SABRE HOLDINGS CORP
Form 10-K
February 23, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2006

OR

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

Commission file number: 1-12175

SABRE HOLDINGS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**75-2662240**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3150 Sabre Drive, Southlake, TX	**76092**
(Address of principal executive offices)	(Zip Code)

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

None

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

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

Title of each class	Name of each exchange on which registered
Class A Common Stock, $.01 par value per share	New York Stock Exchange

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes o No x.

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer x Accelerated filer o Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

As of June 30, 2006, the aggregate market value of the registrant s common stock held by non-affiliates of the registrant was $2,845,891,356 based on the closing sale price of $22.00 as reported on the New York Stock Exchange.

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

Class	**Outstanding at February 20, 2007**
Common Stock, $.01 par value per share	133,799,727 shares

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PART I

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

ITEM 1. BUSINESS

Overview

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

We are a world leader in travel commerce. Our companies and brands offer a broad portfolio of leading travel marketing, distribution and technology solutions. We support airlines, hotels, cruise lines, car rental agencies and other travel suppliers through a distribution network that enables global marketing through tens of thousands of points of sale, sophisticated data gathering and analysis, and robust business optimization tools. We support online and conventional travel agencies, corporate travel purchasers and consumers by providing an efficient electronic marketplace that consolidates a wealth of travel information, and facilitates shopping and purchasing of travel components and packages. We participate in travel distribution and marketing to multiple audiences through different methods we refer to as channels. These channels include travel agencies, direct to consumers, and corporate or business-direct.

We organize our businesses into three segments:

- Travelocity
- Sabre Travel Network
- Sabre Airline Solutions

In 2006, approximately 36.2% of our revenue was generated from Travelocity, 54.4% from Sabre Travel Network and 9.4% from Sabre Airline Solutions, based on segment results that include intersegment revenues. Compared to the year-ago period, revenues (including intersegment revenues) for the twelve months ended December 31, 2006 increased 30.5% for Travelocity (including lastminute.com from July 20, 2005), 1.3% for Sabre Travel Network and 8.3% for Sabre Airline Solutions.

Travelocity: Our Travelocity segment markets and distributes travel-related products and services directly to individuals, including leisure travelers and business travelers. Our *Travelocity®*[1]*, lastminute.com*SM and *Zuji.com*SM branded websites and contact centers constitute one of the largest travel agencies in the world. We also provide content and functionality to, and market and sell products and services through private-label websites for suppliers, distribution partners and travel agencies. Through our offerings, travelers can access offerings, pricing and information about airlines, hotels, car rental companies, cruise lines, vacation and last-minute travel packages and other travel-related services. Our *Travelocity Business®* online corporate travel agency provides business travelers the corporate travel technology and full-service offering of our *GetThere®* products along with the online expertise of Travelocity.

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1 ClientBase, eMergo, GetThere, Holiday Autos, holidayautos.com, Hotel Spotlight, IgoUgo, Jurni Network, lastminute.com, medhotels.com, MySabre, Nexion, PromoSpots, rejsefeber.dk, reisefeber.no, resfeber.se, Sabre, Sabre Airline Solutions, Sabre Holdings, the Sabre Holdings logo, Sabre Travel Network, SabreSonic, Showtickets.com, Site 59, Site59.com, Surround, SynXis, TotalTrip, TRAMS, Travelocity, Travelocity Business, Travelocity Partner Network, Travelocity.ca, Travelocity.com, Travelocity.co.uk, TurboSabre, Travelocity.de, Zuji, and Zuji.com are trademarks and/or service marks of an affiliate of Sabre Holdings Corporation. All other trademarks, service marks, or tradenames are the property of their respective owners.

Sabre Travel Network: Our Sabre Travel Network segment markets and distributes travel-related products and services for its travel supplier participants through the online and offline travel agency and corporate channels. Our *Sabre*® global distribution system (the *Sabre* system or *Sabre* GDS) produces more bookings for airlines and hotels than any other distribution system. Users of the *Sabre* system (who we refer to as subscribers) can access information about, book reservations for, and purchase a variety of travel offerings. These offerings include, among other things, airline trips, hotel stays, car rentals, cruises and tour packages. We also enable corporate travel management through our *GetThere* products. We provide travel agencies with office automation tools, consortia management services and enable them to provide services via the Internet. In addition, Sabre Travel Network provides marketing information to suppliers and reservation management and technology services to hotel properties.

Sabre Airline Solutions: Our Sabre Airline Solutions segment is a global leader in providing passenger management solutions, software products and related services, and consulting services to help airlines simplify operations and lower costs. We provide airline reservations, inventory and check-in hosting solutions that help airlines address the challenge of building and retaining customer loyalty while reducing costs. We supply decision-support software and technology for airlines to improve profitability, increase revenue, streamline operations and improve workflow. In addition, we offer a complete range of consulting services to the airline industry, ranging from one time to extended engagements. Clients include airlines, airports, manufacturers and governments, as well as individuals, travel agencies and members of the financial community.

Sale of the Company

On December 12, 2006, we entered into a definitive agreement and plan of merger (Merger Agreement) with affiliates of Texas Pacific Group and Silver Lake Partners (the Sponsors). Under the terms of the Merger Agreement, investment funds affiliated with the Sponsors will indirectly acquire the Class A Common Stock of Sabre Holdings for $32.75 per share. The $5.4 billion acquisition is anticipated to be funded with direct and indirect equity investments from the investment funds and with underwritten debt commitments from Deutsche Bank and Merrill Lynch.

If the merger agreement is terminated in certain circumstances, we could be required to pay a termination fee of $135 million to the Sponsors affiliates. If the merger agreement is terminated under other circumstances, the Sponsors affiliates have agreed to pay us a business interruption fee of $175 million.

Upon completion of the merger, we will incur significant costs associated with the acceleration of employee and non-employee director share-based awards (see Note 12 to the Consolidated Financial Statements) as well as significant costs to complete the transaction.

Completion of the transaction is subject to our receiving regulatory and shareholder approvals. We expect the transaction to close by early second quarter of 2007.

Travelocity

Travelocity is a leading provider of consumer direct travel services for the leisure and business traveler. In 2005, we significantly expanded our presence in Europe with the purchase of lastminute.com, a leader in European online travel marketing. Travelocity operates through the *Travelocity.com*® and *Site59.com*® (*Site 59*®) websites, Travelocity s international websites including *lastminute.com*, *HolidayAutos.com*SM and *Zuji.com*SM and its contact centers, travel agency partners, and its *Travelocity Partner Network*® offering. These services allow individual leisure and business travelers to shop, compare prices and make travel reservations online with airlines, car rental agencies, hotel companies and cruise and tour providers. The *Travelocity Partner Network* offering expands Travelocity s distribution reach through agreements with leading online retailers, including Yahoo! Travel, America Online, American Express, Southwest Airlines, US Airways, and AARP. For example, *Site 59* powers the last-minute travel sections of Travelocity, AOL Travel, Cheap Tickets, Yahoo! Travel, American Airlines Vacations, Delta Air Lines Vacations, Continental Airlines Vacations, Northwest s nwa.com, and Bestfares.com, among others. We also offer access to a database of information regarding specific destinations and other information of interest to travelers.

