SABRE HOLDINGS CORP
Form 424B5
August 06, 2001

PROSPECTUS SUPPLEMENT
(TO PROSPECTUS DATED APRIL 17, 2000)

Filed Pursuant to Rule 424(b)(5)
Registration No. 333-32106

$400,000,000

SABRE HOLDINGS CORPORATION

7.35% NOTES DUE 2011

INTEREST PAYABLE ON FEBRUARY 1 AND AUGUST 1

THE NOTES ARE UNSECURED AND WILL RANK EQUALLY WITH ALL OF OUR OTHER UNSECURED UNSUBORDINATED INDEBTEDNESS, BUT WILL BE EFFECTIVELY SUBORDINATED TO THE INDEBTEDNESS OF OUR SUBSIDIARIES. WE MAY REDEEM ANY OR ALL OF THE NOTES AT ANY TIME AT THE REDEMPTION PRICE DESCRIBED HEREIN PLUS ACCRUED INTEREST.

INVESTING IN THE NOTES INVOLVES RISKS. SEE "RISK FACTORS" BEGINNING ON PAGE S-8.

PRICE 99.348% AND ACCRUED INTEREST, IF ANY

	PRICE TO PUBLIC	UNDERWRITING DISCOUNTS AND COMMISSIONS	PROCEEDS TO SABRE
PER NOTE	99.348%	.650%	98.698%
TOTAL	$397,392,000	$2,600,000	$394,792,000

THE SECURITIES AND EXCHANGE COMMISSION AND STATE SECURITIES REGULATORS HAVE NOT APPROVED OR DISAPPROVED THESE SECURITIES, OR DETERMINED IF THIS PROSPECTUS SUPPLEMENT OR THE ACCOMPANYING PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THE UNDERWRITERS EXPECT TO DELIVER THE NOTES IN BOOK-ENTRY FORM ONLY THROUGH THE FACILITIES OF THE DEPOSITORY TRUST COMPANY ON AUGUST 7, 2001.

JOINT BOOK-RUNNING MANAGERS

BANC OF AMERICA SECURITIES LLC

GOLDMAN, SACHS & CO.

MORGAN STANLEY

BEAR, STEARNS & CO. INC.   SALOMON SMITH BARNEY

AUGUST 2, 2001

TABLE OF CONTENTS

You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not authorized anyone to provide you with information different from that contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. We are offering to sell the notes, and seeking offers to buy the notes, only in jurisdictions where offers and sales are permitted. The information contained in this prospectus supplement and the accompanying prospectus is accurate only as of the date of this prospectus supplement and the date of the accompanying prospectus, regardless of the time of delivery of this prospectus supplement or any sales of the notes.

FORWARD-LOOKING STATEMENTS

This prospectus supplement and the accompanying prospectus include "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact contained or incorporated by reference in this prospectus supplement and the accompanying prospectus, including statements regarding our competitive strengths, business strategy, future financial position, budgets, projected costs and plans and objectives of management are forward-looking statements. In addition, forward-looking statements generally can be identified by the use of forward-looking terminology such as "may," "will," "could," "project," "potential," "plan," "forecasts," "expect," "should," "intend," "estimate," "anticipate," "believe," "continue" or similar terminology. The expectations reflected in forward-looking statements may prove to be incorrect. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of a number of factors, including but not limited to:

- risks associated with competition from established and emerging travel distribution channels and competitors, many of which are well funded and have major travel suppliers as significant shareholders;

- risks associated with travel distribution industry consolidation and increased competition for travel agency subscribers, which may result in increased expenses, reduced revenue and market position, and, if we increase our borrowings to finance such increased expenses, greater financial leverage;

- risks that airlines that are divesting their ownership of global distribution systems might limit their participation in our travel marketing and distribution services;

- risks that regulatory developments could limit our ability to compete;

- risks that rapid technological changes and new distribution channels may render our technology obsolete or decrease the attractiveness of our services to customers;

- risks that our systems may suffer failures, capacity constraints and business interruptions, which could increase our operating costs and cause us to lose customers;

- risks that our revenues are highly dependent on the travel and transportation industries and particularly on the airlines;

- risks associated with the trade barriers outside of North America that limit our ability to compete;

- risks inherent in international operations, such as risks of currency exchange rate fluctuations, local economic and political conditions, restrictive governmental actions, such as trade protection measures, including export duties and quotas and custom duties and tariffs, changes in legal or regulatory requirements, import or export licensing requirements, limitations on the repatriation of funds, difficulty in obtaining distribution and support services in foreign countries, nationalization, different accounting practices and potentially longer payment cycles, increased seasonal reductions in business activity, higher costs of doing business, more stringent consumer protection laws and restrictions on pricing or discounts, lack of or the failure to implement the appropriate infrastructure to support our technology, disruptions of capital and trading markets, laws and policies of the United States affecting trade, foreign investment and taxes; and

- risks associated with our ability to successfully integrate business combinations and strategic alliances, such as the GetThere acquisition, and to successfully migrate our information technology operations to Electronic Data Systems Corporation.

All written and oral forward-looking statements attributable to us are expressly qualified in their entirety by factors that could cause our actual results to differ materially from our expectations. We undertake no obligation to update publicly or revise any forward-looking statements.

SUMMARY

IN THIS PROSPECTUS SUPPLEMENT AND THE ACCOMPANYING PROSPECTUS, THE WORDS "SABRE," "COMPANY," "WE," "OUR," "OURS," AND "US" REFER TO SABRE HOLDINGS CORPORATION AND ITS CONSOLIDATED SUBSIDIARIES UNLESS OTHERWISE STATED OR THE CONTEXT OTHERWISE REQUIRES. THE FOLLOWING SUMMARY CONTAINS BASIC INFORMATION ABOUT THIS OFFERING. IT MAY NOT CONTAIN ALL THE INFORMATION THAT IS IMPORTANT TO YOU. THE "DESCRIPTION OF NOTES" SECTION OF THIS PROSPECTUS SUPPLEMENT AND THE "DESCRIPTION OF DEBT SECURITIES" SECTION IN THE ACCOMPANYING PROSPECTUS CONTAIN MORE DETAILED INFORMATION REGARDING THE TERMS AND CONDITIONS OF THE NOTES.

SABRE

We are a world leader in the electronic distribution of travel through our SABRE computer reservations system. We also engage in business-to-consumer and business-to-business travel services and distribution through our Travelocity.com and GetThere subsidiaries. In addition, we are a leading provider of software solutions to the travel and transportation industries. Before we closed the sale of our information technology outsourcing business to Electronic Data Systems Corporation, or EDS, effective as of July 1, 2001, as described in "Recent Developments--EDS Transaction," we were also a leading provider of information technology outsourcing services to the travel and transportation industries.

We are a holding company incorporated in Delaware on June 25, 1996. As the result of a reorganization completed on July 2, 1996, we became the successor to the businesses of The Sabre Group which were formerly operated as divisions or subsidiaries of AMR Corporation, or AMR, or its operating subsidiary, American Airlines, Inc., or American Airlines. On October 17, 1996, we completed an initial public offering of 23,230,000 shares of our class A common stock, representing approximately 17.8% of the economic interest of our outstanding common equity. On March 15, 2000, AMR distributed its entire remaining ownership stake in our company to its stockholders and, as a result, AMR no longer has any ownership interest in us.

Our principal executive offices are located at 4255 Amon Carter Boulevard, Fort Worth, Texas 76155, our telephone number is (817) 963-6400.

EDS TRANSACTION

On March 14, 2001, we entered into agreements with EDS, which provide for:

- the sale of our information technology outsourcing business and information technology infrastructure assets and associated real estate to EDS,

- an information technology outsourcing agreement for EDS to manage our information technology systems for 10 years, and

- marketing agreements for us and EDS to jointly market information technology services and software solutions to the travel and transportation industries.

Effective on July 1, 2001, we completed the sale of our information technology outsourcing business contracts, Web hosting contracts, and information technology infrastructure assets and associated real estate to EDS for approximately $661 million in cash. Up to approximately $31 million of this amount is contingently refundable to EDS based, in part, upon the amount of revenues received by EDS from US Airways under its outsourcing contract during the 30 months following the closing of the EDS transaction. In addition, we may receive aggregate additional payments from EDS for these assets ranging from $6 million to $25 million on April 15, 2003 and 2004, depending on the amount of revenues received by EDS under other airline outsourcing contracts. On July 2, 2001, we repaid $710 million of Sabre Inc.'s existing short-term borrowings using proceeds from the EDS transaction and existing cash.

RESULTS OF OPERATIONS FOR THE SECOND QUARTER OF 2001

Our net earnings, including special items described below, for the second quarter ended June 30, 2001, were $27.7 million ($0.20 per diluted share), compared to $63.4 million ($0.46 per diluted share) for the same quarter of 2000.

Special items in the second quarter of 2001 on a pre-tax basis include:

- amortization expense of $4.1 million related to six million options issued to US Airways as part of the long-term technology agreement signed in 1997;

- expense of $72.3 million related to amortization of goodwill and other intangibles and the recognition of stock compensation expense arising from the merger of Travelocity.com, Inc. and Preview Travel and the acquisitions of GetThere Inc., Gradient Solutions Limited, the Sabre Pacific Marketing Company and a 51% interest in Dillon Communication Systems GmbH; and

- a net gain of $2.5 million related to Travelocity.com's ownership of warrants to acquire equity interests in Hotel Reservations Network.

Our net earnings for the second quarter of 2001, excluding the special items, were $90.4 million, a growth of 19.2%, compared to $75.9 million for the same quarter of 2000.

Including the special items, our income from continuing operations in the second quarter ended June 30, 2001 was $5.1 million ($0.04 per diluted share) compared to $47.5 million ($0.37 per diluted share) for the second quarter of 2000.

Our income from continuing operations, excluding the special items described above, in the second quarter ended June 30, 2001, was $65.2 million ($0.48 per diluted share), compared to $62.3 million ($0.48 per diluted share) for the same quarter of 2000.

