days, advance written notice of the date of termination, except that (i) if you have served notice of termination, the Board, at its election, may treat such resignation as effective on an earlier date of its choice and (ii) no minimum notice will be required from the Company in the case of termination for Cause (as defined in Section 8(e) below).

5. Salary

Your annual base salary will be \$650,000, less withholding for taxes and deductions for other appropriate items ("Base Salary"). Your salary will be determined solely by, and will be reviewed annually by, the Compensation Committee of the Board of Directors (the "Compensation Committee").

6. Performance-Based Compensation

(a) Variable Compensation Program

For the calendar year 2004, your target award under the Variable Compensation Program ("VCP") of the Company's Amended and Restated 1996 Long Term Incentive Plan (as it may be amended from time to time, including any successor or replacement plans, the "LTIP") will be an amount equal to 100% of your Base Salary ("VCP Target"), with the actual amount of any such award, if any, depending upon the performance of the Company and your individual performance. Your VCP Target will be determined solely by, and will be reviewed annually by, the Compensation Committee. Any VCP award to be paid with respect to calendar year 2003 would be paid on or about March 15, 2004 and would be based on the formula applicable to your previous position with the Company as President and CEO of Travelocity, except that your award, if any, would be pro rated such that the formula used to calculate your VCP award for the month of December 2003, would use the new VCP Target specified in the previous sentence under this Section 6(a).

(b) Stock Options

Effective upon the close of regular trading on the New York Stock Exchange on December 2, 2003, the Compensation Committee will award to you a grant of 125,000 non-qualified stock options under the LTIP, with an exercise price to be determined by the fair market value of Sabre Holdings Class A Common Stock on the grant date. The vesting schedule for these stock options will be specified in a stock option agreement to be delivered to you on December 2, 2003. This grant will be in addition to all prior grants of stock options made to you by the Company. All stock option awards are subject to the terms and conditions stated in the LTIP and applicable Stock Option agreements.

(c) Restricted Stock

Effective as of January 5, 2004, the Compensation Committee will award to you a grant of 67,500 shares of Restricted Stock under the LTIP. Restrictions on those restricted shares will lapse at a rate of 25% per year over four years beginning on the first anniversary of January 5, 2004. This grant will be in addition to all prior grants of Restricted Stock made to you by the Company. All Restricted Stock awards are subject to the terms and conditions stated in the LTIP and applicable Restricted Stock Agreements.

7. Eligibility to Participate in Benefit Plans / Other Compensation Programs

You will be eligible to participate in the Company's current employee benefit plans, policies and other compensation programs applicable to your position (as reasonably determined by the Compensation Committee), subject to the terms, conditions and eligibility requirements of each such benefit plan, policy or other compensation program, including amendments or modifications thereto. Such benefit plans, policies or other compensation programs may be discontinued or changed from time to time in the Company's sole discretion. As of the Election Time, such benefit plans, policies and other compensation programs will include: the LTIP, 401k Savings Plan, Legacy Pension Plan; life and health insurance programs, the Employee Stock Purchase Plan ("ESPP"), a Supplemental Executive Retirement Plan ("SERP"), a deferred compensation plan, Company-paid financial planning, a Company-paid annual physical exam, Company-paid broker fees associated with stock options exercised during the Officer Exercise Window periods and with the sale or other transfer of Restricted Stock after the lapse of restrictions, and vacation as specified in the Company's vacation policy. In addition, the Company will directly pay your reasonable advisor and legal fees associated with entering into this Agreement, upon receiving invoices for such services.

8. Termination

(a) Executive Termination Benefits Agreement

The Compensation Committee will approve, and the Company will execute, an Executive Termination Benefits Agreement that will determine your severance benefits in the event of a termination resulting from a Change in Control of the Company, as defined in the LTIP. The ETBA provides for substantial additional benefits in the event of a Change in Control and protects you against constructive termination (such as a significant alteration of your job, forced relocation, or a reduction in pay).

(b) Termination Other Than for Cause

If the Board of Directors terminates your employment without Cause (except in the circumstances that would result in a payment under your ETBA, which will be governed by that agreement), and subject to your executing an Agreement and General Release in form and substance reasonably acceptable to the Company: (i) the Company will pay to you as severance, in a lump sum or in installments (which may be paid bi-weekly, semi-monthly, monthly or quarterly in the discretion of the Compensation Committee) over twenty-four months, an amount equal to 200% of your most recently established Base Salary plus 200% of your most recently established VCP Target that is in effect when termination occurs, except that such severance will not be less than 200% of your Base Salary specified in Section 5 above plus 200% of your VCP Target specified in Section 6(a) above; (ii) any stock options awarded to you after the date of this Agreement that have not yet vested as of the termination date and that would otherwise have vested within 90 days of the termination date will become immediately vested on the termination date and will be exercisable for a period of 90 days thereafter; (iii) any remaining restrictions on any Restricted Stock granted to you after the date of this Agreement as to which the restrictions would otherwise have lapsed within 90 days of the termination date will immediately lapse as of the termination date; and (iv) you would be eligible for any benefits required to be provided pursuant to the terms of any other applicable benefit plan, policy or program or that are required by law.

Any amounts paid under this Section 8(b) shall be paid, and any other accommodation under this Section 8(b) shall be made, if and only if, and only for so long as, you are in full compliance with all of your obligations to the Company pursuant to Sections 9(a) through 9(c) with respect to Non-solicitation, Non-recruitment and Non-competition. Any breach by you of any of those obligations shall entitle the Company to a full refund of any amounts previously paid to you under this Section 8(b) and to suspend any further payments hereunder as a non-exclusive remedy. Further, you agree that the refund to the Company of such termination payments or benefits, and the suspension thereof, as a consequence of your breach of such obligations do not in any way limit the ability of the Company to pursue injunctive relief or to seek additional damages with respect to your breach of such obligations. In addition, you agree that your satisfaction of the provisions set forth in Section 10 (Post-Employment Transition and Cooperation) shall be a condition to the Company's obligation to make, or to continue, payments or accommodations to you under this Section 8(b).

In addition, you expressly acknowledge and agree that in the event that you terminate your employment by submitting your resignation (or other form of voluntary termination), you will not be entitled to any of the compensation or accommodations provided for in clauses (i)-(iii) of this Section 8(b).

(c) Death

In the event of the your death during the term of this Agreement, the Company shall be obligated to your family or estate for pro-rated Base Salary earned or accrued as of the date of the your death; the terms and conditions relating to your stock awards will be governed by the applicable stock option

agreement or restricted stock agreement and the LTIP; and your family or estate will be eligible for any benefits required to be provided pursuant to the terms of any applicable benefit plan, policy or program. Except as required by law, or specified in a separate agreement, no other compensation or benefits will be provided.

(d) Disability

The Board of Directors may terminate this Agreement and your employment upon written notice after you have been made unable, due to a physical or mental disability, or other incapacity, to perform the essential functions of your position, with or without reasonable accommodation, for at least one hundred and twenty (120) days in a twelve (12) month period. If the Board of Directors terminates your employment due to disability, the Company will pay your prorated Base Salary through the effective date of termination; the terms and conditions relating to your stock awards will be governed by the applicable stock option agreement or restricted stock agreement and the LTIP; and you will be eligible for any benefits required to be provided pursuant to the terms of any applicable benefit plan, policy or program. Except as required by law, or specified in a separate agreement, no other compensation or benefits will be provided.

(e) Termination for Cause

For purposes of this Agreement, "Cause" shall have the meaning set forth in the LTIP. If the Board of Directors terminates your employment for Cause, the Company will pay your prorated Base Salary through the effective date of termination and shall have no other payment obligation or other liability to you under this Agreement or otherwise. Except as required by law, or specified in a separate agreement, no other compensation or benefits will be provided.

9. Non-solicitation, Non-recruitment and Non-competition

You acknowledge and agree that, in your position as President & CEO of the Company (which, for purposes of this Section 9, shall include all of the Company's subsidiaries and all affiliated companies and joint ventures connected by ownership to the Company at any time), it is expected that: (i) you will be materially involved in conducting or overseeing all aspects of the Company's business activities throughout the world, (ii) you will have material contact with a substantial number of the Company's employees, and all or substantially all of the Company's then-current and actively-sought potential customers ("Customers") and suppliers of inventory ("Suppliers"); (iii) you will have access to all or substantially all of the Company's Trade Secrets and Confidential Information (see **Exhibit A** for definition of "Trade Secrets" and "Confidential Information"). You further acknowledge and agree that your competition with the Company anywhere worldwide, or your attempted solicitation of the Company's employees or Customers or Suppliers, during your employment or within two years after the termination of your employment with the Company, would be unfair competition and would cause substantial damages to the Company. Consequently, in consideration of your employment with the Company as its President and CEO, and the Company's covenants in this Agreement, you make the following covenants described in this Section 9:

(a) Non-solicitation of Company Customers and Suppliers

During your employment and for two years after the termination of your employment with the Company, you shall not, directly or indirectly, on behalf of yourself or of anyone other than the Company, solicit or attempt to solicit (or assist any third party in soliciting or attempting to solicit) any Customer or Supplier in connection with any business activity that then competes with the Company.

(b) Non-recruitment of Company Employees

During your employment and for two years after the termination of your employment with the Company, you will not, without the prior written consent of the Board of Directors, directly or indirectly, on behalf of yourself or any third party, solicit or recruit or induce or encourage (or assist any third party in hiring, soliciting, recruiting, inducing or encouraging) any then-current employees of the Company to terminate his or her employment with the Company.

(c) Non-competition with the Company

During your employment and for two years after the termination of your employment with the Company, you shall not become an employee, director, or independent contractor of, or a consultant to, or perform any services for, any Competitor of the Company. For purposes of this Section 9(c), a Competitor of the Company shall mean any (i) unit, division, line of business, parent, subsidiary, or affiliate of Cendant, Amadeus, Worldspan, Orbitz, Interactive Corporation (also called IAC), Expedia, Priceline, Hotwire or Cheaptickets, or (ii) any unit or division of IBM or EDS that then operates a line of business that competes with any business of the Company; or (iii) any entity that within two years after your termination could be reasonably expected to generate more than \$100 million in annualized gross revenue from any activity that competes, or combination of activities that compete, with any business of the Company; including in each case any successors to any such entities and any joint ventures involving any one or more of such entities.

(d) Enforceability of Covenants

You acknowledge that the Company has a present and future expectation of business from and with the Customers and Suppliers. You acknowledge the reasonableness of the term, geographical territory, and scope of the covenants set forth in this Section 9, and you agree that you will not, in any action, suit or other proceeding, deny the reasonableness of, or assert the unreasonableness of, the premises, consideration or scope of the covenants set forth herein and you hereby waive any such defense. You further acknowledge that complying with the provisions contained in this Agreement will not preclude you from engaging in a lawful profession, trade or business, or from becoming gainfully employed. You agree that your covenants under this Section 9 are separate and distinct obligations under this Agreement, and the failure or alleged failure of the Company or the Board of Directors to perform obligations under any other provisions of this Agreement shall not constitute a defense to the enforceability of your covenants and obligations under this Section 9. You agree that any breach of any covenant under this Section 9 will result in irreparable damage and injury to the Company and that the Company will be entitled to injunctive relief in any court of competent jurisdiction without the necessity of posting any bond.

10. Post-Employment Transition and Cooperation

Upon and after the termination of your employment with the Company, with or without Cause, you will execute any and all documents and to take any and all actions that the Company may reasonably request to effect the transition of your duties and responsibilities to a successor. You will make yourself available with respect to, and to cooperate in conjunction with, any litigation or investigation involving the Company, and any administrative matters related to your previous duties and responsibilities, including the execution of documents, subject to your being compensated for such cooperation at an hourly rate commensurate with your Base Salary on the date that your employment terminated and to your being provided reasonable indemnification by the Company for such cooperation.

11. Miscellaneous

The laws of the state of Texas will govern the construction, interpretation and enforcement of this Agreement. The parties agree that any and all claims, disputes, or controversies arising out of or related to this Agreement, or the breach of this Agreement, shall be resolved by binding arbitration, except as otherwise provided in Section 9 of this Agreement. The parties will submit the dispute, within thirty (30) business days following service of notice of such dispute by one party on the other, to the Judicial Arbitration and Mediation Services (J*A*M*S/Endispute) for prompt resolution in Dallas, Texas, under its rules for labor and employment disputes. The decision of the arbitrator will be final and binding upon the parties, and judgment may be entered thereon in accordance with applicable law in any court having jurisdiction. The arbitrator shall have the authority to make an award of monetary damages and interest thereon. The arbitrator shall have no authority to award, and the parties hereby waive any right to seek or receive, specific performance or an injunction, punitive or exemplary damages. The arbitrator will have no authority to order a modification or amendment of this Agreement. The parties shall bear their own attorneys fees, and shall bear equally the expenses of the arbitral proceedings, including without limitation the fees of the arbitrator, unless and until the arbitrator enters a decision in favor of one prevailing party. The arbitrator will award the right to reimbursement of reasonable attorneys fees, and all expenses of the arbitral proceedings, to the one prevailing party.

All reasonable fees and expenses, including, without limitation, any arbitration or legal expenses, incurred by the Executive in contesting or disputing any such termination (in whole or in part) or in obtaining or enforcing any right or benefit provided for in this Agreement (in whole or in part) or in otherwise pursuing his or her claim (in whole or in part) will be paid by the Company, to the extent permitted by law, regardless of whether the Executive is successful.

This Agreement represents the entire understanding with respect to its subject matter. Only a writing that has been signed by both you and the Company may modify this Agreement. Any and all previous employment agreements and executive termination benefits agreements between you and the Company are cancelled as of the date this Agreement takes effect, except with respect to benefits (including grants of stock options and restricted shares) or payments currently owed to you under such agreements, and except with respect to payments to be owed to you under the Cash Award Agreement dated January 14, 2003.

This Agreement shall be binding upon and inure to the benefit of (a) the heirs, executors and legal representatives of you upon your death and (b) any successor of the Company. Any such successor of the Company shall be deemed substituted for the Company under the terms of this Agreement for all purposes. As used herein, "successor" shall include any person, firm, corporation, or other business entity which at any time, whether by purchase, merger or otherwise, directly or indirectly acquires all or substantially all of the assets or business of the Company.

Please sign below and return one original of this Agreement to indicate your acceptance of the terms and conditions described herein.

Sincerely,

/s/ MICHAEL E. HAEFNER

Michael E. Haefner
Senior Vice President, Human Resources
Sabre Inc.

Accepted and agreed:

Signature: /s/ MICHAEL S. GILLILAND

Name: Michael S. Gilliland

EXHIBIT A

Trade Secrets Defined. As used in this Agreement, the term "Trade Secrets" shall mean all secret, proprietary or confidential information regarding the Company (which shall mean and include for purposes of this Exhibit A all of the Company's subsidiaries and all affiliated companies and joint ventures connected by ownership to the Company at any time) or any Company activity that fits within the definition of "trade secrets" under the Uniform Trade Secrets Act or other applicable law. Without limiting the foregoing or any definition of Trade Secrets, Trade Secrets protected hereunder shall include all source codes and object codes for the Company's software and all website design information to the extent that such information fits within the Uniform Trade Secrets Act. Nothing in this Agreement is intended, or shall be construed, to limit the protections of any applicable law protecting trade secrets or other confidential information. "Trade Secrets" shall not include information that has become generally available to the public by the act of one who has the right to disclose such information without violating any right or privilege of the Company. This definition shall not limit any definition of "trade secrets" or any equivalent term under the Uniform Trade Secrets Act or any other state, local or federal law.

Confidential Information Defined. As used in this Agreement, the term "Confidential Information" shall mean all information regarding the Company, any Company activity, Company business or Company Customer that is not generally known to persons not employed or retained (as employees or as independent contractors or agents) by the Company, that is not generally disclosed by Company practice or authority to persons not employed by the Company, that does not rise to the level of a Trade Secret and that is the subject of reasonable efforts to keep it confidential. Confidential Information shall, to the extent such information is not a Trade Secret, include, but not be limited to product code, product concepts, production techniques, technical information regarding the Company products or services, production processes and product/service development, operations techniques, product/service formulas, information concerning Company techniques for use and integration of its website and other products/services, current and future development and expansion or contraction plans of the Company, sale/acquisition plans and contacts, marketing plans and contacts, information concerning the legal affairs of the Company and certain information concerning the strategy, tactics and financial affairs of the Company. "Confidential Information" shall not include information that has become generally available to the public by the act of one who has the right to disclose such information without violating any right or privilege of the Company. This definition shall not limit any definition of "confidential information" or any equivalent term under the Uniform Trade Secrets Act or any other state, local or federal law.

QuickLinks

[Exhibit 10.11](#)

[EXHIBIT A](#)

ADDENDUM TO EXECUTIVE TERMINATION BENEFITS AGREEMENTS

1. *Continuation Period* pursuant to Subparagraph 1(d) of the Executive Termination Benefits Agreement shall mean "the period of time beginning on the Termination Date and ending twenty-four (24) months thereafter."

