SABRE HOLDINGS CORP
Form 10-Q
November 15, 2002

Use these links to rapidly review the document
INDEX

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2002.

OR

o **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Transition Period From ____________ To ____________

Commission file number 1-12175.

SABRE HOLDINGS CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

INDEX
SABRE HOLDINGS CORPORATION

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

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

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

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

See Notes to Consolidated Financial Statements

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

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

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

See Notes to Consolidated Financial Statements

4

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

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

See Notes to Consolidated Financial Statements.

5

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

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

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

See Notes to Consolidated Financial Statements

SABRE HOLDINGS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. General Information

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

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

2. Summary of Significant Accounting Policies

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

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

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
Reported income from continuing operations	$ 57,921	$ 17,290	$ 213,273	$ 22,754
Add back goodwill and indefinite lived intangible assets amortization, net of tax		53,932		158,359
Adjusted income from continuing operations	$ 57,921	$ 71,222	$ 213,273	$ 181,113
Reported net earnings	$ 57,921	$ 56,062	$ 213,273	$ 100,934
Add back goodwill and indefinite lived intangible assets amortization, net of tax		53,932		158,359
Adjusted net earnings	$ 57,921	$ 109,994	$ 213,273	$ 259,293
Earnings per share				
Basic:				
Reported income from continuing operations	$ 0.40	$ 0.13	$ 1.53	$ 0.17
Add back goodwill and indefinite lived intangible assets amortization, net of tax		0.41		1.20
Adjusted income from continuing operations	$ 0.40	$ 0.54	$ 1.53	$ 1.37
Reported net earnings	$ 0.40	$ 0.42	$ 1.53	$ 0.76
Add back goodwill and indefinite lived intangible assets amortization, net of tax		0.41		1.20
Adjusted net earnings	$ 0.40	$ 0.83	$ 1.53	$ 1.96
Diluted:				
Reported income from continuing operations	$ 0.40	$ 0.13	$ 1.50	$ 0.17
Add back goodwill and indefinite lived intangible assets amortization, net of tax		0.40		1.18
Adjusted income from continuing operations	$ 0.40	$ 0.53	$ 1.50	$ 1.35

	Three Months Ended September 30,		Nine Months Ended September 30,	
Reported net earnings	$ 0.40	$ 0.42	$ 1.50	$ .75
Add back goodwill and indefinite lived intangible assets amortization, net of tax		0.40		1.18
Adjusted net earnings	$ 0.40	$ 0.82	$ 1.50	$ 1.93

Amortization expense relating to intangible assets subject to amortization totaled $13 million and $11 million during the three months ended September 30, 2002 and 2001, respectively, and $40 million and $31 million during the nine months ended September 30, 2002 and 2001, respectively. Amortization expense for the nine months ended September 30, 2002 includes a one-time charge of $3 million incurred during the first quarter of 2002 for the write-down of a non-compete agreement that was determined to be unrecoverable.

Changes in the carrying amount of goodwill during the nine months ended September 30, 2002 are as follows (in thousands):

	Travel Marketing and Distribution	Travelocity.com	GetThere	Airline Solutions	Total
Nine months ended September 30, 2002:					
Balance at beginning of period	$ 123,719	$ 97,602	$ 401,740	$ 3,724	$ 626,785
Goodwill acquired		198,015			198,015
Goodwill adjustments			(6,811)	100	(6,711)
Balance at end of period	$ 123,719	$ 295,617	$ 394,929	$ 3,824	$ 818,089

The goodwill balances of $818,089 and $626,785 at September 30, 2002 and December 31, 2001, respectively, include $94 million of goodwill related to our investments in joint ventures. Goodwill resulting from joint ventures is included in investments in joint ventures in the accompanying balance sheet.

In connection with the acquisition of GetThere, Inc. in October 2000, certain warrants to obtain GetThere stock were converted into contingent warrants for Sabre stock. We included $16 million for the value of these warrants in the purchase price recorded for our acquisition of GetThere. In March 2002, we made a cash payment of $10 million in exchange for cancellation of these warrants. To record this settlement, equity was reduced by the $16 million recorded value of the warrants and goodwill was reduced by $6 million, the difference between the cash payment and the recorded value of the warrants.

Prior to the adoption of FAS 142, our policy was to evaluate goodwill for impairment on an undiscounted projected future cash flows basis. Beginning January 1, 2002, we evaluate goodwill and indefinite lived intangible assets for impairment based on fair value. We performed the first of the required impairment tests of goodwill and indefinite lived intangible assets pursuant to FAS 142 as of January 1, 2002 and determined that no adjustments for impairments were necessary.

The FASB has also recently issued FAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* ("FAS 144"), which we adopted on January 1, 2002. The FASB's new rules on asset impairment supersede FAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of* ("FAS 121").

FAS 144 retains the requirements of FAS 121 to (a) recognize an impairment loss only if the carrying amount of a long-lived asset is not recoverable from its undiscounted cash flows and (b) measure an impairment loss as the difference between the carrying amount and fair value of the asset, but removes goodwill from its scope. This aspect of FAS 144 will primarily affect our accounting for intangible assets subject to amortization, property and equipment, and certain other long-lived assets.

The adoption of FAS 144 did not have a significant effect on our financial condition or results of operations.

3. Discontinued Operations

On July 2, 2001 we completed a transaction with Electronic Data Systems Corporation ("EDS") which provided for (i) the sale of our infrastructure outsourcing business and information technology ("IT") infrastructure assets and associated real estate to EDS (the "Asset Purchase Agreement"), (ii) a 10-year contract with EDS to manage our IT systems (the "IT Outsourcing Agreement"), and (iii) agreements with EDS to jointly market IT services and software solutions to the travel and transportation industries (the "Marketing Agreements").

The accompanying consolidated financial statement has been reclassified to present the results of discontinued operations separately for the nine months ended September 30, 2001. There was no activity for the three months ended September 30, 2001, or the three and nine months ended September 30, 2002. Summarized financial information for the discontinued operations is as follows (in thousands):

	Nine Months Ended September 30, 2001
Revenues	$ 370,007
Income before provision for income taxes	$ 59,060
Provision for income taxes	22,755
Income from discontinued operations	$ 36,305

4. Significant Events

Tender Offer for Travelocity.com Common Stock

On April 8, 2002 we completed a $28 per share cash tender offer for all of the approximately 16.7 million outstanding publicly-held common shares of Travelocity.com that we did not own. Prior to the tender offer, we had an approximate 70% ownership stake in Travelocity.com. We then effected a short-form merger, whereby Travelocity.com became our indirect 100% owned subsidiary, on April 11, 2002. The move supports our continuing strategy to deliver value to suppliers and travelers across multiple distribution channels. We believe it makes sense to combine the strengths of our segments to pursue new revenue opportunities, while optimizing investment decisions across segments.

The aggregate cost of the tender offer and the ensuing merger was approximately $474 million. We used available balances of cash and marketable securities to complete the acquisition, of which we estimate $30 million remains to be paid at September 30, 2002. The results of operations of the acquired interest in Travelocity.com have been included in our consolidated statement of income and the results of operations from the date of the acquisition. The acquisition has been accounted for as a purchase. The proportionate share of the assets acquired and liabilities assumed from the minority interest have been recorded at their fair values and the excess of cost over the estimated fair value of the net assets has been recorded as goodwill. The fair values were determined by management based on an independent valuation of the net assets acquired, including intangible

assets. The following table summarizes the allocation of the purchase price and amounts allocated to goodwill (in thousands):

Minority interest assumed	$	252,597
Deferred income tax asset, net		21,665
Distributor agreements (weighted average life of 3 years)		18,016
Supplier agreements (weighted average life of 3 years)		2,192
Proprietary software (weighted average life of 3 years)		2,256
Customer database (weighted average life of 7 years)		3,739
Trademark, tradename and domain name (indefinite life)		13,698
Goodwill		160,110
Total purchase price	$	474,273

The recorded goodwill relates to the Travelocity.com segment and is not deductible for tax purposes.

We are also recognizing stock compensation based on the intrinsic value of awards that were converted at the date of the acquisition from options to purchase shares of Travelocity.com Inc. common stock into options to purchase shares of our common stock. Total stock compensation expense related to the converted Travelocity.com options for the three and nine months ended September 30, 2002 was approximately $2.5 million and $20.0 million, respectively, including $14.2 million of expense recognized at the date of acquisition relating to the conversion of vested employee options to purchase shares of Travelocity.com stock to purchase shares of our stock. At September 30, 2002 the amount of unrecognized stock compensation expense to be amortized over the remaining vesting period of the related options is approximately $23.2 million.

Acquisition of Site59

On March 27, 2002, we completed the acquisition of Site59.com, Inc. ("Site59"), an online seller of last-minute merchant model air, hotel and rental car inventory, for approximately $43 million in cash. Subsequent to the acquisition, Site59 is our 100% owned subsidiary.

The acquisition of Site59 is expected to provide Travelocity.com with a greater mix of merchant hotel inventory. This new inventory will be used to complement the extensive inventory Travelocity.com already receives through its long-term agreement with Hotels.com (formerly Hotel Reservations Network, Inc. "HRN"), while increasing the merchant inventory Travelocity.com receives directly from hotel partners. Travelocity.com plans to begin selling hotel rooms using inventory from Site59 during the fourth quarter of 2002. We are operating Site59 as a separate unit within the Travelocity.com segment and are generating revenue from last-minute travel operations.

The results of operations of Site59 have been included in our consolidated statements of income and the results of operations of our Travelocity.com segment from the date of acquisition. Assets acquired and liabilities assumed have been recorded at their estimated fair values and the excess of cost over the estimated fair value of the net assets has been recorded as goodwill. The fair values were determined by management based on an independent valuation of the net assets acquired,

including intangible assets. The following table summarizes the allocation of the purchase price and amounts allocated to goodwill (in thousands):

Working capital acquired	$	1,770
Property and equipment and other non-current assets		824
Software		1,352
Non-current liabilities		(76)
Supplier agreements (weighted average life of 1.5 years)		900
Trademark, tradename and domain name (indefinite life)		600
Goodwill		37,905
Total purchase price	$	43,275

The acquired goodwill is related to the Travelocity.com segment and is not deductible for tax purposes.

Pro Forma Statement of Operations Data

The unaudited pro forma statement of operations data in the table below presents the effects of the acquisition of the minority interest of Travelocity.com on our operations as if the acquisition occurred on January 1, 2001. Adjustments related to the acquisition that affect the statement of operations include stock compensation expense associated with the conversion of Travelocity.com options into options to purchase shares of Sabre's common stock, amortization of the fair value of amortizing intangible assets acquired and elimination of minority interests in the results of operations of Travelocity.com. Pro forma adjustments related to the acquisition of Site59 have not been included as the effect of doing so would be immaterial. Amounts shown below are in thousands, except per share amounts.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	**2001**	**2002**	**2001**
Revenues	$ 510,645	$ 524,829	$ 1,582,741	$ 1,680,278
Income from continuing operations	$ 57,921	$ 11,546	$ 219,752	$ (4,523)
Income before cumulative effect of change in accounting method	$ 57,921	$ 50,318	$ 219,752	$ 70,554
Net earnings	$ 57,921	$ 50,318	$ 219,752	$ 74,987
Earnings per common share basic:				
Income from continuing operations	$ .40	$ .09	$ 1.57	$ (.03)
Net earnings	$ .40	$ .38	$ 1.57	$ .57
Earnings per common share diluted:				
Income from continuing operations	$ .40	$ .09	$ 1.54	$ (.03)
Net earnings	$ .40	$ .37	$ 1.54	$ .56

Equity Offering

During April 2002, we completed an underwritten public offering of 9.43 million shares of Class A common stock at $44.50 per share, which resulted in net proceeds to us of approximately $400 million, net of transaction fees. We are using the proceeds from the offering for general corporate purposes.

