

SABRE HOLDINGS CORP
Form 10-Q
August 06, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2004.

OR

o

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

For the Transition Period From To

Commission file number 1-12175.

SABRE HOLDINGS CORPORATION

(Exact name of registrant as specified in its charter)

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

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

Class A Common Stock, \$.01 par value 137,252,826 as of July 30, 2004

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

SABRE HOLDINGS CORPORATION

CONSOLIDATED BALANCE SHEETS

(Unaudited) (In thousands)

	June 30, 2004		December 31, 2003	
Assets				
Current assets				
Cash	\$	31,702	\$	40,862
Marketable securities		988,782		881,749
Accounts receivable, net		373,680		348,988
Prepaid expenses		68,658		86,475
Deferred income taxes		18,836		10,237
Total current assets		1,481,658		1,368,311
Property and equipment				
Buildings and leasehold improvements		306,195		306,294
Furniture, fixtures and equipment		35,679		36,684
Computer software and equipment		308,735		275,664
		650,609		618,642
Less accumulated depreciation and amortization		(263,692)		(234,262)
Total property and equipment		386,917		384,380
Investments in joint ventures		182,556		181,142
Goodwill and intangible assets, net		861,102		888,198
Other assets, net		136,630		134,122
Total assets	\$	3,048,863	\$	2,956,153
Liabilities and stockholders' equity				
Current liabilities				
Accounts payable	\$	252,894	\$	202,615
Accrued compensation and related benefits		58,264		62,557
Accrued subscriber incentives		93,988		70,178
Deferred revenues		37,356		34,791
Other accrued liabilities		174,624		133,254
Total current liabilities		617,126		503,395
Deferred income taxes		7,188		4,420
Pensions and other postretirement benefits		139,070		133,404
Other liabilities		25,796		25,162

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Minority interests		6,278		6,463
Capital lease obligation		157,549		160,725
Public and other notes payable		432,265		442,476
Commitments and contingencies				
Stockholders equity				
Preferred stock: \$0.01 par value; 20,000 shares authorized; no shares issued				
Class A common stock, \$0.01 par value; 250,000 shares authorized; 145,856 and 145,652 shares issued at June 30, 2004 and December 31, 2003, respectively		1,459		1,457
Additional paid-in capital		1,286,276		1,291,841
Retained earnings		576,440		495,372
Accumulated other comprehensive loss		(16,928)		(8,115)
Less treasury stock at cost: 7,986 and 4,322 shares, respectively		(183,656)		(100,447)
Total stockholders equity		1,663,591		1,680,108
Total liabilities and stockholders equity	\$	3,048,863	\$	2,956,153

See Notes to Consolidated Financial Statements

SABRE HOLDINGS CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited) (In thousands, except per share amounts)

	Three Months Ended June 30,				Six Months Ended June 30,			
	2004		2003		2004		2003	
Revenues	\$	550,903	\$	507,189	\$	1,090,656	\$	1,051,022
Cost of revenues		307,777		318,303		619,292		629,908
Gross profit		243,126		188,886		471,364		421,114
Other operating expenses								
Selling, general and administrative		139,455		136,400		286,084		252,247
Amortization of intangible assets		15,228		12,094		27,349		24,581
Total other operating expenses		154,683		148,494		313,433		276,828
Operating income		88,443		40,392		157,931		144,286
Other income (expense)								
Interest income		3,306		3,973		6,541		8,379
Interest expense		(6,431)		(5,300)		(12,858)		(10,772)
Other, net		6,057		(29,909)		6,485		(30,102)
Total other income (expense)		2,932		(31,236)		168		(32,495)
Income before provision for income taxes		91,375		9,156		158,099		111,791
Provision for income taxes		32,438		2,340		56,125		40,096
Net earnings	\$	58,937	\$	6,816	\$	101,974	\$	71,695
Earnings per common share								
Basic	\$	.43	\$	.05	\$	.74	\$	.50
Diluted	\$	.42	\$	.05	\$	.73	\$	.50
Dividends per common share	\$	.075	\$	.07	\$	.15	\$	.07

