

SABRE HOLDINGS CORP
Form 10-Q
November 15, 2002

Use these links to rapidly review the document

[INDEX](#)

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2002.

OR

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

For the Transition Period From _____ To _____

Commission file number 1-12175.

SABRE HOLDINGS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or
organization)

75-2662240

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

3150 Sabre Drive Southlake, Texas

(Address of principal executive offices)

76092

(Zip Code)

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

Not Applicable

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

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

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

Edgar Filing: SABRE HOLDINGS CORP - Form 10-Q

Class A Common Stock, \$.01 par value 142,677,179 as of November 7, 2002

INDEX
SABRE HOLDINGS CORPORATION

PART I:	<u>FINANCIAL INFORMATION</u>	3
Item 1.	<u>Financial Statements (Unaudited)</u>	3
	<u>Consolidated Balance Sheets September 30, 2002 and December 31, 2001</u>	3
	<u>Consolidated Statements of Income Three and nine months ended September 30, 2002 and 2001</u>	4
	<u>Condensed Consolidated Statement of Stockholders' Equity Nine months ended September 30, 2002</u>	5
	<u>Consolidated Statements of Cash Flows Nine months ended September 30, 2002 and 2001</u>	6
	<u>Notes to Consolidated Financial Statements</u>	7
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	29
Item 4.	<u>Controls and Procedures</u>	44
PART II:	<u>OTHER INFORMATION</u>	44
Item 1.	<u>Legal Proceedings</u>	44
Item 5.	<u>Other Information</u>	44
Item 6.	<u>Exhibits and Reports on Form 8-K</u>	46
	<u>SIGNATURE</u>	47
	<u>Certifications</u>	48

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	<u>September 30,</u> <u>2002</u>	<u>December 31,</u> <u>2001</u>
Assets		
Current assets		
Cash	\$ 31,786	\$ 18,855
Marketable securities	824,997	648,032
Accounts receivable, net	347,451	327,816

Edgar Filing: SABRE HOLDINGS CORP - Form 10-Q

	September 30, 2002	December 31, 2001
Prepaid expenses and other current assets	98,815	51,565
Deferred income taxes	15,019	45,970
Total current assets	1,318,068	1,092,238
Property and equipment		
Buildings and leasehold improvements	157,549	254,487
Furniture, fixtures and equipment	42,492	49,845
Computer equipment	208,994	189,298
	409,035	493,630
Less accumulated depreciation and amortization	(181,139)	(205,181)
Total property and equipment	227,896	288,449
Deferred income taxes		19,611
Investments in joint ventures	183,681	169,949
Goodwill and intangible assets, net	864,939	672,145
Other assets, net	180,779	133,625
Total assets	\$ 2,775,363	\$ 2,376,017
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	\$ 174,096	\$ 158,839
Accrued compensation and related benefits	57,449	73,274
Accrued subscriber incentives	74,328	89,337
Deferred revenues	45,905	42,389
Other accrued liabilities	175,944	200,617
Total current liabilities	527,722	564,456
Deferred income taxes	6,936	
Pensions and other postretirement benefits	82,598	88,756
Notes payable	435,109	400,375
Other liabilities	52,709	60,938
Minority interests	10,904	219,716
Commitments and contingencies		
Stockholders' equity		
Preferred stock: \$0.01 par value; 20,000 shares authorized; no shares issued		
Class A common stock, \$0.01 par value; 250,000 shares authorized; 144,907 and 133,911 shares issued at September 30, 2002 and December 31, 2001, respectively	1,449	1,351
Additional paid-in capital	1,275,443	818,742
Retained earnings	441,259	227,986
Accumulated other comprehensive income	4,596	3,176
Less treasury stock at cost: 2,509 and 384 shares, respectively	(63,362)	(9,479)
Total stockholders' equity	1,659,385	1,041,776
Total liabilities and stockholders' equity	\$ 2,775,363	\$ 2,376,017

See Notes to Consolidated Financial Statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
Revenues	\$ 510,645	\$ 524,829	\$ 1,582,741	\$ 1,680,278
Operating expenses				
Cost of revenues	290,305	321,641	864,037	1,014,923
Selling, general and administrative	119,650	130,308	366,822	372,881
Amortization of goodwill and intangible assets	13,216	70,775	40,110	207,060
Total operating expenses	423,171	522,724	1,270,969	1,594,864
Operating income	87,474	2,105	311,772	85,414
Other income (expense)				
Interest income	7,159	8,086	21,726	15,596
Interest expense	(5,633)	(5,869)	(16,897)	(34,470)
Other, net	1,920	47,619	22,973	39,765
Total other income	3,446	49,836	27,802	20,891
Minority interests	(349)	5,038	(390)	17,209
Income from continuing operations before income taxes	90,571	56,979	339,184	123,514
Provision for income taxes	32,650	39,689	125,911	100,760
Income from continuing operations	57,921	17,290	213,273	22,754
Income from discontinued operations, net				36,305
Gain on sale of discontinued operations, net		38,772		38,772
Income before cumulative effect of change in accounting method	57,921	56,062	213,273	97,831
Cumulative effect of change in accounting method, net of minority interests and income taxes				3,103
Net earnings	\$ 57,921	\$ 56,062	\$ 213,273	\$ 100,934
Earnings per common share basic				
Income from continuing operations	\$.40	\$.13	\$ 1.53	\$.17
Income from discontinued operations		.29		.57
Cumulative effect of change in accounting method				.02
Net earnings	\$.40	\$.42	\$ 1.53	\$.76
Earnings per common share diluted				
Income from continuing operations	\$.40	\$.13	\$ 1.50	\$.17
Income from discontinued operations		.29		.56