Travelocity facilitates transactions between travel suppliers and consumers to book and pay for travel accommodations. For net rate transactions, we generate service fee revenue equal to the total amount paid by the customer, minus Travelocity s payment to the travel supplier for the travel accommodations. We also generate revenue from commissions or transaction fees from travel suppliers for the purchase of travel products and services pursuant to reservations made through our system. Other revenue sources include service fees charged to customers, advertising revenues and GDS incentives (from Sabre Travel Network and other GDSs). Income or losses from interests in joint ventures, which are described under *International* below, are recognized as revenue or contra-revenue. We derive intersegment revenues from Sabre Travel Network, consisting mainly of incentives for Travelocity bookings made through the *Sabre* GDS, and fees paid by Sabre Travel Network and Sabre Airline Solutions for corporate and airline trips booked through the *Travelocity* online booking technology. During 2006, customers transacted approximately $10.1 billion in travel and related services through Travelocity.

For our business customers, we also operate *Travelocity Business*, a comprehensive travel service available for corporations and other organizations. *Travelocity Business* combines the integrated corporate travel technology and full-service offering products of *GetThere* with the online expertise of Travelocity. Travelocity also operates multiple businesses tailored to customers outside the United States, as described under *Strategic Development of Travelocity* and *International* below.

Strategic Development of Travelocity. The growth and development of Travelocity continues to be a strategic focus for us. We continued to invest in areas that we believe offer rapid growth opportunities, such as in the business-direct channel and online distribution in Europe and Asia. For example:

- On July 20, 2005, we acquired lastminute.com, a leading online travel and leisure company in Europe that has become Travelocity s lead brand in the region. With the acquisition of lastminute.com, we can now offer travel suppliers a greater number of potential buyers in a broader geographic area, particularly in Europe. We expect this greatly increased scale to allow us to offer consumers even better travel deals and a greater range of international options. An immediate benefit is our ability to give lastminute.com customers access to the wide range of hotels in Travelocity s net rate hotel program. lastminute.com customers have a greater range of U.S. and international travel options, and over time, Travelocity.com customers should gain more European travel choices. Sabre Travel Network also expects to offer its network of travel agency subscribers expanded European travel options as a result of the acquisition, expanding distribution reach for lastminute.com travel suppliers.

- Zuji Holdings Limited (Zuji), a joint venture operating in the Asia Pacific region with operations in Australia, Hong Kong, Korea, New Zealand, Singapore and Taiwan. On November 7, 2005, due to our issuing a $4 million loan to Zuji, we became the primary beneficiary of the joint venture and in accordance with Financial Accounting Standards Board (FASB) Interpretation No. 46R, *Consolidation of Variable Interest Entities (Revised)* (FIN 46R), we began accounting for our investment in Zuji, which was previously accounted for using the equity method, on a fully consolidated basis. In January 2005, Travelocity entered into a put option agreement relating to the equity of Zuji. On January 24, 2006, the put option was exercised and we purchased the remaining 90% of Zuji that we did not already own. We expect significant growth from Zuji as adoption of online travel continues to grow in Asia.

See Item 1A *We may be unsuccessful in pursuing and integrating business combinations...*

In June 2006, we sold three offline traditional retail businesses in our Travelocity Europe and lastminute.com operations as a part of the integration efforts that continue in the Travelocity segment and in Europe particularly. This sale was part of an effort to rationalize our portfolio of assets to focus on the higher growth online operations.

Net Rate Program. In an effort to provide additional choices to consumers, Travelocity is increasingly promoting our net rate program, commonly referred to in the industry as a merchant model program due to the fact that Travelocity is the merchant of record for credit card processing. Under the net rate program, we facilitate transactions between travel suppliers and travelers for the booking of and payment for travel accommodations. Under this model, we generally do not purchase and resell travel accommodations and do not have any obligations with respect to travel accommodations listed online that do not sell. Instead, we act as an intermediary by entering into agreements with travel suppliers for the right to market their products, services and other content offerings at pre-determined net rates. Net rate travel offerings can include air travel, hotel stays, car rentals and dynamically packaged combinations. We market these net rate offerings to travelers at a price that includes service fees that we retain, plus an amount sufficient to pay the travel supplier for its charge for providing the travel accommodations, along with any applicable occupancy and other local taxes on that charge. For this type of business model, we require pre-payment by the traveler at the time of booking. Net rate content is beneficial for travelers because they can often book travel at a price lower than regularly published offerings. For us, the net rate model generally delivers higher service fee revenue per transaction than comparable transactions under an agency commission booking fee model. In addition, as long as the net rate program is growing, we experience improved operating cash flows as a result of receiving pre-payments from customers while paying suppliers after the travel occurs. For net rate transactions, we recognize as revenue the service fees that we retain on these transactions.

Our business strategy depends on net rate bookings as a significant source of future revenue growth and increased margins. Our strategy calls for us to increase or maintain the number of hotel rooms we can market under our net rate hotel program, based upon arrangements we make directly with individual hotel properties and hotel chains. In addition, Travelocity continues to use a supplier-friendly approach, which includes timely payment to suppliers and a two-way seamless connectivity to hotels property management systems so that reservations are not lost. See *Item 1A Travelocity s revenue growth largely depends on international growth and on expanding net rate (merchant) programs.*

The Sabre Global Distribution System

Overview

The *Sabre* system and other global distribution systems are a primary means of air travel distribution in the United States and in many international regions. The *Sabre* system, like other global distribution systems, creates an electronic marketplace where airlines, hotels and other travel suppliers display information about their products and services.

The *Sabre* system provides subscribers a single rich source of travel information, allowing travel agents and other users to search within seconds tens of thousands of itinerary and pricing options across multiple travel suppliers. The *Sabre* system provides suppliers with data about subscriber-generated reservations, allowing suppliers to better manage inventory and revenues. The *Sabre* system enables printing airline tickets and itineraries. Additionally, the *Sabre* system offers extensive travel information on matters such as currency, medical and visa requirements, weather and sightseeing.

In 2006, more than 750 travel suppliers displayed information about their products and services through the *Sabre* system. We estimate that nearly $90 billion of travel-related products and services were sold through the *Sabre* system during this time. Also during 2006, more airline and hotel bookings were made through the *Sabre* system than through any other global distribution system.

Travel Supplier Participation and Pricing Options. Airlines and other travel suppliers display and sell their inventory in the *Sabre* system. We offer airlines a range of participation levels. The lowest level of participation for airlines, *Sabre® Basic Booking Request*, provides schedules and electronic booking functionality only. Higher levels of participation for airlines provide enhanced levels of communication between the *Sabre* system and the travel supplier s inventory system, giving subscribers more reliable information and travel suppliers improved inventory management. This direct connection allows the *Sabre* system to provide real-time information about inventory and confirmed reservations and the airline to optimize revenue for each flight. We offer car rental companies and hotel operators similar levels of participation. We also offer travel suppliers marketing data derived from the *Sabre* system bookings. Travel suppliers use this marketing information and other operational systems we sell to improve their revenue and profitability.