Our income from continuing operations before provision for income taxes for the second quarter of 2001, excluding such special items, was $100.1 million, a growth of 1.7% compared to $98.3 million for the same quarter in 2000.

Our total revenues from continuing operations for the second quarter ended June 30, 2001 were $582.0 million, up 16.1% from $501.4 million for the same quarter of 2000. Revenue growth was affected by the slowdown in business travel as a result of the U.S. economic downturn.

Our operating income from continuing operations for the second quarter of 2001, excluding the special items discussed above, was $110.7 million, up 13.9% from $97.2 million for the same quarter of 2000. Including special items discussed above, our operating income from continuing operations for the second quarter of 2001 was $38.4 million, down 48.6% from $74.9 million for the same quarter of 2000.

As of June 30, 2001, we had $396.1 million of cash and marketable securities, of which $109.5 million were held on behalf of Travelocity.com and to which we do not have ready access. Our total debt was $859 million as of June 30, 2001, which was lowered to $149 million on July 2, 2001 as a result of using the proceeds of the EDS transaction and existing cash to pay down debt. On July 20, 2001, we further reduced our debt by $70 million using our existing cash to repay borrowings made under Sabre Inc.'s revolving credit facility. Capital spending for the second quarter of 2001 was $57.7 million compared to $51.8 million in the second quarter of 2000. We anticipate that capital spending for 2001 will be in the range of $140 million to $160 million, compared to $190.1 million in 2000.

Amortization of goodwill and other intangibles relating to acquisitions totaled $69.9 million for the second quarter of 2001. At June 30, 2001, goodwill associated with the Preview Travel merger in 2000 totaled $252 million, which we are amortizing over three years; goodwill in connection with the acquisitions in 2000 of Dillon Communication Systems and Gradient Solutions was $62 million, which

we are amortizing over a five-year period; goodwill and other intangibles related to the GetThere acquisition in 2000 totaled approximately $683 million, which we are amortizing over a four-year period; and goodwill associated with the acquisition of Sabre Pacific in 2001 was $44 million, which we are amortizing over a seven-year period.

RESULTS OF OPERATIONS FOR SIX MONTHS ENDED JUNE 30, 2001

Our net earnings, including special items described below, for the six months ended June 30, 2001, were $44.9 million ($0.33 per diluted share), compared to $129.0 million ($0.94 per diluted share) for the same period of 2000.

Special items in the first six months of 2001 on a pre-tax basis include:

- amortization expense of $17.2 million related to six million options issued to US Airways as part of the long-term technology agreement signed in 1997; and

- expense of $142.6 million related to amortization of goodwill and other intangibles and the recognition of stock compensation expense and other expenses arising from the merger of Travelocity.com, Inc. and Preview Travel and the acquisitions of GetThere Inc., Gradient Solutions Limited, the Sabre Pacific Marketing Company and a 51% interest in Dillon Communication Systems GmbH.

Our net earnings for the six months ended June 30, 2001, excluding such special items, were $175.4 million, an increase of 15.9%, compared to $151.3 million for the same period of 2000.

Including the special items, our income from continuing operations for the six months ended June 30, 2001 was $5.5 million ($0.04 per diluted share) compared to $96.9 million ($0.75 per diluted share) for the same period of 2000.

Our income from continuing operations, excluding such special items described above, for the six months ended June 30, 2001 was $128.2 million ($0.96 per diluted share), compared to $122.8 million ($0.95 per diluted share) for the same period of 2000.

Our income from continuing operations before provision for income taxes for six months ended June 30, 2001, excluding such special items, was $197.8 million, compared to $197.7 million for the same period of 2000.

Our total revenues from continuing operations for the six months ended June 30, 2001 were $1,155.4 million, up 17.8% from $980.5 million for the same period of 2000. Revenue growth was affected by the slowdown in business travel as a result of the U.S. economic downturn.

Our operating income for the six months ended June 30, 2001, excluding the special items described above, was $225.9 million compared to $191.4 million for the same period of 2000. Our operating income for the six months ended June 30, 2001, including the special items described above, was $83.3 million compared to $151.1 million for the same period of 2000.

THE OFFERING

Notes Offered.........................	$400,000,000 in principal amount of 7.35% Notes due 2011.
Maturity Date.........................	August 1, 2011
Issue Price...........................	99.348% of par plus accrued interest, if any, from the issue date of the notes.
Interest Rate.........................	7.35% per year.
Interest Payment Dates................	February 1 and August 1, beginning on February 1, 2002. Interest will accrue from the issue date of the notes.
Ranking...............................	The notes are unsecured unsubordinated obligations and will rank equally with all of Sabre Holdings Corporation's other unsecured unsubordinated indebtedness. Sabre Holdings Corporation is a holding company and substantially all of our liabilities, except the notes, are obligations of our subsidiaries. The notes will be effectively subordinated to all liabilities of our subsidiaries, including the liabilities of our operating subsidiary, Sabre Inc., which is the sole borrower under our revolving credit facility as described in "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources." Additionally, the notes are effectively subordinated to

	any secured indebtedness to the extent of the value of the assets securing such indebtedness. At June 30, 2001, we had no secured indebtedness. We will be permitted to incur secured indebtedness, subject to the limitations under the terms of the indenture.
Optional Redemption	We may redeem some or all of the notes at any time at the redemption price described in "Description of Notes--Optional Redemption" in this prospectus supplement, plus accrued interest to the date of redemption.
Certain Covenants	The indenture governing the notes will contain covenants that limit our ability and our subsidiaries' ability to: - incur liens on our assets to secure debt; - enter into certain sale and lease-back transactions; - merge or consolidate with another company; and - transfer or sell substantially all of our assets. For more details, see the section under the heading "Description of Debt Securities" in the accompanying prospectus.
Use of Proceeds	We will use the proceeds of the notes to reduce outstanding indebtedness under Sabre Inc's revolving credit facility and for general corporate purposes.

SUMMARY CONSOLIDATED FINANCIAL DATA

The following table presents our historical consolidated financial data. During 2000, we acquired Preview Travel, Gradient Solutions Limited, GetThere and a 51% ownership interest in Dillon Communication Systems GmbH. Those acquisitions affect the comparability of the data presented. Effective on July 1, 2001, we completed the sale of our information technology outsourcing business to EDS. The results of operations of the outsourcing business have been reclassified and presented as income from discontinued operations, net, for 2000, 1999 and 1998 and the three months ended March 31, 2001 and 2000. Balance sheet and cash flow information for 2000, 1999 and 1998 and the three months ended March 31, 2001 and 2000 have not been reclassified to present the outsourcing business as a discontinued operation, as permitted by generally accepted accounting principles. You should read the summary consolidated financial data presented below in conjunction with the consolidated financial statements, accompanying notes and Management's Discussion and Analysis of Financial Condition and Results of Operations, which are included in this prospectus supplement and are incorporated by reference in the accompanying prospectus. The financial data for the three months ended March 31, 2001 and 2000 is derived from our unaudited consolidated financial statements.

	YEAR ENDED DECEMBER 31,			THREE MO ENDED MAR
	2000	1999	1998	2001

	(IN MILLIONS, EXCEPT PER SHARE DATA AND OTHER DA INDICATED)			
INCOME STATEMENT DATA(1)(2)(3):				
Revenues	$1,940.7	$1,699.0	$1,560.9	$ 573.4
Operating expenses	1,767.9	1,393.5	1,264.7	528.5
Operating income	172.8	305.5	296.2	44.9
Other income (expense), net	(13.9)	155.4	21.1	(22.4)
Minority interests	30.7	--	--	7.8
Income from continuing operations before income taxes	189.6	460.9	317.3	30.3
Income taxes	93.5	170.4	115.4	29.9
Income from continuing operations	96.1	290.5	201.9	0.4
Income from discontinued operations, net(3)	48.0	41.4	30.0	13.6
Cumulative effect of change in accounting method, net of minority interests and income taxes(4)	--	--	--	3.1
Net earnings	$ 144.1	$ 331.9	$ 231.9	$ 17.1
BALANCE SHEET DATA (AT END OF PERIOD)(1)(2)(3):				
Current assets	$ 693.0	$ 976.4	$ 944.4	$ 877.6
Goodwill and intangible assets, net	891.5	--	--	871.9
Total assets	2,650.4	1,951.2	1,926.8	2,822.4
Current liabilities	1,266.4	525.1	400.8	1,264.3
Long-term notes payable	149.0	--	317.9	149.0
Minority interests	239.5	--	--	230.5
Stockholders' equity	791.0	1,262.0	953.7	947.8

	YEAR ENDED DECEMBER 31,			THREE MO ENDED MAR
	2000	1999	1998	2001
	(IN MILLIONS, EXCEPT PER SHARE DATA AND OTHER DA INDICATED)			
OTHER DATA(1)(2)(3):				
Direct reservations booked using the SABRE system(5)	394	370	358	108
Total reservations processed using the SABRE system(6)	467	439	409	126
Operating margin	8.9%	18.0%	19.0%	7.8%
Depreciation and amortization(7)	$ 271.9	$ 175.2	$ 159.3	$ 110.0
EBITDA(8)	$ 475.5	$ 480.6	$ 455.5	$ 162.6
EBITDA margin(8)	24.5%	28.3%	29.2%	28.4%
Ratio of earnings to fixed charges(9)	4.47	23.58	15.41	1.91
Capital expenditures(3)	$ 190.1	$ 168.0	$ 320.0	$ 51.4

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(1) 2001 and 2000 results of operations were impacted by our merger and acquisition activities and the related goodwill amortization expense associated with those transactions. See Note 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 and the impact on our financial condition and results of operations. The results of operation also do not reflect the impact on continuing operations of some of the selling, general and administrative costs which historically have been allocated to the discontinued operations, but which may still be incurred as part of the continuing operations in the future. This amount is currently not estimable.

(2) We have had significant transactions with AMR and American Airlines. The terms of many of the agreements with AMR and its affiliates were revised in connection with AMR's divestiture of its entire ownership interest in us in the first quarter of 2000. See Note 7 to the Consolidated Financial Statements.