Events of September 11, 2001

On September 11, 2001, the United States was the target of terrorist attacks of unprecedented scope involving the hijacking and destruction of multiple passenger aircraft operated by commercial air carriers. As a consequence, we have experienced significant decreases in bookings volumes due to reduced travel in the United States and, to a lesser degree, internationally. Bookings have also decreased because of the general economic decline that has occurred since September 11. Bookings were down approximately 65% immediately after the attacks and were down approximately 15% at the end of 2001. Our results of operations for the three and nine

months ended September 30, 2002 were negatively affected by this continued reduction in travel. Our total bookings in the U.S. were approximately 8.1% and 14.1% lower during the three and nine months ended September 30, 2002, respectively, than during the same period one year ago.

Yahoo! Agreement

During the second quarter of 2002, we entered into an agreement with Yahoo! whereby Travelocity.com will be the exclusive air, car and hotel booking engine on Yahoo! Travel. Under the terms of the agreement, we are obligated to purchase certain levels of advertising, corporate services and enterprise solutions from Yahoo! The companies also plan to jointly develop travel solutions for the millions of individuals, travel agents and travel suppliers that rely on the firms' extensive networks. Minimum payments due to Yahoo! under the terms of the agreement are as follows (in thousands):

2002	$	14,000
2003		28,000
2004		29,000
2005		29,000
	$	100,000

The agreement also contains a productivity component, whereby Yahoo! is paid a percentage of the transactions services revenue generated through the Yahoo! network. As of September 30, 2002, we are obligated for total future payments of $93 million, as we paid approximately $7 million during the third quarter of 2002. The agreement is effective July 1, 2002 and expires December 31, 2005. The agreement can be extended for up to two years at Yahoo!'s option.

Workforce Reduction

As a result of decreased travel and booking volumes resulting from the September 11, 2001 terrorist attacks, we announced a workforce reduction in December 2001. This included an anticipated workforce reduction of approximately 700 employees, or approximately 12%. To date, we have reduced our workforce by approximately 553. In addition, we made provisions for the closing of some small leased office facilities in the United States and Canada. The total expense recorded for these actions was approximately $28.2 million, of which approximately $20.0 million was for severance payments and benefits continuation charges for affected employees, and approximately $8.2 million related to costs resulting from the cancellation of office leases. Most of the severance payments were made during the first quarter of 2002. Costs related to the cancellation of office leases will be paid over the applicable lease terms.

In the second quarter of 2002, it was determined that certain office space will not be vacated. Therefore, we reduced the accrual by $3.5 million related to these facilities. The following table

summarizes the expenses included in the write-off, as well as the liabilities remaining on the balance sheet at September 30, 2002.

	Severance	Other	Total
Original estimate of liability	$ 19,945	$ 8,245	$ 28,190
Amounts paid in 2001	(3,055)	(513)	(3,568)
Remaining accrual December 31, 2001	16,890	7,732	24,622
Amounts paid in 2002	(11,063)	(1,651)	(12,714)
Revisions of estimates		(3,508)	(3,508)
Remaining accrual September 30, 2002	$ 5,827	$ 2,573	$ 8,400

Severance	Other	Total

Sale of Previous Headquarters

On January 31, 2002, we sold our previous headquarters office facility in Fort Worth, Texas to a third party. We received proceeds of approximately $80 million in cash, and recognized a pre-tax gain of approximately $18 million as a result of the sale.

Sale of Data Center Facility

In July 2002, we purchased a data center facility constructed on our behalf in Tulsa, Oklahoma from the lessor for approximately $92 million and immediately sold it to a third party. We received proceeds of approximately $68 million in cash, and realized a loss of approximately $24 million. This loss had been previously accrued in 2001 in connection with the EDS transaction (See Note 3).

5. Income Taxes

The provision for income taxes relating to continuing operations differs from amounts computed at the statutory federal income tax rate as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
Income tax provision at statutory federal income tax rate	$ 31,699	$ 19,943	$ 118,714	$ 43,230
State income taxes, net of federal benefit	1,412	2,560	9,401	4,014
Foreign tax credit	(806)		(3,247)	
Nondeductible goodwill amortization		21,457		59,350
Other, net	345	(4,271)	1,043	(5,834)
Total provision for income taxes	$ 32,650	$ 39,689	$ 125,911	$ 100,760

6. Derivatives

We adopted Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* ("FAS 133"), effective January 1, 2001.

During the three months ended March 31, 2001 upon adoption of FAS 133, we recognized a cumulative gain in earnings relating to warrants ("Hotels.com warrants") to purchase shares of common stock of Hotels.com, Inc. (formerly Hotel Reservations Network, Inc. "HRN") of approximately $3 million, net of minority interest of approximately $2 million and deferred income taxes of approximately $2 million. During March 2001, we extended our affiliation agreement with Hotels.com through July 31, 2005 and expanded the scope of the Hotels.com relationship. In connection with the expanded and extended agreement, we received additional vested Hotels.com warrants with a fair value of approximately $30 million on the date of receipt. We will recognize this amount as revenue over the extended term of the agreement. During the three and nine months ended September 30, 2002 we recognized revenue relating to amortization of the fair value of the Hotels.com warrants received at contract origination and modification totaling approximately $2.2 million and $6.5 million, respectively, compared to $2.2 million and $5.2 million, respectively, for the three and nine months ended September 30, 2001. We may also vest in additional warrants in the future based upon the achievement of certain performance metrics. During the three and nine months ended September 30, 2002, we received additional Hotels.com warrants, based on certain performance metrics, with a fair value of approximately $2.2 million and $6.4 million, respectively, compared to $0.7 million and $2.5 million, respectively, for the three and nine months ended September 30, 2001. These amounts have been recognized as revenue in the periods the warrants were earned. During the nine months ended September 30, 2002, we completed cashless exercises of Hotels.com warrants and received approximately 81,000 shares of Hotels.com stock, which were disposed of for cash proceeds totaling approximately $4.4 million. We did not exercise any warrants during the three months ended September 30, 2002. No significant gain or loss was realized relating to the exercise of the warrants or the disposals of the Hotels.com common stock. During

the three and nine months ended September 30, 2001, we completed cashless exercises of Hotels.com warrants and received approximately 34,000 shares and 1.1 million shares of Hotels.com stock, respectively. During the nine months ended September 30, 2001 we sold Hotels.com common stock for approximately $36.6 million. No significant gain or loss was realized relating to the exercise of the warrants or the disposals of the Hotels.com common stock. As of September 30, 2002 we held 119,997 unexercised Hotels.com warrants.

We are a party to certain foreign currency forward contracts. We have designated our foreign currency forwards as a cash flow hedge. The cumulative effect of adoption of FAS 133 related to these foreign currency forwards was insignificant. Amounts reclassified from other comprehensive income to earnings during the three and nine months ended September 30, 2002 and 2001 relating to the forwards were not significant. There was no hedging ineffectiveness recorded in earnings relating to the forwards during the three and nine months ended September 30, 2002 and 2001.

In connection with our issuance in August 2001 of $400 million principal amount in unsecured notes ("Notes") with a fixed interest rate of 7.35%, we entered into two interest rate swaps. We had designated the swaps as fair value hedges of $100 million and $200 million principal amount, respectively, of the Notes. Because the critical terms of the Notes and the swaps matched, the swaps were considered a perfectly effective hedge against changes in the fair value of the Notes due to changes in the London Interbank Offered Rate ("LIBOR"). On August 1, 2002 we terminated the swaps, resulting in a gain of approximately $17 million. The gain has been recorded as an increase in the carrying value of the Notes, and will be amortized as an offset to interest expense over the remaining term of the Notes which mature in entirety on August 1, 2011. Also, on August 1, 2002, we entered into two new interest rate swaps. Under the terms of the two new interest rate swaps, which have notional amounts of $100 million and $200 million, we will receive

semi-annual payments based on a fixed interest rate of 7.35% and will make semi-annual payments based on a six-month LIBOR plus 231 basis points. The reset dates on the swaps are February 1 and August 1 each year until maturity on August 1, 2011. The initial six-month LIBOR date for both swaps is August 1, 2002 and the initial rate of 4.17125% has been set on both swaps. We have designated the swaps as fair value hedges of $100 million and $200 million principal amount, of the principle amount of the Notes. Changes in the fair value of the swaps are recognized as a component of other income in each reporting period. Additionally, the carrying value of the Notes is adjusted by a like amount, with the adjustment recognized as a component of other income. As of September 30, 2002, we had recorded a hedging asset of approximately $20 million, which is included in other assets in the accompanying balance sheet, and a corresponding increase in the carrying value of the Notes relating to these new swaps.

The estimated fair values of our derivatives as of September 30, 2002 and 2001 are provided below (in thousands):

	Asset/(Liability) September 30,	
	2002	**2001**
Hotels.com warrants	$ 4,149	$ 714
Foreign currency forwards	5,255	935
Interest rate swaps	20,322	13,538
	$ 29,726	$ 15,187

Derivative assets and liabilities are classified as current or long-term other assets and other liabilities in the accompanying balance sheet, depending on the date of settlement of the contract.

7. Earnings Per Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
Denominator for basic earnings per common share weighted-average shares	143,096	133,110	139,762	132,092
Dilutive effect of stock awards and options	1,794	1,966	2,550	2,519
Denominator for diluted earnings per common share adjusted weighted-average shares	144,890	135,076	142,312	134,611

8. Segment Reporting

We have four reportable segments: Travel Marketing and Distribution (which includes Emerging Businesses), Travelocity.com, GetThere, and Airline Solutions. The Travel Marketing and Distribution segment distributes travel services to travel agencies ("subscribers"). Through our global distribution system, subscribers can access information about and book reservations with airlines and other providers of travel and travel-related products and services ("associates"). The Travelocity.com segment distributes travel services to individual consumers. Through the Travelocity.com Web site, individual consumers can compare prices, make travel reservations and obtain destination information online. GetThere distributes travel services online directly to businesses. GetThere provides business users with travel shopping and booking functionality, company travel spending information, supplier utilization management tools, and automated travel

policy compliance. The Travel Marketing and Distribution segment generally receives booking fees from associates for reservations made through the Travelocity.com Web site or using GetThere's services. The Airline Solutions segment primarily provides software development, reservations hosting, consulting solutions and other products and services to airlines and other travel providers. Our reportable segments are strategic business units that offer different products and services and are managed separately because each business requires different market strategies.

The segment information is presented on a basis that excludes certain special items that are summarized below. This presentation is consistent with the manner in which our management assesses the operating performance of our business segments.