We have designed service and pricing offerings to airlines to ensure that subscribers will continue to have broad, dependable access to airline schedules, seat availability and fares. With the deregulation of the United States GDS industry in mid-2004 (described below under *Computer Reservation System Industry Regulation*), we have the flexibility to vary our pricing and other contract terms from airline to airline. We believe that airlines will see the benefits of more customizable relationships with us, including possible reductions in transaction fees. We are setting forth various pricing options for airline suppliers, including options that may include services from each of our business segments and may expand net rate or other merchandising opportunities. We also have opt-in agreements that offer participating airlines lower transaction fees for bookings created in certain regions, and make certain discounted fares on those airlines available only to those subscribers that accept lowered incentive payments.

We have signed new long-term full content agreements with the following large U.S. airlines: American Airlines, Continental Airlines, Delta Air Lines, Northwest Airlines, United Airlines and US Airways, which had full content contracts up for renewal, and AirTran Airways, Alaska Airlines, and JetBlue Airways, which did not previously have long-term full content contracts. The US Airways agreement also includes America West, which did not previously have a long-term full content contract. The new agreements are for five to seven years and, like the original Direct Connect Availability (DCA) 3-year agreements, require participating airlines to provide all *Sabre* GDS users long-term, broad access to schedules, seat availability and published fares, including Web fares and other promotional fares. These agreements also generally require participating airlines to furnish to passengers booked through the *Sabre* GDS the same customer perquisites and amenities as those afforded to passengers booked through other GDSs and websites. As of December 31, 2006, approximately 60% of our global direct air bookings were subject to long-term contracts.

Additionally, we have transitioned over 350 carriers from our traditional Participating Carrier Agreement (PCA) to a new Travel Marketing Agreement (TMA). These new agreements are one-year agreements, as compared with 30 days in the PCA, and are automatically renewed unless cancelled by either side. The TMA has pricing that varies by region and, in some cases, by the value of the ticket that was sold. This pricing better aligns price with value for the airline and provides better content guarantees to Sabre Travel Network.

Sabre Travel Network

Sabre Travel Network markets the *Sabre* GDS to travel suppliers, travel agency subscribers (online and brick and mortar) and corporations. As of December 31, 2006, travel agencies with over 50,000 locations in 113 countries on 6 continents subscribed to the *Sabre* system. We enabled these subscribers to make reservations with over 440 airlines, 28 car rental companies, 215 tour operators, 12 cruise lines, 37 railroads and 277 hotel companies.

Approximately 54.4%, 59.7% and 67.5% of our revenue (including intersegment revenues) in 2006, 2005 and 2004, respectively, was generated by Sabre Travel Network, primarily through transaction fees paid by travel suppliers.

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

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

In addition to the *Sabre* system described above, Sabre Travel Network also provides bookings solutions to serve the specific online needs of our subscribers and travel suppliers, including website development, business logic middleware and back end processing. We also offer travel agencies back-office accounting systems and a simplified method to develop and place their own marketing presence on the Internet. Subscriber and travel supplier product offerings range from off-the-shelf applications to fully customized solutions. Subscribers pay license, consulting and web hosting fees that vary with the level of customization and volume generated by their sites.

Changing our Sabre Travel Network Revenue Model. Historically, the vast majority of our travel distribution revenues have been derived from transaction fees paid by travel suppliers measured by subscriber bookings generated through the *Sabre* GDS. From those fees, Sabre Travel Network has paid incentives to its travel agency subscribers as a cost of revenue. We continue to seek ways to provide more flexible and cost-effective distribution options to suppliers and are increasingly entering into arrangements that depart from our traditional revenue model. As our business evolves, we have broadened our description of transaction to include any travel reservation that generates a fee paid directly to us, including in part the following:

- traditional booking fees paid by travel suppliers,
- non-traditional transaction fees paid by travel suppliers,
- transaction fees paid by travel agency subscribers, and
- transaction fees paid by corporations related to our online booking tool, *GetThere*.

See *The Sabre Global Distribution System Travel Supplier Participation and Pricing Options* above. For example, we have arrangements under which some travel suppliers pay our travel agency customer (such as Travelocity), who in turn pays a transaction fee to Sabre Travel Network. We are also looking for more opportunities to market net rate offerings, benefiting from the merchandising insight that we gain from our integrated portfolio of travel distribution and travel marketing assets. Net rate offerings are explained in more detail above in *Travelocity Net Rate Program.* Some of these non-traditional transactions may have a lower rate per transaction than a traditional booking fee, and as a result the overall average revenue per transaction may be lower as these non-traditional transactions increase.

Launching of the Efficient Access Solution. On September 1, 2006 we launched the *Efficient Access SM Solution* for our airline and travel agency customers. The *Efficient Access Solution* is a balanced program to address the economic pressures airlines face while continuing to provide travel agencies with the incentives and long-term protections described below. With the *Efficient Access Solution*, carriers participating in the program receive a discount on booking fees for reservations made by participating agencies. In return, the airlines agree to provide over the long-term, key benefits and protections to agencies participating in the program. Through participation in the *Efficient Access Solution*, agencies are assured of long-term commitments from those airlines concerning:

- Full content from program carriers, including published fares and Web fares, as well as non-discriminatory access to private fares, including agency negotiated rates and rates provided to the corporate or government customers those agencies serve, and

- Protection from service fees that a program carrier might otherwise levy on bookings made through the *Sabre* GDS.

Agencies participating in the program agree to adjusted financial terms in exchange for the significant benefits and protections afforded by the new agreements. The terms will vary according to agency contract type, but generally result in lower incentive payments. Additionally, because carriers participating in the program will receive a discount on booking fees, this could have the effect of lowering Sabre Travel Network revenues over time but is anticipated to be offset by the lower incentive expense.

See Item 1A *Changes to our travel supplier relationships may reduce our revenues.*

Sabre Airline Solutions

Sabre Airline Solutions is a global leader in providing technology that allows airlines to market and sell their inventory, serve their customers and manage daily operations to efficiently fly their schedules. We offer software products and related services for all facets of their business along with strategic and operational consulting services. Over 200 airlines worldwide use one or more products in our broad portfolio to increase revenues and improve operations. More than 100 airlines worldwide rely on our *SabreSonic*® passenger reservations product suite, and in 2006 four new carriers implemented this product suite, six new carriers signed agreements, and three carriers renewed their agreements, including Alaska Airlines. In addition, our *Sabre*® *eMergo*® Web access solution has grown to be the industry s leading hosting solution for operational solutions with over 250 applications outsourced.