Edgar Filing: SABRE HOLDINGS CORP - Form 10-Q

	Three Months Ended September 30,		Nine Months Ended September 30,	
Cumulative effect of change in accounting method				.02
Net earnings	\$.40	\$.42	\$ 1.50	\$.75

See Notes to Consolidated Financial Statements

4

SABRE HOLDINGS CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
NINE MONTHS ENDED SEPTEMBER 30, 2002
(Unaudited) (In thousands)

	Class A Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total
Balance at December 31, 2001	\$ 1,351	\$ 818,742	\$ 227,986	\$ 3,176	\$ (9,479)	\$ 1,041,776
Issuance of 1,358 shares of Class A common stock pursuant to stock option, restricted stock incentive and stock purchase plans	14	36,048			2,727	38,789
Issuance of 9,430 shares of Class A common stock in an underwritten public offering	94	399,884				399,978
Purchase of treasury shares					(56,610)	(56,610)
Settlement of warrants issued in connection with business combinations		(15,972)				(15,972)
Conversion of vested employee options pursuant to the acquisition of the Travelocity minority interest		14,209				14,209
Tax benefit from exercise of employee stock options		9,686				9,686
Stock based compensation for employees		12,870				12,870
Comprehensive income:						
Net earnings			213,273			213,273
Unrealized gain on foreign currency forward contracts, net of deferred income taxes				3,085		3,085
Unrealized loss on investments, net of deferred income taxes				(1,793)		(1,793)
Unrealized foreign currency translation gain				128		128
Total comprehensive income						214,693
Other	(10)	(24)				(34)
Balance at September 30, 2002	\$ 1,449	\$ 1,275,443	\$ 441,259	\$ 4,596	\$ (63,362)	\$ 1,659,385

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

	Nine Months Ended September 30,	
	2002	2001
Operating Activities		
Net earnings	\$ 213,273	\$ 100,934
Adjustments to reconcile net earnings to cash provided by operating activities:		
Depreciation and amortization	86,174	351,176
Stock compensation	27,079	5,844
Deferred income taxes	78,957	(86,329)
Tax benefit from exercise of stock options	9,686	17,472
Minority interests	390	(17,209)
Gain on sale of former headquarters building	(18,308)	
Gain on sale of discontinued operations, net		(38,772)
Gain on sale of Equant shares		(47,303)
Cumulative effect of change in accounting method, net		(3,103)
Other	(16,496)	723
Changes in operating assets and liabilities:		
Accounts receivable	(49,314)	93,491
Prepaid expenses	(43,654)	(9,537)
Other assets	(30,639)	(35,861)
Accrued compensation and related benefits	(15,826)	(14,167)
Accounts payable and other accrued liabilities	(13,446)	238,622
Pensions and other postretirement benefits	(6,158)	(20,373)
Other liabilities	(23,074)	(17,715)
	198,644	517,893
Cash provided by operating activities		
Investing Activities		
Additions to property and equipment	(43,119)	(133,231)
Business combinations, net of cash acquired	(483,426)	(45,956)
Proceeds from exercise of Travelocity.com stock options	33,658	
Proceeds from sale of former headquarters building	80,000	
Purchase of data center facility from lessor	(92,092)	
Proceeds from sale of data center facility	68,464	
Proceeds from sale of minority interest in Sabre Pacific	23,466	
Proceeds from sale of discontinued operations		660,763
Purchases of marketable securities	(3,279,509)	(2,750,862)
Sales of marketable securities	3,102,936	2,075,802
Proceeds from sales of investments	4,444	83,907
Other investing activities, net	17,398	(28,721)
	(567,780)	(138,298)
Cash used for investing activities		
Financing Activities		
Proceeds from issuance of common stock	438,767	93,904
Proceeds from issuance of notes payable		397,391
Purchases of treasury stock	(56,610)	(6,410)

Edgar Filing: SABRE HOLDINGS CORP - Form 10-Q

	<u>Nine Months Ended September 30,</u>	
Payment of notes payable		(859,000)
Other financing activities, net	(90)	
	<u>382,067</u>	<u>(374,115)</u>
Cash provided by (used for) financing activities		
Increase in cash	12,931	5,480
Cash at beginning of period	18,855	7,778
	<u>\$ 31,786</u>	<u>\$ 13,258</u>
Cash at end of period		

See Notes to Consolidated Financial Statements

6

SABRE HOLDINGS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. General Information

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

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

2. Summary of Significant Accounting Policies

Basis of Presentation The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, these financial statements contain all adjustments, consisting of normal recurring accruals, necessary to present fairly the financial position, results of operations and cash flows for the periods indicated. The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Operating results for the three and nine months ended September 30, 2002 are not necessarily indicative of results that may be expected for any other interim period or for the year ended December 31, 2002. Our quarterly financial data should be read in conjunction with our consolidated financial statements for the year ended December 31, 2001 (including the notes thereto), set forth in Sabre Holdings Corporation's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 28, 2002.

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

Recent Accounting Pronouncements In June 2001, the Financial Accounting Standards Board ("FASB") issued Statements of Financial Accounting Standards No. 141, *Business Combinations* ("FAS 141"), and No. 142, *Goodwill and Other Intangible Assets* ("FAS 142"), effective for fiscal years beginning after Decem