Selected information for our four reportable segments for the three and nine months ended September 30, 2002 and 2001 follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
Revenues from external customers:				
Travel Marketing and Distribution	$ 378,735	$ 389,546	$ 1,197,556	$ 1,299,933
Travelocity.com	64,963	61,174	183,103	180,729
GetThere	13,704	11,312	38,251	33,150
Airline Solutions	50,417	57,002	154,512	149,949
Total	$ 507,819	$ 519,034	$ 1,573,422	$ 1,663,761

	Three Months Ended September 30,		Nine Months Ended September 30,	
Intersegment revenues:				
Travel Marketing and Distribution	$ 7,430	$ 6,751	$ 20,072	$ 19,550
Travelocity.com	18,883	17,286	52,922	52,926
GetThere	264	54	663	54
Airline Solutions				2,852
Total	$ 26,577	$ 24,091	$ 73,657	$ 75,382
Equity in net income (loss) of equity method investees:				
Travel Marketing and Distribution	$ 3,658	$ 5,795	$ 12,365	$ 16,517
Travelocity.com	(832)		(3,046)	
Total	$ 2,826	$ 5,795	$ 9,319	$ 16,517
Total consolidated revenues:				
Travel Marketing and Distribution	$ 389,823	$ 402,092	$ 1,229,993	$ 1,336,000
Travelocity.com	83,014	78,460	232,979	233,655
GetThere	13,968	11,366	38,914	33,204
Airline Solutions	50,417	57,002	154,512	152,801
Elimination of intersegment revenues	(26,577)	(24,091)	(73,657)	(75,382)
Total	$ 510,645	$ 524,829	$ 1,582,741	$ 1,680,278
Segment operating income (loss) excluding special items:				
Travel Marketing and Distribution	$ 109,454	$ 89,899	$ 382,203	$ 349,841
Travelocity.com	(4,781)	3,658	(2,472)	6,978
GetThere	(4,806)	(10,847)	(21,085)	(42,472)
Airline Solutions	3,493	2,178	18,375	8,617
Net corporate allocations	343	(3,483)	795	(15,654)
Total	$ 103,703	$ 81,405	$ 377,816	$ 307,310

A summary of the special items and reconciliation to consolidated operating income is set forth below (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	**2001**	**2002**	**2001**
Travel Marketing and Distribution:				
Goodwill and other intangibles amortization	$ 1,994	$ 3,269	$ 8,476	$ 7,110
Expenses related to write-off of software which will not be utilized		5,975		5,975

	Three Months Ended September 30,		Nine Months Ended September 30,	
Total Travel Marketing and Distribution	1,994	9,244	8,476	13,085
Travelocity.com:				
Goodwill and other intangibles amortization	2,860	21,286	6,211	63,847
Stock compensation	2,450	574	21,317	1,355
Tender offer expenses			7,111	
Total Travelocity.com	5,310	21,860	34,639	65,202
GetThere:				
Goodwill and other intangibles amortization	6,607	44,155	19,819	129,326
Stock compensation	863	1,665	1,852	4,995
Severance and integration expenses				1,386
Total GetThere	7,470	45,820	21,671	135,707
Corporate:				
Goodwill and other intangibles amortization	1,345	2,065	4,368	6,777
Restructuring charge			(3,508)	
Stock compensation	110	311	398	1,125
Total Corporate	1,455	2,376	1,258	7,902
Total special items	$ 16,229	$ 79,300	$ 66,044	$ 221,896
Consolidated operating income (loss):				
Travel Marketing and Distribution	$ 107,460	$ 80,655	$ 373,727	$ 336,756
Travelocity.com	(10,091)	(18,202)	(37,111)	(58,224)
GetThere	(12,276)	(56,667)	(42,756)	(178,179)
Airline Solutions	3,493	2,178	18,375	8,617
Corporate Allocations	(1,112)	(5,859)	(463)	(23,556)
Total	$ 87,474	$ 2,105	$ 311,772	$ 85,414

9. Supplemental Guarantor/Non-Guarantor Financial Information

Certain obligations of Sabre Holdings Corporation (Sabre Holdings) have been solely guaranteed by its 100% owned operating subsidiary, Sabre Inc. There are no restrictions on Sabre Holdings' ability to obtain funds from Sabre Inc. in the form of a dividend or loan other than those that would exist under Delaware law. Additionally, there are no significant restrictions on Sabre Inc.'s ability to obtain funds from its direct or indirect subsidiaries other than those that would exist under state or foreign law. Sabre Inc. is the sole direct subsidiary of Sabre Holdings. All other subsidiaries are direct or indirect subsidiaries of Sabre Inc. These subsidiaries are all included in the non-guarantor financial statements. The following financial information presents condensed consolidating balance sheets, statements of income and statements of cash flows for Sabre Holdings, Sabre Inc. and non-guarantor subsidiaries. The information has been presented as if Sabre Holdings accounted for its ownership of Sabre Inc., and Sabre Inc. accounted for its ownership of the non-guarantor subsidiaries, using the equity method of accounting. Certain

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

Sabre Inc. conducts the domestic operations of the Company's Travel Marketing and Distribution segment and conducts the operations of the Airline Solutions segment. The operations of the Travelocity.com and GetThere segments, as well as the principal international operations of the Travel Marketing and Distribution segment are conducted by the non-guarantor subsidiaries.

Sabre Inc. and certain non-guarantor subsidiaries are parties to various intercompany agreements, which affect the amount of operating expenses reported in the following condensed consolidating statements of income. Among other things, fees are paid by Sabre Inc. to a non-guarantor subsidiary relating to the use of trademarks, tradenames, etc. owned by a non-guarantor subsidiary; incentive and marketing payments are made by Sabre Inc. to non-guarantor subsidiaries relating to the use and distribution of the *Sabre* system; and payments are made by non-guarantor subsidiaries to Sabre Inc. for access to the *Sabre* system under the terms of these agreements. During the three months ended September 30, 2002 and 2001 Sabre Inc. recognized operating expenses totaling approximately $67 million and $60 million, respectively, and during the nine months ended September 30, 2002 and 2001 Sabre Inc. recognized operating expenses totaling approximately $199 million and $210 million, respectively, in connection with these agreements. These amounts and the corresponding amounts recognized by the non-guarantor subsidiaries are eliminated in consolidation.

UNAUDITED CONDENSED CONSOLIDATING BALANCE SHEETS
SEPTEMBER 30, 2002
(in thousands)

	Sabre Holdings	Sabre Inc.	Non-Guarantor Subsidiaries	Eliminating Entries	Sabre Consolidated
Assets					
Current assets					
Cash and marketable securities	$	$ 840,015	$ 16,768	$	$ 856,783
Accounts receivable trade, net		245,000	102,451		347,451
Intercompany accounts receivable (payable)	1,516,472	(2,047,519)	531,047		
Prepaid expenses		47,150	51,665		98,815
Deferred income taxes		14,789	230		15,019
Total current assets	1,516,472	(900,565)	702,161		1,318,068
Property and equipment, net		177,916	49,980		227,896
Deferred income taxes		(13,770)	13,770		
Investments in joint ventures		12,385	171,296		183,681
Goodwill and intangible assets, net		8,689	856,250		864,939
Investments in subsidiaries	558,689	1,649,702		(2,208,391)	
Other assets, net	23,282	109,155	48,342		180,779
Total assets	$ 2,098,443	$ 1,043,512	$ 1,841,799	$ (2,208,391)	$ 2,775,363
Liabilities and stockholders' equity					
Current liabilities					
Accounts payable	$ 17	$ 129,624	$ 44,455	$	$ 174,096
Accrued compensation and related benefits		45,053	12,396		57,449
Other accrued liabilities	3,345	211,196	81,636		296,177
Total current liabilities	3,362	385,873	138,487		527,722
Deferred income taxes			6,936		6,936
Pensions and other postretirement benefits		81,678	920		82,598

	Sabre Holdings	Sabre Inc.	Non-Guarantor Subsidiaries	Eliminating Entries	Sabre Consolidated
Other liabilities	587	17,272	34,850		52,709
Minority interests			10,904		10,904
Notes payable	435,109				435,109
Stockholders' equity	1,659,385	558,689	1,649,702	(2,208,391)	1,659,385
Total liabilities and stockholders' equity	$ 2,098,443	$ 1,043,512	$ 1,841,799	$ (2,208,391)	$ 2,775,363

UNAUDITED CONDENSED CONSOLIDATING BALANCE SHEETS
DECEMBER 31, 2001
(in thousands)

	Sabre Holdings	Sabre Inc.	Non-Guarantor Subsidiaries	Eliminating Entries	Sabre Consolidated
Assets					
Current assets					
Cash and marketable securities	$	$ 543,196	$ 123,691	$	$ 666,887
Accounts receivable trade, net		238,747	89,069		327,816
Intercompany accounts receivable (payable)	1,074,130	(1,406,885)	332,755		
Prepaid expenses		18,120	33,445		51,565
Deferred income taxes		45,740	230		45,970
Total current assets	1,074,130	(561,082)	579,190		1,092,238
Property and equipment, net		232,434	56,015		288,449
Investments in joint ventures		12,353	157,596		169,949
Goodwill and intangible assets, net		9,626	662,519		672,145
Investments in subsidiaries	372,556	1,132,522		(1,505,078)	
Other assets, net	5,845	76,545	70,846		153,236
Total assets	$ 1,452,531	$ 902,398	$ 1,526,166	$ (1,505,078)	$ 2,376,017
Liabilities and stockholders' equity					
Current liabilities					
Accounts payable	$	$ 136,608	$ 22,231	$	$ 158,839
Accrued compensation and related benefits		59,184	14,090		73,274
Other accrued liabilities	9,347	219,651	103,345		332,343
Total current liabilities	9,347	415,443	139,666		564,456
Pensions and other postretirement benefits		88,362	394		88,756
Other liabilities	1,033	26,037	33,868		60,938
Minority interests			219,716		219,716
Notes payable	400,375				400,375
Stockholders' equity	1,041,776	372,556	1,132,522	(1,505,078)	1,041,776

	Sabre Holdings	Sabre Inc.	Non-Guarantor Subsidiaries	Eliminating Entries	Sabre Consolidated
Total liabilities and stockholders' equity	$ 1,452,531	$ 902,398	$ 1,526,166	$ (1,505,078)	$ 2,376,017

UNAUDITED CONDENSED CONSOLIDATING STATEMENTS OF INCOME
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2002
(in thousands)

	Sabre Holdings	Sabre Inc.	Non-Guarantor Subsidiaries	Eliminating Entries	Sabre Consolidated
Revenues	$	$ 1,229,465	$ 677,368	$ (324,092)	$ 1,582,741
Operating expenses	1,096	974,360	619,605	(324,092)	1,270,969
Operating income (loss)	(1,096)	255,105	57,763		311,772
Other income (expense)					
Interest income	70,926	17,392	17,249	(83,841)	21,726
Interest expense	(14,348)	(84,431)	(1,959)	83,841	(16,897)
Income (loss) from subsidiaries	176,724	51,632		(228,356)	
Other, net		18,405	4,568		22,973
Total other income (expense)	233,302	2,998	19,858	(228,356)	27,802
Minority interests			(390)		(390)
Income (loss) before income taxes	232,206	258,103	77,231	(228,356)	339,184
Provision for income taxes	18,933	81,379	25,599		125,911
Net income (loss)	$ 213,273	$ 176,724	$ 51,632	$ (228,356)	$ 213,273

UNAUDITED CONDENSED CONSOLIDATING STATEMENTS OF INCOME
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2001
(in thousands)