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

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

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

International

Travelocity We market Travelocity internationally directly through our various brands, and through a travel agency network in Europe. In Canada, Travelocity directly markets its *Travelocity.ca*® site. With the acquisition of lastminute.com in July 2005, we market in Europe using *lastminute.com* as our leading brand. Our European operations also include other European travel websites, including *holidayautos.com*SM and *medhotels.com*®, onlinetravel.com, *Travelocity.co.uk*® in the United Kingdom, *resfeber.se*SM in Sweden, *rejsefeber.dk*SM in Denmark, *reisefeber.no*SM in Norway and *Travelocity.de*SM in Germany. Until December 2005, Travelocity also partnered with Otto Versand through a joint venture company that distributed *Travelocity* in Germany through several brands. Travelocity retained the *Travelocity.de* brand on dissolution of that joint venture.

We operate in the Asia Pacific region through *Zuji.com*, which is hosted by Travelocity and utilizes Travelocity technology. See *Travelocity Strategic Development of Travelocity* above.

Sabre Travel Network We market the *Sabre* system internationally both directly and through joint venture and distributorship arrangements. As of December 31, 2006, travel agencies with over 50,000 locations in 113 countries on 6 continents subscribed to the *Sabre* system. Our marketing partners outside the United States principally include airlines that have strong relationships with travel agents in their primary markets, and entities that operate regional computer reservation systems or other travel-related network services.

Sabre Travel Network has long-term agreements with ABACUS International Holdings Ltd., which created ABACUS International PTE Ltd. (Abacus), 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. We also own 51% of Sabre Pacific, a joint venture with Abacus that provides travel marketing and distribution services in Australia and New Zealand. Sabre Travel Network also provides distribution products and services to Infini and Axess, Japan s two largest GDS travel agency marketing companies. Infini is owned 40% by ABACUS and 60% by All Nippon Airways. Axess is owned 25% by Sabre and 75% by Japan Airlines. Sabre Travel Network also provides travel marketing and distribution services in Mexico through our 51% owned (48% voting rights) joint venture, Sabre Sociedad Technologica S.A. de C.V. Sabre Travel Network Middle East, a joint venture owned 60% by Sabre Travel Network and 40% by Gulf Air Company GSC (Gulf Air), provides technology services, bookable travel products and distribution services for travel agencies, corporations and travel suppliers in the Middle East region.

Sabre Airline Solutions Sabre Airline Solutions markets software solutions and consulting services on four continents, with primary sales offices in the Dallas/Ft. Worth area, London, Hong Kong and Sydney. We also maintain agency relationships to support sales efforts in key areas, including countries in Asia and the Middle East. Through Stockholm, Sweden-based RM Rocade (Rocade), we provide software solutions, including a fully functional flight operations product suite, to international small, medium-size and low cost carriers.

Competition

The travel marketplace is intensely competitive. Our companies and brands offer a broad portfolio of leading travel marketing, distribution and technology solutions that are well positioned in the marketplace. We market travel in the consumer-direct channel primarily through Travelocity. Travelocity s competitors include Priceline.com, Travelport (which owns Orbitz and ebookers.com), Expedia (which also operates Hotels.com and Hotwire.com) and Opodo (owned by nine European airlines and Amadeus Global Travel Distribution S.A. (Amadeus). Virtually all major airlines, and many other travel suppliers, have websites that allow consumers to book directly with that supplier, and some offer an array of products and services. Certain owners of these sites may make certain discounted fares and prices available exclusively on their proprietary or multi-vendor websites. See further discussion under Item 1A *Customers may reduce...*

We market travel in the business-direct channel principally through *Travelocity Business* travel service and our *GetThere* product. The marketplace for Internet-based corporate and government travel procurement and supply services is highly competitive and rapidly evolving. Travelocity s competitors in the business-direct channel include traditional global distribution systems such as Amadeus E-Travel and Travelport s Galileo as well as online players such as Expedia.com and Travelport s Orbitz for Business and Travelport for Business.

Sabre Travel Network competes in the travel agency channel against other large and well-established traditional global distribution systems, such as Amadeus, Galileo International Inc. and Worldspan, L.P. Each of these competitors offers many products and services substantially similar to those offered by Sabre Travel Network. The diverging price structures of competing global distribution systems, and our ability to offer our portfolio of solutions, may provide us with an opportunity to win additional business.

We routinely face new competitors and new methods of travel distribution. Suppliers and third parties seek to promote distribution systems that book directly with travel suppliers. For example, established and start-up search engine companies are attempting to enter the travel marketplace by aggregating travel search results across supplier, travel agent and other websites. Many alternative distribution systems offer lower costs to suppliers, but they are not global and offer travelers a limited subset of transactions from a limited subset of suppliers in one market segment. The systems often must rely on the scale and functionality of a GDS such as our *Sabre* system for a complete travel distribution solution for suppliers and travel agencies. They do not offer comprehensive functionality and do not have the infrastructure to adequately service and support travel management companies or corporations. They require the integration of a new, stand alone system into most existing agency or corporate booking tool workflows. Many of these alternative travel distribution channels are well financed but are in start-up or developing mode, and have yet to fully define their functionality and costs. These alternative travel distribution systems may have the effect of diverting customers from our online sites and our *Sabre* GDS, putting pressure on our revenues, pricing and operating margins. See Item 1A *Travel suppliers are pursuing distribution options....*

Another form of competition derives from airlines, which have worked to divert travel bookings onto channels that they control. Airlines have withheld inventory from independent travel distributors, have greatly reduced commissions paid to online and traditional travel agencies and have conditioned independent distributors access to inventory on their acceptance of pricing offered by channels that those airlines control. Their collective efforts have resulted in travel bookings being diverted from traditional distribution channels toward supplier-controlled channels, such as individual airline websites and call centers. We believe, however, that the rate of channel shift from the GDS channel to supplier-controlled sites has stabilized.

The development of competing technologies or the emergence of new industry standards may also adversely affect our competitive position. Competition could result in reduced margins on our services and products. See Item 1A *Consolidation in the travel industry....*

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

Computer Reservation System Industry Regulation

Aspects of our travel marketing and distribution businesses are subject to the Computer Reservation Systems (CRS) regulations in the European Union, Canada and Peru. These regulations generally govern GDS services for airlines and travel agencies, but not for non-airline suppliers (except rail suppliers in limited circumstances). Among the topics addressed in some of the current regulations are:

- no preferencing CRS displays based upon airline identity,
- equal treatment of airlines by the CRS,
- equal participation in all CRSs by airlines that have an ownership interest in a CRS, and
- limits on travel agency contract terms.