(3) Effective July 1, 2001, we completed the sale of our information technology outsourcing business and information technology infrastructure assets and associated real estate to EDS. We also entered into agreements with EDS for (i) EDS to manage our information technology systems for 10 years and (ii) EDS and us to jointly market certain information technology services and software solutions to the travel and transportation industries. See Note 2 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 2000, 1999 and 1998 and the three months ended March 31, 2001 and 2000. Balance sheet and cash flow information (including capital expenditures as presented in the accompanying table) for 2000, 1999 and 1998 and the three months ended March 31, 2001 and 2000 have not been reclassified to present the outsourcing business as a discontinued operation, as permitted by generally accepted accounting principles.

(4) On January 1, 2001, we adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("FAS 133") as amended by FAS 137 and FAS 138. Accordingly, the fair market value of our derivative instruments held as of January 1, 2001, including foreign currency forwards, interest rate/foreign currency swap contracts and warrants, which were not designated as hedges under FAS 133, was recorded, net of minority interest and applicable income taxes, as a cumulative effect of a change in accounting method.

(5) Computer reservation system reservations for which we collect a booking fee.

S-6

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

(7) Represents depreciation and amortization expense included in income from continuing operations.

(8) Earnings before interest, taxes, depreciation and amortization, or EBITDA, from continuing operations consists of the sum of income from continuing operations before provision for income taxes, net interest expense, depreciation and amortization and other income (expense), net. EBITDA is not a measure of income or cash flows in accordance with generally accepted accounting principles, but is a supplemental financial indicator as to our ability to service or incur debt. EBITDA is not presented as an indicator of cash available for discretionary spending. EBITDA may not be comparable to other similarly titled measures of other companies. EBITDA should not be

considered in isolation or as a substitute for net income, operating cash flow or any other measure of financial performance prepared in accordance with generally accepted accounting principles or as a measure of our profitability or liquidity. EBITDA margin is calculated by dividing EBITDA by revenues from continuing operations for the applicable period.

(9) 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. Pro forma ratios of earnings to fixed charges have been prepared as if the EDS transaction, the repayment of borrowings using proceeds from the EDS transaction and existing cash balances, and the offering of the notes had occurred at the beginning of the periods indicated below. The pro forma ratio of earnings to fixed charges for the three months ended March 31, 2001 was 2.79. Pro forma earnings for the year ended December 31, 2000 were inadequate to cover pro forma fixed charges by $18.6 million.

RISK FACTORS

Risks associated with an investment in the notes, and with achievement of our forward-looking statements in this prospectus supplement 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.

WE FACE COMPETITION FROM ESTABLISHED AND EMERGING TRAVEL DISTRIBUTION CHANNELS. MANY OF OUR COMPETITORS IN THE TRAVEL MARKETING AND DISTRIBUTION BUSINESS ARE WELL-FUNDED AND HAVE MAJOR TRAVEL SUPPLIERS AS SIGNIFICANT SHAREHOLDERS.

Our travel marketing and distribution business includes channels of distribution that target the travel agency, business-to-business and business-to-consumer segments of the global travel distribution market. In all of these distribution channels, we face significant competitors in the travel marketing and distribution business. In the travel agency channel, our SABRE global distribution system competes primarily against other large and well-established global distribution systems, including those operated by Amadeus Global Travel Distribution SA, Galileo International Inc. and Worldspan, L.P. Additionally, we may face increased competition as some of our competitors consolidate with each other or with travel suppliers. For example, Cendant Corporation, a hotel and rental car supplier, announced on June 18, 2001 that it had entered into an agreement to acquire all of the outstanding common stock of Galileo and is also reported to be in preliminary negotiations to acquire Worldspan. In the event that airlines cease to own and market either of Galileo or Worldspan, those entities would no longer be subject to computer reservation system regulations and SABRE would no longer be the only global distribution system in which no airline is a significant owner. In addition, we face competition in the travel agency channel from travel suppliers that distribute directly to travel agencies and from non-global distribution system companies. In the business-to-business channel, our GetThere suite of products competes not only against similar products offered by Amadeus, Galileo and Worldspan, but also with products offered by new competitors, including Oracle and SAP. Some of these competitors effectively market business travel systems that are bundled with financial and other non-travel software systems that are not offered by us. In the business-to-consumer channel, our Travelocity.com product offering competes not only against similar products offered by Amadeus, Galileo and

Worldspan, but also with a large number of travel Web sites, including those operated by travel suppliers and by Expedia.com and Priceline.com. Airlines and other travel suppliers have significant ownership stakes in some of these competitors. In addition, various airlines have recently established their own travel distribution Web sites, and several have created or have announced plans to create multi-airline travel distribution Web sites (such as Orbitz, which has recently launched in the United States, and Opodo, which is scheduled for launch in Europe). Although government authorities in some jurisdictions are examining whether the content and features made available through multi-airline Web sites by their owner airlines must also be made available to competitor Web sites, it is uncertain whether the various governments will act to require carriers owning multi-carrier sites to treat competing sites in a fair and non-discriminatory way.

Furthermore, many travel suppliers offer lower prices when their products and services are purchased directly from the supplier, such as through its own Web site, than when they are offered by us. Consolidation among travel suppliers, including airline mergers and alliances, may increase competition from these supplier distribution channels.

TRAVEL DISTRIBUTION INDUSTRY CONSOLIDATION AND INCREASED COMPETITION FOR TRAVEL AGENCY SUBSCRIBERS MAY RESULT IN INCREASED EXPENSES, REDUCED REVENUE AND MARKET POSITION, AND GREATER FINANCIAL LEVERAGE.

The absolute and relative size of our travel agency subscriber base is important to our success. Travel suppliers have reduced commissions paid to travel agencies, which has forced some smaller

travel agencies to close or to combine with larger agencies. Although we have a leading share of the large travel agency subscriber base, competition is particularly intense among global distribution systems for travel agency subscribers. The potential for us to add new travel agency subscribers exists primarily outside of North America. Some of our competitors aggressively pay economic incentives to travel agencies to obtain business. New ownership or potential consolidation of existing global distribution systems may result in increased competition. For example, as described above, Cendant Corporation announced that it had entered into an agreement to acquire all of the outstanding common stock of Galileo. In order to compete effectively, we may need to increase incentives, increase spending on marketing or product development, or make significant investments to purchase strategic assets. If we do not retain subscribers representing a significant percentage of historic bookings through our global distribution system, our booking fee revenues would decrease.

AIRLINES THAT ARE DIVESTING THEIR OWNERSHIP OF GLOBAL DISTRIBUTION SYSTEMS MIGHT LIMIT THEIR PARTICIPATION IN OUR TRAVEL MARKETING AND DISTRIBUTION SERVICES.

Rules in the U.S., Canada and the European Union govern "computer reservation systems" such as our global distribution system. Airlines that divest their ownership of computer reservation systems (such as American Airlines, British Airways, US Airways and Continental Airlines) may not be subject to the rules in these jurisdictions, which would otherwise require them to participate in our global distribution system in a non-discriminatory manner. We could be adversely affected by a decision by one or more large airlines to discontinue or to lower their level of participation in our global distribution system. Consolidation among travel suppliers, including airline mergers, may increase competition from these supplier distribution channels.

REGULATORY DEVELOPMENTS COULD LIMIT OUR ABILITY TO COMPETE.

The U.S. Department of Transportation is currently engaged in a comprehensive review of its rules governing computer reservation systems such as our global distribution system. It is unclear at this time when the Department of Transportation will complete its review and what changes, if any, will be made to the U.S. rules. We could be adversely affected if the U.S. rules are retained as to traditional global distribution systems used by travel agencies but are not applied to business-to-consumer travel distribution Web sites owned by more than one airline. We could also be adversely affected if changes to the U.S. rules increase our cost of doing business, weaken the non-discriminatory participation rules to allow one or more large airlines 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 apply to our travel marketing and distribution competitors.

RAPID TECHNOLOGICAL CHANGES AND NEW DISTRIBUTION CHANNELS MAY RENDER OUR TECHNOLOGY OBSOLETE OR DECREASE THE ATTRACTIVENESS OF OUR SERVICES TO CUSTOMERS.

New distribution channels and technology in the travel marketing and distribution business and the airline solutions business, such as the Internet, computer online services, private networks, cellular telephones and other wireless communications devices, are rapidly emerging. Our ability to compete in the travel marketing and distribution business and airline solutions business, and our future results, depend in part on our ability to make timely and cost-effective enhancements and additions to our technology and to introduce new products and services that meet customer demands and rapid advancements in technology. Maintaining flexibility to respond to technological and market dynamics may require substantial expenditures and lead-time. There can be no assurance that we will successfully identify and develop new products or services in a timely manner, that products, 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.

OUR SYSTEMS MAY SUFFER FAILURES, CAPACITY CONSTRAINTS AND BUSINESS INTERRUPTIONS, WHICH COULD INCREASE OUR OPERATING COSTS AND CAUSE US TO LOSE CUSTOMERS.

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

OUR REVENUES ARE HIGHLY DEPENDENT ON THE TRAVEL AND TRANSPORTATION INDUSTRIES, AND PARTICULARLY ON THE AIRLINES.

Most of our revenue is derived from airlines, hotel operators, car rental companies 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. Factors that may adversely affect travel and transportation activity include price escalation in travel-related industries, airline or other travel-related labor action, political instability and hostilities, inclement weather, fuel price escalation, increased occurrence of travel-related accidents, acts of terrorism, and economic downturns and recessions. The travel industry is seasonal, and our revenue varies significantly from quarter to quarter.

WE FACE TRADE BARRIERS OUTSIDE OF NORTH AMERICA THAT LIMIT OUR ABILITY TO COMPETE.

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

OUR INTERNATIONAL OPERATIONS ARE SUBJECT TO OTHER RISKS.

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

S-10

WE MAY NOT SUCCESSFULLY MAKE AND INTEGRATE BUSINESS COMBINATIONS AND STRATEGIC ALLIANCES.