2. The following language shall be added as Subparagraph 4(a) of the Executive Termination Benefits Agreement:

The Company will pay to the Executive the sum of (i) two (2) times the greater of (A) the Executive's effective annual base salary at the Termination Date or (B) the Executive's effective annual base salary immediately prior to the Change in Control, plus (ii) two (2) times the greater of (X) the highest annual bonus awarded to the Executive under the Company's Variable Compensation Plan or any other bonus plan (whether paid currently or on a deferred basis) with respect to any twelve (12) consecutive month period during the last two (2) fiscal years ending prior to the Termination Date or (Y) the highest target bonus rate applicable to the Executive for any period during such prior two (2) year period, multiplied by the applicable annual base salary determined under clause (i) of this Section 4(a); the resulting amount to be paid in a lump sum on the first day of the month following the Termination Date.

Dated: August 8, 2001

SABRE HOLDINGS CORPORATION

By: /s/ JAMES F. BRASHEAR

James F. Brashear
Corporate Secretary

SABRE INC.

By /s/ JAMES F. BRASHEAR

James F. Brashear
Senior Vice President, Deputy General Counsel and Corporate
Secretary

[Executive]

Signed: /s/ THOMAS KLEIN

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[Exhibit 10.14](#)
[ADDENDUM TO EXECUTIVE TERMINATION BENEFITS AGREEMENTS](#)

Amended and Restated 1996 Long-Term Incentive Plan

Sabre Holdings Corporation

As Amended May 14, 2002

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Sabre Holdings Corporation
Amended and Restated 1996 Long-Term Incentive Plan

Section 1. Purpose; Definitions

The purpose of the Sabre Holdings Corporation Amended and Restated 1996 Long-Term Incentive Plan (the "Plan") is to enable Sabre Holdings Corporation (the "Company") to attract, retain, and reward non-employee directors, officers, managers, and key employees of the Company and its Subsidiaries and Affiliates, and strengthen the mutuality of interests between such individuals and the Company's shareholders, by offering such individuals performance-based stock incentives and/or other equity interests or equity-based incentives in the Company, as well as performance-based incentives payable in cash. The Plan is intended to replace and supersede the Company's 1996 Long-Term Incentive Plan (the "1996 Plan").

For purposes of the Plan, the following terms shall be defined as set forth below

(a) "**Affiliate**" means any entity other than the Company and its Subsidiaries that is designated by the Board as a participating employer under the Plan, provided that the Company directly or indirectly owns at least twenty percent (20%) of the combined voting power of all classes of stock of such entity or at least twenty percent (20%) of the ownership interests in such entity.

(b) "**Board**" means the Board of Directors of the Company.

(c) "**Book Value**" means, as of any given date, on a per share basis (a) the Stockholders' Equity in the Company as of the end of the immediately preceding fiscal year as reflected in the Company's consolidated balance sheet, subject to such adjustments as the Committee shall specify at or after grant, divided by (b) the number of then outstanding shares of Stock as of such year-end date (as adjusted by the Committee for subsequent events).

(d) "**Cause**" means, but is not limited to, any of the following actions: theft, dishonesty or fraud, insubordination, persistent inattention to duties or excessive absenteeism, violation of the Company's work rules, code of conduct or policies or state or federal law, or any other conduct which would disqualify the participant from entitlement to unemployment benefits. The determination of whether Cause exists shall be made in the Company's sole discretion.

(e) "**Code**" means the Internal Revenue Code of 1986, as amended from time to time, and any successor thereto.

(f) "**Committee**" means the Committee referred to in Section 2 of the Plan. If at any time no Committee shall be in office, then the functions of the Committee specified in the Plan shall be exercised by the Board.

(g) "**Company**" means Sabre Holdings Corporation, a corporation organized under the laws of the State of Delaware, or any successor corporation.

(h) "**Deferred Stock**" means an award made pursuant to Section 8 below of the right to receive Stock at the end of a specified deferral period.

(i) "**Disability**" means disability as determined under procedures established by the Committee for purposes of this Plan.

(j) "**Early Retirement**" means retirement, with the express consent for purposes of this Plan of the Committee at or before the time of such retirement, from active employment with the Company and any Subsidiary or Affiliate. For purposes of this plan, and unless otherwise defined in a specific equity grant the participant will be deemed to have Early Retired if they voluntarily leave employment with the Company when their age is 55 or greater and their years of service are equal to 10 or more.

(k) "**Effective Date**" means May 14, 2002.

(l) "**Exchange Act**" means the Securities Exchange Act of 1934, as amended from time to time, and any successor thereto.

(m) "**Fair Market Value**" means, as of any given date, unless otherwise determined by the Committee in good faith, the mean between the highest and lowest quoted selling price, regular was, of the Stock on the New York Stock Exchange or, if no such sale of Stock occurs on the New York Stock Exchange on such date, the fair market value of the Stock as determined by the Committee in good faith.

(n) "**Incentive Stock Option**" means any Stock Option intended to be and designated as and incentive Stock Option" within the meaning of Section 422 of the Code.

(o) "**Nonqualified Stock Option**" means any Stock Option that is not an Incentive Stock Option.

(p) "**Normal Retirement**" means, unless otherwise determined by the Committee, retirement from active employment by or service with the Company and any Subsidiary or Affiliate on or after age 65.

(q) "**Other Stock-Based Award**" means an award under Section 10 below that is valued in whole or in part by reference to, or is otherwise based on, Stock.

(r) "**Performance Award**" means an award under Section 11 below that is valued based on the level of attainment of performance objectives related to the performance measures set forth in Section 11.

(s) "**Person**" means "person" as defined in Section 3(a)(9) of the Exchange Act and as used in Sections 13(d) and 14(d) thereof, including a "group" as defined in Section 13(d) of the Exchange Act but excluding the Company and Subsidiary and any employee benefit plan sponsored or maintained by the Company or any Subsidiary (including any trustee of such plan acting as trustee).

(t) "**Phantom Award**" means an award issued prior to the Effective Date by the Company pursuant to a stock appreciation right agreement or a phantom stock appreciation right agreement.

(u) "**Plan**" means Sabre Holdings Corporation's Amended and Restated 1996 Long-Term Incentive Plan, as hereinafter amended from time to time.

(v) "**Restricted Stock**" means an award of shares of Stock that is subject to restrictions under Section 7 below.

(w) "**Retirement**" means Normal or Early Retirement.

(x) "**Stock**" means the Class A Common Stock, \$.01 par value per share, of the Company.

(y) "**Stock Appreciation Right**" means the right to participate in an increase in the value of a share of Stock pursuant to an award granted under Section 6.

(z) "**Stock Option**" or "**Option**" means any option to purchase shares of Stock (including Restricted Stock and Deferred Stock, if the Committee so determines) granted pursuant to Section 5 below.

(aa) "**Stock Purchase Right**" means the right to purchase Stock pursuant to Section 9.

(bb) "**Subsidiary**" means a corporation (other than the Company) in an unbroken chain of corporations beginning with the Company if each of the corporations (other than the last corporation in the unbroken chain) owns stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in the chain.

In addition, the terms "Change in Control," "Potential Change in Control," "Change in Control Price," "Good Reason," and "Notice of Termination" shall have the meanings set forth, respectively, in Sections 12(b), (c), (d), (e), and (f) below.

Section 2. Administration

The Plan shall be administered by a committee of not less than two members of the Board, who shall be appointed by, and serve at the pleasure of, the Board. In selecting the members of the Committee, the Board shall take into account the requirements for the members of the Committee to be treated as

"Outside Directors" within the meaning of Section 162(m) of the Code and "Non-Employee Directors" for purposes of Rule 16b-3, as promulgated under Section 16 of the Exchange Act. The functions of the Committee specified in the Plan shall be exercised by the Board, if and to the extent that no Committee exists which has the authority to so administer the Plan or to the extent that the Committee is not comprised solely of Non-Employee Directors for purposes of Rule 16b-3, as promulgated under Section 16 of the Exchange Act.

The Committee shall have full authority to grant, pursuant to the terms of the Plan, to non-employee directors, officers, managers, and key Employees, eligible under Section 4: (i) Stock Options and Incentive Stock Options: (ii) Stock Appreciation Rights: (iii) Restricted Stock: (iv) Deferred Stock: (v) Stock Purchase Rights: (vi) Other Stock-Based Awards: and/or (vii) Performance Awards.

In particular the Committee shall have the authority:

- (i) To select the non-employee directors, officers, managers, and key employees of the Company and its Subsidiaries and Affiliates to whom Stock Options, Incentive Stock Options, Stock Appreciation Rights, Restricted Stock, Deferred Stock, Stock Purchase Rights, Other Stock-Based Awards, and/or Performance Awards may from time to time be granted hereunder;
- (ii) To determine whether and to what extent Incentive Stock Options, Nonqualified Stock Options, Stock Appreciation Rights, Restricted Stock, Deferred Stock, Stock Purchase Rights, Other Stock Based Awards, and/or Performance Awards or any combination thereof, are to be granted hereunder to one or more eligible employees and non-employee directors;
- (iii) Subject to the provisions of Sections 3, 5 and 11, to determine the number of shares to be covered by each such award granted hereunder;
- (iv) To determine the terms and conditions, not inconsistent with the terms of the Plan, of any award granted hereunder (including, but not limited to, the share price and any restriction or limitation, or any vesting acceleration or waiver of forfeiture restrictions regarding any Stock Option or other award and or the shares of Stock relating thereto, based in each case on such factors as the Committee shall determine in its sole discretion);
- (v) To determine whether and under what circumstances a Stock Option may be settled in cash, Restricted Stock and/or Deferred Stock under Section 5(l) or (m), as applicable, instead of Stock;
- (vi) To determine whether and under what circumstances an award of Restricted Stock or Deferred Stock may be settled in cash;
- (vii) To determine whether, to what extent and under what circumstances Option grants and/or other awards under the Plan and/or other cash awards made by the Company are to be made, and operate, on a tandem basis vis-à-vis other awards under the Plan and/or cash awards made outside of the Plan, or on an additive basis;
- (viii) To determine whether, to what extent and under what circumstances Stock and other amounts payable with respect to an award under this Plan shall be deferred either automatically or at the election of the participant (including providing for and determining the amount (if any) of any deemed earnings on any deferred amount during any deferral period);
- (ix) To determine the terms and restrictions applicable to Stock Purchase Rights and the Stock purchased by exercising such Rights; and
- (x) To designate the Corporate Secretary of the Company, other officers or employees of the Company or competent professional advisors to assist the Committee in the administration of the Plan, and to grant authority to such persons to execute agreements or other documents on its behalf.

The Committee shall have the authority to adopt, alter, and repeal such rules, guidelines and practices governing the Plan as it shall, from time to time, deem advisable: to interpret the terms and provisions of the Plan and any award issued under the Plan (and any agreements relating thereto): and to otherwise supervise the administration of the Plan.

All decisions made by the Committee pursuant to the provisions of the Plan shall be made in the Committee's sole discretion and shall be final and binding on all persons, including the Company and Plan participants.

Section 3. Stock Subject to Plan

Effective May 14, 2002, the total number of shares of Stock reserved and available for distribution under the Plan shall be increased by 14,000,000 shares. Along with the 13,000,000 shares previously reserved (which have grown to be 13,635,410 as a result of the adjustment for the dividend preceding the Company's spin-off from AMR Corporation) the total number of shares reserved under the plan is 27,635,410 shares. However, no more than two million (2,000,000) shares of Stock shall be granted on or after May 14, 2002 in the form of Restricted Stock; the 2 million (2,000,000) share limit is inclusive of the approximately one hundred and ninety-two thousand (192,000) shares remaining of the previous one million (1,000,000) share Restricted Stock limit. In addition, no more than one million (1,000,000) shares of Stock shall be granted on or after May 14, 2002 in the form of Deferred Stock, Stock Purchase Rights, Other Stock Based Awards, Performance Awards or Phantom Awards.

Subject to Section 6(b)(iv) below, if any shares of Stock that have been optioned cease to be subject to a Stock Option or an Incentive Stock Option, or if any such shares of Stock that are subject to any Restricted Stock or Deferred Stock award, Stock Purchase Right, Performance Awards, or Other Stock-Based Award granted hereunder are forfeited or any such award otherwise terminates without a payment being made to the participant in the form of Stock, such shares shall not be counted against the share limits set forth in this Section 3 and shall again be available for distribution in connection with future awards under the Plan.

In the event of any merger, reorganization, consolidation, recapitalization, Stock dividend, large non-recurring cash dividend (as determined by the Committee), Stock split or other change in corporate structure affecting the Stock, such substitution or adjustment shall be made in the aggregate number of shares reserved for issuance under the Plan, in the number and option price of shares subject to outstanding Options granted under the Plan, in the number and purchase price of shares subject to outstanding Stock Purchase Rights under the Plan, and in the number of shares subject to other outstanding awards granted under the Plan as may be determined to be appropriate by the Committee, in its sole discretion, provided that the number of shares subject to any award shall always be a whole number. Such adjusted option price shall also be used to determine the amount payable by the Company upon the exercise of any Stock Appreciation Right.

Section 4. Eligibility

Non-employee directors, officers, managers, and other key employees of the Company and its Subsidiaries and Affiliates who are responsible for or contribute to the management, growth and/or profitability of the business of the Company and/or its Subsidiaries and Affiliates are eligible to be granted awards under the Plan.

Section 5. Stock Options

Stock Options may be granted alone, in addition to or in tandem with other awards granted under the Plan. Any Stock Option granted under the Plan shall be in such form as the Committee may from time to time approve.

Stock Options granted under the Plan may be of two types: (i) Incentive Stock Options and (ii) Nonqualified Stock Options.

The Committee shall have the authority to grant to any optionee Incentive Stock Options, Nonqualified Stock Options, or both types of Stock Options (in each case with or without Stock Appreciation Rights); provided that, in no event shall the number of shares of Stock subject to any Stock Options granted to any employee during any twelve (12) month period (determined without regard to whether any option is cancelled) exceed one million (1,000,000) shares, as such number may be adjusted pursuant to Section 3.

Options granted under the Plan shall be subject to the following terms and conditions and shall contain such additional terms and conditions, not inconsistent with the terms of the Plan, as the Committee shall deem desirable:

(a) **Option Price.** The Option price per share of Stock purchasable under a Stock Option shall be determined by the Committee at the time of grant but shall be not less than one hundred percent (100%) of the Fair Market Value of the Stock at grant, provided however, that (i) the Option price per share of Stock purchasable under a Stock Option that is granted to an optionee in replacement of a Phantom Award may be less than one hundred percent (100%) of the Fair Market Value of the Stock at the time of grant, subject to an overall limit of fifty thousand (50,000) shares of Stock purchasable under such Stock Options replacing Phantom Awards; and (ii) the Option price per share of Stock purchasable under a Stock Option that is granted in connection with a merger, stock exchange, or other acquisition as a substitute or replacement award for options held by optionees of the acquired entity may be less than one hundred percent (100%) of the Fair Market Value of the Stock at the time of grant.

(b) **Option Term.** The term of each Stock Option shall be fixed by the Committee, but no Stock Option shall be exercisable more than ten (10) years after the date the Option is granted.

(c) **Exercisability.** Stock Options shall be exercisable at such time or times and subject to such terms and conditions as shall be determined by the Committee at or after grant: provided, however, that, except as provided in Section 12, or unless otherwise determined by the Committee at or after grant, no Stock Option shall be exercisable prior to the first anniversary date of the granting of the Option. If the Committee provides, in its sole discretion, that any Stock Option is exercisable only in installments, the Committee may waive such installment exercise provisions at any time at or after grant in whole or in part, based on such factors as the Committee shall determine, in its sole discretion.

(d) **Method of Exercise.** Subject to whatever installment exercise provisions apply under Section 5(c), Stock Options may be exercised in whole or in part at any time during the option period, by giving written notice of exercise to the Company, or its designated representative, specifying the number of shares to be purchased.

Such notice shall be accompanied by payment in full of the purchase price, either by check, note or such other instrument as the Committee may accept. As determined by the Committee, in its sole discretion, at or after grant, payment in full or in part may also be made in the form of unrestricted Stock already owned by the optionee or, in the case of the exercise of a Nonqualified Stock Option, in the form of Restricted Stock, or Deferred Stock subject to an award hereunder (based, in each case, on the Fair Market Value of the Stock on the date the Option is exercised).

If payment of the option exercise price of a Nonqualified Stock Option is made in whole or in part in the form of Restricted Stock or Deferred Stock, such Restricted Stock or Deferred Stock (and any replacement shares relating thereto) shall remain (or be) restricted or deferred, as the case may be, in accordance with the original terms of the Restricted Stock award or Deferred Stock award in question, and any additional Stock received upon the exercise shall be subject to the same forfeiture restrictions or deferral limitations, unless otherwise determined by the Committee, in its sole discretion, at or after grant.

No shares of Stock shall be issued until full payment therefore has been made. An optionee shall generally have the rights to dividends or other rights of a shareholder with respect to the shares subject to the Option when the optionee has given written notice of exercise, has paid in full for such shares, and, if requested, has given the representation described in Section 15(a).