All CRS regulations in the United States expired on July 31, 2004. CRS regulations in Canada were eliminated on May 7, 2004, except rules prohibiting screen preference and discrimination in providing the right for all airlines to participate in service enhancements. The deregulation of CRSs in both the U.S. and Canada has enhanced our opportunities to creatively market airline services and freely negotiate with travel agencies. Regulators in the European Union (E.U.) have indicated they may propose the total repeal of their current CRS regulations even though four large E.U.-based airlines retain substantial ownership positions in the Amadeus CRS. It is not clear whether or when any amendments in the European Union s CRS Code of Conduct will be formally proposed, or will take effect or what form they may ultimately take. The repeal of CRS rules in a jurisdiction where a locally-strong airline retains an ownership interest in a CRS presents significant competitive risks. See further discussion under Item 1A *Regulatory developments in Europe could limit our ability to compete...*

Other Regulation

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

Seasonality

The travel industry is seasonal in nature. Travel bookings for our Sabre Travel Network business, and the revenue we derive from those bookings, decrease significantly each year in the fourth quarter, primarily in December. Customers generally book their November and December holiday leisure travel earlier in the year, and business travel declines during the holiday season. Travelocity revenues are also impacted by the seasonality of travel bookings, but to a lesser extent since commissions from car and hotel travel providers and net rate revenue for vacation packages and hotel stays are recognized at the date of consumption. The acquisition of lastminute.com has resulted in revenues and net earnings becoming more significant in the second and third quarters for the Travelocity segment due largely to European travel patterns. See the discussion on Seasonality in Item 7 *Management s Discussion and Analysis of Financial Condition and Results of Operations* for additional information.

Research and Development Expenses

Research and development expenses represent costs incurred to investigate and gain new knowledge that could be useful in developing a new product or service and then translating those findings into a plan or design for a product or service. Our research and development expenses approximated $26 million, $26 million and $32 million for 2006, 2005 and 2004, respectively.

Segment Information

Financial information for our operating segments and geographical revenues and assets are included in Note 13 to the Consolidated Financial Statements.

Intellectual Property

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

Employees

As of December 31, 2006, we had approximately 9,000 employees. A central part of our philosophy is to attract and maintain a highly capable staff. We consider our current employee relations to be good. Our employees based in the United States are not represented by a labor union.

Available Information

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

In addition to our website, you may read and copy public reports we file with or furnish to the SEC at the SEC s Public Reference Room at 100 F Street, NE, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-732-0330. The SEC maintains an Internet site that contains our reports, proxy and information statements, and other information that we file electronically with the SEC at www.sec.gov.

ITEM 1A. RISK FACTORS

RISK FACTORS

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

Completion of the sale of the Company to Silver Lake Partners and Texas Pacific Group is subject to various conditions and the transaction may not occur even if we obtain stockholder approval.

Completion of the merger is subject to various risks, including but not limited to those set forth below. The list is not intended to be an exhaustive list of the risks related to the merger and should be read in conjunction with the other information in our definitive Proxy Statement dated February 21, 2007.

- Stockholders holding at least a majority of the shares of our outstanding Common Stock entitled to vote might not vote to adopt the merger agreement;

- Our failure or the failure of Silver Lake Partners and Texas Pacific Group to obtain the required regulatory approvals by foreign governments regarding the merger (the required approval from U.S. authorities was received on January 26, 2007 when the waiting period under the Hart-Scott-Rodino Act ended without further action by U.S. competition officials);

- The enactment of a law or issuance of an order by a governmental authority prohibiting the merger or other transactions contemplated by the merger agreement;

- The pendency of a non-frivolous suit or action, or any governmental proceeding, challenging or seeking to restrain the sale or the ability of Silver Lake Partners and Texas Pacific Group to acquire our Common Stock;

- The failure of any other conditions in the merger agreement; and

- The failure of the sale of the Company to be completed for any other reason.

As a result of these risks, there can be no assurance that the sale of the Company will be completed even if we obtain stockholder approval.

Failure to complete the sale of the Company could negatively impact the market price of our Common Stock and operation of our businesses.

An investment in our Common Stock is subject to risks related to a failure to complete the sale of the Company to Silver Lake Partners and Texas Pacific Group, including:

- the market price of our Common Stock could decline to the extent that the current market price of our stock reflects a market assumption that the sale will be completed;

- costs related to the sale, such as legal fees, and, in specified circumstances, termination fees and expense reimbursements, must be paid even if the sale is not completed; and

If our merger agreement is terminated and our Board of Directors seeks to sell the Company to another purchaser or to pursue a business combination, then our stockholders cannot be certain that we will be able to find an acquirer willing to pay an equivalent or better price than the price agreed to be paid under the merger agreement.

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

Our revenue increases and decreases with the level of travel and transportation activity. The travel industry is seasonal and our revenue varies significantly from quarter to quarter. Our revenue is also highly subject to declines in or disruptions to travel and transportation that may be caused by factors entirely out of our control. For example, negative perceptions held by travelers about the following factors may adversely affect travel activity:

- economic downturns, rising fuel costs and the financial instability of travel suppliers,
- political instability, acts of terrorism, hostilities and war,
- security issues, including increased airport security,
- inclement weather, including hurricanes,
- increased occurrence of travel-related accidents, and
- travelers concerns about exposure to contagious diseases.

A prolonged substantial decrease in travel transaction volumes could have an adverse impact on our financial performance, operations, liquidity, or capital resources.

Changes to our travel supplier relationships may reduce our revenues.

Most of our revenue is derived from airlines, hotel operators, car rental companies, cruise and tour operators and other suppliers in the travel and transportation industry. We depend on a relatively small number of airlines for a significant portion of our revenues. To compete effectively in the travel distribution industry, we must offer broad, dependable access to airline content and features such as schedules, seat availability and fares, including web fares. Airlines and other suppliers may choose to limit our access to their content or the features and benefits they offer travelers in connection with the sale of their services. If our access to supplier-provided content or features and benefits were to be diminished relative to our competitors, our business could be materially adversely affected. Because offerings from major airlines represent a large part of our business, if the *Sabre* GDS were to lack the ability to facilitate bookings on one or more major airlines, our distribution channels would be relatively less attractive to travel agencies and travel purchasers, which could reduce our transaction fee revenue and materially adversely affect our business. Several major airlines in the United States are experiencing liquidity problems. Some of those airlines are considering consolidation, others have sought bankruptcy protection, and still others may consider bankruptcy relief. The financial instability of airlines or other travel suppliers could have a material negative impact on our business.

Travel suppliers are pursuing distribution options that may reduce our access to content, which could reduce our revenues.

Some travel suppliers are seeking to decrease their reliance on distribution intermediaries, including global distribution systems such as our *Sabre* GDS, by promoting other distribution channels. Many airlines, hotels, car rental companies, cruise and tour operators have call centers and have established their own travel distribution websites. From time to time, travel suppliers offer advantages, such as bonus loyalty awards, lower transaction fees or discounted prices, when their products and services are purchased from supplier-related channels. Our *Sabre* GDS also competes with competitors who may offer less content, functionality and marketing reach at a relatively lower cost to suppliers. In addition, search engine providers are attempting to enter the online travel marketplace by aggregating travel search results across supplier, travel agent and other travel-related websites. If our access to supplier-provided content or features were to be diminished relative to our competitors, our business could be materially adversely affected. See *Business Trends Trends Affecting Our Airline-Related Businesses* and *Business Trends Trends Affecting Competition in Travel Commerce.*

Customers may reduce transactions through our distribution channels, which could reduce our revenues.

Our portfolio of travel distribution businesses includes channels that support the travel agency, business-direct and consumer-direct segments of the global travel distribution marketplace. We believe that we and our customers benefit when we broadly participate in the travel distribution industry, including our direct to traveler services. Broad participation in the industry gives us a competitive advantage, including greater scale of our technology and other synergies. In all of these distribution channels, we face significant competition.

