

SABRE HOLDINGS CORP
Form 10-Q
August 14, 2002

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2002.

OR

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

For the Transition Period From _____ To _____

Commission file number 1-12175.

SABRE HOLDINGS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or
organization)

75-2662240

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

3150 Sabre Drive Southlake, Texas

(Address of principal executive offices)

76092

(Zip Code)

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

Not Applicable

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

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

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

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Class A Common Stock, \$.01 par value 144,871,129 as of August 8, 2002

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SABRE HOLDINGS CORPORATION

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	<u>June 30,</u> <u>2002</u>	<u>December 31,</u> <u>2001</u>
Assets		
Current assets		
Cash	\$ 20,297	\$ 18,855
Marketable securities	872,533	648,032
Accounts receivable, net	363,089	327,816
Prepaid expenses	78,840	51,565
Deferred income taxes	31,964	45,970

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	June 30, 2002	December 31, 2001
Total current assets	1,366,723	1,092,238
Property and equipment		
Buildings and leasehold improvements	154,803	254,487
Furniture, fixtures and equipment	40,685	49,845
Computer equipment	197,444	189,298
	392,932	493,630
Less accumulated depreciation and amortization	(167,437)	(205,181)
Total property and equipment	225,495	288,449
Deferred income taxes	1,672	19,611
Investments in joint ventures	175,203	169,949
Goodwill and intangible assets, net	871,334	672,145
Other assets, net	153,013	133,625
Total assets	\$ 2,793,440	\$ 2,376,017
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	\$ 184,383	\$ 158,839
Accrued compensation and related benefits	54,317	73,274
Accrued subscriber incentives	83,397	89,337
Deferred revenues	45,781	42,389
Other accrued liabilities	218,375	200,617
Total current liabilities	586,253	564,456
Pensions and other postretirement benefits	78,500	88,756
Notes payable	409,703	400,375
Other liabilities	59,187	60,938
Minority interests	10,555	219,716
Commitments and contingencies		
Stockholders' equity		
Preferred stock: \$0.01 par value; 20,000 shares authorized; no shares issued		
Class A common stock, \$0.01 par value; 250,000 shares authorized; 144,690 and 133,911 shares issued at June 30, 2002 and December 31, 2001, respectively	1,447	1,351
Additional paid-in capital	1,267,694	818,742
Retained earnings	383,338	227,986
Accumulated other comprehensive income	6,242	3,176
Less treasury stock at cost: 384 and 384 shares, respectively	(9,479)	(9,479)
Total stockholders' equity	1,649,242	1,041,776
Total liabilities and stockholders' equity	\$ 2,793,440	\$ 2,376,017

See Notes to Consolidated Financial Statements

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Revenues	\$ 532,729	\$ 582,035	\$ 1,072,096	\$ 1,155,449
Operating expenses				
Cost of revenues	283,945	342,182	573,732	693,281
Selling, general and administrative	131,216	131,548	247,172	242,574
Amortization of goodwill and intangible assets	13,264	69,857	26,894	136,285
Total operating expenses	428,425	543,587	847,798	1,072,140
Operating income	104,304	38,448	224,298	83,309
Other income (expense)				
Interest income	7,565	3,989	14,567	7,510
Interest expense	(5,580)	(12,408)	(11,264)	(28,601)
Other, net	1,165	1,854	21,053	(7,854)
Total other income (expense)	3,150	(6,565)	24,356	(28,945)
Minority interests	(888)	4,384	(41)	12,171
Income from continuing operations before income taxes	106,566	36,267	248,613	66,535
Provision for income taxes	38,601	31,216	93,261	61,071
Income from continuing operations	67,965	5,051	155,352	5,464
Income from discontinued operations, net		22,673		36,305
Income before cumulative effect of change in accounting method	67,965	27,724	155,352	41,769
Cumulative effect of change in accounting method, net of minority interests and income taxes				3,103
Net earnings	\$ 67,965	\$ 27,724	\$ 155,352	\$ 44,872
Earnings per common share basic				
Income from continuing operations	\$.48	\$.04	\$ 1.13	\$.04
Income from discontinued operations		.17		.28
Cumulative effect of change in accounting method				.02
Net earnings	\$.48	\$.21	\$ 1.13	\$.34
Earnings per common share diluted				
Income from continuing operations	\$.47	\$.04	\$ 1.10	\$.04
Income from discontinued operations		.16		.27
Cumulative effect of change in accounting method				.02
Net earnings	\$.47	\$.20	\$ 1.10	\$.33