(e) **Transferability of Options.** Unless the Committee shall permit (on such terms and conditions as it shall establish) an Option to be transferred to a member of the participant's immediate family or to a trust or similar vehicle for the benefit of such immediate family members, no Option shall be assignable or transferable except by will or the laws of descent and distribution, and except to the extent required by law, no right or interest of any participants shall be subject to any lien, obligation or liability of the participant.

(f) **Termination by Death.** Subject to Section 5(k), if an optionee's employment by or service with the Company and any Subsidiary or Affiliate terminates by reason of death, any Stock Option held by such optionee may thereafter be exercised in accordance with the terms and conditions established by the Committee.

(g) **Termination by Reason of Disability.** Subject to Section 5(k), if an optionee's employment by or service with the Company and any Subsidiary or Affiliate terminates by reason of Disability, any Stock Option held by such optionee may thereafter be exercised by the optionee in accordance with the terms and conditions established by the Committee. In the event of termination of employment or service by reason of Disability, if an Incentive Stock Option is exercised after the expiration of the exercise periods that apply for purposes of Section 422 of the Code, such Stock Option will thereafter be treated as a Nonqualified Stock Option.

(h) **Termination by Reason of Retirement.** Subject to Section 5(k), if an optionee's employment by or service with the Company and any Subsidiary or Affiliate terminates by reason of Normal or Early Retirement, any Stock Option held by such optionee may thereafter be exercised by the optionee, in accordance with the terms and conditions established by the Committee. In the event of termination of employment by reason of Retirement, if an Incentive Stock Option is exercised after the expiration of the exercise periods that apply for purposes of Section 422 of the Code, such Stock Option will thereafter be treated as Nonqualified Stock Option.

(i) **Termination for Cause.** Subject to Section 5(k), if an optionee's employment by the Company and any Subsidiary or Affiliate is terminated for Cause, the Stock Option shall thereupon terminate, whether or not exercisable at that time.

(j) **Other Termination.** Unless otherwise determined by the Committee, if an optionee's employment by or service with the Company and any Subsidiary or Affiliate terminates for any reason other than death, Disability or Normal or Early Retirement, the Stock Option shall thereupon terminate.

(k) **Incentive Stock Options.** Anything in the Plan to the contrary notwithstanding, no term of this Plan relating to Incentive Stock Options shall be interpreted, amended or altered, nor shall any discretion or authority granted under the Plan be so exercised, so as to disqualify the Plan under Section 422 of the Code, or, without the consent of the optionee(s) affected, to disqualify any Incentive Stock Option under such Section 422.

(l) **Buyout Provisions.** The Committee may at any time offer to buy out for payment in cash, Stock, Deferred Stock or Restricted Stock, an Option previously granted, based on such terms and conditions as the Committee shall establish and communicate to the participant at the time that such offer is made.

(m) **Settlement Provisions.** If the option agreement so provides at grant or is amended after grant but prior to the exercise to so provide (with the optionee's consent), the Committee may require that all or part of the shares to be issued with respect to the spread value of an exercised Option take the form of Deferred or Restricted Stock, which shall be valued on the date of exercise on the basis of the Fair Market

Value (as determined by the Committee) of such Deferred or Restricted Stock determined without regard to the deferral limitations and/or forfeiture restrictions involved.

(n) **Repricing.** The price payable for any Share issued under the Plan may not be decreased after the date of grant, nor may an Option or Stock Appreciation Right granted under the Plan be surrendered to the Company as consideration for the grant of a new Option or Stock Appreciation Right with a lower price payable per Share; except that the Committee may make adjustments pursuant to Section 3.

Section 6. Stock Appreciation Rights

(a) **Grant and Exercise.** Stock Appreciation Rights may be granted alone or in conjunction with all or part of any Stock Option granted under the Plan: provided that, in no event shall the number of shares of Stock Appreciation Rights granted to any employee during any twelve (12) month period exceed one million (1,000,000) shares, as such number may be adjusted pursuant to Section 3. In the case of a Nonqualified Stock Option, such rights may be granted either at or after the time of the grant of such Stock Option. In the case of an Incentive Stock Option, such rights may be granted only at the time of grant of such Stock Option.

The term of each Stock Appreciation Right granted independent of a Stock Option shall be fixed by the Committee, but no Stock Appreciation Right shall be exercisable more than ten (10) years after the date the Stock Appreciation Right is granted. A Stock Appreciation Right or applicable portion thereof granted with respect to a given Stock Option shall terminate and no longer be exercisable upon the termination or exercise of the related Stock Option, subject to such provisions as the Committee may specify at grant where a Stock Appreciation Right is granted with respect to less than the full number of shares covered by a related Stock Option.

A Stock Appreciation Right may be exercised by an optionee, subject to Section 6(b), in accordance with the procedures established by the Committee for such purposes. Upon such exercise, the optionee shall be entitled to receive an amount determined in the manner prescribed in Section 6(b). Stock Options relating to exercised Stock Appreciation Rights shall no longer be exercisable to the extent that the related Stock Appreciation Rights have been exercised.

(b) **Terms and Conditions.** Stock Appreciation Rights shall be subject to such terms and conditions, not inconsistent with the provisions of the Plan, as shall be determined from time to time by the Committee, including the following:

- (i) Stock Appreciation Rights shall be exercisable at such time or times as shall be determined by the Committee at or after grant: provided, however, that Stock Appreciation Rights granted in conjunction with Stock Options shall be exercisable only at such time or times and to the extent that the Stock Options to which they relate shall be exercisable in accordance with the provisions of Section 5 and this Section 6 of the Plan.
- (ii) Upon the exercise of a Stock Appreciation Right, an optionee shall be entitled to receive an amount in cash and/or shares of Stock equal in value to the excess of the Fair Market Value on the date of exercise of one share of Stock over the exercise price per share determined by the Committee at the time of grant multiplied by the number of shares in respect of which the Stock Appreciation Right shall have been exercised, with the Committee having the right to determine the form of payment. When payment is to be made, the amount and/or number of shares (when payment is to be made in shares) to be paid shall be calculated on the basis of the Fair Market Value of the shares on the date of exercise.
- (iii) Except to the extent the Committee may authorize or permit Stock Appreciation Rights to be transferred to, or for the benefit of, members of the participant's family, no Stock Appreciation Right shall be transferable by the participant otherwise than by will or by the

law's of descent and distribution, and all Stock Appreciation Rights shall be exercisable, during the participant's lifetime only by the participant.

(iv)

Upon the exercise of a Stock Appreciation Right granted in conjunction with a Stock Option under the Plan, the number of shares issued under such Stock Appreciation Right based on the value of the Stock Appreciation Right at the time of exercise shall be deemed to be issued for purposes of the share authorization set forth in Section 3 of the Plan.

Section 7. Restricted Stock

(a) **Administration.** Subject to the limitations set forth in Section 3, shares of Restricted Stock may be issued either alone or, in addition to, or in tandem with, other awards granted under the Plan and or cash awards made outside of the Plan. The Committee shall determine the eligible persons to whom, and the time or times at which, grants of Restricted Stock will be made, the number of shares to be awarded, the price (if any) to be paid by the recipient of Restricted Stock (subject to Section 7(b)), the time or times within which such awards may be subject to forfeiture, and all other terms and conditions of the awards.

The Committee may condition the grant of Restricted Stock upon the attainment of specified performance goals or such other factors as the Committee may determine, in its sole discretion.

The provisions of Restricted Stock awards need not be the same with respect to each recipient.

(b) **Awards and Certificates.** The prospective recipient of a Restricted Stock award shall not have any rights with respect to such award, unless and until such recipient has executed an agreement evidencing the award and has delivered a fully executed copy thereof to the Company, and has otherwise complied with the applicable terms and conditions of such award.

(i)

The purchase price for shares of Restricted Stock shall be equal to or less than their par value and may be zero.

(ii)

Awards of Restricted Stock must be accepted within a reasonable period (or such specific period as the Committee may specify at grant) after the award date, by executing an award agreement and paying whatever price (if any) is required under Section 7(b)(i).

(c) **Terms and Conditions.** The shares of Restricted Stock awarded pursuant to this Section 7 shall be subject to the following restrictions and conditions:

(i)

Subject to the provisions of this Plan and the award agreement, during a period set by the Committee commencing with the date of such award (the "Restriction Period"), the participant shall not be permitted to sell, transfer, pledge or assign shares of Restricted Stock awarded under the Plan. Within these limits, the Committee, in its sole discretion, may provide for the lapse of such restrictions in installments and may accelerate or waive such restrictions in whole or in part, based on service, performance and or such other factors or criteria as the Committee may determine, in its sole discretion.

(ii)

Except as provided in this paragraph (ii) and Section 7(c)(i), the Committee, in its sole discretion, as determined at the time of the award, may permit the participant to have, with respect to the shares of Restricted Stock, all of the rights of a shareholder of the Company, including the right to vote the shares, and the right to receive any cash dividends. The Committee, in its sole discretion, as determined at the time of award, may permit or require the payment of cash dividends and may permit or require such cash dividends to be deferred and, if the Committee so determines, reinvested, subject to Section 15(e), in additional Restricted Stock to the extent shares are available under Section 3, or otherwise reinvested. Pursuant to Section 3 above, Stock dividends issued with respect to Restricted Stock shall be 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,

(iii)

Subject to the applicable provisions of the award agreement and this Section 7, upon termination of a participant's employment or service with the Company and any Subsidiary or Affiliate for any reason during the Restriction Period, all shares still subject to restriction will vest, or be forfeited, in accordance with the terms and conditions established by the Committee at or after grant.

(iv)

If and when the Restriction Period expires without a prior forfeiture of the Restricted Stock subject to such Restriction Period, certificates for an appropriate number of unrestricted shares shall be delivered to the participant promptly (unless the Committee decides pursuant to Section 2(vi) to settle the award in cash).

(d) **Minimum Value Provisions.** In order to better ensure that award payments actually reflect the performance of the Company, Subsidiaries, Affiliates and service of the participant, the Committee may provide, in its sole discretion, for a tandem performance-based or other award designed to guarantee a minimum value, payable in cash or Stock to the recipient of a Restricted Stock award, subject to such performance, future service, deferral and other terms and conditions as may be specified by the Committee.

Section 8. Deferred Stock

(a) **Administration.** Deferred Stock may be awarded either alone, in addition to, or in tandem with other awards granted under the Plan and/or cash awards made outside of the Plan. The Committee shall determine the eligible persons to whom and the time or times at which Deferred Stock shall be awarded, the number of shares of Deferred Stock to be awarded to any person, the duration of the period (the "Deferral Period") during which, and the conditions under which, receipt of the Stock will be deferred, and the other terms and conditions of the award in addition to those set forth in Section 8(b).

The Committee may condition the grant of Deferred Stock upon the attainment of specified performance goals or such other factors or criteria as the Committee shall determine, in its sole discretion.

The provisions of Deferred Stock awards need not be the same with respect to each recipient.

(b) **Terms and Conditions.** The shares of Deferred Stock awarded pursuant to this Section 8(b) shall be subject to the following terms and conditions:

(i)

Subject to the provision of this Plan and the award agreement referred to in Section 8(b)(vi) below, Deferred Stock awards may not be sold, assigned, transferred, pledged or otherwise encumbered during the Deferral Period. At the expiration of the Deferral Period (or the Elective Deferral Period referred to in Section 8(b)(v), where applicable), share certificates shall be delivered to the participant, or his legal representative, in a number equal to the shares covered by the Deferred Stock award (unless the Committee decides pursuant to Section 2(vi) to settle the award in cash).

(ii)

Unless otherwise determined by the Committee at grant, amounts equal to any dividends declared during the Deferral Period with respect to the number of shares covered by a Deferred Stock award will be paid to the participant currently, or deferred and deemed to be reinvested in additional Deferred Stock, or otherwise reinvested, all as determined at or after the time of the award by the Committee, in its sole discretion.

(iii)

Subject to the provisions of the award agreement and this Section 8, upon termination of a participant's employment or service with the Company and any Subsidiary or Affiliate for any reason during the Deferral Period for a given award, the Deferred Stock in question will

vest, or be forfeited, in accordance with the terms and conditions established by the Committee at or after grant.

(iv)

Based on service, performance, and/or such other factors or criteria as the Committee may determine, the Committee may, at or after grant, accelerate the vesting of all or any part of any Deferred Stock award and/or waive the deferral limitations for all or any part of such award.

(v)

A participant may elect to further defer receipt of an award (or an installment of an award) for a specified period or until a specified event (the "Elective Deferral Period"), subject to the Committee's approval and to such terms as are determined by the Committee, all in its sole discretion. Subject to any exceptions adopted by the Committee, such election must generally be made at least twelve (12) months prior to completion of the Deferral Period of such Deferred Stock award (or such installment).

(vi)

Each award shall be confirmed by, and subject to the terms of, a Deferred Stock agreement executed by the Company and the participant.

(c) **Minimum Value Provisions.** In order to better ensure that award payments actually reflect the performance of the Company, Subsidiaries, Affiliates and service of the participant, the Committee may provide, in its sole discretion, for a tandem performance-based or other award designed to guarantee a minimum value, payable in cash or Stock to the recipient of a Deferred Stock award, subject to such performance, future service, deferral and other terms and conditions as may be specified by the Committee.

Section 9. Stock Purchase Rights

(a) **Awards and Administration.** The Committee may grant eligible participants Stock Purchase Rights which shall enable such participants to purchase Stock (including Deferred Stock and Restricted Stock) at price(s) determined by the Committee at or after grant.

The Committee shall also impose such deferral, forfeiture, and/or other terms and conditions as it shall determine, in its sole discretion, on such Stock Purchase Rights or the exercise thereof.

The terms of Stock Purchase Rights awards need not be the same with respect to each participant.

Each Stock Purchase Right award shall be confirmed by, and be subject to the terms of, a Stock Purchase Rights agreement.

(b) **Exercisability.** Stock Purchase Rights shall be exercisable for such period after grant as is determined by the Committee.

Section 10. Other Stock-Based Awards

(a) **Administration.** Other awards of Stock and other awards that are valued in whole or in part by reference to, or are otherwise based on, Stock ("Other Stock-Based Awards"), including, without limitation, stock purchase rights, performance shares, convertible preferred stock, convertible debentures, exchangeable securities and Stock awards or options valued by reference to Book Value or subsidiary performance, may be granted either along with, or in addition to, or in tandem with, Stock Options, Stock Appreciation Rights, Restricted Stock, Deferred Stock, or Stock Purchase Rights granted under the Plan and/or cash awards made outside of the Plan.

Subject to the provisions of the Plan, the Committee shall have authority to determine the persons to whom and the time or times at which such awards shall be made, the number of shares of Stock to be awarded pursuant to such awards, and all other conditions of the awards. The Committee may also provide for the grant of Stock upon the completion of a specified performance period.

The provision of Other Stock–Based Awards need not be the same in respect to each recipient.

(b) **Terms and Conditions.** Other Stock–Based Awards made pursuant to this Section 10 shall be subject to the following terms and conditions:

- (i) Subject to the provisions of this Plan and the award agreement referred to in Section 10(b)(v) below, shares subject to awards made under this Section 10 may not be sold, assigned, transferred, pledged, or otherwise encumbered prior to the date on which the shares are issued, or, if later, the date on which any applicable restriction, performance, or deferral period lapses.
- (ii) Subject to the provision of this Plan and the award agreement and unless otherwise determined by the Committee at grant, the recipient of an award under this Section 10 shall be entitled to receive, currently, or on a deferred basis, interest or dividends or interest or dividend equivalents with respect to the number of shares covered by the award, as determined at the time of the award by the Committee, in its sole discretion, and the Committee may provide that such amounts (if any) shall be deemed to have been reinvested in additional Stock or otherwise reinvested.
- (iii) Any award under Section 10 and any Stock covered by any such award shall vest or be forfeited to the extent so provided in the award agreement as determined by the Committee, in its sole discretion.
- (iv) In the event of the participant's Retirement, Disability or death, or in cases of special circumstances, the Committee may, in its sole discretion, waive in whole or in part any or all of the remaining limitations imposed hereunder (if any) with respect to any or all of an award under this Section 10.
- (v) Each award under this Section 10 shall be confirmed by, and subject to the terms of, an agreement or other instrument by the Company and by the participant.
- (vi) Stock (including securities convertible into Stock) issued on a bonus basis under this Section 10 may be issued for no cash consideration. Stock (including securities convertible into Stock) purchased pursuant to a purchase right awarded under this Section 10 shall be priced at least fifty percent (50%) of the Fair Market Value of the Stock on the date of grant.