- In the travel agency channel, our Sabre GDS historically has competed with other large and well-established global distribution systems.

- In the business-direct channel, both the *Travelocity Business* travel service and Sabre Travel Network *GetThere* products compete with similar offerings from travel agencies, airlines and other suppliers.

- In the consumer-direct channel, Travelocity competes not only against similar offerings from affiliates of other global distribution systems, but also with travel suppliers, online vertical search engines, and a large number of online travel agencies.

- Our Sabre Airline Solutions business unit competes against several organizations offering internal reservation system and related technology services to airlines.

In some circumstances, our business segments have objectives that lead to conflicts with customers of our other business segments. For example, our Travelocity and Travelocity Business operations compete with travel-agency subscribers of Sabre Travel Network. That competition could cause current or potential travel agency subscribers to elect to use competing GDS providers, websites or other channels of travel distribution, which could reduce our transaction fee revenue and materially adversely affect our business. If our competitors introduce new pricing or offerings that we cannot meet in a timely or cost-effective manner, our customers may elect to use other travel distribution channels and our business may be materially adversely affected. In addition, travelers and other persons may use our websites and other resources to obtain schedules, availability, pricing and other travel information and then elect to purchase travel from a competitor, which would tend to increase our costs without producing revenue.

Consolidation in the travel industry and increased competition for customers may increase costs and reduce revenue.

Consolidation among participants in the travel industry may increase their negotiating leverage, thereby providing them with competitive advantages over us that may increase our costs and reduce our revenues. Consolidation among travel suppliers, such as major hotel and airline mergers and alliances, may increase competition from these supplier-related distribution channels or give them additional leverage to negotiate lower transaction fees payable to our travel distribution channels, including the *Sabre* GDS. In order for our distribution channels to obtain access to important airline content offerings, we are evaluating various pricing models for airline suppliers.

GDSs, such as our *Sabre* GDS, compete to attract and retain travel agencies. Some travel suppliers have reduced or eliminated commissions paid to travel agencies (including consumer-direct travel sites like *Travelocity*). The loss of supplier commissions causes travel agencies to become more dependent on other sources of revenues, such as traveler-paid service fees and GDS-paid incentives. The reduction or elimination of supplier-paid commissions has forced some smaller travel agencies to close or to combine with larger travel agencies. Although the *Sabre* GDS has a leading share of large travel agencies, competition is particularly intense among global distribution systems for larger travel agency subscribers, including online travel agencies. Consolidation of travel agencies may increase competition for these subscribers and increase the ability of those agencies to negotiate higher GDS paid incentives. In order to compete effectively, we may need to increase incentives, pre-pay incentives, increase spending on marketing or product development, or make significant investments to purchase strategic assets.

Consolidation among competitors that offer global distributions systems, such as the announced merger of TravelPort and Worldspan LLP, may provide those companies cost or revenue advantages as compared to the *Sabre* GDS adversely affecting our ability to successfully maintain and grow our transaction revenues.

Travelocity s revenue growth largely depends on international growth and on expanding net rate (merchant) programs.

Travelocity s revenue growth is driven by expanding global use of the Internet and driving purchases through our online travel websites. The online travel marketplace, especially in Europe, is highly competitive, with independent online travel agencies, suppliers proprietary websites, and in some regions the websites of tour wholesalers, competing for customers. Travelocity s business strategy largely depends on growing its net rate program offerings (commonly referred to in the industry as merchant model programs, because the online agency is the merchant of record for credit card processing). Growing the net rate programs is particularly dependent upon our ability to offer adequate hotel rooms. Many hoteliers utilize net rate programs to dispose of excess hotel rooms at discounted rates. If demand increases for suppliers products, services and other content offerings, suppliers may limit our right to distribute their offerings or may increase the cost of those offerings. Travelocity s business strategy also depends on expanding its dynamically packaged offerings, maintaining the breadth of its access to supplier offerings, developing its brand in a cost-effective manner in the United States, Europe, Asia and other growth regions, increasing traffic to its websites (including direct distribution as well as through current and future distribution partners), and expanding the appeal of the *Travelocity Business* tool to business travelers. We also plan to invest strategically in growth opportunities, and if any of these initiatives is not successful, or requires extensive investment, Travelocity s growth may be limited and it may be unable to achieve or maintain profitability.

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

We are currently seeking to integrate recently acquired businesses as described in this report, including our acquisition of lastminute.com. There are risks inherent in these types of transactions, such as: difficulty in assimilating or integrating the operations, technology and personnel of the combined companies; difficulties and costs associated with integrating and evaluating the internal control systems of acquired businesses; disruption of our ongoing business, including loss of management focus on existing businesses and marketplace developments; problems retaining key technical and managerial personnel; expenses associated with the amortization of identifiable intangible assets; additional or unanticipated operating losses, expenses or liabilities of acquired businesses; impairment of relationships with existing employees, customers and business partners; and fluctuations in value and losses that may arise from equity investments.

In addition, we plan to continue to examine possible business combinations, investments, joint ventures or other strategic alliances with other companies in order to maintain and grow revenue and marketplace presence. We may not be able to achieve the following: identify suitable candidates for additional business combinations and strategic investments; obtain financing on acceptable terms for such business combinations and strategic investments; or otherwise consummate such business combinations and strategic investments on acceptable terms. We may be unable to successfully complete potential acquisitions due to multiple factors, such as issues related to regulatory review of the proposed transactions. To consummate such transactions, we may need to raise external funds through the sale of stock and/or debt in the capital markets or through private placements, which might affect our liquidity.

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

New distribution channels, technology and customer behavior in our industry are evolving rapidly. Our ability to compete and our future results depend in part on our continued ability to maintain and to make timely and cost-effective enhancements, upgrades and additions to our technology in response to changes in consumer preferences and increased demand for our products and services. We must also keep pace with rapid advancements in technology, standards and practices, and protect our technology. Maintaining flexibility to respond to technological and marketplace dynamics may require substantial expenditures and lead time. We cannot assure you that we will successfully identify and develop new products or services in a timely manner, that offerings, technologies or services developed by others will not render our offerings obsolete or noncompetitive, or that the technologies in which we focus our research and development investments will achieve acceptance in the marketplace and provide a return on our investment.

Unauthorized use of our intellectual property could have a material adverse effect on us, and our legal remedies may not adequately compensate us for the damages to our business caused by such use. Protecting our intellectual property from unauthorized use could be expensive and time-consuming. Additionally, claims that our products or services may infringe the intellectual property rights of others may require additional expenditures in resolving such claims and/or development of alternate technologies, either or which could be expensive and time-consuming.

We will encounter risks and difficulties similar to those frequently experienced in rapidly evolving industries such as the travel distribution industry.