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

THE NOTES WILL BE EFFECTIVELY SUBORDINATED TO ALL EXISTING AND FUTURE INDEBTEDNESS OF OUR SUBSIDIARIES.

Our subsidiaries are not guaranteeing the notes. In the event of a bankruptcy, liquidation or reorganization of any of our subsidiaries, creditors of that subsidiary will generally be entitled to payment of their claims from the assets of that subsidiary before any assets are made available to us, except to the extent we may also have a claim as a creditor. Sabre Holdings Corporation is a holding company and substantially all of our liabilities, except the notes, are obligations of our subsidiaries. Our operating subsidiary, Sabre Inc., is the sole borrower under our revolving credit facility as described in "Management's Discussion and Analysis of Financial Condition and Results of Operation--Liquidity and Capital Resources." Our subsidiaries may be permitted to incur substantial additional indebtedness in the future under the terms of the indenture for the notes.

Additionally, the notes are unsecured and therefore will be effectively subordinated to any secured indebtedness we may incur to the extent of the value of the assets securing such indebtedness. As of June 30, 2001, we had no secured indebtedness. We will be permitted to incur additional secured indebtedness, subject to the limitations under the terms of the indenture. See "Description of Debt Securities--Certain Covenants of Sabre--Restrictions on Secured Debt" in the accompanying prospectus.

S-11

RECENT DEVELOPMENTS

EDS TRANSACTION

On March 14, 2001, we entered into agreements with Electronic Data Systems Corporation, or EDS, which provide for:

- the sale of our information technology outsourcing business and information technology infrastructure assets and associated real estate to EDS,

- an information technology outsourcing agreement for EDS to manage our information technology systems for 10 years, and

- marketing agreements for us and EDS to jointly market information technology services and software solutions to the travel and transportation industries.

Effective on July 1, 2001, we completed the sale of our information technology outsourcing business contracts, Web hosting contracts, and information technology infrastructure assets and associated real estate to EDS for approximately $661 million in cash. Up to approximately $31 million of this amount is contingently refundable to EDS based, in part, upon the amount of revenues received by EDS from US Airways under its outsourcing contract during the 30 months following the closing of the EDS transaction. In addition, we may receive aggregate additional payments from EDS for these assets ranging from $6 million to $25 million on April 15, 2003 and 2004, depending on the amount of revenues received by EDS under other airline outsourcing contracts. On July 2, 2001, we repaid $710 million of Sabre Inc.'s short-term borrowings using proceeds from the EDS transaction and existing cash.

In the EDS transaction, we transferred, among other things, our outsourcing contracts with American Airlines, US Airways, Gulf Air and Dollar/Thrifty Rent-A-Car and our data centers, network and desktop and mid-range computer systems. We used these assets in our outsourcing business and for transaction processing in our travel marketing and distribution business, including the operation of our SABRE global distribution system. EDS hired approximately 4,000 of our employees, located mostly in the United States, upon closing of the transaction.

We retained our core travel marketing and distribution business, including:

- our line of business related to contracts with travel suppliers and travel agency subscribers for participation in the SABRE computer reservations system;

- our investment in the Travelocity.com consumer on-line business and GetThere corporate on-line booking business; and

- our software development and consulting solutions business.

We plan to continue to focus our business on remaining a global leader in all channels of travel distribution.

We also retained contracts and assets that are directly related to our core travel marketing and distribution business. These contracts and assets include:

- our multihost 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;

- our contracts with travel suppliers, travel agencies and online travel sites for Web site development and booking engine services; and

- the eMergo suite of airline solutions we offer as an online application service provider.

Under the ten-year information technology outsourcing agreement, EDS will provide, manage and operate our information technology infrastructure, including data center management, applications hosting, selected applications development, data assurance and network management services.

Under the EDS marketing agreements, we and EDS will jointly market certain information technology services and software solutions to the travel and transportation industries. As part of the marketing relationship, EDS will contribute $20 million toward enhancing and promoting our portfolio of airline software solutions. EDS has also agreed to move its travel bookings to the SABRE system and to implement our GetThere corporate booking platform in its organization.

RESULTS OF OPERATIONS FOR THE SECOND QUARTER OF 2001

Our net earnings, including special items described below, for the second quarter ended June 30, 2001, were $27.7 million ($0.20 per diluted share), compared to $63.4 million ($0.46 per diluted share) for the same quarter of 2000.

Special items in the second quarter of 2001 on a pre-tax basis include:

- amortization expense of $4.1 million related to six million options issued to US Airways as part of the long-term technology agreement signed in 1997;

- expense of $72.3 million related to amortization of goodwill and other intangibles and the recognition of stock compensation expense arising from the merger of Travelocity.com, Inc. and Preview Travel and the acquisitions of GetThere Inc., Gradient Solutions Limited, the Sabre Pacific Marketing Company and a 51% interest in Dillon Communication Systems GmbH; and

- a net gain of $2.5 million related to Travelocity.com's ownership of warrants to acquire equity interests in Hotel Reservations Network.

Our net earnings for the second quarter of 2001, excluding such special items, were $90.4 million, a growth of 19.2% compared to $75.9 million for the same quarter in 2000.

Including the special items, our income from continuing operations in the second quarter ended June 30, 2001, was $5.1 million ($0.04 per diluted share), compared to $47.5 million ($0.37 per diluted share) for the second quarter of 2000.

Our income from continuing operations in the second quarter ended June 30, 2001, excluding the special items described above, was $65.2 million ($0.48 per diluted share), compared to $62.3 million ($0.48 per diluted share) for the same quarter of 2000.

Our income from continuing operations before provision for income taxes for the second quarter of 2001, excluding such special items, was $100.1 million, a growth of 1.7% compared to $98.3 million for the same quarter in 2000.

Our total revenues from continuing operations for the second quarter ended June 30, 2001 were $582.0 million, up 16.1% from $501.4 million for the same quarter of 2000. Revenue growth was affected by the slowdown in business travel as a continuing result of the United States economic downturn.

Our operating income from continuing operations for the second quarter of 2001, excluding the special items discussed above, was $110.7 million, up 13.9% from $97.2 million for the same quarter of 2000. Including special items discussed above, our operating income from continuing operations for the second quarter was $38.4 million, down 48.6% from $74.9 million for the same quarter of 2000.

As of June 30, 2001, we had $396.1 million of cash and marketable securities, of which $109.5 million were held on behalf of Travelocity.com and to which we do not have ready access. Our total debt was $859 million as of June 30, 2001, which was lowered to $149 million on July 2, 2001 as a

result of using the proceeds of the EDS transaction and existing cash to pay down debt. On July 20, 2001, we further reduced our debt by $70 million by using our existing cash to repay borrowings made under Sabre Inc.'s revolving credit facility. Capital spending for the second quarter of 2001 was $57.7 million compared to $51.8 million in the second quarter of 2000. We anticipate that capital spending for 2001 will be in the range of $140 million to $160 million, compared to $190.1 million in 2000.

Amortization of goodwill and other intangibles relating to acquisitions totaled $69.9 million for the second quarter of 2001. At June 30, 2001, goodwill associated with the Preview Travel merger in 2000 totaled $252 million, which we are amortizing over three years; goodwill in connection with the acquisitions in 2000 of Dillon Communication Systems and Gradient Solutions was $62 million, which we are amortizing over a five-year period; goodwill and other intangibles related to the GetThere acquisition in 2000 totaled approximately $683 million, which we are amortizing over a four-year period; and goodwill associated with the acquisition of Sabre Pacific in 2001 was $44 million, which we are amortizing over a seven-year period.

RESULTS OF OPERATIONS FOR SIX MONTHS ENDED JUNE 30, 2001

Our net earnings, including special items, for the six months ended June 30, 2001, were $44.9 million ($0.33 per diluted share), compared to $129.0 million ($0.94 per diluted share) for the same period of 2000.

Special items in the first six months of 2001 on a pre-tax basis include:

- amortization expense of $17.2 million related to six million options issued to US Airways as part of the long-term technology agreement signed in 1997; and

- expense of $142.6 million related to amortization of goodwill and other intangibles and the recognition of stock compensation expense and other expenses arising from the merger of Travelocity.com, Inc. and Preview Travel and the acquisitions of GetThere Inc., Gradient Solutions Limited, the Sabre Pacific Marketing Company and a 51% interest in Dillon Communication Systems.

Our net earnings for the six months ended June 30, 2001, excluding such special items, were $175.4 million, an increase of 15.9%, compared to $151.3 million for the same period of 2000.

Including the special items, our income from continuing operations for the six months ended June 30, 2001 was $5.5 million ($0.04 per diluted share) compared to $96.9 million ($0.75 per diluted share) for the same period of 2000.

Our income from continuing operations, excluding such special items described above, for the six months ended June 30, 2001 was $128.2 million ($0.96 per diluted share), compared to $122.8 million ($0.95 per diluted share) for the same period of 2000.

Our income from continuing operations before provision for income taxes for the six months ended June 30, 2001, excluding the special items, was $197.8 million, compared to $197.7 million for the same period of 2000.

Our total revenues from continuing operations for the six months ending June 30, 2001 were $1,155.4 million, up 17.8% from $980.5 million for the same period of 2000. Revenue growth was affected by the slowdown in business travel as a continuing result of the U.S. economic downturn.

Our operating income for the six months ended June 30, 2001, excluding the special items described above, was $225.9 million compared to $191.4 million for the same period of 2000. Our operating income for the six months ended June 30, 2001, including the special items described above, was $83.3 million compared to $151.1 million for the same period of 2000.

S-14

CONTINUING OPERATIONS BUSINESS OVERVIEW

TRAVEL MARKETING & DISTRIBUTION. Revenues from the travel marketing and distribution business were $467 million for the second quarter of 2001, up 10.2% from the second quarter of 2000. Revenue growth was slower than expected, due to an economic downturn and weak business travel market. Nonetheless, we gained bookings share in three out of four geographic regions and overall. Our bookings within the United States declined 4.8%, while international bookings grew 2.1% over the second quarter of 2000. Overall, our travel bookings worldwide declined 2.0% as a result of business travel decline in the United States.