Section 11. Performance Related Awards

(a) **Performance Objectives.** Notwithstanding anything else contained in the Plan to the contrary, unless the Committee otherwise determines at the time of grant, a cash–based award or any award of Restricted Stock, Deferred Stock, or Other Stock–Based Awards to an officer who is subject to the reporting requirements of Section 16(a) of the Exchange Act, as amended, other than an award which will vest solely on the basis of the passage of time, shall become vested, if at all, upon the determination by the Committee that performance objectives established by the Committee have been attained, in whole or in part (a "Performance Award"). Such performance objectives shall be determined over a measurement period or periods established by the Committee and related to at least one of the following criteria, which may be determined solely by reference to the performance of (i) the Company, (ii) a Subsidiary, (iii) an Affiliate, (iv) a division or unit of any of the foregoing, or based on comparison performance of any of the foregoing relative to other companies: (A) return on assets: (B) return on equity; (C) total shareholder return: (D) revenues: (E) cash flows, revenues, and/or earnings relative to other parameters: (F) operating income: (G) return on investment: (H) changes in the value of the Company's common stock: and (I) operating margin (the "Performance Criteria"). Excluding Stock Options and/or Stock Appreciation Rights granted hereunder, the maximum number of shares of Stock that may be awarded to any one participant and that may be subject to any such Performance Award in any twelve (12) month period shall not exceed 100,000 shares, as such number may be adjusted pursuant to Section 3.

(b) **Annual Incentive Compensation.** The Committee may, in addition to the Performance Awards described above, pay cash amounts under the Plan to any officer of the Company and any Subsidiary or Affiliate who is subject to the reporting requirements of Section 16(a) of the Exchange Act upon the achievement, in whole or in part, of performance goals or objectives established in writing by the Committee with respect to such performance periods as the Committee shall determine. Any such goals or objectives shall be based on one or more of the Performance Criteria. Notwithstanding anything else contained herein to the contrary, the maximum amount of any such cash payment to any single officer with respect to any calendar year shall not exceed the lesser of (A) \$2,000,000 and (B) twice the officer's annual base salary as in effect on the last day of the preceding fiscal year.

(c) **Interpretation.** Notwithstanding anything else in the Plan to the contrary, to the extent a Performance Related Award is intended to qualify as performance-based compensation within the meaning of Section 162(m)(4)(C) of the Code, the Committee shall not be entitled to exercise any discretion if the exercise of such discretion would cause such award to fail to qualify as performance-based compensation.

Section 12. Change in Control Provisions

(a) **Impact of Event.** In the event of either:

- (1) a "Change in Control" as defined in Section 12(b), or
- (2) a "Potential Change in Control" as defined in Section 12(c), but only if and to the extent so determined by the Committee or the Board at or after grant subject to any right of approval expressly reserved by the Committee or the Board at the time of such determination,

the following shall occur:

- (i) Any issued and outstanding Stock Options, Stock Appreciation Rights, Restricted Stock, Performance Shares, Stock Equivalent Units, Deferred Stock, Stock Purchase Rights, Other Stock-Based Awards, Performance Awards, or any other equity-based compensation (collectively, "Equity Awards") shall continue in effect or, if such continuation is not possible, shall be equitably converted to equivalent Equity Awards of any successor entity.
- (ii) If such continuation or conversion is not possible (but only if it is not possible), all such Equity Awards shall become fully vested and exercisable in accordance with the following:
 - (A) Any Stock Appreciation Rights and any Stock Options awarded under the Plan not previously exercisable and vested shall become fully exercisable and vested.
 - (B) The restrictions or deferral limitations applicable to any Restricted Stock, Deferred Stock, Stock Purchase Rights, Other Stock-Based Awards, and Performance Awards in each case to the extent not already vested under the Plan, shall lapse and such shares and awards shall be deemed fully vested and any Performance Criteria shall be deemed met at target.
- (iii) If any Equity Awards are not vested in accordance with (ii) above, but rather are continued or converted as provided in (i) above, then they shall become vested if the participant is involuntarily terminated without Cause or voluntarily terminates for Good Reason (as defined herein) within one (1) year after a Change in Control, and, if subject to an exercise right, shall remain fully exercisable for at least three (3) months following such termination (or, if longer, pursuant to the terms of such Equity Awards).
- (iv) If any Equity Awards are not continued or converted, but rather become fully vested and exercisable as provided in paragraph (ii) above, then the value of all outstanding Stock Options, Stock Appreciation Rights, Restricted Stock, Deferred Stock, Stock Purchase

Rights, Other Stock-Based Awards, and Performance Awards in each case to the extent vested, shall, unless determined otherwise by the Committee in its sole discretion at or after grant but prior to any Change in Control, be cashed out on the basis of the "Change in Control Price" as defined in Section 12(d) as of the date such Change in Control or such Potential Change in Control is determined to have occurred or such other date as the Committee may determine prior to the Change in Control.

(b) **Definition of "Change in Control".** For purposes of Section 12(a), a "Change in Control" means the happening of any of the following:

(i)

When any Person, directly or indirectly, becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act, as amended from time to time) of securities of the Company representing twenty-five percent (25%) or more of the combined voting power of the Company's then outstanding securities:

(ii)

The individuals who, as of the Effective Date of this Plan, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the Effective Date of the Plan whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or

(iii)

Consummation of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company or the acquisition of assets of another corporation (a "Business Combination"), in each case, unless, following such Business Combination, (A) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the then outstanding share of stock of the Company (the "Outstanding Company Stock") and the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities") immediately prior to such Business Combination beneficially own, directly or indirectly, more than sixty percent (60%) of, respectively, the then Outstanding Company Stock and the combined voting power of the then Outstanding Company Voting Securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or throughout one or more subsidiaries), (B) no Person (excluding any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, twenty-five percent (25%) or more of respectively, the then Outstanding Company Stock resulting from such Business Combination or the combined voting power of the then Outstanding Company Voting Securities except to the extent that such ownership existed prior to the Business Combination, and (C) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Combination; or

(iv)

Approval by the shareholders of the Company of a complete liquidation or dissolution of the Company.

(c) **Definition of Potential Change in Control.** For purposes of Section 12(a), a "Potential Change in Control" means the happening of any one of the following:

- (i) The approval by shareholders of an agreement by the Company, the consummation of which would result in a Change in Control of the Company as defined in Section 12(b); or
- (ii) The acquisition of beneficial ownership, directly or indirectly, by any entity, person or group (other than the Company or a Subsidiary or any Company employee benefit plan (including any trustee of such plan acting as such trustee)) of securities of the Company representing five percent (5%) or more of the combined voting power of the Company's outstanding securities and the adoption by the Board of Directors of a resolution to the effect that a Potential Change in Control of the Company has occurred for purposes of this Plan.

(d) **Change in Control Price.** For the purposes of the Section 12, "Change in Control Price" means the highest price per share paid in any transaction reported on the New York Stock Exchange Composite Index, or paid or offered in any bona fide transaction related to a potential or actual Change in Control of the Company at any time during the sixty (60) day period immediately preceding the occurrence of the Change in Control (or, where applicable, the occurrence of the Potential Change in Control event), in each case as determined by the Committee except that, in the case of Incentive Stock Options and Stock Appreciation Rights relating to Incentive Stock Options, such price shall be based only on transactions reported for the date on which the optionee exercises such Stock Appreciation Rights or, where applicable, the date on which a cashout occurs under Section 12(a)(iv).

(e) **Definition of Good Reason.** For purposes of Section 12(a) above, the participant will be entitled to terminate employment with the Company and its Subsidiaries for "Good Reason" after a Change in Control if:

- (i) without the participant's written consent, one or more of the following events occurs at any time during the first twelve (12) months after such Change in Control:
 - (1) the participant's base salary rate or annual incentive compensation target is reduced below that in effect immediately prior to the Change in Control for any reason other than for Cause;
 - (2) the participant's principal office is moved, without the participant's consent, to a location that is more than fifty (50) statute miles from its location immediately prior to the Change in Control;
 - (3) for any reason other than for Cause, the participant suffers a significant adverse change in the nature or scope of the authorities, powers, functions, responsibilities or duties attached to the position with the Company which the participant held immediately prior to the Change in Control;
 - (5) a successor where applicable, does not assume and agree to the terms of this Plan; or
 - (6) the Company purports to terminate participant's employment other than in accordance with a Notice of Termination, as described below.
- (ii) the participant notifies the Company in writing (addressed in care of the Chairman of the Board of the Company) of the occurrence of such event;
- (iii) within thirty (30) days following receipt of such written notice, the Company does not cure such event to the reasonable satisfaction of the participant and deliver to the participant a written statement that it has done so; and
- (iv) within sixty (60) days following the expiration of the period specified in Section (12)(e)(iii) above (without the occurrence of a cure and written notice thereof as

described in Section (12)(e)(iii) above), the participant voluntarily terminates employment with the Company.

(v)

Notwithstanding anything to the contrary in Section 12(e), no accelerated vesting will occur by reason of this Plan in the event of:

(A)

Termination of the participant's employment with the Company by reason of the participant's death or Disability, so long as neither the participant nor the Company previously received a Notice of Termination for the participant;

(B)

Termination by the participant of the participant's employment with the Company at or after age sixty-five (65) if the participant is then eligible for retirement; or

(C)

Termination of the participant's employment with the Company for Cause.

(f) **Notice of Termination.** Any termination of the participant's employment, by the Participant, as contemplated by Section 12(e) above will be communicated by written notice to the Company delivered in person or by certified mail. Any "Notice of Termination" will: (i) state the effective date of termination, which will not be less than thirty (30) days or more than sixty (60) days after the date the Notice of Termination is delivered (the "Termination Date"), (ii) state the specific provision in this Plan being relied upon for termination; (iii) state the facts and circumstances claimed to provide a basis for such termination in reasonable detail.

Section 13. Amendments and Termination

The Board may amend, alter, or discontinue the Plan, but no amendment, alteration, or discontinuation shall be made which would impair the rights of an optionee or participant under a Stock Option, Incentive Stock Option, Stock Appreciation Right, Restricted or Deferred Stock award, Stock Purchase Right, Other Stock-Based Award, or Performance Award theretofore granted, without the optionee's or participant's consent.

The Committee may amend the terms of any Stock Option or other award theretofore granted, prospectively or retroactively, except that, unless otherwise permitted by Section 3 above, (i) no such amendment shall impair the rights of any holder without the holder's consent; (ii) no such amendment may decrease the minimum Stock Option Exercise Price set forth in subsection 5(a), unless any such amendment is approved by the Company's shareholders; and (iii) the provisions of subsection 5(n) may not be amended, unless any such amendment is approved by the Company's shareholders.

Subject to the above provisions, the Board shall have broad authority to amend the Plan to take in to account changes in applicable securities and tax laws and accounting rules, as well as other developments.

Section 14. Unfunded Status of Plan

The Plan is intended to constitute an "unfunded" plan for incentive and deferred compensation. With respect to any payments not yet made to a participant or optionee by the Company, nothing contained herein shall give any such participant or optionee any rights that are greater than those of a general creditor of the Company. In its sole discretion, the Committee may authorize the creation of trusts or other arrangements to meet the obligations created under the Plan to deliver Stock or payments in lieu of or with respect to awards hereunder: provided, however, that unless the Committee otherwise determines with the consent of the affected participant, the existence of such trusts or other arrangements is consistent with the "unfunded" status of the Plan.

Section 15. General Provisions

(a) The Committee may require each person purchasing shares pursuant to a Stock Option or other award under the Plan to represent to and agree with the Company in writing that the optionee or

participant is acquiring the shares without a view to distribution thereof. The certificates for such shares may include any legend, which the Committee deems appropriate to reflect any restrictions on transfer.

All certificates for shares of Stock or other securities delivered under the Plan shall be subject to such stock-transfer orders and other restrictions as the Committee may deem advisable under the rules, regulations, and other requirements of the Securities and Exchange Commission, any stock exchange upon which the Stock is then listed, and any applicable federal or state securities law, and the Committee may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions.

(b) Nothing contained in this Plan shall prevent the Board from adopting other or additional compensation arrangements, subject to stockholder approval if such approval is required, and such arrangements may be either generally applicable or applicable only in specific cases.

(c) The adoption of the Plan shall not confer upon any employee of the Company or any Subsidiary or Affiliate any right to continued employment or service as a director with the Company or a Subsidiary or Affiliate, as the case may be, nor shall it interfere in any way with the right of the Company or a Subsidiary or Affiliate to terminate the employment of any of its employees or service of a director at any time.

(d) Except as the participant and the Company may otherwise agree, no later than the date as of which an amount first becomes includable in the gross income of the participant for federal income tax purposes with respect to any award under the Plan, the participant shall pay to the Company, or make arrangements satisfactory to the Committee regarding the payment of any federal, state, or local taxes of any kind required by law to be withheld with respect to such amount. Unless otherwise determined by the Committee, withholding obligations may be settled with Stock, including Stock that is part of the award that gives rise to the withholding requirement. The obligations of the Company under the Plan shall be conditional on such payment of arrangements and the Company and its Subsidiaries or Affiliates shall, to the extent permitted by law, have the right to deduct any such taxes from any payment of any kind otherwise due to the participant.

(e) The actual or deemed reinvestment of dividends or dividend equivalents in additional Restricted Stock (or in Deferred Stock or other types of Plan awards) at the time of any dividend payment shall only be permissible if sufficient shares of Stock are available under Section 3 for such reinvestment (taking into account then outstanding Stock Options, Stock Purchase Rights, and other Plan awards).

(f) The Plan and all awards made and actions taken thereunder shall be governed by and construed in accordance with the laws of the State of Delaware.

Section 16. Term of Plan

No Stock Option, Incentive Stock Option, Stock Appreciation Right, Restricted Stock award, Deferred Stock award, Stock Purchase Right, Other Stock-Based Award, or Performance Award shall be granted pursuant to the Plan on or after the tenth (10th) anniversary of the date of shareholder approval, but awards granted prior to such tenth (10th) anniversary may extend beyond that date.

QuickLinks

[Amended and Restated 1996 Long-Term Incentive Plan Sabre Holdings Corporation As Amended May 14, 2002.](#)

Sabre Holdings Corporation
Computation of Ratio of Earnings
To Fixed Charges
Five Years Ended December 31, 2003
(in thousands)

	Years ended December 31,				
	2003	2002	2001	2000	1999
Earnings:					
Income from continuing operations before taxes(1)	\$ 127,377	\$ 339,068	\$ 34,010	\$ 189,588	\$ 460,862
Minority interests in consolidated subsidiaries	365	(214)	(22,469)	(30,754)	—
(Income) loss from equity investees(2)	127	(17,346)	(18,041)	(20,849)	(18,037)
Income from continuing operations before taxes, minority interests and earnings from equity investees	127,869	321,508	(6,500)	137,985	442,825
Add: Total fixed charges (per below)	33,885	31,803	48,875	38,639	15,779
Distributed income of equity investees	19,145	18,411	5,195	6,979	5,965
Total earnings	\$ 180,899	\$ 371,722	\$ 47,570	\$ 183,603	\$ 464,569
Fixed charges:					
Interest expense	\$ 24,077	\$ 23,350	\$ 41,165	\$ 31,686	\$ 9,995
Estimate of interest within rental expense(3)	9,808	8,453	7,710	6,953	5,784
Total fixed charges	\$ 33,885	\$ 31,803	\$ 48,875	\$ 38,639	\$ 15,779
Ratio of earnings to fixed charges	5.34	11.69	.97(4)	4.75	29.44

- (1) Effective July 1, 2001, we sold our Outsourcing Business to Electronic Data Systems Corporation ("EDS"). We also entered into agreements with EDS for (i) EDS to manage our IT systems for 10-years (the "IT Outsourcing Agreement"), and (ii) to jointly market certain IT services and software solutions to the travel and transportation industries (the "Marketing Agreements"). See Note 3 to the Consolidated Financial Statements. The results of operations of the Outsourcing Business have been reclassified and presented as income from discontinued operations, net, for 2001, 2000 and 1999.
- (2) Income from equity investees, in 2002, contains \$4.4 million on sale of France Telecom shares reported in non-operating income.
- (3) Fixed charges include the estimated interest component of rent expense (one-third of rent expense under operating leases) included in income from continuing operations.
- (4) For the year ended December 31, 2001, earnings were insufficient to cover fixed charges by approximately \$1.3 million.

QuickLinks

[Sabre Holdings Corporation Computation of Ratio of Earnings To Fixed Charges Five Years Ended December 31, 2003 \(in thousands\)](#)

Sabre Holdings Corporation
Corporate Governance Policy

Business Ethics Policy
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If you have questions, or if you suspect a violation of the Company's Business Ethics Policy, do not hesitate to contact the Compliance Office (682-605-3998 or compliance.office@sabre-holdings.com) or call the anonymous hotline (1-877-219-3180), which is toll-free for calls within the U.S. Calls may be made at any time, twenty-four hours a day, from both domestic and international locations.

**Upholding the Highest Standards
for Ethical and Legal Behavior**

Compliance Officer's Message

**David A. Schwarte
Executive Vice President and General Counsel
Compliance Officer**

Sabre Holdings Corporation and its subsidiaries (hereafter referred to as the "Company") do business according to the highest ethical and legal standards, complying with both the letter and spirit of the law. The following Business Ethics Policy (the "Policy") will give you information about laws and Company policies essential to meeting those standards and therefore essential to making good business decisions. You should review and always act according to our Policy, and every director, officer, manager and supervisor, at every level, should ensure the people he or she supervises follow it. The Policy applies both in the United States and internationally.