	Sabre Holdings	Sabre Inc.	Non-Guarantor Subsidiaries	Eliminating Entries	Sabre Consolidated
Revenues	$	$ 1,299,375	$ 651,437	$ (270,534)	$ 1,680,278
Operating expenses	978	1,143,190	722,417	(271,721)	1,594,864
Operating income (loss)	(978)	156,185	(70,980)	1,187	85,414
Other income (expense)					
Interest income	28,510	11,353	21,160	(45,427)	15,596
Interest expense	(3,656)	(74,962)	(1,279)	45,427	(34,470)

	Sabre Holdings	Sabre Inc.	Non-Guarantor Subsidiaries	Eliminating Entries	Sabre Consolidated
Income (loss) from subsidiaries	85,205	(73,118)		(12,087)	
Other, net		45,305	(5,540)		39,765
Total other income (expense)	110,059	(91,422)	14,341	(12,087)	20,891
Minority interests			17,209		17,209
Income (loss) from continuing operations before income taxes	109,081	64,763	(39,430)	(10,900)	123,514
Provision for income taxes	8,147	53,930	38,683		100,760
Income (loss) from continuing operations	100,934	10,833	(78,113)	(10,900)	22,754
Income (loss) from discontinued operations		36,164	1,328	(1,187)	36,305
Gain on sale of discontinued operations, net		38,208	564		38,772
Income (loss) before cumulative effect of change in accounting method	100,934	85,205	(76,221)	(12,087)	97,831
Cumulative effect of change in accounting method, net of minority interests and income taxes			3,103		3,103
Net income (loss)	$ 100,934	$ 85,205	$ (73,118)	$ (12,087)	$ 100,934

UNAUDITED CONDENSED CONSOLIDATING STATEMENTS OF INCOME
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2002
(in thousands)

	Sabre Holdings	Sabre Inc.	Non-Guarantor Subsidiaries	Eliminating Entries	Sabre Consolidated
Revenues	$	$ 387,373	$ 236,804	$ (113,532)	$ 510,645
Operating expenses	(102)	323,212	213,593	(113,532)	423,171
Operating income	102	64,161	23,211		87,474
Other income (expense)					
Interest income	47,945	5,769	5,586	(52,141)	7,159
Interest expense	(4,684)	(52,321)	(769)	52,141	(5,633)
Income from subsidiaries	29,355	18,318		(47,673)	
Other, net		1,023	897		1,920
Total other income (expense)	72,616	(27,211)	5,714	(47,673)	3,446
Minority interests			(349)		(349)
Income (loss) before income taxes	72,718	36,950	28,576	(47,673)	90,571
Provision for income taxes	14,797	7,595	10,258		32,650
Net income (loss)	$ 57,921	$ 29,355	$ 18,318	$ (47,673)	$ 57,921

UNAUDITED CONDENSED CONSOLIDATING STATEMENTS OF INCOME
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2001
(in thousands)

	Sabre Holdings	Sabre Inc.	Non-Guarantor Subsidiaries	Eliminating Entries	Sabre Consolidated
Revenues	$	$ 403,078	$ 207,878	$ (86,127)	$ 524,829
Operating expenses	(133)	371,144	237,840	(86,127)	522,724
Operating income (loss)	133	31,934	(29,962)		2,105
Other income (expense)					
Interest income	10,574	6,423	7,177	(16,088)	8,086
Interest expense	(3,656)	(17,740)	(561)	16,088	(5,869)
Income (loss) from subsidiaries	51,417	(27,660)		(23,757)	
Other, net		47,306	313		47,619
Total other income (expense)	58,335	8,329	6,929	(23,757)	49,836
Minority interests			5,038		5,038
Income (loss) from continuing operations before income taxes	58,468	40,263	(17,995)	(23,757)	56,979
Provision for income taxes	2,406	28,241	9,042		39,689
Income (loss) from continuing operations	56,062	12,022	(27,037)	(23,757)	17,290
Income (loss) from discontinued operations, net		1,187	(1,187)		
Gain on sale of discontinued operations, net		38,208	564		38,772
Net income (loss)	$ 56,062	$ 51,417	$ (27,660)	$ (23,757)	$ 56,062

26

UNAUDITED CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2002
(in thousands)

	Sabre Holdings	Sabre Inc.	Non-Guarantor Subsidiaries	Eliminating Entries	Sabre Consolidated
Operating Activities					
Net earnings	$ 213,273	$ 176,724	$ 51,632	$ (228,356)	$ 213,273
Adjustments to reconcile net earnings to cash provided by operating activities:					
Depreciation and amortization		29,718	56,456		86,174
Stock compensation			27,079		27,079
Deferred income taxes		64,801	14,156		78,957
Tax benefit from exercise of stock options	9,686				9,686
Minority interests			390		390

	Sabre Holdings	Sabre Inc.	Non-Guarantor Subsidiaries	Eliminating Entries	Sabre Consolidated
(Income) loss from subsidiaries	(176,724)	(51,632)		228,356	
Gain on sale of former headquarters building		(18,308)			(18,308)
Other	10,955	(15,199)	(12,252)		(16,496)
Changes in operating assets and liabilities	(447,351)	480,185	(214,945)		(182,111)
Cash provided by (used for) operating activities	(390,161)	666,289	(77,484)		198,644
Investing Activities					
Additions to property and equipment		(29,413)	(13,706)		(43,119)
Purchases of marketable securities		(2,958,197)	(321,312)		(3,279,509)
Sales of marketable securities		2,668,483	434,453		3,102,936
Investments in subsidiaries, net	(9,409)	(465,548)		474,957	
Business combinations, net of cash acquired		29,541	(512,967)		(483,426)
Proceeds from exercise of Travelocity.com stock options				33,658	33,658
Proceeds from sale of former headquarters building		80,000			80,000
Purchase of data center facility from lessor		(92,092)			(92,092)
Proceeds from sale of data center facility		68,464			68,464
Proceeds from sale of minority interest in Sabre Pacific			23,466		23,466
Other investing activities, net		29,968	(8,126)		21,842
Cash provided by (used for) investing activities	(9,409)	(668,794)	(398,192)	508,615	(567,780)
Financing Activities					
Contributions from affiliates		9,409	465,548	(474,957)	
Proceeds from issuance of common stock	438,767		33,658	(33,658)	438,767
Purchases of treasury stock	(56,610)				(56,610)
Other financing activities, net	17,413		(17,503)		(90)
Cash provided by (used for) financing activities	399,570	9,409	481,703	(508,615)	382,067
Increase in cash		6,904	6,027		12,931
Cash at beginning of period		8,642	10,213		18,855
Cash at end of period	$	$ 15,546	$ 16,240	$	$ 31,786

27

UNAUDITED CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2001
(in thousands)

	Sabre Holdings	Sabre Inc.	Non-Guarantor Subsidiaries	Eliminating Entries	Sabre Consolidated

Operating Activities					
Net earnings	$ 100,934	$ 85,205	$ (73,118)	$ (12,087)	$ 100,934
Adjustments to reconcile net earnings to cash provided by operating activities:					
Depreciation and amortization		104,602	246,574		351,176
Stock compensation			5,844		5,844
Deferred income taxes		(74,365)	(11,964)		(86,329)
Minority interests			(17,209)		(17,209)
Gain on sale of discontinued operations, net		(38,208)	(564)		(38,772)
Gain on sale of Equant shares			(47,303)		(47,303)
Tax benefit from exercise of stock options	17,472				17,472
(Income) loss from subsidiaries	(85,205)	73,118		12,087	
Cumulative effect of change in accounting method, net			(3,103)		(3,103)
Other	10,885	(26,942)	16,780		723
Changes in operating assets and liabilities	(504,194)	823,272	(84,618)		234,460
Cash provided by (used for) operating activities	(460,108)	946,682	31,319		517,893
Investing Activities					
Additions to property and equipment		(98,715)	(34,516)		(133,231)
Purchases of marketable securities		(2,363,230)	(387,632)		(2,750,862)
Sales of marketable securities		1,771,371	304,431		2,075,802
Proceeds from sales of investments			83,907		83,907
Investments in subsidiaries, net	(24,226)	372		23,854	
Business combinations, net of cash acquired			(45,956)		(45,956)
Proceeds from sale of discontinued operations		607,432	53,331		660,763
Other investing activities, net		(28,771)	50		(28,721)
Cash provided by (used for) investing activities	(24,226)	(111,541)	(26,385)	23,854	(138,298)
Financing Activities					
Contributions from affiliates		24,226	(372)	(23,854)	
Proceeds from issuance of notes payable	397,391				397,391
Proceeds from issuance of common stock	93,904				93,904
Payment of notes payable		(859,000)			(859,000)
Purchases of treasury stock	(6,410)				(6,410)
Cash provided by (used for) financing activities	484,885	(834,774)	(372)	(23,854)	(374,115)
Increase in cash	551	367	4,562		5,480
Cash at beginning of period		1,582	6,196		7,778
Cash at end of period	$ 551	$ 1,949	$ 10,758	$	$ 13,258

10. Subsequent Events

In October 2002, we announced plans for a fourth quarter 2002 reduction in workforce of approximately 5% to 7% to reduce costs as a result of the continued decline in travel and general economic downturn after the September 11, 2001 terrorist attacks. The financial impact of the reduction has not yet been determined.

On November 12, 2002, the United States Department of Transportation issued a notice of proposed rule-making to revise the existing regulations governing air travel distribution through computer reservations systems. If those rules were to become final in their current form, we could be adversely affected. In particular, the rules could facilitate efforts by the airline owners of Orbitz and Worldspan to divert travel bookings to distribution channels that they own and control. See the discussion of regulatory developments below under "*Risk Factors*".

28

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

SABRE HOLDINGS CORPORATION

RESULTS OF OPERATIONS

Summary. We generate revenues from continuing operations by providing travel marketing and distribution services to travel agencies, corporate travel departments and travel suppliers using the *Sabre* system, to consumers using the Travelocity.com Web sites, to businesses using GetThere products, and from the development and marketing of airline solutions. During the nine months ended September 30, 2002, we generated approximately 76.4% of our revenue from Travel Marketing and Distribution services, approximately 11.4% from Travelocity.com, 2.4% from GetThere and 9.8% from Airline Solutions. Our consolidated operating margins were 19.7% and 5.1% for the nine months ended September 30, 2002 and 2001, respectively.

EDS Transaction. On July 2, 2001, we completed a transaction with EDS which provided for (i) the sale of our infrastructure outsourcing business and IT infrastructure assets and associated real estate to EDS, (ii) a 10-year contract with EDS to manage our IT systems, and (iii) agreements with EDS to jointly market IT services and software solutions to the travel and transportation industries. As a result of the EDS transaction, our financial statements have been reclassified to present the results of operations of the information technology infrastructure outsourcing business as discontinued operations for the three and nine months ended September 30, 2001. See Note 3 to the Consolidated Financial Statements for additional information regarding this transaction.

Business Trends.

Our revenues are highly dependent on the travel and transportation industries, and particularly on United States airline travel bookings. We are experiencing significant decreases in bookings volumes due to reduced travel in the United States and, to a lesser degree, internationally, and due to increased efforts by airlines to divert booking to alternative distribution channels.