See Notes to Consolidated Financial Statements

SABRE HOLDINGS CORPORATION

CONSOLIDATED CONDENSED STATEMENT OF STOCKHOLDERS EQUITY

SIX MONTHS ENDED JUNE 30, 2004

(Unaudited) (In thousands)

	Class A Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
Balance at December 31, 2003	\$ 1,457	\$ 1,291,841	\$ 495,372	\$ (8,115)	\$ (100,447)	\$ 1,680,108
Issuance of Class A common stock and treasury shares pursuant to:						
Stock option plans		(719)			8,767	8,048
Restricted stock plan	2	(11,342)			10,586	(754)
Employee stock purchase plan		(865)			4,373	3,508
Tax benefit from exercise of employee stock options		910				910
Stock based compensation for employees		6,433				6,433
Dividends			(20,906)			(20,906)
Purchase of treasury stock					(106,935)	(106,935)
Other		18				18
Comprehensive income:						
Net earnings			101,974			101,974
Unrealized loss on foreign currency forward and option contracts, net of deferred income taxes				(3,829)		(3,829)
Unrealized loss on investments, net of deferred income taxes				(2,368)		(2,368)
Unrealized foreign currency translation loss				(2,026)		(2,026)
Other				(590)		(590)
Total comprehensive income						93,161
Balance at June 30, 2004	\$ 1,459	\$ 1,286,276	\$ 576,440	\$ (16,928)	\$ (183,656)	\$ 1,663,591

See Notes to Consolidated Financial Statements.

SABRE HOLDINGS CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited) (In thousands)

	Six Months Ended June 30,	
	2004	2003
Operating Activities		
Net earnings	\$ 101,974	\$ 71,695
Adjustments to reconcile net earnings to cash provided by operating activities:		
Depreciation and amortization	64,415	61,736
Stock based compensation for employees	6,433	9,259
Deferred income taxes	(5,831)	(5,949)
Tax benefit from exercise of stock options	910	265
Loss on impaired intangible asset	3,198	
Gain on disposal of equipment	(903)	
Equity loss in joint ventures	7,621	3,849
Loss on refinancing of building		27,947
Other	(3,775)	1,180
Changes in operating assets and liabilities:		
Accounts receivable	(24,692)	(63,129)
Prepaid expenses	11,617	(3,492)
Other assets	12,804	19,158
Accrued compensation and related benefits	(4,293)	(16,711)
Accounts payable and other accrued liabilities	113,901	48,313
Pensions and other postretirement benefits	5,075	(1,716)
Other liabilities	(2,103)	(2,465)
Cash provided by operating activities	286,351	149,940
Investing Activities		
Additions to property and equipment	(35,908)	(39,589)
Business combinations, net of cash acquired		(11,868)
Investments in and loans to joint ventures	(32,934)	(10,068)
Purchases of marketable securities	(4,138,162)	(4,460,154)
Sales of marketable securities	4,030,234	4,414,602
Other investing activities	(5,000)	4,196
Cash used for investing activities	(181,770)	(102,881)
Financing Activities		
Proceeds from exercise of stock options and issuance of stock under employee stock purchase plan	10,802	706
Dividends paid	(20,906)	(10,029)
Purchases of treasury stock	(101,925)	
Payment to refinance building		(27,947)
Other financing activities, net	(1,712)	(2,030)
Cash used for financing activities	(113,741)	(39,300)
Increase (decrease) in cash	(9,160)	7,759
Cash at beginning of period	40,862	21,176
Cash at end of period	\$ 31,702	\$ 28,935

See Notes to Consolidated Financial Statements

SABRE HOLDINGS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. General Information

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

We are a world leader in travel commerce, marketing travel products and providing distribution and technology solutions for the travel industry. We operate in multiple travel distribution channels: the travel agency channel, the consumer-direct channel and the corporate or business-direct channel. Through our *Sabre*®(1) global distribution system (the *Sabre* system or *Sabre* GDS) subscribers can access information about, and can book reservations for, among other things, airline trips, hotel stays, car rentals, cruises and tour packages. Our *Sabre Travel Network* business operates the *Sabre* GDS and markets and distributes travel-related products and services through the travel agency and corporate channels. We engage in consumer-direct and business-direct travel marketing and distribution through our *Travelocity*® business. In addition, our *Sabre Airline Solutions* business is a leading provider of technology and services, including development and consulting services, to airlines and other travel providers.