No business ethics policy can cover every circumstance. The Company therefore relies on you to observe the spirit of our Policy and the highest ethical standards in all your dealings. The best way to comply is to act in a professional and ethical manner at all times and avoid any conduct you would not want reported in your hometown newspaper. It is best to avoid even the appearance of impropriety.

Where appropriate, the Company's stated policy on a particular matter may be followed by one or more guidelines for behavior. Please note that you are responsible for adhering to the policy as it is stated. The guidelines are to be used as rules of thumb to assist in your understanding and application of the policy.

Please always feel free to discuss any questions about the Business Ethics Policy or laws affecting the Company with your supervisor, the Compliance Office, or any of the lawyers in the Legal Department.

We also rely on you to report suspected crimes and violations of Company policy by contacting the Compliance Office of the Legal Department (682-605-3998 or compliance.office@sabre-holdings.com) and it is your duty to do so. The Company also has a toll-free, anonymous hotline (1-877-219-3180—if you're calling from work, remember you must dial 8 or 9 to get an outside line). Calls may be made at any time, twenty-four hours a day, from both domestic and international locations. Thank you for your cooperation.

David A. Schwarte
Executive Vice President and General
Counsel

Sabre Holdings Corporation

Business Ethics Policy

Overview of the Policy

This Business Ethics Policy (the "Policy") applies to regular employees (both full time and those on reduced work schedules), temporary employees, provisional employees, officers and directors, and to non-employee contractors (collectively, "Company Personnel") working for any subsidiary or affiliate of Sabre Holdings Corporation. It applies to employees in the United States and to those around the world.

Company Personnel should at all time adhere to the highest principles of business conduct and act legally and ethically.

We all must comply with applicable United States federal, state and local laws, and with the laws of other jurisdictions in which we do business. We must make all reasonable efforts to determine what laws apply to our operations.

The Policy is administered by the Compliance Office. The Company's General Counsel, David A. Schwarte, is the Compliance Officer and the Compliance Office is administered by the Company's Legal Department.

Guidelines for Behavior

- Conduct all aspects of the Company's business in an ethical and strictly legal manner. Obey the laws of all cities, localities, states, provinces, territories, countries and other jurisdictions where the Company does or seeks to do business.
- Remember that you are responsible for your actions. You will not be excused for misconduct because it was directed or requested by your supervisor or someone else.
- Remember that you are responsible for the actions of employees reporting to you and the contractors working on your behalf.
- Remember that your conduct with customers, suppliers, the public, and other employees and contractors must reflect the highest standards of honesty, integrity, and fairness.
- Recognize that even the appearance of misconduct or impropriety can be very damaging to the Company's reputation, and act accordingly.

A Matter to Take Seriously

Violating the Business Ethics Policy will result in disciplinary action up to and including termination. Violating the laws and regulations that underlie the Policy (even if the intent is to benefit the Company) may also result in severe civil and criminal penalties, including significant fines and imprisonment. Company Personnel should ensure that everyone under their supervision complies with the Policy. Officers, managers and supervisors who condone or negligently fail to detect criminal and/or unethical conduct by their subordinates are also subject to disciplinary action up to and including termination.

The Company encourages, expects, and requires all those working on its behalf to report any suspected violations of laws, regulations, its Business Ethics Policy, and all unethical business practices. Company Personnel may report these matters directly to their supervisors or managers, or to the Compliance Office of the Legal Department (682-605-3998 or compliance.office@sabre-holdings.com). The Company also has an anonymous hotline (1-877-219-3180), which is toll-free if calling within the U.S. Calls may be made at any time, twenty-four hours a day, from both domestic and international locations.

The Company will not tolerate retaliation against anyone who in good faith reports suspected violations. Those who engage in retaliation will be subject to disciplinary action up to and including termination.

The Company also requires full cooperation in all Company investigations. Failure to cooperate will lead to disciplinary action up to and including termination.

Guidelines for Behavior

- Report any suspected violations of laws, regulations, the Business Ethics Policy, and all unethical business practices.
- Cooperate fully in all Company investigations.

Disclosure of Amendments and Waivers

The Company will disclose on the Business Ethics Policy page of its website, within 5 business days, the nature of any amendment (other than technical, administrative or other non-substantive amendments) to, or waiver or implicit waiver from, its Business Ethics Policy for the Company's Executive Officers or Directors (although the Company does not expect any such waivers).

1. Accurate Books and Records

The Company must keep accurate business records. While only a few Company Personnel actually maintain accounting records, many of us help keep the Company's records. For certain businesses, the data from a time record may become the basis for charges to customers. Specific rules apply, and those charging their time must record it accurately. Only the true and actual number of hours worked must be reported. Never shift costs to other customers or inappropriate account numbers.

Many Company Personnel use business expense accounts. Items expensed must be documented and recorded accurately in the Expense Reporter. If you are not sure whether a potential expense is legitimate, Company Personnel may review the Expense Reporting Guidelines on the Company's internal website.

Company Personnel with accounting and finance responsibilities, and others who keep the Company's official records, have added professional and legal responsibility. You must maintain books, records, accounts and financial statements in a manner that is both accurate and auditable. It is against Company policy to make entries that intentionally conceal or disguise the true nature of any transaction. No funds or accounts should be kept for purposes not fully and accurately disclosed. Unrecorded or "off the books" funds or assets should not be kept for any purpose. The Company's books, records and accounts must reflect all transactions of the Company and all other events that are the subject of a specific regulatory record keeping requirement.

You should be aware that falsifying or making a false entry in the Company's books or records, or altering or tampering with such records may violate federal criminal laws and subject the individual offender to fines and/or imprisonment.

Any person having information or knowledge about any hidden fund or asset, or any false or artificial accounting or other entry in the books or records of the Company, or any inappropriate payment, or who has questions or concerns about questionable accounting or auditing matters, should promptly call the Compliance Office (682-605-3998) or the anonymous hotline (1-877-219-3180).

Guidelines for Behavior

- When charging time to customers, do so accurately.
- When submitting expense reports follow the Company's Expense Reporter Guidelines.
- Don't make record entries that conceal or disguise the nature of any transaction.
- Do not keep unrecorded or off the books funds or assets.
- Do not falsify, alter or tamper with Company books or records.
- Report any suspected false, inaccurate, or misleading entries in the Company's books or records.

2. Antitrust

Antitrust laws prohibit business practices that interfere with free and open competition among companies. Many business decisions raise potential antitrust issues. Even informal, unwritten, or unspoken business arrangements can violate the law. Violations can involve competitors, suppliers, distributors, or customers, or can result from our own unilateral actions. Because of the complex and evolving nature of antitrust laws, and the severe civil and criminal consequences of violating them, you should check with the Compliance Office (682-605-3998) with questions about whether a commercial practice or communication is appropriate.

Please be alert to the following:

Agreements with competitors. Antitrust laws generally prohibit agreements or understandings among competitors over competitive matters (such as the prices they set in the marketplace to common

customers). An "agreement or understanding" can be written, spoken, or unspoken. Even a wink of the eye or a nod of the head can be enough as long as both parties have agreed. The Company must never enter into any such arrangement. Bear in mind that where competitors act separately on competitive matters, but in a parallel fashion following communications or meetings with one another (such as raising prices by the same amount), a court may infer an illegal agreement.

Price-Fixing. Explicit or implicit agreements or understandings between competitors that affect prices they charge may constitute illegal price-fixing.

Division of Markets or Customers Among Competitors. Agreements by competitors to divide markets or allocate customers are illegal. Except under some circumstances, it is also unlawful for competitors to agree not to bid on contracts or to coordinate their bids.

Group Boycotts or Refusals to Deal. Agreements among companies not to deal with other companies or individuals, or to deal with them only on certain terms, are generally illegal. A company cannot agree with competitors about joint commercial action against any third parties without facing the risk of a boycott claim.

Resale Price Maintenance. As a manufacturer or supplier, a company generally cannot set a floor as to the prices at which independent distributors or customers resell its products or services.

Tie-Ins. Where a company has market power over a product, it may not condition the sale of the product on the buyer's purchase of a second product from it, or its agreement not to purchase one from another supplier.

Exclusive Dealing. In general, a company with market power may not sell its products to distributors or customers on the condition that they not deal in competitors' products, where that arrangement reduces competition or makes its competitors' products less available to prospective buyers.

Predatory Practices. It is illegal to acquire or maintain market power through illegitimate or anti-competitive means. A company with a dominant position in the market cannot use "predatory" practices, such as below cost pricing, to try to eliminate existing competitors or discourage new ones.

Reciprocity Agreements. Another arrangement that can violate antitrust laws is a "reciprocity agreement." This exists when a company conditions its purchase of goods or services from another company on the latter's purchase of the company's goods or services.

Penalties. Successful plaintiffs in antitrust lawsuits can collect up to three times actual damages, attorney fees, and costs. A criminal antitrust violation is a felony. For individuals, a court may impose a criminal fine of up to \$350,000.00, a sentence of up to three years in prison, or both. A corporation can be fined up to \$10 million.

Even if a company succeeds in defending an antitrust lawsuit, the expense of such claims can be staggering. Attorney fees can amount to tens of millions of dollars, and the interruption of business can cost millions more. A company can also suffer harmful adverse publicity. Avoiding potential violations of antitrust laws is very important.

Guidelines for Behavior

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Never communicate or enter into any agreement or understanding—whether formally, informally, or hypothetically—with a competitor regarding a competitive matter. This prohibition includes oral, written, and electronic communication. It also includes discussing pricing, functionality, marketing programs, or services features with competitors except where the matter has been explicitly discussed with and approved in advance by the Compliance Office.

- Avoid situations that may lead to a potential claim that you violated antitrust laws. Be very careful concerning what topics are discussed if you participate in any industry groups. If you are participating in such a meeting and a prohibited topic arises, leave the discussion or meeting immediately. If minutes are kept of the meeting, they should reflect the fact that you have departed, without stating any reason for your departure. If minutes are not kept of the meeting, write a memo about the meeting and your departure and send it to the Compliance Office. Remember, you must always be alert in your meetings with competitors. Daydreaming in a meeting where prohibited topics are discussed can inadvertently land you in a conspiracy. Your mere presence may imply that you were involved.

- Do not agree to a boycott of any business.

- Do not participate with other companies in joint negotiations or joint purchasing agreements for goods or services, unless approved in advance by the Compliance Office.

- Do not enter into any tie-in agreements that require our customers to accept unwanted goods or services unless approved in advance by the Compliance Office.

- Do not enter into any reciprocity agreements that condition the Company's purchase of a supplier's goods and services upon the supplier's purchase of the Company's goods or services, unless approved in advance by the Compliance Office.

- Do not require customers or suppliers to avoid dealing with any of the Company's competitors as a condition for obtaining any particular goods or services from the Company or doing business with the Company, unless approved by the Compliance Office.

3. Business Practices

Ethical Behavior. You are expected to be fair, honest, and forthright in every dealing with customers, suppliers, and others. Every Company business transaction should comply with both the letter and spirit of the law.

Contracts. To ensure that the Company meets its contractual commitments, it is important that you know, understand, and comply with the terms of the agreements in which you are involved. While it is often difficult to predict the evolution of our technologies, it is important to develop the best possible understanding of our technologies and be sure to promise only what we will be able to deliver.

Advertising. The Company's advertising must be fair and honest. In making claims about the Company's products, or comparing our products to those of competitors, you must be sure to make statements that are accurate, objective, and verifiable.

Guidelines for Behavior

- Be fair and honest in all your dealings with those inside and outside the Company.

- Know, understand, and comply with the terms of the Company's contractual agreements.

- Know and understand the qualities and capabilities of our products and the products of our competitors. Do not misrepresent those capabilities and qualities.

4. Confidentiality

Almost everyone who works on the Company's behalf has access to the Company's confidential, and extremely valuable, information. This includes information regarding the Company's trade secrets, its products, its intellectual property, its customers, its employees, its finances, its business prospects, and its methods of doing business. The Company expects Company Personnel to use this information only in a manner consistent with its interests.

Trade Secrets. Trade secrets are any formulas, patterns, devices, or compilations of information used in one's business that give one an opportunity to obtain an advantage over competitors who do not know or use them. Trade secrets can include: (a) intellectual property, including, but not limited to, inventions, ideas, conceptions, patent disclosure forms and/or applications, and potential trademarks; (b) information received from and/or compiled about customers (customer lists, preferences, and related customer information); (c) technical, business, or financial information; (d) pricing, plans, systems, methods, strategies, designs, programs, source codes, software, procedures, books, or records relating to the Company's operations; and (e) all other records relating to the Company's business activities, practices, and procedures.

You should never disclose confidential information to anyone unless they have a current confidentiality agreement that applies to the information being disclosed, and they have a need to know the information in their work for the Company. Family members, friends, and future employers are among those with whom the Company's trade secrets and confidential information may not be shared. Disclosure of confidential information may also violate Insider Trading laws and policies.

Furthermore, you should never use the Company's trade secrets or confidential information, except as directed by the Company. The obligation not to disclose or use trade secrets continues after work for the Company has ended, regardless of how it ended.

Vendors' and Customers' Trade Secrets. You should also never disclose or use the confidential information of the Company's vendors and customers. For example, if the Company licenses another company's software, or is given sample software by a customer, Company Personnel may use the software only as permitted by the applicable license. Company Personnel may not give the software, or disclose information regarding the software, to anyone except those who are permitted access to the software by the applicable license agreement. No one may use the software, or information relating to it, except those working for the Company and as directed by the Company.

Guidelines for Behavior

- Do not discuss the Company's, or its vendors' or customers' trade secrets or confidential information other than with those working for the Company who need to know. Only use the Company's, or its vendors' or customers' trade secrets or confidential information as specifically authorized.
- When discussing Company trade secrets or confidential information with persons who need to know, only disclose as much as is reasonably necessary to accomplish your purpose.
- Always be careful when discussing Company trade secrets or confidential information where others may overhear, such as in an elevator or over a speaker phone.
- Always protect Company trade secrets and confidential information from discovery by others. Don't leave printed material lying about and use proper computer security procedures.

5. Conflicts of Interest

You must avoid any conflict between your personal interests and the interests of the Company that would influence your objective and independent judgment on behalf of the Company in dealing with suppliers, customers, and all other organizations or individuals. Company Personnel are expected to put the interests of the Company and its stockholders before their personal interests.

Even the mere appearance or suggestion of impropriety could undermine the Company's reputation as an ethical company. Although it is not practical to list all situations that might result in a conflict of interest, some examples are provided under this heading.

Guidelines for Behavior

- Always exercise fair and independent judgment. When confronted with a potential conflict of interest, ask yourself whether your actions create the appearance of impropriety. If the answer is "yes," or even "maybe," avoid the behavior.
- Do not accept or give gifts or favors whose value exceeds \$200 without approval from the Compliance Office.
- Do not accept or provide extended or unusual hospitality in any form without approval from the Compliance Office.
- Avoid being involved with a business that competes with or does business with the Company.
- Never use the Company's name or resources for any outside activity without the express written permission of the Corporate Communications Department (682-605-1342).

If you are interested in serving as an officer or director of another organization, determine whether permission is required from your manager and the Compliance Office, and if so, obtain it before accepting the position.

(a) Receiving Gifts and Favors.

You can only accept gifts, favors, personal discounts or similar arrangements from any person or entity that has or seeks a business relationship with the Company if their aggregate value is a moderate, reasonable and customary amount, generally considered to be \$200, and if they meet the following criteria:

- they are consistent with accepted business practices
- the frequency from any one person or entity is not excessive or unreasonable
- they cannot be reasonably construed as payment or consideration for influencing or rewarding a particular decision or action
- they are not securities, cash, cash equivalents, or a form similar to those
- they do not violate applicable law
- their public disclosure would not embarrass the Company

Offers of any gifts, favors, personal discounts or similar arrangements that would likely violate this policy should be reported to the Compliance Office—even if you refuse the offer.

The Compliance Office will consider, on a case-by-case basis, whether accepting gifts, favors, personal discounts or similar arrangements with an aggregate value above \$200 is permissible under the Company's conflicts of interest policy. Requests should be submitted to the Compliance Office in writing.

You can never accept a gift of securities (*i.e.*, stocks, options, bonds or other forms of marketable securities) even if the value is less than \$200. You cannot accept commissions or profit shares. You cannot accept personal loans or financing arrangements (other than with established banking or financial institutions at prevailing market rates).

You cannot purchase Initial Public Offering ("IPO") shares (sometimes called "friends and family" shares) in a company that is, or could reasonably be expected to seek to be a supplier, customer, competitor or partner of the Company unless you first receive written permission from the Compliance Office.

This policy also applies to those with whom you have a family or close personal relationship.

(b) Giving Gifts and Favors.