Reduced Volume of Air Travel. We attribute the lower travel activity principally to economic conditions in the United States and to ongoing travel security concerns. Air travel continues to be adversely affected by the state of the United States economy, by the possibility of terrorist attacks, hostilities and war, and by delays resulting from added security measures at airports. Travelers appear to be traveling less, remaining closer to home, deferring travel and substituting alternative methods of travel for air travel.

Air travel in 2001 was trending lower than in 2000, initially because of the declining economic conditions in the United States. On September 11, 2001, the United States was the target of terrorist attacks of unprecedented scope involving the hijacking and destruction of multiple passenger aircraft operated by commercial air carriers. Immediately after those attacks, we experienced bookings volumes that were 65% lower than the prior year period. By the end of 2001, bookings volumes had partially recovered, to approximately 15% lower than the same period in 2000. Air travel bookings volumes recovered further during 2002, and at the end of the third quarter 2002 were approximately 20% below 2000 levels, (and 30% above 2001 levels reflecting the anniversary of the terrorist attacks). We are uncertain whether travel booking volumes will fully recover to historical levels, especially when compared to the year 2000, which was a year in which we experienced historically high levels of travel bookings.

Financial Condition of Airlines. Our airline customers are negatively affected by the continuing lower levels of travel activity. Several major carriers are experiencing liquidity problems. Some airlines have sought bankruptcy protection, and others may consider bankruptcy relief. The financial difficulties facing our airline customers increases the risk that they may not perform on our contracts with them, including the risk we may not be paid for services provided to them

although this risk may be mitigated by our participation in industry clearinghouses, which allow for centralized payment of service providers in the travel industry. In addition, these conditions may result in the airlines buying less of our products or services or seeking to reduce costs through price negotiation or other means.

Airline Efforts to Control Travel Distribution. The airline owners of Orbitz and Worldspan are aggressively working to divert travel bookings onto channels that they collectively control. Those 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 response to pricing offered by channels that those airlines control. Their collective efforts are resulting in travel bookings being diverted from traditional distribution channels toward airline-controlled channels, such as Orbitz.

Government Regulation. On November 12, 2002, the United States Department of Transportation issued a notice of proposed rule making to revise the existing regulations governing air travel distribution through computer reservations systems. If those proposed rules were to become final in their current form, we could be adversely affected. In particular, the rules could facilitate efforts by the airline owners of Orbitz and WorldSpan to divert travel bookings to distribution channels that they own and control. It is uncertain whether the Department of Transportation will adopt these proposed rules in their current form.

Merchant Model. Independent travel distributors, including us, are attempting to reduce their reliance on supplier-paid commissions and bookings fees by increasingly promoting a "merchant model" of travel distribution. Under that model, the distributor recognizes as income either the entire sale price to the traveler or the sale price less the cost of the inventory, rather than a supplier-paid booking fee or commission.

The potential effects of these trends, events and uncertainties are discussed below under "*Risk Factors*".

Three Months Ended September 30, 2002 and 2001

Revenues. Total revenues for the three months ended September 30, 2002 decreased approximately $14 million, 2.7%, compared to the three months ended September 30, 2001, from $525 million to $511 million. Travel Marketing and Distribution revenue decreased $13 million, 3.3%, from $395 million to $382 million. This decrease was primarily due to a $12 million decrease in booking and other fees from associates and a $2 million decrease in other revenue, partially offset by a $1 million increase in subscriber revenues. Decreases in bookings were primarily the result of reduced air travel since the September 11 terrorist attacks. Travelocity.com revenues increased approximately $3 million, 4.9%, from $61 million to $64 million, primarily as the result of a $9 million increase in non-air revenues, partially offset by a $6 million decrease in air revenues. Travelocity.com revenues increased due to a higher overall transaction volume on Travelocity.com; however average revenues per transaction were lower than we had expected primarily as a result of changes in the air bookings commission structure beginning in the first quarter, and the need to compete with an airline-owned competitor's pricing scheme beginning in the second quarter.

GetThere revenues increased $3 million, 27.3%, from $11 million to $14 million, primarily as a result of a $5 million increase in corporate revenues. This increase was partially offset by GetThere's strategic shift away from lower margin airline fulfillment operations, resulting in a $2 million decrease in supplier and ePartner revenues. GetThere's corporate adoption rate averaged 17.5% during the three months ended September 30, 2002, which is up over 50% year-over-year. Airline Solutions revenues decreased approximately $7 million, 12.3%, from $57 million to $50 million, due to decreases in products and services revenues of $5 million, reservationsZE: 10pt">

51,250

2014

26,250

2015

—

Total Minimum Lease Payments	
$	140,000

Rent expense related to leases for the nine month periods ended September 30, 2011 and 2010 was $42,686 and $159,408, respectively.

NOTE 9 – COMMITMENTS AND CONTINGENCIES

The Company is subject to federal and state laws and regulations relating to the protection of the environment. Environmental risk is inherent to oil and natural gas operations and the Company could be subject to environmental cleanup and enforcement actions. The Company manages this environmental risk through appropriate environmental policies and practices to minimize the impact to the Company.

From time to time, the Company is a party to various legal proceedings arising in the ordinary course of business. The Company is not currently a party to any proceeding that it believes could have a material adverse effect on the Company's financial condition, results of operation or cash flows.

NOTE 10 – CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Company to the concentration of credit risk consist primarily of cash and cash equivalents. Cash balances at one bank exceeded FDIC normal insurance protection levels at September 30, 2011. However, Section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("DFA") provides temporary unlimited deposit insurance coverage for noninterest-bearing transaction accounts at all FDIC-insured depository institutions.

The Company also maintains cash balances with two investment brokerage firms that are protected by the Securities Investor Protection Corporation (SIPC) up to $250,000. In addition to the SIPC coverage, one of the investment brokerage firms provides supplemental coverage in excess of SIPC through an insurance policy that covers cash balances up to $500,000. The cash balance at the other investment brokerage firm is held in a FDIC-Insured Deposit Account and is also protected by a supplemental coverage insurance policy that covers cash balances up to $124,500,000. As of September 30, 2011 and 2010, the Company's cash balance with these investment brokerage firms did not exceed the combined coverage.

NOTE 11 –PRICE RISK MANAGEMENT ACTIVITIES

On March 23, 2011, the Company entered into a fixed price swap for 1,000 barrels of oil per month at a price of $104.55 NYMEX-WTI through February 28, 2013. During the nine months ended September 30, 2011, the Company recognized a gain of $452,678, which includes unrealized hedge settlements received for the difference between the hedged price and the market price. The Company recognized this asset on the balance sheet as of September 30, 2011 as Derivative Asset, with $309,340 shown in Current Assets and the long-term portion of $110,386 shown in Other Assets.

NOTE 12 – FAIR VALUE MEASUREMENTS

Cross Border Resources, Inc. commodity derivatives are measured at fair value in the financial statements. The Company's financial assets and liabilities are measured using input from three levels of the fair value hierarchy. A financial asset or liability classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement. The three levels are as follows:

Level 1 – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that Cross Border Resources, Inc. has the ability to access at the measurement date.

Level 2 – Inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability and inputs that are derived principally from or corroborated by observable market data by correlation or other means (market corroborated inputs).

Level 3 – Unobservable inputs reflect Cross Border Resources, Inc's judgments about the assumptions market participants would use in pricing the asset of liability since limited market data exists. The Company develops these inputs based on the best information available, using internal and external data.

The following table presents the Company's assets and liabilities recognized in the balance sheet and measured at fair value on a recurring basis as of September 30, 2011:

	Input Levels for Fair Value Measurements			
Description	Level 1	Level 2	Level 3	Total
Current Assets:				
Commodity derivatives, current portion	$ —	$ 309,340	$ —	$ 309,340
Other Assets:				
Commodity derivatives, long-term		110,386		110,386
	$ —	$ 419,726	$ —	$ 419,726

The fair value of derivative assets is determined using forward price curves derived from market price quotations, externally developed and commercial models, with internal and external fundamental data inputs. Market price quotations are obtained from independent energy brokers and direct communication with market participants.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

Certain statements contained in this Quarterly Report on Form 10-Q constitute "forward-looking statements." These statements, identified by words such as "plan," "anticipate," "believe," "estimate," "should," "expect" and simila expressions include our expectations and objectives regarding our future financial position, operating results and business strategy. These statements reflect the current views of management with respect to future events and are subject to risks, uncertainties and other factors that may cause our actual results, performance or achievements, or industry results, to be materially different from those described in the forward-looking statements. Such risks and uncertainties include those set forth under the caption "Part II – Item 1A. Risk Factors" and elsewhere in this Quarterly Report. We do not intend to update the forward-looking information to reflect actual results or changes in the factors affecting such forward-looking information. We advise you to carefully review the reports and documents, particularly our Annual Reports, our Quarterly Reports and our Current Reports we file from time to time with the United States Securities and Exchange Commission (the "SEC"). Copies of all of our filings with the SEC may be accessed by visiting the SEC site (http://www.sec.gov) and performing a search of our electronic filings.

BUSINESS OVERVIEW

Cross Border Resources, Inc. is an oil and gas exploration company resulting from the business combination of Doral Energy Corp ("Doral") and Pure Gas Partners II, L.P. ("Pure L.P."), effective January 3, 2011. The business combination of Doral and Pure L.P. was completed by the transfer of all of Pure L.P.'s oil and gas assets and liabilities to its wholly owned subsidiary, Pure Energy Group, Inc. ("Pure Sub"), and the subsequent merger (the "Pure Merger") of Pure Sub with a wholly owned subsidiary of Doral incorporated for the purpose of completing the Pure Merger. Pure L.P. and Pure Sub are sometimes referred to as "Pure."

We currently own over 800,000 gross (approximately 300,000 net) mineral and lease acres primarily within the state of New Mexico. Over 31,000 of these net acres exist within the prolific Permian Basin. Unlike many exploration and production organizations, 99% of our acreage consists of either owned mineral rights or leases held by production.

Current development of Cross Border Resources Inc.'s acreage is focused on our prospective Bone Spring acreage located in the heart of the 1st and 2nd Bone Spring play. This play encompasses approximately 4,390 square miles across both New Mexico and Texas. We currently own varying, non-operated working interest in both Eddy and Lea Counties, New Mexico, in conjunction with our working interest partners that include Cimarex, Apache, and Mewbourne, all having significant footprints within this play.

Additional development is currently underway on our Abo, Yeso, and San Andres acreage with our other working interest partners, Concho Resources and Cimarex. Cross Border Resources, Inc. currently has a drilling inventory across these formations with varying non-operated working interests ranging from 3%-90%.

The company's management team has worked diligently to provide Cross Border Resources, Inc. shareholders a platform to capitalize on the current Bone Spring trend and will seek additional non-operated opportunities within the Permian Basin that will produce accretive value to shareholders. Ultimately, Cross Border Resources, Inc. will seek to become the premier non-operated working interest owner in the various emerging plays within the Permian Basin, in addition to participating in more conventional plays to provide a balanced oil and gas portfolio to shareholders.