TRAVELOCITY.COM (NASDAQ: TVLY). Gross travel bookings for Travelocity.com were $879 million for the second quarter of 2001, up 44% from $610 million in the second quarter of 2000. Second quarter of 2001 revenues were $82 million compared to $47 million in the second quarter of 2000, a 76% increase. During the quarter, Travelocity.com membership rose by 2 million members from the previous quarter to 29 million. We maintain an approximate 70% economic ownership interest in Travelocity.com. Gross travel bookings represent the total purchase price of all travel services booked through Travelocity's Web sites. The amount of gross travel bookings does not affect Travelocity's operating results, and gross travel bookings are not included in revenues. Gross travel bookings is not a financial measurement in accordance with generally accepted accounting principles and should not be considered in isolation or as a substitute for other information prepared in accordance with generally accepted accounting principles. Comparisons of gross travel bookings are not necessarily meaningful as a measure of Travelocity's revenues due to, among other things, changes in commission rates.

GETTHERE. Revenues from GetThere, our Web-based travel reservation offering for corporations and travel providers, were $11 million for the second quarter of 2001, an increase of 1,203% as compared to historical revenues in the second quarter of 2000, which was prior to our acquisition of GetThere. On a pro forma basis as if the acquisition of GetThere had occurred on January 1, 2000, year-over-year revenue growth was 43.9%. GetThere's corporate adoption rates of use by corporate customers' employees averaged 10.1% at June 30, 2001. This is a 10% sequential increase from the corporate adoption rate at March 31, 2001, and a 100% increase from the corporate adoption rate at June 30, 2000. The corporate adoption rate equals the aggregate value of gross travel bookings made by a customer's employees using GetThere compared to the aggregate value of gross travel bookings made by all employees of such customer during such period and is an indication of the degree of employee acceptance of GetThere within the customer's organization. For the top 20 accounts, the average corporate adoption rate climbed to 31%. Major customers added during the quarter include Verizon, First Data and the Gartner Group, and the total customer base now numbers more than 900. Corporate transactions, or trips, booked using GetThere grew more than 150% from the second quarter of 2000. GetThere processed 1.5 million total transactions during the quarter, a 90% increase from the second quarter of 2000, on a pro forma basis as if the GetThere acquisition had occurred on January 1, 2000.

AIRLINE SOLUTIONS & EMERGING BUSINESSES. Second quarter 2001 revenues from our airline solutions business unit and the emerging businesses unit remained flat from the second quarter of 2000. During the quarter, the business units signed a number of new products and services contracts, including contracts with Malaysia Airlines and All Nippon Airways, for a total contract value of approximately $20 million, with recognition of revenue to begin in the second half of 2001. Additionally, renewals for the airline reservations business had a total contract value of approximately $57 million.

DISCONTINUED OPERATIONS.

Discontinued operations refer to the information technology outsourcing business that was sold to EDS. The discontinued operations recorded income of $25 million for the second quarter of 2001, compared to $14 million in the second quarter of 2000, an 85% increase. Discontinued operations have been fully allocated with selling, general and administrative expenses to be representative of the business as it operated during the quarter. Some of the selling, general and administrative expenses historically allocated to the information technology outsourcing business may still be incurred as part of continuing operations in the future. These amounts are not currently estimable.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

Prior to the divestiture of our information technology outsourcing business to EDS, we had four segments: Travel Marketing and Distribution, Travelocity.com, GetThere, and Outsourcing and Software Solutions. Subsequent to the divestiture, we have redefined our Outsourcing and Software Solutions segment as the Airline Solutions and Emerging Businesses segment. The segment information presented below is based on the new segment definition for all periods presented and has been presented on a continuing operations basis.

	THREE MONTHS ENDED JUNE 30,			SIX MONTHS EN JUNE 30,	
	2001	2000	PERCENT CHANGE	2001	2000
			(DOLLARS IN MILLIONS)		
Revenues(1)(2)(3)					
Travel Marketing and Distribution...	$ 466.7	$ 423.5	10.2%	$ 933.4	$ 841.0
Travelocity........................	82.3	46.8	76.0%	155.2	73.8
GetThere...........................	10.9	0.8	1203.4%	21.8	2.3
Airline Solutions & Emerging Businesses.......................	47.4	47.2	0.4%	96.3	91.9
Elimination of intersegment revenues.........................	(25.2)	(17.0)	48.6%	(51.3)	(28.5)
Total revenues.......................	582.0	501.4	16.1%	1,155.4	980.5
Operating expenses(3)................	543.6	426.5	27.4%	1,072.1	829.4
Operating income.....................	38.4	74.9	(48.6%)	83.3	151.1
Other income (expense)					
Interest income (expense), net,(4)..........................	(8.4)	(3.1)		(21.1)	0.3
Other, net(4)......................	1.9	0.2		(7.9)	0.0
Minority interest....................	4.4	11.2	(60.8%)	12.2	14.9
Income from continuing operations before provision for income taxes...	36.3	83.2	(56.4%)	66.5	166.4
Provision for income taxes...........	31.2	35.6	(12.4%)	61.1	69.5
Income from continuing operations.....	5.1	47.5	(89.4%)	5.5	96.9
Income (loss) from discontinued operations, net(3).................	22.7	15.9	42.8%	36.3	32.1
Cumulative effect of accounting change, net(4)(5)..................	0.0	0.0		3.1	0.0
Net earnings.........................	$ 27.7	$ 63.4	(56.3%)	$ 44.9	$ 129.0
Operating margin.....................	6.6%	14.9%		7.2%	15.4%
Depreciation and amortization(6)......	$ 108.1	$ 60.4	79.0%	$ 218.0	$ 108.2
EBITDA(7)............................	150.9	146.4	3.1%	313.5	274.2
EBITDA margin(7).....................	25.9%	29.2%		27.1%	28.0%

Amounts may not recalculate due to rounding.

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(1) 2001 and 2000 results of operations were impacted by our merger and acquisition activities and the related goodwill amortization expense associated with those transactions. See Note 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 and the impact on our financial condition and results of operations.

(2) We have had significant transactions with AMR and American Airlines. The terms of many of the agreements with AMR and its affiliates were revised in connection with AMR's divestiture of its entire ownership interest in us in the first quarter of 2000. See Note 7 to the Consolidated Financial Statements.

(3) Effective July 1, 2001, we completed the sale of our information technology outsourcing business and information technology infrastructure assets and associated real estate to EDS. See "Recent Developments--EDS Transaction" and Note 2 to the Consolidated Financial Statements. The results of operations also do not reflect the impact on continuing operations of some of the selling, general and administrative costs which historically have been allocated to the discontinued operations, but may still be incurred as part of continuing operations in the future as this amount is currently not estimable.

(4) Percentage changes for these items are not meaningful.

(5) On January 1, 2001, we adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("FAS 133"), as amended. Accordingly, the fair market value of our derivative instruments held as of January 1, 2001, including foreign currency forwards, interest rate/foreign currency swap contracts and warrants, which were not designated as hedges under FAS 133, was recorded, net of minority interest and applicable income taxes, as a cumulative effect of a change in accounting method.

(6) Represents depreciation and amortization expense included in income from continuing operations.

(7) Earnings before interest, taxes, depreciation and amortization, or EBITDA, from continuing operations consists of the sum of income from continuing operations before provision for income taxes, net interest expense, depreciation and amortization and other income (expense), net. EBITDA is not a measure of income or cash flows in accordance with generally accepted accounting principles, but is a supplemental financial indicator as to our ability to service or incur debt. EBITDA is not presented as an indicator of cash available for discretionary spending. EBITDA may not be comparable to other similarly titled measures of other companies. EBITDA should not be considered in isolation or as a substitute for net income, operating cash flow or any other measure of financial performance prepared in accordance with generally accepted accounting principles or as a measure of our profitability or liquidity. EBITDA margin is calculated by dividing EBITDA by revenues from continuing operations for the applicable period.

SABRE

We are a world leader in the electronic distribution of travel through our SABRE computer reservations system. We also engage in business-to-consumer and business-to-business travel services and distribution through our Travelocity.com and GetThere subsidiaries. In addition, we are a leading provider of software solutions to the travel and transportation industries. Before we completed the EDS transaction effective as of July 1, 2001, as described in "Recent Developments--EDS Transaction," we were also a leading provider of information technology outsourcing services to the travel and transportation industries.

TRAVEL MARKETING AND DISTRIBUTION

The SABRE system and other global distribution systems are the principal means of air travel distribution in the United States and a growing means of air travel distribution internationally. Through the SABRE system, subscribers such as travel agencies, corporate travel departments and individual consumers can access information about and book reservations with our associates, who are airlines, car rental companies, hotel companies, railroads, tour operators, ferry companies and cruise lines. As of June 30, 2001, travel agencies with approximately 59,000 locations in over 100 countries on six continents subscribed to the SABRE system, which enabled these subscribers to make reservations with approximately 450 airlines, 54 car rental companies, 228 tour operators, 8 cruise lines, 33 railroads and 230 hotel companies covering approximately 53,000 hotel properties worldwide. During 2000, more airline bookings in North America were made through the SABRE system than through any other global distribution system. Approximately 83.6%, 83.3% and 83.5% of our revenue from continuing operations in 2000, 1999 and 1998, respectively, was generated by our travel marketing and distribution segment, primarily through booking fees paid by our associates.