You can only offer or give gifts, favors, personal discounts or similar arrangements at the Company's expense if their aggregate value is a moderate, reasonable and customary amount, generally considered to be \$200, and if they meet the following criteria:

- they are consistent with accepted business practices
- the frequency of offers or gifts to any one person or entity is not excessive or unreasonable
- they cannot be reasonably construed as payment for influencing or rewarding a particular decision or action
- they are not securities, cash, cash equivalents, or a form similar to those
- they do not violate applicable law
- their public disclosure would not embarrass the Company

Offering or providing gifts, favors, personal discounts or similar arrangements to government representatives (US or non-US) is not permitted without the prior written approval of the Compliance Office. See also the discussions under Foreign Corrupt Practices Act and Government Contracting.

The Compliance Office will consider, on a case-by-case basis, whether offering or giving gifts, favors, personal discounts or similar arrangements with an aggregate value above \$200 are permissible under the Company's conflicts of interest policy. Requests should be submitted to the Compliance Office in writing.

(c) Accepting Meals and Entertainment.

You may not accept, either directly or indirectly, unusual or extended hospitality in any form, from any person or entity that has or who seeks a business relationship with the Company. This includes, but is not limited to, entertainment at a resort or similar accommodations, or payment of personal or business expenses.

Company Personnel (i) may accept local entertainment, such as golf outings, theater, dinners, sporting events, etc. as acceptable business courtesies, and (ii) in their roles as *authorized* representatives of the Company (see below), may accept offers of transportation, food, lodging and entertainment in conjunction with out of town business activities, if they meet the following criteria:

- they are consistent with accepted business practices
- their frequency from any one person or entity is not excessive or unreasonable
- they cannot be reasonably construed as payment or consideration for influencing or rewarding a particular decision or action
- they do not violate applicable law
- their public disclosure would not embarrass the Company

The Compliance Office will consider, on a case-by-case basis, whether specific Company Personnel are *authorized* to accept offers of transportation, food, lodging and entertainment made in conjunction with out of town business activities, and whether accepting other forms of hospitality are permissible under the Company's conflicts of interest policy. Requests should be submitted to the Compliance Office in writing.

Offers of any gifts, favors, personal discounts or similar arrangements that would likely violate this policy should be reported to the Compliance Office—even if you refuse the offer.

This policy also applies to those with whom you have a family or close personal relationship.

(d) Providing Meals and Entertainment.

You may not offer or provide at the Company's expense or on its behalf, either directly or indirectly, unusual or extended hospitality in any form, to any person or entity. This includes, but is not limited to, entertainment at a resort or similar accommodations, or payment of personal or business expenses.

Company Personnel (i) may offer and provide local entertainment, such as golf outings, theater, dinners, sporting events, etc. as acceptable business courtesies and (ii) in their roles as *authorized* representatives of the Company (see below), may offer and provide transportation, food, lodging and entertainment in conjunction with out of town business activities, if they meet the following criteria:

- they are consistent with accepted business practices
- their frequency from any one person or entity is not excessive or unreasonable
- they cannot be reasonably construed as payment or consideration for influencing or rewarding a particular decision or action
- they do not violate applicable law
- their public disclosure would not embarrass the Company

Offering or providing meals, entertainment and other forms of hospitality to government representatives (US or non-US) is not permitted without the prior written approval of the Compliance Office. See also the discussions under Foreign Corrupt Practices Act and Government Contracting.

The Compliance Office will consider, on a case-by-case basis, whether specific Company Personnel are *authorized* to provide offers of transportation, food, lodging and entertainment made in conjunction with out of town business activities, and whether providing other forms of hospitality are permissible under the Company's conflicts of interest policy. Requests should be submitted to the Compliance Office in writing.

(e) Outside Compensation.

Other than compensation you receive from the Company, you may not directly or indirectly accept any form of payment for services you perform on behalf of the Company. For example, you may not individually charge or accept fees or other compensation from a third party for services you are required to provide as part of your job at the Company.

(f) Outside Activities.

The Company requires you to avoid all outside activities or financial interests that conflict with your responsibilities to the Company and its stockholders or the exercise of your independent and objective judgment on the Company's behalf. Unless specifically authorized in writing by the Corporate Communications Department (682-605-1342), no outside activity may use the Company's name or resources.

(g) Family and Personal Relationships.

You must ensure that those with whom you have a family or close personal relationship and who also work for the Company are outside your chain of supervision (both above and below) and absolutely free from your influence in work assignments, appraisals, promotions, contracting, and compensation decisions.

(h) Business Interests.

You and your immediate family (spouse, domestic partner, parents, children and their spouses), and those with whom you have close personal relationships may not have business interests in any organization doing business with, or seeking to do business with, the Company, except where such an interest is comprised of securities in widely-held corporations that are quoted and sold on the open market.

You and your immediate family members cannot have any financial interest, including ownership of securities, in any business that is a significant competitor of the Company or any of its subsidiaries, other than as a result of investment in a mutual fund or other managed stock portfolio in which you and your immediate family have no effective control over individual securities investment decisions.

You, your immediate family members, and those with whom you have close personal relationships cannot buy, sell or lease, directly or indirectly, through another company, firm or individual, any kind of property, facility, or equipment to or from the Company without the prior written approval of the Compliance Office.

(i) Moonlighting.

The Company does not prohibit Company Personnel from maintaining other employment. Nonetheless, all Company Personnel, with the exception of temporary employees, who wish to work for another company must receive written permission from their supervisor. Such activities must not interfere with your work for the Company and the Company must always be considered your primary employer. Further, the other activities must not constitute a conflict of interest with, breach a fiduciary duty to, or be otherwise harmful to, the Company. Examples of conflicts of interest include working for a competitor or for a company doing business with, or seeking to do business with, the Company.

You and your immediate family and those with whom you have a close personal relationship cannot be employed by, or act as an agent or broker for, organizations doing, or seeking to do, business with the Company, except if they are not in a position to influence or appear to influence the relationship with the Company.

(j) Serving as an Officer or Director of Another Organization.

If you wish to serve as an officer or director of an organization outside of the Company, you must receive prior written permission from your supervisor and the Compliance Office (except as to a charitable/non-profit organization, in most cases—see below).

Activities on behalf of organizations outside the Company must not interfere with your work for the Company and must not constitute a conflict of interest with, breach a fiduciary duty to, or be otherwise harmful to, the Company.

The Company will not indemnify, or provide liability insurance coverage for, Company Personnel serving as directors or officers of any organization outside the Company, except when service is at the Company's written request and for its benefit, as provided in the Company's bylaws.

In most cases, Company Personnel do not require permission to serve as an officer or director of a charitable/non-profit organization. Examples of charitable/non-profit organizations for which permission generally will not be required are:

- Educational and extracurricular support groups (such as PTA, booster clubs, alumni associations, educational and scholarship foundations)
- Religious organizations (such as churches, synagogues, mosques and their governing bodies)
- Homeowners associations (formed to govern, maintain, or preserve residential neighborhoods)
- Professional associations (composed of individuals working within their professions for networking and career development purposes)
- Charitable, support or special interest organizations and clubs not related to the Company's business in any way (such as health research or support groups, lifestyle support groups, clubs related to sports, hobbies or cultural events)

Permission is required if the charitable/non-profit organization is in some way a competitor, vendor, supplier or customer of the Company's, or if there is some reason that the organization may appear to have a conflict of interest with the Company.

6. Protecting Corporate Assets

You must safeguard the Company's assets and our customers' assets for which we are responsible. Use and maintain such assets with care and respect, while guarding against waste and abuse. Examples of assets to be safeguarded include cash, supplies, software, equipment, furnishings and Company records.

The use of Company time, materials, assets, or facilities (except de minimis use) for purposes not directly related to Company business, or the removal or borrowing of Company property without permission from your supervisor is prohibited.

The Company's confidential information, which may include information about its trade secrets, products, intellectual property, customers, employees, finances, business prospects and methods of doing business, is also an example of an asset that must be safeguarded. Please review the Company's Confidentiality policy for specific details on how you should safeguard Company confidential information.

Guidelines for Behavior

- Maintain Company assets with care.
- Do not waste or abuse Company assets.
- Do not use Company assets for non-Company purposes (unless de minimis).
- Do not remove or borrow Company assets without permission.
- Protect Company confidential information.

7. No Corporate Loans

The Company will not provide or guarantee loans to any Company directors or executive officers that would be prohibited by federal law.

Guidelines for Behavior

- Do not make loans or extend credit to any Company director or executive without approval from the Compliance Officer.

8. Corporate Opportunities

You and your immediate family members may not directly or indirectly engage in any transaction for personal or financial gain using information obtained because of your being Company Personnel.

Guidelines for Behavior

- Do not use for personal or financial gain any information obtained through your employment with the Company.

9. Copyrighted Software and Materials

Federal copyright laws provide that the owner of copyrighted software has the exclusive right to reproduce the software, prepare derivative works based upon the software, and distribute copies of the software to the public. It is a violation of copyright law to make, or authorize the making of, another copy

or adaptation of any third party software, except that one copy may be made for back-up or archival purposes.

Software. In conducting its business, the Company acquires numerous third party software products. We generally do not own these products, but have obtained a license permitting the limited right to use them. Unless the Company has been specifically authorized by the owner of the software and the authorization is stated in the relevant license, we do not have the right to reproduce the software in any manner. A simple rule: Unless the owner has specifically agreed otherwise, a separate software license is required for each computer. This rule is violated when software is taken home and loaded onto personal computers or when software is copied for co-workers, even if used at work, unless the license specifically authorizes such copying.

Other Materials. The copyright laws protect many other forms of written and digital materials (such as books, photographs and music), and give the copyright owner the exclusive right to copy, distribute, modify, or display the work. The copyright laws apply to images, graphics, audio recordings, and other information that might appear on the Internet or be downloaded in digital form. Company Personnel may not use Company resources to copy, download or share copyrighted materials, whether for personal or business use, unless they are appropriately licensed and then only as specifically authorized by the Company.

Violation of copyright laws can be very costly. Legal actions for copyright infringement can result in awards of actual and punitive damages and attorney fees. Those who, in any way, wrongfully acquire or copy third party software or other materials will be subject to discipline, up to and including termination. People who violate copyright laws can also be subject to civil penalties of up to \$215,000. In certain cases, criminal sanctions and up to five (5) years imprisonment may be ordered.

Guidelines for Behavior

- Never copy software you use at the office, or load it onto your home computer, without license and Company permission.
- Never photocopy copyrighted written materials without license and Company permission.
- Never download or share digital images or other digital files without license and Company permission.

10. Environmental Laws

The Company is committed to protecting the environment and communities in which it operates. The Company complies with all environmental laws and regulations. All Company Personnel should take responsibility for recognizing environmental issues and seeking advice regarding compliance where necessary.

Various laws and regulations govern a wide array of environmentally sensitive issues worldwide. These include treatment, storage, disposal, and transportation of hazardous materials and wastes; emission of air and water pollution; and documentation of environmental impacts of our operations.

Environmental requirements, like safety requirements, vary with the situation and can be complicated. You are, however, responsible for recognizing potential environmental issues and seeking advice on the specific requirements that may apply from your manager or the Compliance Office. Such issues are particularly likely to arise in connection with leasing or purchasing facilities, manufacturing or packaging of products, or disposing of waste materials, including equipment.

Guidelines for Behavior

- Stay aware of your working environment, especially when you are involved in leasing or purchasing facilities, manufacturing or packaging of products, or disposing of waste materials, including equipment.

- If you believe that an environmental hazard exists or that environmental guidelines are not being followed, you should immediately report the situation to your manager and to the Compliance Office.

11. Government Contracting

As a contractor to the United States government, the Company must comply with a number of special federal statutes and regulations. A brief description of some of them follow. Note that violations of many federal laws relating to government contracting carry criminal penalties.

Improper Payments. Federal law and the Company's policy prohibit giving, promising, offering, or paying, directly or indirectly, bribes, gifts, kickbacks, gratuities, entertainment, or other things of value to government employees and contractors.

Accurate Reporting. When reporting data of any kind to the government or prime contractors in connection with government contract or subcontract proposals, pricing, or subcontract modifications, the Company's representatives may not: (1) submit data that is in any way inaccurate, incomplete, or misleading; or (2) falsify, alter, or distort information to be submitted to the government. This includes time sheets or other time records, cost reports, expense reports, pricing proposals, certifications relating to cost or pricing data, or requests for payment of government-related funds. Falsification includes changing a document after it has been signed or otherwise completed, unless the responsible counterpart has agreed to the changes and the changes are properly noted on the document.

Security. Access to classified national security information is restricted to those with proper government clearance and a "need to know." Company Personnel and all those working on its behalf are expected to strictly obey all security laws and rules.

Government "Source Selection" Information. Company Personnel and all those working on its behalf may not solicit or receive U.S. government "source selection" information other than with proper authorization and through official channels. U.S. government source selection information includes, but is not limited to, listings of offers and prices, identification of bidders prior to bid openings, technical evaluation plans, technical evaluations of competing proposals, competitive range determinations, and evaluations and recommendations.

Employment of Former Government Employees. Federal law establishes a number of post-employment restrictions on former government employees. The Company may not discuss employment possibilities with any current U.S. government employee until he or she has filed a disqualification statement notifying his or her government supervisor of the proposed discussion. The government employee must provide a copy of the statement to the Company.

Guidelines for Behavior

- Never promise, offer, or pay, directly or indirectly, a bribe, gift, kickback, gratuity, entertainment, thing of value, or other improper payment to a government employee or contractor. If you think a government employee or contractor might have solicited a bribe, gift, kickback, gratuity, entertainment, thing of value, or other improper payment, notify the Compliance Office immediately.

- Always submit data and other information to the government that is complete and accurate.

- Obey all national security laws and rules when dealing with classified information.

- During any federal contract procurement process, do not seek or accept, directly or indirectly, any "source selection information."
- Do not discuss employment opportunities with government employees without consulting the Compliance Office and obtaining a copy of the government employee's disqualification statement.

12. Improper Influence on Conduct of Audits

External Auditors. You must not take any action to fraudulently influence, coerce, manipulate, or mislead any independent public or certified accountant engaged in the performance of an audit of the financial statements of the Company.

Internal Auditors. You must also not take any action to fraudulently influence, coerce, manipulate, or mislead any member of the Company's internal audit department engaged in the performance of an internal audit or investigation.

Cooperation in Audits. You must cooperate in any audit or investigation being conducted by the Company's internal or external auditors.

Guidelines for Behavior

- Do not take any action to fraudulently influence, manipulate or mislead any external or internal auditor.
- Cooperate with the Company's auditors.

13. Insider Trading

Various laws and regulations prohibit trading securities based on inside information or helping others trade securities based on such information. Other laws, as well as Company policies, strictly limit when and under what circumstances you may trade securities. To avoid unintentionally violating securities laws, before you or you're a member of your family buys or sells stock or other securities of the Company or any other company, the following information should be reviewed.

General Rules. "Insider trading" means buying or selling securities (such as stocks, bonds, options, and derivatives) using "material information" that is not generally available to the public. Insider trading laws apply to Company Personnel and to individuals outside the Company. They apply to the Company's own securities, and to securities of other companies.

"Material information" can include any information likely to result in a change in the price of any company's securities. In other words, it includes any information that would be considered important by investors in deciding whether to buy, sell, or hold securities. It does not matter whether the inside information is positive or negative. Examples of "material inside information" could include undisclosed information on major corporate events such as upcoming quarterly earning reports, unannounced new product lines, changes in business strategies, proposed new customer relationships that would materially affect revenues, and mergers or acquisitions.

Material information should not be considered publicly disclosed until it is widely available to the general public and the general public has had a reasonable opportunity to digest it.

Company Personnel owe a special duty of good faith and fairness to the Company and its shareholders. That special duty means that you may not profit by trading on non-public information learned in the course of employment. If you possess material, non-public information concerning the Company, its customers, vendors or suppliers, then you should not trade securities of those companies until that information becomes publicly disclosed. Similarly, your spouse, minor children, or any adults (including adult children) living in your household may not buy or sell those companies' securities either.

Tippling. Your fiduciary duty to the Company also means that you must keep confidential information you learn in the course of your employment. Any disclosure of inside information violates Company rules—unless the disclosure is to a co-worker who needs the information to perform his or her job. The federal securities laws also prohibit individuals from passing along material non-public information to others, advising them to trade or not to trade, or expressing an opinion about a security's value based on material non-public information. This is prohibited regardless of whether the individual passing along the information personally profits from the resulting trade. Someone who discloses information in these instances is called a "tipper." The person using the information to trade is called a "tippee." Note that anyone can be a tippee—a spouse, relative, friend, newspaper reporter, financial analyst, or stockbroker—if he or she is given material inside information and trades the securities. Both tippers and tippees can be subject to civil and criminal penalties.

Employee Stock Purchase Plan. The purchase of shares under the Company's Employee Stock Purchase Plan is generally exempt from insider trading restrictions. The sales of the shares you purchase, however, are potentially subject to the insider trading laws.

Increased Enforcement of Insider Trading Laws. The Securities and Exchange Commission often prosecutes small insider trading cases involving relatively small dollar amounts. The SEC uses its computers to watch for unusual trading activity. It can match, by computer, records of individual trades in a corporation's stock against the corporation's employee list. The Company fully cooperates with the SEC and other government authorities in all investigations into potentially illegal trading activities.