16

RESULTS OF OPERATION

Summary of Production

The following summarizes our net production sold of oil, expressed in barrels ("bbl"), and of natural gas, expressed in thousand cubic feet ("mcf") for the three and nine month periods ended September 30:

	Three Month Periods		Nine Month Periods	
	2011	2010	2011	2010
Oil (bbls)	15,650	10,583	41,506	27,670
Gas (mcf)	82,557	64,699	195,637	190,074
Total Barrels of Oil Equivalent (boe)*	29,409	21,366	74,112	59,349
Average Barrels of Oil Equivalent per day (boed)				

* Oil and natural gas were combined by converting oil to natural gas mcfe on the basis of 1 barrel of oil = 6 mcfe of gas.

This increase in oil and gas sales volumes is due primarily to a combination of increased production from wells added period over period and increased production brought on through the Pure Merger.

Set forth in the following schedule is the average sales price per unit and average cost of production produced by us for the three and nine month periods ended September 30:

	Three Months Ended		Nine Month Periods	
	2011	2010	2011	2010
Average sales price:				
Oil ($ per bbl)	$85.42	$72.36	$86.44	$74.01
Gas ($ per mcf)	$6.34	$5.33	$6.19	$5.77
Average cost of production:				
Average production cost ($/boe)	$10.71	$4.72	$10.77	$4.84
Average production taxes ($/boe)	$6.48	$3.97	$6.25	$4.56

Three months ended September 30, 2011 and 2010

Summary of Third Quarter Results

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010 Predecessor Entity	Percentage Increase / (Decrease)
Revenue and Gains	$ 1,900,393	$ 1,372,566	38%
Operating Expenses	(2,511,366)	(755,642)	232%
Other Income (Expense)	317,544	(83,123)	n/m
Income Tax (Expense) Benefit	43,874	—	100%
Net Income (Loss)	$ (249,555)	$ 533,801	n/m

n/m - When moving from income to expense, or from expense to income, the percentage change is not meaningful.

Revenues

We recognized $1,867,914 in revenues from sales of oil and natural gas for the three months ended September 30, 2011 (the "2011 Quarter"), compared to $1,361,503 for the three months ended September 30, 2010 (the "2010 Quarter"). This increase in oil and gas sales revenue is due primarily to a combination of increased production from wells added period over period and increased production brought on through the Pure Merger. Sales volumes on a boe basis were up approximately 38% for the 2011 Quarter over the 2010 Quarter. In addition, average prices for the oil and natural gas sold period over period increased. We report our revenues on wells in which we have a working interest based on information received from operators. The recognition of revenues in this manner is in accordance with generally accepted accounting principles. We recognized miscellaneous income of $11,063 during the 2010 Quarter.

Operating Expenses

Our operating expenses for the 2011 Quarter and 2010 Quarter consisted of the following:

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010 Predecessor Entity	Percentage Increase / (Decrease)
Operating Costs	$ 444,697	$ 146,015	205%
Production Taxes	150,150	85,051	77%
Depreciation, Depletion, and Amortization	972,972	273,991	255%
Abandonment - Oil & Gas Properties	49,234	—	100%
Accretion Expense	31,596	14,817	113%
General and Administrative	862,717	235,768	266%
Total	$ 2,511,366	$ 755,642	232%

Operating costs were higher primarily as a result of costs related to operated assets acquired in the Pure Merger (the Stearn properties in Chavez County, New Mexico) and environmental remediation. Production taxes and depletion were all higher as a result of higher production, primarily on wells recently placed on production. We wrote off a dry hole (the Full Moon 29#1, with a working interest of 4.69%) that will be plugged and abandoned by the operator. General and administrative expense increased as a result of an increase from two employees to five employees as a result of the Pure Merger, as well as $200,000 in investment banking fees and $114,408 in non-cash stock compensation expense during the 2011 Quarter, compared to $0 for the 2010 Quarter.

Price Risk Management Activities

During the 2011 Quarter, we recognized a gain of $346,555, which includes $52,619 of realized hedge gains received for the difference between the hedged price and the market price, as well as a $293,936 mark to market gain on the remaining term of our crude oil fixed price swap. Our crude oil fixed price swap covers 1,000 barrels of oil per month at a price of $104.55 NYMEX-WTI through February 28, 2013.

Nine months ended September 30, 2011 and 2010

Summary of Year to Date Results

	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010 Predecessor Entity	Percentage Increase / (Decrease)
Revenue and Gains	$ 5,596,313	$ 3,340,606	68%
Operating Expenses	(6,396,169)	(2,243,486)	185%
Other Income (Expense)	219,373	(341,876)	n/m
Income Tax (Expense) Benefit	109,415	—	100%
Net Income (Loss)	$ (471,068)	$ 755,244	n/m

n/m - When moving from income to expense, or from expense to income, the percentage change is not meaningful.

18

Revenues

We recognized $4,899,777 in revenues from sales of oil and natural gas for the nine months ended September 30, 2011 (“YTD 2011”), compared to $3,288,467 for the nine months ended September 30, 2010 (“YTD 2010”). This increase in revenue is due primarily to a combination of increased production from wells added period over period and increased production brought on through the Pure Merger. Sales volumes on a boe basis were up approximately 25% for YTD 2011 over YTD 2010. In addition, average prices for the oil and natural gas sold period over period increased. Additionally, a $599,100 gain on the sale of an interest in certain oil and gas leases was recognized during YTD 2011. Miscellaneous income increased to $97,436 in YTD 2011 from $52,139 in YTD 2010, primarily related to deferred revenue recognized on a two-year term assignment to a private party of certain oil and gas working interests located in southeastern New Mexico beginning in April 2010.

Operating Expenses

Our operating expenses for the YTD 2011 and YTD 2010 periods consisted of the following:

	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010 Predecessor Entity	Percentage Increase / (Decrease)
Operating Costs	$ 959,922	$ 329,639	191%
Production Taxes	420,714	271,337	55%
Depreciation, Depletion, and Amortization	2,045,863	898,826	128%
Abandonment - Oil & Gas Properties	49,234	—	100%
Accretion Expense	84,428	44,452	90%
General and Administrative	2,836,008	699,232	306%
Total	$ 6,396,169	$ 2,243,486	185%

Operating costs were higher primarily as a result of costs related to operated assets (the Stearn properties in Chavez County, New Mexico), environmental remediation and delayed joint interest billings from an operating partner. Production taxes and depletion were all higher as a result of higher production. We wrote off a dry hole (the Full Moon 29#1, with a working interest of 4.69%) that will be plugged and abandoned by the operator. We recognized $2,836,008 in general and administrative expense for YTD 2011 compared to $699,232 for YTD 2010. This increase resulted primarily from $438,388 of non-cash employee share-based compensation and $131,250 in non-cash stock compensation for consultants during YTD 2011, compared to $0 for YTD 2010. In addition we incurred approximately $279,000 of non -recurring expenses associated with the Pure Merger (see below) during YTD 2011 and we added three employees as a result of the merger.

Non-recurring Expense

As a result of the Pure Merger the Company incurred approximately $279,000 in non-recurring expenses in YTD 2011. Of this amount approximately, $120,000 related to legal, accounting and professional fees and approximately $159,000 was transaction related fees and expenses.

Price Risk Management Activities

During YTD 2011, we recognized a gain of $452,678 which includes $51,892 of realized hedge settlements received for the difference between the hedged price and the market price, as well as a $400,786 mark to market gain on the remaining term of our crude oil fixed price swap. Our crude oil fixed price swap covers 1,000 barrels of oil per month at a price of $104.55 NYMEX-WTI through February 28, 2013.

Non-GAAP Financial Measures

Adjusted EBITDA

In addition to reporting net earnings (loss) as defined under GAAP, we also present net earnings before interest, income taxes, depreciation, depletion, and amortization (adjusted EBITDA), which is a non-GAAP performance measure. Adjusted EBITDA consists of net earnings after adjustment for those items described in the table below. Adjusted EBITDA does not represent, and should not be considered an alternative to GAAP measurements, such as net earnings (loss) (its most comparable GAAP financial measure), and our calculations thereof may not be comparable to similarly titled measures reported by other companies. By eliminating the items described below, we believe the measure is useful in evaluating its fundamental core operating performance. We also believe that adjusted EBITDA is useful to investors because similar measures are frequently used by securities analysts, investors, and other interested parties in their evaluation of companies in similar industries. Our management uses adjusted EBITDA to manage our business, including in preparing its annual operating budget and financial projections. Our management does not view adjusted EBITDA in isolation and also uses other measurements, such as net earnings (loss) and revenues to measure operating performance. The following table provides a reconciliation of net earnings (loss), the most directly comparable GAAP measure, to adjusted EBITDA for the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010 Predecessor Entity	2011	2010 Predecessor Entity
Net income (loss)	$ (249,555)	$ 533,801	$ (471,068)	$ 755,244
Interest expense and loan fee amortization	128,826	114,436	385,748	341,950
Income tax expense (benefit)	(43,874)	—	(109,415)	—
Accretion of asset retirement obligations	31,596	14,817	84,428	44,452
Depreciation, depletion, and amortization	972,972	273,991	2,045,863	898,826
Stock-based compensation	114,408	—	569,638	—
Mark-to-market gain on commodity swaps	(293,936)	—	(400,786)	—
Abandonment expense	49,234	—	49,234	—
Adjusted EBITDA	$ 709,671	$ 937,045	$ 2,153,642	$ 2,040,472

Adjusted EBITDA for the YTD 2011 period included a $599,100 gain on the sale of interests in certain oil and gas leaseholds during the second quarter of 2011.

LIQUIDITY AND CAPITAL RESOURCES

Upon completion of the Pure Merger, in addition to acquiring all of the rights, properties and assets of Pure Sub, the Company assumed all of the debts, liabilities and obligations of Pure Sub, including the rights and obligations of Pure Sub under the 7 ½ % Debentures, Series 2005 (the "Pure Debentures") issued by Pure Energy Group in March 2005. The Pure Debentures are described more fully in the Company's Form 8-K filed January 7, 2011. These debentures require payments of principal and interest on March 1 and September 1 of each year. Scheduled principal retirements over the next twelve months amount to $360,000 on March 1, 2012 and $360,000 due on September 1, 2012.

As of September 30, 2011, we had working capital of $1,065,957.

		At September 30, 2011		At December 31, 2010 Predecessor Entity (As Restated)	Percentage Increase / (Decrease)
Current Assets	$	2,683,077	$	1,737,747	54%
Current Liabilities		1,572,120		2,034,490	(23)%
Working Capital (Deficit)	$	1,110,957	$	(296,743)	n/m
Working Capital Ratio		1.7		0.9	86%

n/m -- The percentage change is not meaningful when moving from a negative to a positive number.

Cash Flows

	Nine Months Ended September 30,			
		2011		2010 Predecessor Entity
Cash Flows Provided by Operating Activities	$	(1,253,101)	$	1,512,121
Cash Flows Used in Investing Activities		(1,550,524)		(1,191,698)
Cash Flows Provided by (Used in) Financing Activities		2,449,820		(612,895)
Net Increase (Decrease) in Cash During Period	$	(353,805)	$	(292,472)

Liquidity is a measure of ability to access cash. Our primary needs for cash are for exploration, exploitation, development and acquisition of oil and gas properties, repayment of contractual obligations and working capital funding. We have historically addressed our long-term liquidity requirements through cash provided by operating activities, the issuance of debt and equity securities when market conditions permit, sale of non-strategic assets, and through our credit facilities. The prices for future oil and natural gas production and the level of production have significant impacts on operating cash flows and cannot be predicted with any degree of certainty. We continue to examine alternative sources of long-term capital, including bank borrowings, the issuance of debt instruments, the sale of equity securities, the sales of strategic and non-strategic assets, and joint-venture financing. Availability of these sources of capital and, therefore, our ability to execute our operating strategy will depend upon a number of factors, some of which are beyond our control.