In 2000, we estimate that air travel, as represented by the number of airline bookings, was distributed as shown in the following table:

CHANNEL	PERCENT OF AIRLINE BOOKINGS
Traditional Travel Agency..................................	56%
Consumer Online (e.g. Travelocity).........................	7%
Corporate Online (e.g. GetThere)...........................	*
Supplier Online (e.g. airline Web sites)...................	6%
Supplier Direct (e.g. airline reservation call centers).....	31%
Total...	100%

* less than 1%

In 2000, we estimate that our share of airline bookings made through the four global distribution systems in each of these distribution channels was:

CHANNEL	SABRE SHARE OF AIRLINE BOOKINGS
Traditional Travel Agency..................................	40%
Consumer Online (e.g. Travelocity).........................	46%
Corporate Online (e.g. GetThere)...........................	67%
Supplier Online (e.g. airline Web sites)...................	40%
Supplier Direct (e.g. airline reservation call centers).....	19%

Our global share of all airline bookings made through the four global distribution systems (Sabre, Galileo, Amadeus and Worldspan) in 2000 was approximately 39% based on the marketing information data tapes provided by these global distribution systems. This represents a five percentage point

increase above our global share of airline bookings in 1997 of 34%. Our share of airline bookings by region in 2000 was:

REGION	SABRE SHARE OF AIRLINE BOOKINGS
North America	48%
Latin America, Caribbean and Mexico	50%
Asia Pacific	60%
Europe, Middle East and Africa	14%

THE SABRE GLOBAL DISTRIBUTION SYSTEM

The SABRE system, like other global distribution systems, creates an electronic marketplace where travel providers display information about their products and warehouse and manage inventory. Subscribers--principally travel agencies but also individual consumers and corporate travel departments via Travelocity.com and GetThere--access information or purchase travel products and services using the SABRE system. In 2000, approximately 1,000 associates displayed information about their products and services through the SABRE system, and we estimate that more than $75 billion of travel-related products and services were sold through the SABRE system.

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

ASSOCIATE PARTICIPATION

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

Airlines and our other associates can display, warehouse, manage and sell their inventory in the SABRE system. The booking fee paid by any of our associates depends upon several factors, including the associate's level of participation in the SABRE system and the type of products or services provided by the associate. Airlines are offered a wide range of participation levels. The lowest level of participation for airlines, the SABRE BASIC BOOKING REQUEST() participation level, provides schedules and electronic booking functionality only. Higher levels of participation for airlines, such as the SABRE DIRECT CONNECT AVAILABILITY participation level, provide greater levels of communication with the SABRE system, giving subscribers more detailed information and associates improved inventory management. For an associate selecting one of the higher levels of participation, the SABRE system provides subscribers with a direct connection to the associate's internal reservation system, allowing the SABRE system to provide real-time information and allowing the associate to optimize revenue for each flight. Car rental companies and hotel operators are provided with similar levels of participation from which to select. We also provide to our associates, upon request, marketing data derived from the SABRE system bookings for fees that vary depending on the amount and type of information provided.

SUBSCRIBER ACCESS

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

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

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

PLANET SABRE software transforms the SABRE system from a complex command-oriented system to an all-graphic interface with continued access to the SABRE system and its capabilities. This software, which we introduced in February 1997, includes:

- a graphical launch pad, which enables the user to move to any function with one or two clicks of a mouse;

- a customizer feature, which allows travel agencies to tailor PLANET SABRE() software to meet their own specific needs;

- a tutorial;

- online help;

- a place to store notes about clients, destinations or procedures; and

- a suggestion system.

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

We provide online bookings solutions for travel agencies and travel providers, including Web site development, business logic middleware, and backend processing. The end consumer accesses the agency and associate-specific Web sites via the Internet to locate, price, compare and purchase travel products and services. Because functionality requirements differ among customers, we developed a suite of products to cater to specific online needs. Travel agent and associate product offerings range from off the shelf applications to fully customized solutions. License, consulting, and Web hosting fees are recovered from the subscribers and vary with the level of customization and volume generated by the site. We also provide Web hosting services for the Web sites of many of our airline, travel agency and other travel industry customers.

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

S-20

TRAVEL PROVIDERS AND CORPORATE ONLINE. Through our October 17, 2000 acquisition of GetThere Inc., we significantly extended our leadership in Web-based solutions for corporations and travel suppliers.

GetThere DIRECTAIRLINE powers Web sites for 9 major airlines including All Nippon Airways, America West and United Airlines. GetThere's system provides supplier Web sites with features for travel reservations, bonus mile programs, flight status alerts and Internet specials. In 2000, GetThere also announced its first booking site for a leading lodging company--Hyatt Hotels and Resorts.

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

We receive fees for transactions booked through GetThere and also recognize revenues for certain up-front fees, such as implementation, franchise and license fees over the term of the related contract.

CONSUMER ONLINE. We own an approximate 70% economic interest in Travelocity.com Inc., a leading provider of online travel services to consumers. Travelocity.com Inc. operates Travelocity.com, which, according to its most recent annual report filed with the SEC, is the most visited online travel Web site and the third most visited electronic commerce retail site in the United States.

Through the Travelocity.com Web sites and co-branded sites operated in conjunction with other Web sites, individual leisure and business travelers can compare prices, make travel reservations online and obtain destination information. This product is generally available to individual consumers free of charge, although Travelocity.com began charging consumers a $10 service fee for tickets booked through the Travelocity.com Web site for flights on Northwest Airlines, Inc. and its alliance partner, KLM Royal Dutch Airlines. Travelocity.com implemented this service charge in response to Northwest

Airlines' and KLM's decision to cease paying commissions for tickets booked through the Internet.

The Travelocity.com Web sites are accessible through the Internet and computer online services such as AOL. They feature booking and purchase capability for airline, car rental agencies, hotel companies and cruise and vacation providers, and offers access to a database of information regarding specific destinations and other information of interest to travelers.

In addition to Travelocity.com's main U.S. Web site, it operates multiple Web sites tailored to customers in the United Kingdom, Canada and Germany. Travelocity.com is the exclusive provider of travel booking services for various America Online, Inc. services, including AOL, AOL.com, Netscape, CompuServe and Digital City, in the United States and Canada. Travelocity.com is also an exclusive provider of some of the travel booking services on Web sites operated by Yahoo!, Inc. in the United States and Canada, Excite, Inc. and @Home Corporation. According to Travelocity.com's most recent annual report filed with the SEC, after giving effect to its merger with Preview Travel, Inc. on a pro forma basis as if it had occurred on January 1, 2000, visitors booked approximately $2.5 billion in travel services on Travelocity.com and its affiliated Web sites in 2000, making it one of the top ten travel agents in the United States in terms of travel services sold.

AIRLINE SOLUTIONS

We are a leading provider of information technology solutions to airlines and other travel suppliers. We offer our airline and other travel supplier clients a comprehensive set of information technology solutions, including:

- software development, sales and licensing,
- reservations hosting, and
- consulting services.

SOFTWARE DEVELOPMENT, SALES AND LICENSING. We provide software solutions to more than 150 airlines or airline associations. These solutions have many applications for airlines. For example:

- the SABRE AIRMAX() revenue management system allows airlines to seek to enhance revenue by using statistical and database sources that estimate the economic implications of fare actions before they are implemented,
- the SABRE AIRPRICE fares management system enables airlines to analyze and manage fares and react to competitors' changes,
- the SABRE AIRFLITE flight scheduling system allows airlines to determine superior flight schedules, and
- the SABRE AIRCREWs crew management system allows airlines to improve crew member scheduling which can reduce the airline's staffing costs.

We also develop off-the-shelf products as well as customized software for some of our larger clients. Some of the most popular products support flight scheduling, flight operations, revenue management and accounting, crew scheduling, sales and marketing automation, cargo tracking, passenger systems and maintenance and engineering scheduling.

RESERVATIONS HOSTING. We are a leading provider of airline reservations hosting services. These services involve maintaining and storing an airline's schedules, fares and inventory on our central computer system for the primary purpose of creating reservations for the airline's customers. These services also support airport check-in, ticketing, car and hotel reservations and the airline's frequent flyer program. Our reservations hosting services allow our airline clients to support and expand upon these fundamental airline functions. In addition, we have designed our reservations hosting services to easily integrate with many of our other information technology solutions so that airline customers using our reservations hosting services can readily access the benefits offered by these other solutions. Currently we provide reservations hosting services to more than 60 airline customers worldwide.

CONSULTING SERVICES. Our consulting services assist businesses in the travel and transportation industries to collect and analyze operational and customer data in order to improve internal operations and product distribution in the market place. These services enable airlines, airports and other travel-related businesses to improve their operations and optimally distribute their fares, schedules and inventories through all available channels with a special emphasis on distribution through computer reservations and global distribution systems. We offer consulting services covering several areas related to the airline and travel industries, including:

- revenue management,

- distribution strategy,

- maintenance and engineering,

- electronic business solutions,

- crew contract negotiations,

- network profitability, and

- airline start-up assistance.

INTERNATIONAL MARKETING

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

We have 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.

COMPETITION

We compete in travel marketing and distribution primarily against other global distribution systems. Our principal competitors in marketing to travel agents include Amadeus Global Travel Distribution SA, Galileo International Inc. and Worldspan, L.P. Each of these competitors offers many products and services substantially similar to ours.

The global market to attract and retain travel agency subscribers is intensely competitive. Factors affecting competitive success of global distribution systems include:

- depth and breadth of information,
- ease of use,
- reliability,
- service and incentives to travel agents, and
- range of products available to travel providers, travel agents and consumers.

We potentially face many new competitors as new travel distribution channels develop, including new Internet-based business-to-business and business-to-consumer, channels. These new competitors face a number of challenges, including:

- significant capital investment,
- development or acquisition of hardware and software systems with global scales and reach, and
- ability to connect to disparate travel suppliers' and travel agents' systems.

Although distribution through traditional travel agents continues to be the primary method of travel distribution, new channels of direct online distribution to businesses and consumers are growing. We believe that our products and services offered through GetThere and Travelocity.com are well-positioned to compete effectively in these emerging distribution channels.

Many of these channels will continue to require services from a global distribution system such as the SABRE system. We have offered and we plan to continue to offer transaction processing and other services to parties that compete directly with the Travelocity.com Web sites and GetThere as such parties require access to our offerings. For example, we provide transaction processing services to Cheap Tickets, Hotwire.com and Lowestfare.com although such companies compete against the

Travelocity.com Web sites. For the provision of these services, we receive booking fees for bookings made through these and other travel-related Web sites.