Insider Trading Carries Severe Civil and Criminal Penalties. The government can require insider traders to give up all profits and pay a civil penalty of up to three times those profits. Insider traders also face criminal penalties of up to ten years in prison and \$1 million in fines. The government has also prosecuted insider traders for mail and wire fraud. Insider traders may also be sued by individual securities holders to recover their losses. Finally, insider trading by someone working on behalf of The Company may result in the loss of employment.

Guidelines for Behavior

- Don't disclose confidential information.
- Always be careful when discussing confidential information where others may overhear, such as in an elevator or over a speakerphone.
- Always protect confidential information from discovery by others. Don't leave printed material lying about and use proper computer security procedures.
- Remember, until material non-public information has been publicly released by the Company and the public has had a reasonable time to digest the information, you may not disclose it to anyone—not your spouse, family, friends or co-workers—except those persons in the Company whose positions require use of the information.
- Neither you nor members of your family should buy or sell stock or securities when you have material non-public information about the relevant company, until that information has been disclosed to the public and the public has had sufficient time to absorb the information. Waiting until the expiration of two full business days after public disclosure is a good rule of thumb.
- You should not buy or sell securities of another company if the value of the securities is likely to be affected by an action of the Company and that action has not been publicly disclosed. For example, you should not buy stock of a supplier after learning that the Company intends to make a major purchase from that supplier. As another example, you should not buy the stock of another entity after learning that the Company may be considering an acquisition or other business combination with that entity.

14. International Business

The Company is based in the United States, but its commitment to the highest ethical and legal standards extends to its business dealings worldwide. Many U.S. laws apply to the Company's non-U.S. subsidiaries and business activities, as well as to those in the U.S. There are several laws that focus on international business activities that warrant particular emphasis. You should be aware of the following areas of concern:

- Participation in or cooperation with a foreign boycott;
- Direct or indirect payments or gifts to foreign government officials or anyone affiliated with a foreign government or a commercial enterprise owned by a foreign government (such as an airline);
- Evasion of foreign currency exchange or tax provisions;
- Violation of U.S. economic sanctions against foreign countries; and
- Exports, including sales and demonstrations to foreign nationals, foreign companies or their U.S. based subsidiaries.

(a) Antiboycott Laws

Antiboycott laws prohibit U.S. companies and their foreign affiliates and *subsidiaries* from complying or cooperating with boycotts imposed by foreign countries that are not supported by the U.S. government, primarily certain countries' boycott of Israel. Antiboycott laws also require the Company to report to the U.S. government any activities with boycotting countries and all requests that are boycott-related.

The term "boycott-related request" is very broadly construed, and includes contract clauses agreeing to a boycott as well as requests to supply information, to take action, or to refrain from action. Several examples of boycott-related requests are: inquiries regarding the national origin, nationality, or religious affiliation of the Company's customers or personnel; inquiries regarding where the Company or its customers do business; and contract clauses confirming that no goods or services used in a project will originate from the boycotted country.

Guidelines for Behavior

- Never take any action, or fail to take action, that could arguably support or further any boycott imposed by a foreign country.
- Promptly report all requests to participate in a boycott to the Compliance Office (682-605-3998) or the anonymous hotline (1-877-219-3180).

(b) The Foreign Corrupt Practices Act

General Rules. The Foreign Corrupt Practices Act ("FCPA") makes it a criminal offense for any representative of a U.S. business to offer or pay anything of value to any foreign government official to induce him or her to misuse his or her official position to benefit the U.S. business. The prohibition extends not only to foreign government officials, but also to foreign political parties and their party officials, and candidates for political office. The FCPA prohibits payments made to third parties (such as agents) if the U.S. company making the payment knows the payment will be used by the third party to bribe a foreign official.

A U.S. company does not have to actually pay anything to a foreign official to violate the FCPA. The FCPA expressly prohibits any offer or promise to give anything of value.

FCPA Record Keeping Requirements. The FCPA also requires companies to make and keep books and records that accurately detail and fairly reflect transactions and dispositions of assets both abroad and in the U.S. This is to prevent U.S. companies from: (1) failing to record improper transactions (for example, keeping a payment to a foreign government official "off the books" entirely); (2) falsifying records to conceal improper transactions that are properly recorded (such as creating false documentation to make an illegal payment to a foreign government official appear to be legal); and (3) accurately recording the existence of a payment to a foreign government official but failing to reveal the improper purpose of the payment.

FCPA Penalties. A U.S. company violating the FCPA can be criminally fined up to \$2 million annually. Officers, directors, employees, and agents of a U.S. company can be criminally fined up to \$250,000 or imprisoned for up to five years. Also, substantial civil penalties can be assessed against a U.S. company and the responsible individuals. A U.S. company is prohibited from indemnifying its employees against fines under the Act. This means that if fines are assessed against an individual employee, his or her employer is forbidden from paying them for the employee.

Guidelines for Behavior

- Do not give, promise to give, or offer money or anything of value to any official, political party, party official, or candidate for political office in any foreign country to obtain, retain, or direct business to the Company.
- Do not give, promise to give, or offer money or anything of value to any person while knowing or suspecting it will be offered to any official, political party, party official, or candidate for political office in any foreign country to obtain, retain, or direct business to the Company. Note that "knowing" includes consciously avoiding the truth.
- Stay aware that the above rules may apply to dealings with commercial enterprises, such as airlines, that are owned or controlled by foreign governments.
- Prepare all Company business documents promptly, completely, honestly, and accurately.
- Record all Company transactions promptly, completely, honestly, and accurately. Keep records that completely and accurately reflect the Company's financial affairs.
- Do not allocate costs to contracts contrary to applicable contract provision, laws, regulations, or generally accepted accounting principles.
- Discuss all proposed transactions with foreign officials or agents with the Compliance Office (682-605-3998) or call the anonymous hotline (1-877-219-3180).
- Promptly report any solicitation of improper payments or benefits to the Compliance Office or through the hotline.
- Promptly report any evidence of improper payments by foreign or domestic competitors of the Company to the Compliance Office or through the hotline.

(c) Foreign Exchange Controls

Certain countries have laws limiting their citizens' right to hold foreign currency. Residents of those countries who receive foreign currency—such as United States dollars—outside their homeland are required to exchange that currency for their national currency within a specific period of time. In order to avoid participating in a violation of these laws, payments to foreign nationals and foreign companies must be made solely to and in the name of the contracting party, addressed to that party's principal place of business, within that party's country of domicile.

The Company's representatives may not enter into any transaction that evades currency, tax, or other laws of a foreign country.

Guidelines for Behavior

- Always make payments to foreign nationals and foreign companies only to and in the name of the contracting party, addressed to the party's principal place of business within the party's country of domicile.
- (d) U.S. Economic Sanctions**

For foreign policy reasons, the United States maintains economic sanctions against various foreign countries and entities. Like the export control laws, the economic sanctions laws carry both civil and criminal penalties for violations, and the Company and all of its subsidiaries must strictly honor these laws.

Currently, comprehensive embargoes are maintained against Cuba, Iran, Iraq, Libya, and Sudan. These comprehensive sanctions prohibit almost all transactions with the governments of these countries, their state-owned companies, their private companies, their citizens, and their agents—wherever they are located. Transactions are also prohibited with terrorist, drug dealing, and other organizations and individuals that are so designated by the U.S. government.

In order to determine whether companies or individuals are affiliated with the sanctioned countries or entities, or are themselves the subject of sanctions, the U.S. Treasury Department maintains a list of "Specially Designated Nationals" and "Blocked Persons." In order for the Company to proceed with any transaction with a foreign national or foreign entity, it must determine whether the foreign national or foreign entity is included on this list.

Before proceeding with any transaction with a foreign national or foreign entity, wherever located, please contact the Company Export Office (682-605-1247 or 682-605-1255) or the Compliance Office (682-605-3998). This applies even if the only Company involvement is through a foreign subsidiary of the Company; certain U.S. economic sanctions laws also apply to the actions of foreign subsidiaries of U.S. companies.

For more information on doing business with any non US citizen or business, Company Personnel should refer to the Export Office page on the Company's internal website.

Guidelines for Behavior

- Do not do business—directly or indirectly—with the governments, state-owned entities, companies, citizens, or agents of Cuba, Iran, Iraq, Libya, or Sudan—wherever located. Always notify the Company Export Office (682-605-1247 or 682-605-1255), the Compliance Office (682-605-3998), or the anonymous hotline (1-877-219-3180) whenever you know or suspect that the governments, state-owned entities, companies, citizens, or agents of these countries are attempting to do business with the Company.
- Discuss all proposed transactions with foreign nationals—whether within or outside the United States—or with foreign entities (including the Company's subsidiaries and affiliates) with the Company Export Office, the Compliance Office, or the hotline.

(e) U.S. Export Controls

For national security reasons, the United States controls the export and re-export of a range of materials, equipment, goods, software, and technology. Controlled items can only be exported or re-exported if the Company has first obtained an export license or if the Company has determined that the item falls under certain license exceptions. Whether a license will be approved, and whether a license

exception applies, depends on a combination of factors, including the item to be exported, the country of destination, who will be using the product, and for what purpose.

Both civil and criminal penalties can apply to the Company and Company Personnel if controlled items are illegally exported. The Company therefore must strictly honor the U.S. export control laws.

Important Terms. Under U.S. export control laws, certain words have very specific meanings that are not always exactly the same as their meanings in everyday language. Although these laws are complex, the following are key terms to know and understand:

Export. If the controlled items in question are materials, equipment, or goods, "export" means any actual shipment or transmission to a destination outside the United States. However, if the controlled items are technology or software (other than encryption software), the term "export" includes some less obvious actions: (a) any "release" of technology or software in a foreign country and (b) any "release" of technology or source code to a foreign national within the United States (regardless of whether the foreign national intends to "re-export" or take the technical data or technology out of the U.S.) or to a party that will in turn export the item. "Re-export" means any such transfer between foreign countries or any such release to a foreign national in a foreign country.

For encryption software (see below), "export" can also mean any shipment, transfer, or transmission by any means of either source code or object code outside the United States, or even within the United States to an embassy or an affiliate of a foreign country. This includes transporting a laptop computer that contains encryption software.

Release. Technology or software can be "released" for export through visual inspection by foreign nationals of U.S.-origin equipment and facilities or oral exchanges or other use of information wherever they occur. Release of technology or software to a foreign national in the United States is considered an export to the country of origin of the foreign national. For example, a software demonstration for a foreign national at a Company facility (whether inside or outside the U.S.) is considered an export—even if the foreign national is an employee of the Company.

Foreign national. A "foreign national" is a person who is neither (a) a U.S. citizen nor (b) a lawful U.S. permanent resident (i.e., a "green card" holder).

Technology. "Technology" means specific information necessary for the development, production, or use of a product. It can take either of two forms: "technical data" or "technical assistance." Examples of "technical data" include: blueprints, plans, diagrams, models, formulas, tables, engineering designs and specifications, manuals, and instructions written or recorded on other media or devices (such as disks, tapes, and CD-ROMs). Examples of "technical assistance" include: instruction, skills training, working knowledge, and consulting services.

Source code. "Source code" (also called "source language") consists of computer instructions written in a programming language. Source code is frequently recorded as software, although it can also exist in a technical data format as "hard copy" text.

Object code. "Object code" (also called "object language") results from converting source code to a binary code (a sequence of 0's and 1's), which can then be run on a computer to execute the program's instructions.

Export Licenses. Any time the Company exports or re-exports a controlled item, it must obtain an export license from the U.S. Department of Commerce, unless the Company determines the item falls under certain license exceptions. Managers are responsible for supplying the Company's Export Office with the necessary background information for export licenses. Please note that it can often take several months to obtain export licenses, so plan accordingly.

Denied Persons. The U.S. Commerce Department maintains a list of Denied Persons, whose export privileges have been suspended in full or in part because of violations of the U.S. export control laws. If an export license is not generally required for a certain country, or if the buyer or recipient is located in the United States, please do not assume the transaction will not violate the U.S. export control laws. Any time there is reason to know an export or re-export will occur, the Company Export Office (682-605-1247 or 682-605-1255) must be notified so the Company can verify that no Denied Person is involved in the transaction.

Encryption Software. Cryptography refers to any process of scrambling data to hide its content. "Encryption" is the use of cryptography to protect computer networks and electronic communications, and "encryption software" uses cryptographic methods to provide encryption services. Although encryption provides needed security for on-line commerce and communication, it can also be used to protect terrorist plans and foreign military communications. To balance the pluses and minuses of encryption, the United States restricts the export of the strongest forms of encryption software. Currently, a license exception is available, after a one time review by the U.S. Commerce Department, for mass market encryption software with a key space no longer than 56 bits. All other encryption software requires export licensing.

Foreign Nationals. Until the Company obtains an export license or determines that an exception applies or that an item is not controlled, the Company will not permit any release of technology or source code to any foreign national—including Company Personnel, independent contractors, and visitors. We must restrict foreign nationals' who work for the Company to the job descriptions that were approved by the U.S. government when licensing their access to controlled technology and software.

Foreign nationals may not access any advanced technology or software made available under a U.S. government contract. Managers should review these limitations with the foreign nationals they supervise and ensure that they also understand they are subject to U.S. export control laws and the Company's policies, including restrictions on using the Company's proprietary and confidential information and rules governing facility security.

For more information on doing business with any non US citizen or business, Company Personnel should refer to the Export Office page on the Company internal website. Before providing access to or transferring any technology or software to a foreign national, whether within or outside the United States, or to a foreign entity (including Company subsidiaries and affiliates), please contact the Company Export Office (682-605-1247 or 682-605-1255), the Compliance Office (682-605-3998), or the anonymous hotline (1-877-219-3180).

Guidelines for Behavior

- Discuss all proposed transactions with foreign nationals—whether within or outside the United States—or with foreign entities (including the Company's subsidiaries and affiliates) with the Company Export Office, the Compliance Office, or the anonymous hotline.

15. Non-Solicitation of Company Personnel

The Company values its personnel and the knowledge they have gained while working at the Company. Company Personnel agree that during their employment and for a period of two years from the date employment ends, they will refrain from recruiting, soliciting, hiring or employing (or assisting any third party in recruiting, soliciting, hiring or employing), for any services whatsoever, any other Company Personnel, without the express written consent of an officer of the Company.

Guidelines for Behavior

During your employment with the Company and for two years after your employment, do not directly or indirectly, solicit Company Personnel to leave the Company or assist any third party in soliciting Company Personnel.

16. Pension Fund Blackout Periods

At this time, the Company's securities are not available under the Company's 401(k) plan. If they ever do become available under the 401(k) plan, the Company will: (A) comply with the federal law requiring thirty (30) days advance notice of blackout periods during which employees are prohibited from trading company securities through these benefit plans; and (B) comply with federal law that prohibits the Company's officers and directors during any blackout period of three or more consecutive business days impacting fifty (50) percent or more of plan participants, from purchasing, selling or otherwise acquiring or transferring any Company shares that were acquired in connection with the officer's or directors service or employment as a director or officer.

17. Public Statements

Statements to those outside the Company—whether relating to the Company or its products and services—raise important issues. Interviews with the news media, publications of sales and advertising materials and statements made to the public or to securities market professionals should all follow guidelines approved by the Company. The potential risks from inaccurate statements include claims of false advertising, misrepresentation, breach of contract, securities fraud, and antitrust violations.

Communications containing material information

The Company is committed to providing the public with timely, thorough and accurate information about our Company in the reports we file with the Securities Exchange Commission and in other public communications made by the Company. For this reason, and due to the various securities laws that regulate the disclosure of material information about the Company (material information is any news that would reasonably be expected to affect the value of the Company's securities or influence investor decisions), the Company maintains a separate comprehensive Public Communications Policy with which Company Personnel should become familiar.

The Public Communications Policy applies to any communication that is made by the Company to the public, securities market professionals (such as securities analysts, broker-dealers, investment advisors, investment companies, etc.) or investors that contains material information. As examples, the policy covers interviews with reporters, speeches, articles, written statements, marketing materials, customer letters, information posted on the Company's internal and external web sites, email messages, messages posted to Internet chat rooms, newsgroups and bulletin boards, conversations with individual shareholders or investors groups, and presentations to securities analysts and institutional investors (including conference calls).

Pursuant to the policy, communications containing material information about the Company may only be made by Designated Company Spokespersons. Designated Company Spokespersons are limited to (a) corporate officers of Sabre Holdings Corporation who are elected by the Board of Directors of Sabre Holdings Corporation, (b) certain officers of Sabre Inc. and its subsidiaries and (c) designated employees in Investor Relations and Corporate Communications. Investor Relations and Corporate Communications will maintain a list of Designated Company Spokespersons, which will be available at their offices.

Communications containing non material information

Statements to the News Media. Non-material statements about the Company and our performance and prospects are also subject to high standards of accuracy, completeness, timeliness, and reliability. Before making any statements to the media, Company Personnel must contact the Company's Corporate Communications Department (682-605-1342).

Public Speaking Engagements/Publications. You may be asked to speak at conferences or other gatherings, or to publish books or articles about the Company, its products or your work. Prior to accepting any such invitation, you must obtain the written permission of your supervisor. All books, articles, and web pages must also be reviewed and approved, in writing, by your supervisor, divisional marketing group, and Corporate Communications.