Amended and Restated Credit Agreement with Texas Capital Bank

On January 31, 2011, we entered into an amended and restated credit agreement (the "Credit Agreement") with Texas Capital Bank, N.A. ("TCB"). The Credit Agreement provides the Company with an initial borrowing base of $4,000,000. Provided that the trustee for the Company's Pure Debentures consents, the amount available under the Credit Agreement may be increased by TCB up to $25,000,000 based on the Company's reserve reports and the value of the Company's oil and gas properties. If the trustee for the Pure Debentures does not consent, the maximum allowed under the Indenture for the Pure Debentures will be limited to $5,000,000. As of September 30, 2011, the Company had available to it $3,999,000 under the Credit Agreement. During October 2011, we drew down a total of $850,000, leaving $3,149,000 available. The Credit Agreement is described more fully in and is attached as an exhibit to the Company's Form 8-K dated February 7, 2011.

CONTRACTUAL OBLIGATIONS

Little Bay and Green Shoe

As of September 30, 2011, we are indebted to Little Bay Consulting SA ("Little Bay") and Green Shoe Investments Ltd. ("Green Shoe") in the amounts of $396,969 and $367,309 respectively for loans refinanced in fiscal 2011. Those loans were extended effective March 31, 2011, until September 30, 2012, with no periodic payments until maturity (other than upon an equity raise resulting in net proceeds of more than $1,000,000), as described more fully in the Company's 8-K filed April 28, 2011. Payments were made in early June 2011 to Little Bay and Green Shoe as a result of the equity offering that closed in May 2011.

OFF-BALANCE SHEET ARRANGEMENTS

We have no significant off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenue or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to our stockholders.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with generally accepted accounting principles ("GAAP") in the United States has required our management to make assumptions, estimates and judgments that affect the amounts reported in the financial statements, including the notes thereto, and related disclosures of commitments and contingencies, if any. Our significant accounting policies are disclosed in the notes to the interim financial statements for the period ended September 30, 2011 included in this Quarterly Report on Form 10-Q.

The consolidated financial statements presented with this Quarterly Report on Form 10-Q have been prepared in accordance with generally accepted accounting principles in the United States of America for interim financial information. These financial statements do not include all information and footnote disclosures required for an annual set of financial statements prepared under United States generally accepted accounting principles. In the opinion of our management, all adjustments (consisting solely of normal recurring accruals) considered necessary for a fair presentation of the financial position, results of operations and cash flows for all periods presented in the attached financial statements, have been included. Interim results for the period ended September 30, 2011 are not necessarily indicative of the results that may be expected for the fiscal year as a whole.

Our significant accounting policies are disclosed at Note 2 to the unaudited financial statements included with this Quarterly Report.

The merger and acquisition of Pure Sub has been treated as a "reverse acquisition" for financial reporting and accounting purposes. As a result, Pure Sub has been treated as the "accounting acquirer" for financial reporting and accounting purposes. As such, effective January 6, 2011, the Company engaged Darilek, Butler & Associates PLLC ("Darilek, Butler"), the principal independent accountants for the Pure Energy Group, as the Company's principal independent accountants, and dismissed MaloneBailey, LLP ("MaloneBailey") as the Company's principal independent accountants. The engagement of Darilek, Butler and the dismissal of MaloneBailey was approved by the Company's Board of Directors. The engagement of Darilek, Butler and the dismissal of MaloneBailey are more fully described in the Company's Form 8-K dated January 3, 2011.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Not Applicable.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Securities Exchange Act of 1934, as amended (the "Exchange Act") is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers as appropriate to allow timely decisions regarding required disclosure. It should be noted that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

Under the supervision and with the participation of our management, including our Chief Executive Officer, President and Chief Accounting Officer, we have evaluated the effectiveness of our disclosure controls and procedures as required by Exchange Act Rule 13a-15(b) as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer, President and Chief Accounting Officer have concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report in ensuring that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act were reported within the time periods specified in the SEC's rules and forms.

Changes in Internal Control over Financial Reporting

Prior to the Pure Merger, the Company had been using an outside accounting service to prepare financial statements. Effective January 2011, Mr. P. Mark Stark was appointed as the Company's Chief Financial Officer and assumed responsibility for preparation of the financial statements. Mr. Stark left the Company, effective August 5, 2011. His accounting-related duties have been assumed by Nancy S. Stephenson. Ms. Stephenson has accepted the role of Chief Accounting Officer, Treasurer & Secretary. The Company believes it has improved internal controls by bringing the accounting in house and employing qualified accountants and utilizing consultants as needed. Management has identified and is working with its independent audit committee to put in place additional internal controls to improve its internal control over financial reporting. The additional controls include, but are not limited to, controls over GAAP reporting to ensure compliance with GAAP and SEC disclosure requirements.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

As reported in our 10-Q for the period ended June 30, 2011, on May 4, 2011, Clifton M. (Marty) Bloodworth filed a lawsuit in the State District Court of Midland County, Texas, against Doral West Corp. d/b/a Doral Energy Corp. and Everett Willard Gray II. Mr. Bloodworth alleges that Mr. Gray, as CEO of the Company, made false representations which induced Mr. Bloodworth to enter into an employment contract that was subsequently breached by the Company. The claims that Mr. Bloodworth has alleged are: breach of his employment agreement with Doral, common law fraud, civil conspiracy breach of fiduciary duty, and violation of the Texas Deceptive Trade Practices-Consumer Protection Act. Mr. Bloodworth is seeking damages of approximately $280,000. Mr. Gray and the Company deny that Mr. Bloodworth’s claims have any merit.

ITEM 1A. RISK FACTORS

The following are some of the important factors that could affect our financial performance or could cause actual results to differ materially from estimates contained in our forward-looking statements. We may encounter risks in addition to those described below. Additional risks and uncertainties not currently known to us, or that we currently deem to be immaterial, may also impair or adversely affect our business, financial condition or results of operation.

We have an operating deficit.

Currently, our operations are not profitable. Doral Energy Corp. (prior to the Pure Merger) incurred losses since inception. We may never be able to achieve profitability.

Our future performance depends upon our ability to obtain capital to find or acquire additional oil and natural gas reserves that are economically recoverable.

Unless we successfully replace the reserves that we produce, our reserves will decline, resulting eventually in a decrease in oil and natural gas production and lower revenues and cash flows from operations. The business of exploring for, developing or acquiring reserves is capital intensive. Our ability to make the necessary capital investment to maintain or expand our oil and natural gas reserves is limited by our relatively small size. Further, we may commence drilling operations on our properties and any other properties that we acquire in an effort to increase production, which would require more capital than we have available from cash flow from operations or our existing debt facilities. In such case, we would be required to seek additional sources of financing or limit our participation in the additional drilling. In addition, our drilling activities are subject to numerous risks, including the risk that no commercially productive oil or gas reserves will be encountered.

The successful implementation of our business plan is subject to risks inherent in the oil and gas business, which if not adequately managed could result in additional losses.

Our oil and gas operations will be subject to the economic risks typically associated with exploitation and development activities, including the necessity of making significant expenditures to locate and acquire properties and to drill development wells. In addition, the availability of drilling rigs and the cost and timing of drilling, completing and, if warranted, operating wells is often uncertain. In conducting exploitation and development activities, the presence of unanticipated formation pressure or irregularities in formations, miscalculations or accidents may cause our exploitation, development and, if warranted, production activities

to be unsuccessful. This could result in a total loss of our investment in a particular well. If exploitation and development efforts are unsuccessful in establishing proved reserves and development activities cease, the amounts accumulated as unproved costs will be charged against earnings as impairments.

In addition, the availability of a ready market for our oil and gas production depends on a number of factors, including the demand for and supply of oil and gas and the proximity of reserves to pipelines and other facilities. Our ability to market such production depends in substantial part on the availability and capacity of gathering systems, pipelines and processing facilities, in most cases owned and operated by third parties. A failure to obtain such services on acceptable terms could materially harm our proposed oil and gas business. We may be required to shut in wells for lack of a market or because of inadequacy or unavailability of pipelines or gathering system capacity. If that occurs, we would be unable to realize revenue from those wells until arrangements are made to deliver such production to market.

Our future performance is dependent upon our ability to identify, acquire and develop oil and gas properties, the failure of which could result in under use of capital and losses.

The future performance of our oil and gas business will depend upon an ability to identify, acquire and develop oil and gas reserves that are economically recoverable. Success will depend upon the ability to acquire working and net revenue interests in properties upon which oil and gas reserves are ultimately discovered in commercial quantities, and the ability to develop prospects that contain proven oil and gas reserves to the point of production. Without successful acquisition, exploitation, and development activities, we will not be able to develop oil and gas reserves or generate revenues. There are no assurances oil and gas reserves will be identified or acquired on acceptable terms, or that oil and gas deposits will be discovered in sufficient quantities to enable us to recover our exploitation and development costs or sustain our business.

The successful acquisition and development of oil and gas properties requires an assessment of recoverable reserves, future oil and gas prices and operating costs, potential environmental and other liabilities, and other factors. Such assessments are necessarily inexact and their accuracy inherently uncertain. In addition, no assurances can be given that our exploitation and development activities will result in the discovery of any reserves. Operations may be curtailed, delayed or canceled as a result of lack of adequate capital and other factors, such as lack of availability of rigs and other equipment, title problems, weather, compliance with governmental regulations or price controls, mechanical difficulties, or unusual or unexpected formation pressures, and or work interruptions. In addition, the costs of exploitation and development may materially exceed our initial estimates.

The oil and gas exploration and production industry historically is a cyclical industry and market fluctuations in the prices of oil and gas could adversely affect our business.

Prices for oil and gas tend to fluctuate significantly in response to factors beyond our control. These factors include, but are not limited to:

(a) weather conditions in the United States and elsewhere;
(b) economic conditions, including demand for petroleum-based products, in the United States and elsewhere;
(c) actions by OPEC, the Organization of Petroleum Exporting Countries;
(d) political instability in the Middle East and other major oil and gas producing regions;
(e) governmental regulations, both domestic and foreign;
(f) domestic and foreign tax policy;
(g) the pace adopted by foreign governments for the exploration, development, and production of their national reserves;
(h) the price of foreign imports of oil and gas;
(i) the cost of exploring for, producing and delivering oil and gas; the discovery rate of new oil and gas reserves;
(j) the rate of decline of existing and new oil and gas reserves;
(k) available pipeline and other oil and gas transportation capacity;
(l) the ability of oil and gas companies to raise capital;
(m) the overall supply and demand for oil and gas; and
(n) the availability of alternate fuel sources.

Changes in commodity prices may significantly affect our capital resources, liquidity and expected operating results. Price changes will directly affect revenues and can indirectly impact expected production by changing the amount of funds available to reinvest in exploration and development activities. Reductions in oil and gas prices not only reduce revenues and profits, but could also reduce the quantities of reserves that are

commercially recoverable. Significant declines in prices could result in non-cash charges to earnings due to impairment. Changes in commodity prices may also significantly affect our ability to estimate the value of producing properties for acquisition and divestiture and often cause disruption in the market for oil and gas producing properties, as buyers and sellers have difficulty agreeing on the value of the properties. Price volatility also makes it difficult to budget for and project the return on acquisitions and the development and exploitation of projects. Commodity prices are expected to continue to fluctuate significantly in the future.