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

We participate in the business-to-consumer channel primarily through the Travelocity.com Web sites. The main competitors of the Travelocity.com Web sites in marketing to consumers include Expedia.com and Priceline.com. Increasingly, many travel suppliers are developing their own Web sites, some of which offer an array of products and services, that directly target consumers. Various major airlines have recently announced their intention to launch Internet Web sites in the United States, Europe and Asia to provide booking services for airline travel, hotel accommodations and other travel services offered by multiple vendors. Several hotels have announced plans for similar multi-vendor Web sites. Some of these sites appear to have the intention to make selected discounted fares and prices available exclusively on their proprietary or multi-vendor Web sites. To that end, the multi-airline owned Web site in the United States, named "Orbitz," has included "most favored distributor" and exclusivity provisions in its airline participation contracts. Similarly, the multi-airline owned Web site in Europe, named "Opodo," has signaled that its airline participation contracts will contain "most favored distributor" provisions. The U.S. Department of Transportation has stated that it will monitor Orbitz's operations to ensure that Orbitz is not behaving anti-competitively. Additionally, the U.S. Department of Justice is currently investigating Orbitz. The Attorneys General of 20 U.S. states and the Commonwealth of Puerto Rico also have expressed concerns about the impact that Orbitz might have on competition.

COMPUTER RESERVATION SYSTEM INDUSTRY REGULATION

Our travel marketing and distribution business is subject to regulation in the United States, the European Union and Canada. These regulations generally address the relationships among computer reservation systems, airline associates, and travel agency subscribers. Generally, these regulations do not address relationships with non-airline associates. The regulations in the European Union, however, do include rail associates in certain circumstances. In general, these regulations are directed at ensuring fair competition among travel providers. Among the principles addressed in the current regulations are:

- unbiased computer reservation system displays of airline information,

- fair treatment of airline associates by computer reservation systems,

- equal participation by airlines in non airline-owned computer reservation systems, and

- fair competition for subscribers.

The computer reservation system regulations in the United States are currently under review. In addition, the Transportation Ministry of Peru is considering the adoption of computer reservation system regulations. Likewise, the Department of Civil Aviation in Brazil recently considered such regulations but, for the time being, has decided such regulations are not necessary. We do not believe that the possible revisions to the United States regulations, or possible adoption of regulations in Peru and Brazil will materially adversely affect our operations.

OTHER REGULATION

We may be impacted by regulations affecting issues such as: exports of technology, telecommunications, data privacy and electronic commerce. Some portions of our business, such as our Internet-based travel marketing and distribution, may be affected if regulations are adopted in these areas. Any such regulations may vary among jurisdictions. We believe that we are capable of addressing these regulatory issues as they arise.

S-24

USE OF PROCEEDS

We anticipate our net proceeds from the sale of the notes at an aggregate price to the public of $397.4 million will be $394.8 million after deducting underwriting discounts and commissions of $2.6 million. We intend to use the net proceeds to reduce outstanding indebtedness under Sabre Inc.'s revolving credit facility and for general corporate purposes.

Sabre Inc.'s revolving credit facility consists of a $300 million senior unsecured line of credit which expires on September 14, 2004. As of June 30, 2001, the interest rate under the revolving credit facility was 4.48% per annum, and the borrowings under Sabre Inc.'s revolving credit facility were $149 million. On July 20, 2001 we repaid $70 million of borrowings under Sabre Inc.'s revolving credit facility, using existing cash. The remaining balance will be repaid with the proceeds from the sale of the notes.

CAPITALIZATION

The following table sets forth our debt and equity capitalization as of March 31, 2001 (i) on a historical basis, (ii) to give effect to the use of $661 million of the cash proceeds from the EDS transaction and $49 million of existing cash on July 2, 2001 and $70 million of existing cash on July 20, 2001 to retire $780 million of Sabre Inc.'s outstanding debt, and (iii) adjusted to give effect to the transactions described in clause (ii) and the application of the estimated net proceeds of this offering of notes as described under "Use of Proceeds." You should read this table in conjunction with our selected consolidated financial data presented elsewhere in this prospectus supplement along with our consolidated financial statements and related notes included in this prospectus supplement and incorporated by reference in the accompanying prospectus.

	MARCH 31, 2001		
	ACTUAL	AS ADJUSTED FOR THE EDS TRANSACTION AND THE REPAYMENT OF CERTAIN DEBT	AS ADJUSTED EDS TRANSAC THE REPAYME CERTAIN DEB THE OFFER
		(IN THOUSANDS)	
Short term debt:			
Current portion of long-term debt............	$ --	$ --	$
Bridge credit agreement......................	710,000	--	
Total short term debt:.....................	710,000	--	
Long-term debt:			
Revolving credit facility....................	149,000	79,000	
Notes offered hereby.........................	--	--	400,0
Total long-term debt.......................	149,000	79,000	400,0
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; 132,244 shares issued.........	1,322	1,322	1,3
Additional paid-in capital...................	736,240	736,240	736,2
Retained earnings(1).........................	213,312	235,366	235,3
Accumulated other comprehensive income........	(2,674)	(2,674)	(2,6
Less treasury stock at cost; 10 shares........	(415)	(415)	(4
Total stockholders' equity...................	947,785	969,839	969,8
Total capitalization...........................	$1,806,785	$1,048,839	$1,369,8

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(1) Retained earnings increased as a result of our net gain in the EDS transaction. See Note 1 to the Unaudited Pro Forma Condensed Consolidated Financial Statements.

RATIO OF EARNINGS TO FIXED CHARGES

The ratio of earnings to fixed charges for each of our last five fiscal years and the three months ended March 31, 2001 is presented in the table below. The ratio of earnings to fixed charges on a pro forma basis for the year ended December 31, 2000 and the three months ended March 31, 2001 as if the EDS transaction, the repayment of borrowings using proceeds from the EDS transaction and existing cash balances and the offering of the notes had occurred at the beginning of the periods indicated is also presented in the table below. 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. The ratio of earnings to fixed charges for 1997 and 1996 has not been revised for the effects of presenting the results of operations of the information technology outsourcing business as a discontinued operation. Pro forma earnings for the year ended December 31, 2000 were inadequate to cover pro forma fixed charges by $18.6 million.

	YEAR ENDED DECEMBER 31,				
	2000	2000 PRO FORMA	1999	1998	1997
Ratio of earnings to fixed charges........	4.47	0.53	23.58	15.41	10.48

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the Company's consolidated financial statements and notes thereto included herein.

SUMMARY

The Company generates its revenue from continuing operations by providing travel marketing and distribution services to travel agencies, corporate travel departments and travel suppliers using the SABRE system, to consumers using the Travelocity.com Web sites and to businesses using GetThere products, from the development and marketing of airline solutions and from products and services offered by our emerging businesses unit, which identifies and evaluates new business concepts, potential partnerships, and mergers and acquisition opportunities. During the three months ended March 31, 2001, the Company generated approximately 80.3% of its revenue from Travel Marketing and Distribution services, approximately 9.6% from Travelocity.com, 1.9% from

GetThere and 8.2% from Airline Solutions and Emerging Businesses. The Company's consolidated operating margins for continuing operations were 7.8% and 15.9% for the three months ended March 31, 2001 and 2000, respectively. During 2000, the Company generated approximately 82.8% of its revenue from Travel Marketing and Distribution services, approximately 7.4% from Travelocity.com, 0.6% from GetThere and 9.2% from Airline Solutions and Emerging Businesses. The Company's consolidated operating margins for continuing operations were 8.9%, 18.0% and 19.0% for the years ended December 31, 2000, 1999 and 1998, respectively.

For the three years ended December 31, 2000, total operating expenses have increased $503 million, or 39.8% from $1,265 million in 1998 to $1,768 million in 2000 due to the Company's growth, business acquisitions and the incremental costs of the Company's Y2K efforts. The Company's primary expenses consist of salaries, benefits, other employee-related costs, depreciation and amortization, communication costs and customer incentives.

EDS TRANSACTION

Effective on July 1, 2001, the Company and EDS completed the sale of the Company's information technology outsourcing business contracts, Web hosting contracts, and information technology infrastructure assets and associated real estate to EDS for approximately $661 million in cash. See "Recent Developments--EDS Transaction" and Note 2 to the Consolidated Financial Statements for additional information regarding this transaction.

The assets transferred included the Company's outsourcing contracts with American Airlines, US Airways, Gulf Air, and Dollar/Thrifty Rent-A-Car, and data centers, network and desktop and mid-range computer systems. Those assets were used for the Company's outsourcing business and for transaction processing in its travel marketing and distribution segment, including the operation of the SABRE global distribution system. Approximately 4,000 of the Company's employees, located mostly in the United States, were transitioned to employment with EDS upon closing of the transaction.

The Company retained its core travel marketing and distribution business, including the line of business related to contracts with travel suppliers and travel agency subscribers for participation in the Sabre system; the Company's investment in the Travelocity.com consumer on-line business and GetThere corporate on-line booking business; and contracts with travel suppliers, travel agencies and online travel sites for Web site development and booking engine services. The Company plans to continue to focus its business on remaining a global leader in all significant channels of travel distribution.

The Company also retained contracts and assets that are directly related to its core travel marketing and distribution business. Those include its multihost business, which provides internal reservation systems for airline customers; contracts to provide software applications development, maintenance and licensing; the Company's intellectual property assets, including its software applications portfolios; and the eMergo suite of airline solutions offered by the Company as an online application service provider.

Under the information technology outsourcing agreement, EDS will provide, manage and operate the Company's information technology infrastructure, including data center management, applications hosting, selected applications development, data assurance, and network management services. The term of the information technology outsourcing agreement is ten years. The information technology outsourcing agreement is expected to generate future cost savings for the Company.

Under the marketing agreements, the Company and EDS will jointly market certain information technology services and software solutions to the travel and transportation industries. As part of the marketing relationship, EDS will contribute $20 million toward enhancing and promoting the Company's portfolio of airline software solutions. EDS has also agreed to move its travel bookings to the Company's SABRE system and to implement the Company's GetThere corporate booking platform in its organization. For further information about the transaction with EDS and the financial statement presentation of discontinued operations, see Note 2 to the Consolidated Financial Statements.