During the fourth quarter of 2003, we realigned our *GetThere*® business segment, which engaged in business direct travel services and had previously been operated as a separate business segment, within our other three segments. This realignment resulted in *GetThere* products, services and operations being integrated into the remaining three segments. Accordingly, *GetThere* is no longer reported as a separate segment. Disaggregated information relating to the financial performance of our business segments for the three and six months ended June 30, 2004 and 2003 is presented in Note 7 to the Consolidated Financial Statements.

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 six months ended June 30, 2004 are not necessarily indicative of results that may be expected for any other interim period or for the year ended December 31, 2004. Our quarterly financial data should be read in conjunction with our consolidated financial statements for the year ended December 31, 2003 (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 27, 2004.

We consolidate all of our majority-owned subsidiaries and companies that are not variable interest entities over which we exercise control through majority voting rights. We would also consolidate all variable interest entities of which we are the primary beneficiary. However, no entities are currently consolidated due to control through operating, financing agreements, or other arrangements (including variable interests held in variable interest entities).

(1) Assured Vantage, Basic Booking Request, Direct Connect, eMergo, eVoya, GetThere, Jurni Network, Nexion, Sabre, Sabre Airline Solutions, Sabre Exclusives, Sabre Holdings, Sabre Travel Network, SabreSonic, Site 59, Site59.com, TotalTrip, Travelocity, Travelocity Business, Travelocity.ca, Travelocity.com, Turbo Sabre and World Choice Travel are trademarks of affiliates of Sabre Holdings Corporation. All other trademarks are the property of their respective owners. ©2004 Sabre Holdings Corporation. All rights reserved.

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

Reclassifications Certain reclassifications have been made to the 2003 financial statements to conform to the 2004 presentation. These reclassifications are not material, either individually or in the aggregate, to our financial statements.

Earnings Per Share Basic earnings per share excludes any dilutive effect of any stock awards or options. The number of shares used in the diluted earnings per share calculations includes the dilutive effect of any stock awards or options.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Denominator for basic earnings per common share weighted-average shares	137,397	142,367	138,309	142,339
Dilutive effect of stock awards and options	2,583	741	1,497	480
Denominator for diluted earnings per common share adjusted weighted-average shares	139,980	143,108	139,806	142,819

Options to purchase approximately 13,512,386 and 15,628,627 weighted-average shares of our common stock were outstanding during the three and six month periods ending June 30, 2004, but were excluded from the computation of diluted earnings per share because the effect would be anti-dilutive. For the corresponding periods in 2003, anti-dilutive options to purchase approximately 16,428,401 and 17,644,523 weighted-average shares of our common stock were excluded from the computation of diluted earnings per share. The decrease in the weighted-average shares for the three and six month periods ending June 30, 2004 versus 2003 is due to our share repurchase programs.

Stock Awards and Options We account for stock awards and stock option grants using the intrinsic value method set forth in Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25), and related interpretations. Generally, no compensation expense is recognized for stock option grants to employees if the exercise price is at or above the fair market value of the underlying stock on the date of grant. Compensation expense relating to other stock awards is recognized over the period during which the employee renders service to us necessary to earn the award.

The following table summarizes the pro forma effect of stock-based compensation on our net earnings and net earnings per share for the three and six months ended June 30, 2004 and 2003, as if we had accounted for such compensation at fair value (in thousands, except per share data):

	Three Months Ended June 30,				Six Months Ended June 30,			
	2004		2003		2004		2003	
Net earnings as reported	\$	58,937	\$	6,816	\$	101,974	\$	71,695
Add stock compensation expense determined under intrinsic value method, net of income taxes		1,889		2,849		3,972		5,719
Less total stock-based employee compensation expense determined under fair value based method for all awards, net of income taxes		(7,978)		(10,062)		(16,266)		(21,616)
Pro forma net earnings (loss)	\$	52,848	\$	(397)	\$	89,680	\$	55,798
Net earnings per common share, as reported:								
Basic	\$	.43	\$	.05	\$	.74	\$	