Some of these risks relate to our ability to:

- attract and retain customers on a cost-effective basis,
- expand and enhance our service offerings, including the use of new technologies,
- operate, support, expand and develop our operations, websites, software, data centers, communications and other systems,
- maintain and diversify our sources of revenue, including by entering into agreements that may reflect changes to our *Sabre* GDS business model,
- maintain and develop our existing brands and distribution channels, as well as to make cost-effective expenditures in connection with these initiatives,
- manage our relationships with important travel suppliers and other industry participants, and
- respond to competitive marketplace conditions.

If we are unsuccessful in addressing these risks or in executing our business strategy, our business, financial condition or results of operations may suffer.

We rely on third parties to provide critical systems and infrastructure.

With the exception of our lastminute.com operations, our businesses are largely dependent on the computer data centers and network systems operated for us by Electronic Data Systems Corporation. We also rely on other providers and on the global telecommunications infrastructure. We rely on several communications service suppliers and on the global Internet to provide network access between our computer data center and call centers and end-users of our services. The Travelocity (including the *Site59®* and *lastminute.com* websites) business is dependent upon GDSs (the *Sabre* GDS and others) to process travel bookings. If those providers do not enable us to provide our customers and suppliers with reliable, real-time access to our systems, our business may be materially adversely affected.

Our success depends on maintaining the integrity of, and upgrading the quality of, our systems and infrastructure, which may suffer failures, capacity constraints and business interruptions, which could increase our operating costs and cause us to lose customers.

In order to be successful, we must provide reliable, real-time access to our systems for our customers and suppliers while also pursuing a low-cost model. Consumers and suppliers will not tolerate a service hampered by slow delivery times, unreliable service levels, service outages due to the installation of upgrades, or insufficient capacity. As our operations grow in both size and scope, we will continually need to improve and upgrade our systems and infrastructure to offer an increasing number of customers and travel suppliers enhanced products, services, features and functionality all while maintaining the reliability and integrity of our systems and infrastructure and while pursuing reduced costs per transaction. The expansion of our systems and infrastructure will require us to commit substantial financial, operational and technical resources before the volume of business increases, with no assurance that the volume of business will increase. System capacity limits or constraints arising from unexpected increases in our volume of business could cause interruptions, outages or delays in our services, or deterioration in their performance, or could impair our ability to process transactions. We occasionally experience system interruptions that make unavailable some or all of our global distribution system or other data processing services (including the services that Sabre Airline Solutions provides to airlines). System interruptions may prevent us from efficiently providing services to our customers or other third parties, which could result in our losing customers and revenues, or incurring liabilities. Much of the computer and communications hardware upon which we depend is located in a single facility. Our systems might be damaged or interrupted by fire, flood, power loss, telecommunications failure, break-ins, earthquakes, terrorist attacks, hostilities or war or similar events. Computer viruses, denial of service attacks, physical or electronic break-ins and similar disruptions affecting the global Internet or our systems might cause service interruptions, delays and loss of critical data, and could prevent us from providing our services. Problems affecting our systems might be expensive to remedy and could significantly diminish our reputation and brand name and prevent us from providing services. We could be harmed by outages in, or unreliability of, the data center or network systems. The occurrence of any of these events could result in a material adverse effect on our business.

Our collection, processing, storage, use and transmission of personal data may be restricted or result in liabilities.

In our processing of travel transactions, we collect, process, store, use and transmit large amounts of personally identifiable data about travelers. Our handling of these types of data is increasingly subject to legal restrictions around the world, which may result in conflicting legal requirements in the United States and other jurisdictions. Companies that handle these types of data have also been subject to investigations, lawsuits and adverse publicity due to allegedly improper disclosure of personally identifiable information. Our business could be materially adversely affected if legal restrictions on the use of personally identifiable information are expanded or are interpreted in ways that conflict with our business practices.

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

We are subject to a variety of taxes in many jurisdictions globally. We establish reserves for our potential liability for taxes, consistent with applicable accounting principles and in light of all current facts and circumstances. Regarding value-added taxes, we have established reserves relating to the collection of refunds which are subject to audit and collection risks in various regions of Europe. The reserves represent our best estimate of our contingent liability for taxes. The interpretation of tax laws and the determination of any potential liability under those laws are complex, and the amount of our liability may exceed our established reserves and could therefore have a material adverse effect on our financial results.

Some state and local taxing authorities impose taxes on the sale, use or occupancy of hotel room accommodations, which are called transient, occupancy, accommodation, sales or hotel room taxes. Hotel operators generally collect and remit these occupancy taxes. Consistent with that practice, when a customer books a hotel room through one of our travel services under our net rate hotel program, we collect from the customer an amount sufficient to pay the hotel its room charge and the occupancy taxes on that charge, as well as an additional amount that represents our fees. We do not collect or remit occupancy taxes on our fees. Some tax authorities claim that occupancy taxes should be collected on some or all of those fees. We believe there are strong arguments that our fees are not subject to occupancy taxes (although tax laws vary among the jurisdictions). We are attempting to resolve this issue with tax authorities in various jurisdictions, but we cannot predict the resolution in any particular jurisdiction. Any actual liability we may have for occupancy taxes, or the size of the reserve we may establish for those taxes, could be affected by a variety of factors, such as the number of jurisdictions that prevail in either assessing additional occupancy taxes or negotiating a settlement with us, the amount of fees potentially subject to tax in each jurisdiction, changes in applicable tax laws, and the timing of any or all of the foregoing.

Regulatory developments in Europe could limit our ability to compete by removing key protections needed to safeguard competition where locally strong airlines retain ownership interests in a CRS, and regulatory developments elsewhere could, among other things, inhibit our flexibility to contract with airlines or travel agencies, which could cause our customers to be diverted to our competitors and adversely affect our revenue and results of operations.

The E.U. Commission has suggested the potential elimination of its rules governing CRS systems. It is unclear when or if the E.U. Commission will make such a formal proposal, or if it does, the final changes that might ultimately be made to those rules. Because large E.U.-based airlines retain substantial ownership interests in one CRS, we could be unfairly and adversely affected if, for example, the E.U. Commission were to eliminate current requirements for airlines that own an interest in a CRS to participate equally in other CRSs. We also could be adversely affected in Europe or elsewhere if restrictions were imposed or continued on CRS advertising and displays, or if additional limitations were placed upon our right to contract with travel agents or airlines. We could also be adversely affected if changes to any of the foregoing CRS rules or to other general laws affecting our businesses, or if decisions made under such rules or laws, were to increase our cost of doing business or otherwise impair our flexibility.

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

We continually seek to expand the reach of our various businesses into international markets as well as to successfully integrate, operate and manage our existing and future international operations. Our international operations are subject to risks, including those listed below, that may adversely affect our ability to conduct and grow business internationally and could materially adversely affect our business:

- changes in foreign currency exchange rates;
- difficulty in developing, managing and staffing international operations as a result of distance, language and cultural differences;
- disruptions to communication and transportation services;
- business, political and economic instability in foreign locations, including actual or threatened terrorist activities, and military action;
- adverse laws, governmental policies or actions, such as consumer, labor and trade protection measures; taxes, restrictions on foreign investment limits on the repatriation of funds; and lesser protection for intellectual property; and
- economic and political conditions, including adverse political or consumer reactions in the United States.