See Notes to Consolidated Financial Statements

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

	Class A Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total
Balance at December 31, 2001	\$ 1,351	\$ 818,742	\$ 227,986	\$ 3,176	\$ (9,479)	\$ 1,041,776
Issuance of 1,237 shares of Class A common stock pursuant to stock option, restricted stock incentive and stock purchase plans	12	33,267				33,279
Issuance of 9,430 shares of Class A common stock in an underwritten public offering	94	399,884				399,978
Cancellation of warrants issued in connection with business combinations		(15,972)				(15,972)
Conversion of vested employee options pursuant to the acquisition of the Travelocity minority interest		14,209				14,209
Tax benefit from exercise of employee stock options		9,246				9,246
Stock based compensation for employees		8,146				8,146
Comprehensive income:						
Net earnings			155,352			155,352
Unrealized gain on foreign currency forward contracts, net of deferred income taxes				3,696		3,696
Unrealized loss on investments, net of deferred income taxes				(734)		(734)
Unrealized foreign currency translation gain				104		104
Total comprehensive income						158,418
Other	(10)	172				162
Balance at June 30, 2002	\$ 1,447	\$ 1,267,694	\$ 383,338	\$ 6,242	\$ (9,479)	\$ 1,649,242

See Notes to Consolidated Financial Statements.

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

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	Six Months Ended June 30,	
	2002	2001
Operating Activities		
Net earnings	\$ 155,352	\$ 44,872
Adjustments to reconcile net earnings to cash provided by operating activities		
Depreciation and amortization	57,173	265,825
Stock compensation	22,355	
Deferred income taxes	56,145	(7,299)
Gain on sale of former headquarters building	(18,308)	
Minority interests	41	(12,171)
Tax benefit from exercise of stock options	9,246	14,330
Cumulative effect of change in accounting method, net		(3,103)
Other	(12,333)	409
Changes in operating assets and liabilities		
Accounts receivable	(64,952)	(78,399)
Prepaid expenses	(22,896)	(4,221)
Other assets	(5,451)	(48,760)
Accrued compensation and related benefits	(18,958)	(13,044)
Accounts payable and other accrued liabilities	24,180	80,309
Pensions and other postretirement benefits	(10,256)	11,576
Other liabilities	(19,324)	12,197
	152,014	262,521
Investing Activities		
Additions to property and equipment	(28,675)	(109,135)
Business combinations, net of cash acquired	(477,330)	(45,956)
Sale of securities acquired upon exercise of warrants		36,600
Proceeds from exercise of Travelocity.com stock options	33,658	
Proceeds from sale of former headquarters building	80,000	
Proceeds from sale of minority interest in Sabre Pacific	23,466	
Purchases of marketable securities	(1,617,380)	(1,194,593)
Sales of marketable securities	1,392,790	994,658
Other investing activities, net	25,876	(7,674)
	(567,595)	(326,100)
Financing Activities		
Proceeds from issuance of common stock	433,257	67,519
Other financing activities, net	(16,234)	
	417,023	67,519
Cash provided by financing activities	417,023	67,519
Increase in cash	1,442	3,940
Cash at beginning of period	18,855	7,778
	\$ 20,297	\$ 11,718

See Notes to Consolidated Financial Statements

(Unaudited)

1. General Information

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

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

2. Summary of Significant Accounting Policies

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

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

Recent Accounting Pronouncements In June 2001, the Financial Accounting Standards Board ("FASB") issued Statements of Financial Accounting Standards No. 141, *Business Combinations* ("FAS 141"), and No. 142, *Goodwill and Other Intangible Assets* ("FAS 142"), effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill and intangible assets deemed to have indefinite lives are no longer amortized, but are subject to annual impairment tests in accordance with the Statements. Other intangible assets continue to be amortized over their useful lives.

We adopted FAS 141 and 142 effective January 1, 2002. Upon adoption of FAS 142, we no longer amortize goodwill and certain other indefinite lived intangible assets. The following table reflects income from continuing operations and net income adjusted to exclude amortization expense

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(including related tax effects) recognized in the periods presented related to goodwill and other indefinite lived intangible assets (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Reported income from continuing operations	\$ 67,965	\$ 5,051	\$ 155,352	\$ 5,464
Add back goodwill and indefinite lived intangible assets amortization, net of tax		53,309		104,427
Adjusted income from continuing operations	\$ 67,965	\$ 58,360	\$ 155,352	\$ 109,891

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	Three Months Ended June 30,		Six Months Ended June 30,	
Reported net earnings	\$ 67,965	\$ 27,724	\$ 155,352	\$ 44,872
Add back goodwill and indefinite lived intangible assets amortization, net of tax		53,309		104,427
Adjusted net earnings	\$ 67,965	\$ 81,033	\$ 155,352	\$ 149,299
Earnings per share				
Basic:				
Reported income from continuing operations	\$ 0.48	\$ 0.04	\$ 1.13	\$ 0.04
Add back goodwill and indefinite lived intangible assets amortization, net of tax		0.40		0.79
Adjusted income from continuing operations	\$ 0.48	\$ 0.44	\$ 1.13	\$.83
Reported net earnings	\$ 0.48	\$ 0.21	\$ 1.13	\$ 0.34
Add back goodwill and indefinite lived intangible assets amortization, net of tax		0.40		0.79
Adjusted net earnings	\$ 0.48	\$ 0.61	\$ 1.13	\$ 1.13