No one working on the Company's behalf may disclose during speaking engagements or in publications any confidential Company information or information relating to inventions for which patents are being sought by the Company, or materials for which copyrights are being sought by the Company.

Guidelines for Behavior

- Be familiar with the Company's Public Communications Policy.
- Do not communicate any material information about the Company to the public unless you are a Designated Company Spokesperson.
- Never make any statements containing non-material information about the Company to the media, whether oral or in writing, without first checking with the Corporate Communications department (682-605-1342).
- Always do your homework and ensure all public statements you make containing non-material information about the Company are accurate, complete, timely, and reliable.
- Never accept a public speaking engagement without first obtaining written authorization from your supervisor.
- Never publish any articles, books, or web pages that relate to the Company, its products, or your work without first obtaining written authorization from your supervisor and divisional marketing group, and having obtained the review and approval of Corporate Communications.

18. Political Contributions

The Company encourages you to become actively involved in political and campaign processes. The Company recognizes that political affiliations and individual financial support of political organizations or candidates are matters of personal choice. It is vital, however, that an individual's political activity not violate applicable political campaign and election laws or create any appearance of impropriety. Political contributions by corporations, whether by direct or indirect use of corporate funds, violate federal law and the laws of most states.

It is illegal for any expenditure that is in fact a political contribution to be included in any expense statement or in any disbursement or request for disbursement of Company funds. For example, purchasing tickets to a political fund-raising dinner or reception would be considered a political contribution, and accordingly, you may not submit such an expense for reimbursement by the Company.

United States election laws apply both to cash contributions by the Company and to the use of Company assets and services to benefit a candidate or political party. Because use of Company assets in connection with political activities may violate these laws, you must first obtain the prior written approval of the Compliance Office.

Guidelines for Behavior

- Never make any political contributions, whether directly or indirectly, using Company funds, property, time, or other resources.
- Never include any expenditure that could be considered a political contribution in any expense statement or in any disbursement or request for disbursement of Company funds.

19. Record Retention and Disposal

You are responsible for retaining all Company records pursuant to the Company's Record Retention and Disposal Policy, which is found on the Company's internal website.

Pursuant to that policy, application of its terms may be suspended as to specific categories of documents in the event of actual or pending litigation or a government investigation. Under those circumstances, the destruction, alteration or tampering of documents covered by the specified categories, may violate federal criminal laws and subject the individual offender to fines and/or imprisonment.

Guidelines for Behavior

- Familiarize yourself with the Company's Record Retention and Disposal Policy and adhere to its guidelines.

20. Workplace Standards

We should all do our best to make the Company a place where people enjoy their work. As part of that commitment, and to comply with various legal requirements, the Company prohibits:

- Discrimination based on age, disability, ethnicity, gender, marital status, military service, national origin, race, color, religion, or sexual orientation.
- Sexual or other harassment that makes anyone feel uncomfortable. This includes conduct by fellow employees, supervisors or anyone doing business with, or seeking to do business with, the Company.
- Buying, selling, distributing, using, possessing, or being under the influence of, illegal drugs while working for the Company or while on Company premises.
- Hazardous activities, including possession of weapons on Company premises.

Workplace Violence. The Company will not tolerate violence in its workplace. Violence includes not only physical violence, but threats, intimidation, defacing Company property, causing physical damage to Company facilities, or, with the exception of Company security personnel, bringing, or storing weapons of any kind onto Company premises or parking lots, or possessing, storing, or maintaining weapons while conducting Company business anywhere.

If the Company determines workplace violence has occurred, it will take appropriate corrective action and discipline the offender, up to and including termination and prosecution. If at any time the Company suspects a concealed weapon has been carried, maintained, or stored in violation of this policy, it reserves the right to conduct a reasonable search of the person or personal property that it suspects possesses or contains a concealed weapon.

Those working on behalf of the Company have no right to privacy in any Company facilities, equipment, supplies or property. The Company reserves the right to search Company-owned property at any time, with or without notice. Violations of this policy, or any person's refusal to consent to a search, may lead to disciplinary action up to and including termination.

Guidelines for Behavior

- Follow the Golden Rule. Always treat your fellow employees with respect.
- Never buy, sell, distribute, use, or possess illegal drugs on Company premises. Never come to work while under the influence of drugs.
- Report violations of the Company's drug policy immediately to the Compliance Office.
- Communicate. When someone says or does something that makes you feel uncomfortable, politely let that person know how you feel and ask him or her to stop. If the person does not stop, or if you feel uncomfortable approaching that person in the first place, go to your supervisor, your supervisor's supervisor, or to Human Resources.
- If you witness harassment, discrimination, or any other violation of this policy, report it to your supervisor, your supervisor's supervisor, or to Human Resources.
- Never threaten or physically harm your co-workers or Company visitors.
- Never physically damage Company property.
- Never carry or store any type of weapon on Company premises, including parking lots, or while on Company business.
- Do not fear retaliation if you report a violation of this policy. The Company does not tolerate retaliation against anyone who in good faith reports a suspected violation of this policy or any other policy contained in its Code of Conduct. Those who engage in retaliation will be subject to disciplinary action up to and including termination.

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[Sabre Holdings Corporation Corporate Governance Policy Business Ethics Policy Table of Contents](#)

[Upholding the Highest Standards for Ethical and Legal Behavior](#)

[Sabre Holdings Corporation Business Ethics Policy](#)

**Sabre Holdings Corporation
Subsidiaries**

(All subsidiaries are wholly owned unless otherwise noted in parenthesis. Each subsidiary's subsidiaries outlined further below.)

Sabre Holdings Corporation SUBSIDIARY

Sabre Inc. (Delaware)

Sabre Inc. SUBSIDIARIES

Axess International Network, Inc. (Japan) (25%)
Dillon Communication Systems GmbH (Germany)
ENCOMPASS Holding, Inc.
(Delaware)
GetThere Inc. (Delaware)
GetThere L.P. (Delaware) (13.5% Limited Partner)
Greyhound Acquisition Corp. (Delaware)
K&H Associates Inc. (Minnesota)
Nexion, Inc. (Delaware)
Prize Ltd. (Latvia) (50%)
Sabre Decision Technologies International, Inc. (Delaware)
Sabre Decision Technologies Licensing, Inc. (Delaware)
Sabre International, Inc. (Delaware)
Sabre International Holdings, Inc. (Delaware)
Sabre Investments, Inc. (Delaware)
SabreMark G.P., Inc. (Delaware)
Sabre Limited (New Zealand)
SabreMark L.P., Inc. (Delaware)
Sabre Soluciones de Viaje S. de R.L. de C.V. (Mexico) (99%)
Sabre Technology Enterprises, Ltd. (Cayman Islands)
Sabre Technology Holland B.V. (Netherlands)
SHC Capital Trust I
SHC Capital Trust II
SHC Capital Trust III
SST Finance, Inc. (Delaware)
SST Holding, Inc. (Delaware)
Travelocity Holdings, Inc. (Delaware)
Sabre South Pacific I (1%)

GetThere Inc. SUBSIDIARIES

GetThere L.P. (Delaware) (1% General Partner; 83% Limited Partner)
AllMeetings Inc.

AllMeetings Inc. SUBSIDIARY

GetThere L.P. (Delaware) (2.5% Limited Partner)

GetThere L.P. SUBSIDIARY

GetThere Limited (United Kingdom)

Greyhound Acquisition Corp SUBSIDIARY

Sabre Travel International Limited (Ireland)

Sabre Decision Technologies International, Inc. SUBSIDIARIES

Airline Technology Services Mauritius Ltd. (Mauritius)
Sabre (Australia) Pty Ltd. (Australia)

Airline Technology Services Mauritius Ltd. SUBSIDIARY

Sabre Pakistan (Private) Limited (Pakistan) (99%)

Sabre Holdings GmbH SUBSIDIARIES

Sabre Airline Solutions GmbH
Sabre Deutschland Marketing GmbH
Travel Technology Holdings GmbH

Sabre International, Inc. SUBSIDIARIES

Sabre CIS Holdings, Inc. (Delaware)
Sabre Belgium SA (Belgium) (99%)
Sabre China Sea Technologies Ltd. (Labuan)
Sabre Computer Reservierungssystem GmbH (Austria)
Sabre Danmark ApS (Denmark)
Sabre Deutschland Marketing GmbH (Germany)
Sabre Deutschland Services GmbH (Germany)
Sabre EMEA Marketing Limited (UK)
Sabre Espana Marketing, S.A. (Spain) (99%)
Sabre Europe Management Services Ltd. (UK) (99%)
Sabre France Sarl (France)
Sabre Hellas SA (Greece)
Sabre Holdings GmbH (Germany)
Sabre Ireland Limited (Ireland)
Sabre Italia S.r.l. (Italy) (99%)
Sabre Marketing Nederland B.V. (Netherlands)
Sabre Norge AS (Norway)
Sabre Portugal Servicos Lda (Portugal) (99%)
Sabre South Pacific I (Australia Partnership) (99%)
Sabre Servicos Colombia Ltda. (Colombia) (99%)
Sabre Suomi Oy (Finland)
Sabre Sverige AB (Sweden)
Sabre UK Marketing Ltd. (UK) (99%)
STIN Luxembourg S.A. (Luxembourg) (99%)

Sabre China Sea Technologies Ltd. SUBSIDIARY

Sabre Australia Technologies I Pty Limited (Australia) (51%)

Sabre Deutschland Marketing GmbH SUBSIDIARY

Sabre Merlin GmbH (Germany) (50%)
Sabre Deutschland Services GmbH (Germany)

Sabre Marketing Nederland B. V. SUBSIDIARY

Sabre Israel Travel Technologies Ltd. (Israel) (51%)

Sabre International Holdings, Inc. SUBSIDIARIES

Sabre Belgium SA (Belgium) (1%)
Sabre Espana Marketing, S.A. (Spain) (1%)
Sabre Europe Management Services Ltd. (UK) (1%)
Sabre International (Bahrain) W.L.L. (1%)
Sabre Italia S.r.l. (Italy) (1%)
Sabre Portugal Servicos Lda (Portugal) (1%)
Sabre Servicios Colombia Ltda. (Colombia) (1%)
Sabre UK Marketing Ltd. (UK) (1%)
STIN Luxembourg S.A. (Luxembourg) (1%)

Sabre Australia Technologies I Pty Limited SUBSIDIARIES

Sabre Pacific Pty Limited (Australia)

Sabre Investments, Inc. SUBSIDIARIES

Sabre Investments—PK-1, Inc. (Delaware)
Sabre Investments—B4-1, Inc. (Delaware)
Sabre Investments—LI-1, Inc. (Delaware)
Sabre Investments—WR-1, Inc. (Delaware)

SabreMark G.P., Inc. SUBSIDIARY

SabreMark Limited Partnership (Delaware) (1%)

SabreMark L.P., Inc. SUBSIDIARY

SabreMark Limited Partnership (Delaware) (99%)

Sabre Soluciones de Viaje S. de R.L. de C.V. SUBSIDIARIES

Sabre Informacion S.A. de C.V. (Mexico) (99%)
Sabre Sociedad Tecnologica S.A. de C.V. (Mexico) (51%)

Sabre Technology Enterprises, Ltd. SUBSIDIARIES

Sabre Technology Enterprises II, Ltd. (Cayman Islands)
Sabre International (Bahrain) W.L.L. (99%)

Sabre Technology Enterprises II, Ltd. SUBSIDIARY

Abacus International Pte Ltd. (Singapore) (35%)

Sabre Technology Holland B.V. SUBSIDIARIES

Sabre Informacion S.A. de C.V. (Mexico) (1%)
Sabre Soluciones de Viaje S. de R.L. de C.V. (Mexico) (1%)

Sabre Sociedad Tecnologica S.A. de C.V. SUBSIDIARY

Sabre Servicios Administrativos S.A. de C.V. (Mexico) (99.9%)

Sabre Travel International Limited SUBSIDIARY

Sabre Polska Sp. z.o.o. (Poland)

Travel Technologies Holdings GmbH SUBSIDIARIES

Sabre DCS GmbH (Germany)
DCS GmbH & Co. KG (Germany)

DCS GmbH & Co. KG SUBSIDIARIES

Travel Management Systems GmbH (Germany)
Sabre Merlin GmbH (Germany) (50%)

Travelocity Holdings, Inc. SUBSIDIARY

Travelocity.com Inc. (Delaware) (100%)

Travelocity.com Inc. SUBSIDIARIES

Travelocity.com LP (Delaware) (10%)
Travelocity.com LP Sub Inc. (Delaware)

Travelocity.com LP Sub Inc. SUBSIDIARY

Travelocity.com LP (Delaware) (90%)

Travelocity.com LP SUBSIDIARIES

Site59.com LLC
Travelocity Australia Pty Ltd. (Australia)
Travelocity GmbH (Germany)

Travelocity GmbH SUBSIDIARY

Travel Overland Flugreisen GmbH (Germany) (50%)

Travel Overland Flugreisen GmbH SUBSIDIARY

Travelocity Holdings GmbH (Germany)

Travelocity Holdings GmbH SUBSIDIARIES

Travelocity.com UK Ltd.
Travelocity France SAS (France)
Skandinavisk Rejsefeber AS (Norway)

Skandinavisk Rejsefeber AS SUBSIDIARIES

Box Office AB (Sweden)
Resfeber Sverige AB (Sweden)
Rejsefeber ApS (Denmark)
Ticket Service AS (Norway)

* All subsidiaries are wholly-owned unless otherwise noted in parenthesis

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Exhibit 23.1

CONSENT OF ERNST & YOUNG LLP

We consent to the incorporation by reference in the Registration Statements (Form S-8 Nos. 333-13917, 333-14509, 333-18851, 333-51291, 333-40932, 333-48114, 333-86376, 333-102738 and 333-107638) pertaining to The Sabre Group Holdings, Inc. 1996 Amended and Restated Long-Term Incentive Plan, 1996 Directors Stock Incentive Plan, Employee Stock Purchase Plan and Deferred Compensation Plan; Sabre Holdings Corporation Employee Stock Purchase Plan and 2000 Stock Option Plan; GetThere.com, Inc. 1996 Stock Incentive Plan and 1999 Stock Incentive Plan; Travelocity.com LP Second Amended 1999 Long-Term Incentive Plan, Travelocity Holdings, Inc. Amended 1999 Long-Term Incentive Plan, Travelocity.com LP Employee Stock Purchase Plan and Travelocity Holdings, Inc. Employee Stock Purchase Plan and Sabre Holdings Corporation 2003 Directors Deferred Compensation and Deferred Stock Unit Plan, respectively; and the Registration Statement on Form S-3 (No 333-99209) of our report dated January 21, 2004, except as to Note 17 as to which the date is January 30, 2004 with respect to the consolidated financial statements and financial statement schedule of Sabre Holdings Corporation included in this Annual Report (Form 10-K) for the year ended December 31, 2003.

Dallas, Texas
February 27, 2004

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[CONSENT OF ERNST & YOUNG LLP](#)

CERTIFICATIONS

I, Michael S. Gilliland, certify that:

1. I have reviewed this annual report on Form 10-K of Sabre Holdings Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e))* for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Omitted*;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 27, 2004

/s/ MICHAEL S. GILLILAND

Michael S. Gilliland
President and Chief Executive Officer

*

Text omitted in accordance with interim guidance provided by the Securities and Exchange Commission in Release No. 33-8238.

CERTIFICATIONS

I, Jeffery M. Jackson, certify that:

1. I have reviewed this annual report on Form 10-K of Sabre Holdings Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e))* for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Omitted*;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 27, 2004

/s/ JEFFERY M. JACKSON

Jeffery M. Jackson
Executive Vice President and
Chief Financial Officer

*

Text omitted in accordance with interim guidance provided by the Securities and Exchange Commission in Release No. 33-8238.

WRITTEN STATEMENT OF MICHAEL S. GILLILAND

On this day, Sabre Holdings Corporation (the "Company") filed with the Securities and Exchange Commission an Annual Report on Form 10-K for the period ending December 31, 2003 (the "Report").

This written statement accompanied the Report.

I, Michael S. Gilliland, the Chief Executive Officer of the Company, hereby certify that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ MICHAEL S. GILLILAND

Michael S. Gilliland
President and Chief Executive Officer
February 27, 2004

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[WRITTEN STATEMENT OF MICHAEL S. GILLILAND](#)

WRITTEN STATEMENT OF JEFFERY M. JACKSON

On this day, Sabre Holdings Corporation (the "Company") filed with the Securities and Exchange Commission an Annual Report on Form 10-K for the period ending December 31, 2003 (the "Report").

This written statement accompanied the Report.

I, Jeffery M. Jackson, the Chief Financial Officer of the Company, hereby certify that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ JEFFERY M. JACKSON

Jeffery M. Jackson
Executive Vice President and
Chief Financial Officer
February 27, 2004

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[Exhibit 32.2](#)

[WRITTEN STATEMENT OF JEFFERY M. JACKSON](#)