ITEM 1B. UNRESOLVED STAFF COMMENTS

We had no unresolved SEC staff comments through December 31, 2006.

ITEM 2. PROPERTIES

In June 2003, Sabre Inc. refinanced the syndicated lease arrangement regarding our corporate headquarters facility (three buildings and two parking structures on approximately 180 acres) in Southlake, Texas, and entered into a ten-year master lease, accounted for as a capital lease. The initial term of the lease expires in 2013 with an option to purchase all or a portion of these facilities and/or the undeveloped land prior to or upon expiration of the lease. An option to purchase one of the three headquarters buildings (and the relevant parking structure) along with approximately 145 acres of undeveloped land (Solana) from the capital lease was exercised on December 8, 2006. After exercising the purchase option, the Solana facilities were sold to a third party for $80 million and leased back for a five-year term. The capital lease is still in place for the remaining two buildings (and relevant parking structure) and approximately 35 acres of undeveloped land. We plan to re-accommodate the approximately 1,200 employees currently occupying the Solana building in two other headquarters buildings, also in Southlake, Texas and vacate the Solana building in late 2007 or early 2008, prior to the expiration of the five-year lease term. Upon vacating the Solana building, we expect to take a one-time charge of approximately $31 million to $36 million related to future obligations under the leaseback.

Additionally, we lease office facilities in Westlake, Texas, under leases expiring in 2008. These facilities are utilized by each of our three business units. We also lease office facilities for our business units in approximately 146 other locations worldwide. These locations serve a variety of functions including facilities for various operating subsidiaries, branch offices in international locations and customer call centers.

In July 2005, we acquired 31 office locations throughout Europe as a result of our acquisition of lastminute.com. These locations operate within our Travelocity segment. We currently occupy 18 of the locations; three are sublet, four are currently vacant and six were closed in 2006 as a part of our lastminute.com restructuring plan.

EDS subleases a large office facility from us in Fort Worth, Texas, under a sublease that will expire in 2019. We also sublease five small office facilities in North America to various companies.

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

ITEM 3. LEGAL PROCEEDINGS

The litigation matters described below involve issues or claims that may be of particular interest to the Company s stockholders, regardless of whether any of these matters may be material to the financial position or operations of the Company based upon the standard set forth in the SEC s rules.

We are a party to three separate law suits arising from the pending sale of the Company to affiliates of Texas Pacific Group and Silver Lake Partners.

On December 12, 2006, purported shareholder class actions styled Jack McBride v. Sabre Holdings Corp., et al. (Case No. 236-221611-06) and Lillian Chait v. Sabre Holdings Corp., et al. (Case No. 067-221619-06) were filed in the Tarrant County District Court for the State of Texas on behalf of the holders of our Common Stock in connection with the merger. Both complaints name as defendants Sabre Holdings and its Board of Directors. The complaints allege that Sabre Holdings directors breached their fiduciary duties by adopting the merger agreement and approving the merger. The complaints purport to seek declaratory relief, an injunction preventing completion of the merger, the recovery of unspecified damages, and plaintiffs attorneys fees. On January 22, 2007, Chait voluntarily dismissed her complaint. On February 7, 2007, an amended complaint was filed in the McBride action. The amended complaint contains similar allegations to the original complaint and adds allegations that Sabre Holdings directors have not fully and fairly disclosed all material information relating to the merger. We continue to believe the lawsuit is without merit and intend to defend the action vigorously.

On January 4, 2007, Joseph Holowach filed a purported shareholder derivative complaint in the Tarrant County District Court for the State of Texas, Case No. 017-221963-07 against the Board of Directors, Texas Pacific Group and Silver Lake Partners; the Company is named as a nominal defendant. The complaint purports to allege causes of action for breach of fiduciary duty and abuse of control in connection with the adoption of the merger agreement. The complaint does not seek monetary damages from the Company. The Company believes the lawsuit to be without merit, and not in the best interests of the Company, and intends to defend it vigorously.

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

No matters were submitted to a vote of our security holders during the fourth quarter of the fiscal year ended December 31, 2006.

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our Class A Common Stock, par value $0.01 per share (Common Stock) is traded on the New York Stock Exchange (symbol TSG). The approximate number of holders of record of our Common Stock at February 20, 2007 was 8,454.

The range of the high and low sales prices for our Common Stock as reported by the New York Stock Exchange by quarter for the two most recent fiscal years were:

	High	Low
Quarter Ended:		
December 31, 2006	$ 32.12	$ 23.06
September 30, 2006	$ 23.58	$ 20.50
June 30, 2006	$ 23.56	$ 20.44
March 31, 2006	$ 25.71	$ 23.30
Quarter Ended:		
December 31, 2005	$ 24.90	$ 18.93
September 30, 2005	$ 20.45	$ 18.26
June 30, 2005	$ 22.24	$ 19.19
March 31, 2005	$ 22.21	$ 19.84

DIVIDENDS

During 2004, 2005 and 2006, we paid out the following cash dividends:

Declaration Date	Payable Date	Amount per Share
2004:		
January 20, 2004	February 17, 2004	$ 0.075
April 20, 2004	May 14, 2004	0.075
July 20, 2004	August 16, 2004	0.075
October 26, 2004	November 15, 2004	0.075
2005:		
February 1, 2005	February 28, 2005	$ 0.090
May 3, 2005	May 26, 2005	0.090
July 26, 2005	August 18, 2005	0.090
November 1, 2005	November 29, 2005	0.090
2006:		
January 30, 2006	February 28, 2006	$ 0.100
May 1, 2006	May 25, 2006	0.100
August 1, 2006	August 28, 2006	0.100
October 11, 2006	November 10, 2006	0.130

On January 30, 2007, our Board of Directors approved a dividend of $0.13 per share payable on March 5, 2007 to stockholders of record at February 16, 2007.

Subject to the pending sale of the Company to Texas Pacific Group and Silver Lake Partners, our Board of Directors currently intends to consider declaring and paying comparable future dividends on a regular quarterly basis, subject to our ability to pay dividends and to a determination by management and our Board of Directors that dividends continue to be in the Company s best interests and those of our stockholders. For additional information on dividends see the following sections of this Form 10-K: *Liquidity and Capital Resources* in Part II, Item 7; Consolidated Statements of Cash Flows and Consolidated Statements of Shareholders Equity in Part II, Item 8.

ISSUER PURCHASES OF EQUITY SECURITIES

On October 25, 2004, our Board of Directors approved a share repurchase program authorizing us to repurchase up to $100 million of our Common Stock. We completed this authorization in March 2005 with the purchase of 2,042,063 shares of our Common Stock during the first three months of 2005. All purchases were made through the open market pursuant to 10b5-1 trading plans.

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

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

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

We made no repurchases of our Common Stock during the last quarter of 2006:

Period	Total Number of Shares Purchased	Weighted-Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly Announced Program	Value of Shares That May Yet be Purchased Under such Programs (1)
October 1, 2006 - October 31, 2006		n/a		$ 100,000,000