SEASONALITY

The travel industry is seasonal in nature. Bookings, and thus fees charged for the use of the SABRE system, decrease significantly each year in the fourth quarter, primarily in December, due to early bookings by customers for travel during the holiday season and a decline in business travel during the holiday season. See Note 16 to the Consolidated Financial Statements for further information on quarterly financial results. The following table sets forth quarterly financial data for the Company (in millions, except per share data and percentages):

2000	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	F QU
Revenues	$479.1	$501.4	$495.6	$
Operating income (loss)	$ 76.3	74.9	60.8	
Operating margin	15.9%	14.9%	12.3%	
Income from continuing operations, pre-tax	$ 83.2	$ 83.2	$ 66.2	$
Income from discontinued operations, net	$ 16.3	$ 15.9	$ 4.4	$
Net earnings (loss)	$ 65.6	$ 63.4	$ 44.4	$
Depreciation and amortization	$ 47.8	$ 60.4	$ 62.1	$
EBITDA(1)	$127.8	$146.4	$131.4	$
EBITDA Margin(1)	26.7%	29.2%	26.5%	
Direct reservations booked using the SABRE system	106	103	98	
Total reservations booked using the SABRE system	126	122	117	

1999	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	F QU
Revenues	$439.1	$446.3	$435.1	$
Operating income	91.5	96.4	78.7	
Operating margin	20.8%	21.6%	18.1%	
Income from continuing operations, pre-tax	128.3	100.2	83.8	
Income from discontinued operations, net	$ 12.7	$ (0.3)	$ 25.9	$
Net earnings	$ 92.7	$ 63.5	$ 78.5	$
Depreciation and amortization	44.4	47.8	39.6	
EBITDA(1)	135.9	144.3	118.2	
EBITDA Margin(1)	30.9%	32.3%	27.2%	
Direct reservations booked using the SABRE system	99	97	94	

Total reservations booked using the SABRE system...........	116	115	112

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(1) Earnings before interest, taxes, depreciation and amortization, or EBITDA, from continuing operations consists of the sum of income from continuing operations before provision for income taxes; net interest expense; depreciation and amortization and other income (expense), net. EBITDA is not a measure of income or cash flows in accordance with generally accepted accounting principles, but is a supplemental financial indicator as to our ability to service or incur debt. EBITDA is not presented as an indicator of cash available for discretionary spending. EBITDA may not be comparable to other similarly titled measures of other companies. EBITDA should not be considered in isolation or as a substitute for net income, operating cash flow or any other measure of financial performance prepared in accordance with generally accepted accounting principles or as a measure of our profitability or liquidity. EBITDA margin is calculated by dividing EBITDA by revenues for the applicable period.

AGREEMENTS WITH AMR AND AMERICAN AIRLINES

The Company, AMR and American Airlines have various agreements, collectively referred to as the "AMR Agreements". These agreements include an agreement for the provision of marketing support by American Airlines for certain of the Company's products, an agreement for the provision of management services by American Airlines to the Company, agreements for the provision of travel services by American Airlines to the Company and its employees. The rates under the agreements are adjusted or renegotiated from time to time, and current rates may represent an increase or decrease over previous rates. The financial terms of the AMR Agreements were applied to the Company's operations commencing January 1, 1996.

The Company entered into an information technology services agreement with American Airlines (the "Technology Services Agreement") to provide American Airlines with certain information technology services. The base term of the Technology Services Agreement expires June 30, 2006. The Technology Services Agreement and related information technology assets and personnel have been transferred to EDS as part of the EDS Transaction (see Note 2 to the Consolidated Financial Statements). Substantially all of the services under the Technology Services Agreement will now be provided by EDS. The Company may receive additional payments from EDS for those assets, depending on the amount of revenues received by EDS under the Technology Services Agreement. The terms of the services to be provided to American Airlines by EDS, however, vary. Certain software applications development and maintenance services were retained by the Company under a new agreement with American Airlines. The Company also transferred to American Airlines approximately 200 employees who had been providing dedicated support services.

S-29

RESULTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2001 COMPARED TO THE THREE MONTHS ENDED MARCH 31, 2000

REVENUES. Total revenues for the three months ended March 31, 2001 increased approximately $94 million, 19.6%, compared to the three months ended March 31, 2000, from $479 million to $573 million. Travel Marketing and Distribution revenue from external customers increased $45 million, 10.8%. This increase was primarily due to a $37 million increase from booking and other fees from associates while revenues from other products grew $8 million.

Travelocity.com increased revenues from external customers approximately $36 million, 189.5%. Transaction revenues from associates increased $26 million due to growth in booking volumes, and advertising and license fee revenues grew by $10 million. GetThere revenues from external customers increased $10 million, 650%, resulting from the combination of GetThere with the Company's existing Business Travel Solutions business in October 2000. Supplier revenue, which consists of services provided to airlines, such as United and TWA, for hosting their consumer Web sites, increased $5 million. GetThere also increased corporate and other revenue $5 million, due to increases in trip fees and revenues from partnerships with agencies such as American Express and other on-line customers. Airline Solutions and Emerging Businesses increased revenues from external customers approximately $3 million, 6.8%, due to increases in license fee revenues.

COST OF REVENUES. Cost of revenues for the three months ended March 31, 2001 increased approximately $39 million, 12.0%, compared to the three months ended March 31, 2000, from $324 million to $363 million. Approximately $20 million of this increase was driven by higher Travel Marketing and Distribution expenses for data processing, software development labor and subscriber incentives. The additional $19 million of the increase was primarily due to increased salaries, benefits and employee related expenses resulting from growth in Travelocity.com and the acquisition of GetThere.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses for the three months ended March 31, 2001 increased $28 million, 38.4%, compared to the three months ended March 31, 2000, from $73 million to $101 million. The increase is primarily due to the amortization of payments made by Travelocity.com to strategic distribution partners such as America Online, Inc., Yahoo! Inc. and others. The increase was also partially due to higher advertising and promotion costs to support the growth of Travelocity.com and other selling and administrative expenses to support the Company's growth.

AMORTIZATION OF GOODWILL AND INTANGIBLE ASSETS. Amortization of goodwill and intangible assets was $65 million for the three months ended March 31, 2001 compared to $6 million for the three months ended March 31, 2000. Goodwill and intangible assets of approximately $1 billion were recorded in connection with the merger in 2000 of Travelocity.com and Preview Travel; the acquisitions in 2000 of GetThere, Gradient Solutions Limited and a 51% interest in Dillon Communications Systems and the acquisition of Sabre Pacific in March 2001. The acquired goodwill and intangible assets are being amortized over periods ranging from one to seven years.

OPERATING INCOME. Operating income decreased $31 million, 40.8%, from $76 million to $45 million. Operating margins decreased from 15.9% in 2000 to 7.8% in 2001 as the 19.6% increase in revenues was more than offset by a 31.2% increase in operating expenses.

INTEREST INCOME. Interest income decreased $3 million due to lower average balances maintained in the Company's investment accounts.

S-30

INTEREST EXPENSE. Interest expense increased $13 million due to interest expense on the $859 million of debt incurred during 2000 related to the payment of the $675 million cash dividend in February 2000 and the acquisition of GetThere in October 2000.

OTHER INCOME (EXPENSE), NET. Other, net, in 2001 is primarily composed of unrealized losses on warrants to purchase shares of Hotel Reservation Network common stock held by the Company.

MINORITY INTEREST. The minority interest includes minority owners' interests in the results of operations of consolidated subsidiaries of the Company, primarily Travelocity.com. The increase in losses attributable to minority interest is due to an increase in the net loss of Travelocity.com combined with minority interests participating in the loss of Travelocity.com for the entire period during 2001.

INCOME TAXES. The provision for income taxes was $30 million and $34 million for the three months ended March 31, 2001 and 2000, respectively. The decrease in the provision for income taxes corresponds with the decrease in net income before the provision for income taxes combined with the benefit of an estimated research and experimentation credit partially offset by the impact of nondeductible goodwill amortization expense of $65 million.

DISCONTINUED OPERATIONS. Revenues from discontinued operations for the three months ended March 31, 2001 increased approximately $15 million, 9.0%, compared to the three months ended March 31, 2000, from $166 million to $181 million. The increase in revenues was primarily due to higher applications development revenues from American. Net earnings from discontinued operations for the three months ended March 31, 2001 decreased approximately $2 million, 12.5%, compared to the three months ended March 31, 2000, from $16 million to $14 million due to higher US Airways option amortization expense. Discontinued operations have been fully allocated with selling, general and administrative expenses to be representative of the business as it operated during the relevant period. Some of the selling, general and administrative expenses historically allocated to the information technology outsourcing business may still be incurred as part of continuing operations in the future. The amount of such costs is not currently estimable.

2000 COMPARED TO 1999

REVENUES. Total revenues from continuing operations for the year ended December 31, 2000 increased approximately $242 million, 14.2%, compared to the year ended December 31, 1999, from $1,699 million to $1,941 million. Travel Marketing and Distribution revenue increased $168 million, 11.7%. This increase was primarily due to a $154 million increase from booking and other fees from associates while revenues from other products grew $14 million. Travelocity.com increased revenues approximately $104 million, 257.9% due to increases in transaction revenue from growth in booking volumes, and advertising and license fee revenues. GetThere revenues increased approximately $10 million, 453.9%, resulting primarily from the combination of GetThere with the Company's existing Business Travel Solutions business in October 2000. Supplier revenue, which consists of services provided to air travel providers, such as United and TWA, for hosting their consumer Web sites, increased $5 million. GetThere also increased corporate and other revenue approximately $5 million, due to increases in trip fees and revenues from partnerships with agencies such as American Express and other on-line customers. Airline Solutions and Emerging Businesses revenues decreased approximately $40 million, 18.3%, due primarily to decreases in applications development performed on behalf of various work travel providers.

COST OF REVENUES. Cost of revenues for the year ended December 31, 2000 increased approximately $106 million, 8.8%, compared to the year ended December 31, 1999, from $1,211 million to $1,317 million. Approximately $32 million of this inc