Hedging transactions may limit potential gains on increases to oil and gas prices.

From time to time, the Company may enter into hedging transactions. If we do enter into hedging transactions, they will likely be for a portion of our expected production for the purpose of reducing the risk of fluctuations in oil and gas prices. Although these hedging transactions would be expected to provide us with some protection in the event of a decrease in oil and gas prices, they would also be expected to limit our potential gains in the event that oil and gas prices increase. If we choose not to engage in hedging arrangements in the future, we may be more adversely affected by changes in oil and natural gas prices than our competitors, who may or may not engage in hedging arrangements.

We may encounter difficulty in obtaining equipment and services.

Higher oil and natural gas prices and increased oil and natural gas drilling activity generally stimulate increased demand and result in increased prices and unavailability for drilling rigs, crews, associated supplies, equipment and services. While we have recently been successful in acquiring or contracting for services, we could experience difficulty obtaining drilling rigs, crews, associated supplies, equipment and services in the future. These shortages could also result in increased costs or delays in timing of anticipated development or cause interests in oil and natural gas leases to lapse. We cannot be certain that we will be able to implement our drilling plans or at costs that will be as estimated or acceptable to us.

Our ability to produce oil and gas from our oil and gas assets may be adversely affected by a number of factors outside of our control.

The business of exploring for and producing oil and gas involves a substantial risk of investment loss. Drilling oil and gas wells involves the risk that the wells may be unproductive or that, although productive, the wells may not produce oil or gas in economic quantities. Other hazards, such as unusual or unexpected geological formation pressures, fires, blowouts, loss of circulation of drilling fluids or other conditions may substantially delay or prevent completion of any well. Adverse weather conditions can also hinder drilling operations. A productive well may become uneconomic if excessive water or other deleterious substances are encountered that impair or prevent the production of oil or gas from the well. In addition, production from any well may be unmarketable if it is contaminated with water or other deleterious substances. There can be no assurance that oil and gas will be produced from the properties in which we have interests. In addition, the marketability of oil and gas that may be acquired or discovered may be influenced by numerous factors beyond our control. These factors include the proximity and capacity of oil and gas, gathering systems, pipelines and processing equipment, market fluctuations in oil and natural gas prices, taxes, royalties, land lease tenure, allowable production volumes, and environmental protection regulations.

If we are unable to maintain our working interests in leases, our business will be adversely affected.

Our oil and gas assets are held under oil and gas leases. A failure to meet the specific requirements of each lease may cause that lease to terminate or expire. There are no assurances the obligations required to maintain those leases will be met and that we will be able to meet the rental obligations under federal, state and private oil and gas leases. If we are unable to make rental payments and satisfy any other conditions on a timely basis, we may lose our rights in the properties that we may acquire.

Title deficiencies could render our leases worthless.

The existence of a material title deficiency can render a lease worthless and can result in a large expense to our business. In acquiring oil and gas leases or undivided interests in oil and gas leases we may forgo the

expense of retaining lawyers to examine the title to the oil or gas interest to be placed under lease or already placed under lease. Instead, we may rely upon the judgment of oil and gas landmen who perform the field work in examining records in the appropriate governmental office before attempting to place under lease specific oil or gas interest. This is customary practice in the oil and gas industry. As a result, we may be unaware of deficiencies in the marketability of the title to the lease. Such deficiencies could render the lease worthless.

If we fail to maintain adequate operating insurance, our business could be materially and adversely affected.

Our oil and gas operations are subject to risks inherent in the oil and gas industry, such as blowouts, cratering, explosions, uncontrollable flows of oil, gas or well fluids, fires, pollution, earthquakes and other environmental risks. These risks could result in substantial losses due to injury and loss of life, severe damage to and destruction of property and equipment, pollution and other environmental damage, and suspension of operations. We could be liable for environmental damages caused by previous property owners. As a result, substantial liabilities to third parties or governmental entities may be incurred, the payment of which could have a material adverse effect on our financial condition and results of operations. Any prospective drilling contractor or operator which we hire will be required to maintain insurance of various types to cover its operations with policy limits and retention liability customary in the industry. We maintain well control, re-drill, environmental cleanup, and liability insurance on all of our field production and future drilling operations. However, the occurrence of a significant adverse event on such prospects that would happen to be not fully covered by insurance could result in the loss of all or part of our investment in a particular prospect which could have a material adverse effect on our financial condition and results of operations.

Complying with environmental and other government regulations could be costly and could negatively impact prospective production.

The oil and gas business is governed by numerous laws and regulations at various levels of government. These laws and regulations govern the operation and maintenance of our facilities, the discharge of materials into the environment and other environmental protection issues. Such laws and regulations may, among other potential consequences, require that we acquire permits before commencing drilling and restrict the substances that can be released into the environment with drilling and production activities. Under these laws and regulations, we could be liable for personal injury, clean-up costs and other environmental and property damages, as well as administrative, civil and criminal penalties. Prior to commencement of drilling operations, we may secure limited insurance coverage for sudden and accidental environmental damages as well as environmental damage that occurs over time. However, we do not believe that insurance coverage for the full potential liability of environmental damages is available at a reasonable cost. Accordingly, we could be liable, or could be required to cease production on properties, if environmental damage occurs.

The costs of complying with environmental laws and regulations in the future may harm our business. Furthermore, future changes in environmental laws and regulations could occur, resulting in stricter standards and enforcement, larger fines and liability, and increased capital expenditures and operating costs, any of which could have a material adverse effect on our financial condition or results of operations.

The oil and gas industry is highly competitive, and we may not have sufficient resources to compete effectively.

The oil and gas industry is highly competitive. We will be competing with oil and natural gas companies and other individual producers and operators, many of which have longer operating histories and substantially greater financial and other resources than it does, as well as companies in other industries supplying energy, fuel and other needs to consumers. Larger competitors, by reason of their size and relative financial strength, can more easily access capital markets than we can and may enjoy a competitive advantage in the recruitment of qualified personnel. They may be able to absorb the burden of any changes in laws and regulation in the jurisdictions in which we do business and handle longer periods of reduced prices for oil and gas more easily than we can. Competitors may be able to pay more for oil and gas leases and properties and may be able to define, evaluate, bid for and purchase a greater number of leases and properties than we can. Further, these companies may enjoy technological advantages and may be able to implement new technologies more rapidly

than we can. Our ability to acquire oil and gas properties will depend upon its ability to conduct efficient operations, evaluate and select suitable properties, implement advanced technologies and consummate transactions in a highly competitive environment.

The loss of our key persons, or our failure to attract and retain additional personnel could adversely affect our business.

Because we are a small company, our success depends greatly upon the efforts, abilities, and decision-making of our three executive officers, Everett Willard Gray, II, Lawrence J. Risley and Nancy Stephenson. The loss of any of these persons would have an adverse effect on our business prospects. We do not currently maintain "key-man" life insurance. In the event that we should lose our officers and we are unable to find suitable replacements, we may not be able to develop our business, in which case investors might lose all of their investment.

If we issue additional shares of common stock in the future this may result in dilution to our existing stockholders.

Our articles of incorporation authorize the issuance of 36,363,637 shares of common stock. Our board of directors has the authority to issue additional shares of common stock up to the authorized capital stated in the articles of incorporation. We contemplate that our board of directors may authorize the issuance of some or all of such shares to provide the Company with additional capital. The issuance of any such shares may result in a reduction of the book value or market price of the outstanding shares of our common stock. It will also cause a reduction in the proportionate ownership and voting power of all other stockholders.

We have never paid dividends and do not intend to pay any in the foreseeable future, which may delay or prevent recovery of your investment.

We have never paid any cash dividends and currently do not intend to pay any dividends in the foreseeable future. If we do not pay dividends, this may delay or prevent recovery of your investment. To the extent that we require additional funding currently not provided for in our financing plan, it is possible that our funding sources might prohibit the payment of dividends.

The trading price of our common stock may be volatile, with the result that an investor may not be able to sell any shares acquired at a price equal to or greater than the price paid by the investor.

Our common stock is quoted on the OTC Bulletin Board under the symbol “XBOR.” Companies quoted on the OTC Bulletin Board have traditionally experienced extreme price and volume fluctuations. In addition, our stock price may be adversely affected by factors that are unrelated or disproportionate to our operating performance. Market fluctuations, as well as general economic, political and market conditions such as recessions, interest rates or international currency fluctuations may adversely affect the market price of our common stock. As a result of this potential price and volume volatility, an investor may have difficulty selling any of our common stock that they acquire that a price equal or greater than the price paid by the investor.

Because our stock is a penny stock, stockholders will be more limited in their ability to sell their stock.

The SEC has adopted rules that regulate broker-dealer practices in connection with transactions in penny stocks. Penny stocks are generally equity securities with a price of less than $5.00, other than securities registered on certain national securities exchanges or quoted on the Nasdaq system, provided that current price and volume information with respect to transactions in such securities is provided by the exchange or quotation system.

Because our securities constitute “penny stocks” within the meaning of the rules, the rules apply to us and to our securities. The rules may further affect the ability of owners of shares to sell our securities in any market that might develop for them. As long as the trading price of our common stock is less than $5.00 per share, the common stock will be subject to Rule 15g-9 under the Securities Exchange Act of 1934 (the “Exchange Act”). The penny stock rules require a broker-dealer, prior to a transaction in a penny stock, to deliver a standardized risk disclosure document prepared by the SEC, that:

1. contains a description of the nature and level of risk in the market for penny stocks in both public offerings and secondary trading;
2. contains a description of the broker’s or dealer’s duties to the customer and of the rights and remedies available to the customer with respect to a violation to such duties or other requirements of securities

laws;

3. contains a brief, clear, narrative description of a dealer market, including bid and ask prices for penny stocks and the significance of the spread between the bid and ask price;
4. contains a toll-free telephone number for inquiries on disciplinary actions;
5. defines significant terms in the disclosure document or in the conduct of trading in penny stocks; and
6. contains such other information and is in such form, including language, type, size and format, as the SEC shall require by rule or regulation.

The broker-dealer also must provide, prior to effecting any transaction in a penny stock, the customer with: (a) bid and offer quotations for the penny stock; (b) the compensation of the broker-dealer and its salesperson in the transaction; (c) the number of shares to which such bid and ask prices apply, or other comparable information relating to the depth and liquidity of the market for such stock; and (d) a monthly account statements showing the market value of each penny stock held in the customer’s account. In addition, the penny stock rules require that prior to a transaction in a penny stock not otherwise exempt from those rules; the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser’s written acknowledgment of the receipt of a risk disclosure statement, a written agreement to transactions involving penny stocks, and a signed and dated copy of a written suitably statement. These disclosure requirements may have the effect of reducing the trading activity in the secondary market for our stock.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

No sales of unregistered equity securities occurred during the quarter ended September 30, 2011.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit Number	Description of Exhibits
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Principal Accounting Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CROSS BORDER RESOURCES, INC.

By	/s/Nancy S. Stephenson
Name:	Nancy S. Stephenson
Title:	Chief Accounting Officer
Date:	November 14, 2011