

Sabre Corp
Form 10-Q
October 30, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2018

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 001-36422

Sabre Corporation
(Exact name of registrant as specified in its charter)

Delaware 20-8647322
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)
3150 Sabre Drive
Southlake, TX 76092
(Address, including zip code, of principal executive offices)
(682) 605-1000
(Registrant's telephone number, including area code)

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 (the "Exchange Act") during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
Emerging growth company

Edgar Filing: Sabre Corp - Form 10-Q

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. "

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

As of October 25, 2018, 275,312,795 shares of the registrant's common stock, par value \$0.01 per share, were outstanding.

SABRE CORPORATION
TABLE OF CONTENTS

	Page No.
<u>PART I. FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements:</u>	
<u>Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2018 and 2017</u>	<u>1</u>
<u>Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2018 and 2017</u>	<u>2</u>
<u>Consolidated Balance Sheets as of September 30, 2018 and December 31, 2017</u>	<u>3</u>
<u>Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2018 and 2017</u>	<u>4</u>
<u>Notes to Consolidated Financial Statements</u>	<u>5</u>
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>25</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>42</u>
Item 4. <u>Controls and Procedures</u>	<u>42</u>
<u>PART II. OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	<u>42</u>
Item 1A. <u>Risk Factors</u>	<u>42</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>60</u>
Item 6. <u>Exhibits</u>	<u>61</u>

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SABRE CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Revenue	\$970,283	\$900,606	\$2,943,028	\$2,716,622
Cost of revenue	703,368	631,970	2,117,984	1,882,623
Selling, general and administrative	130,152	91,840	384,047	383,137
Impairment and related charges	—	—	—	92,022
Operating income	136,763	176,796	440,997	358,840
Other income (expense):				
Interest expense, net	(39,291)	(38,919)	(116,809)	(116,577)
Loss on extinguishment of debt	—	(1,012)	(633)	(1,012)
Joint venture equity income	333	357	2,455	1,768
Other, net	(1,905)	(3,802)	(10,746)	(19,788)
Total other expense, net	(40,863)	(43,376)	(125,733)	(135,609)
Income from continuing operations before income taxes	95,900	133,420	315,264	223,231
Provision for income taxes	25,021	40,595	61,371	56,836
Income from continuing operations	70,879	92,825	253,893	166,395
Income (loss) from discontinued operations, net of tax	3,664	(529)	3,217	(2,228)
Net income	74,543	92,296	257,110	164,167
Net income attributable to noncontrolling interests	1,538	1,307	3,979	3,726
Net income attributable to common stockholders	\$73,005	\$90,989	\$253,131	\$160,441
Basic net income per share attributable to common stockholders:				
Income from continuing operations	\$0.25	\$0.33	\$0.91	\$0.59
Income (loss) from discontinued operations	0.01	—	0.01	(0.01)
Net income per common share	\$0.26	\$0.33	\$0.92	\$0.58
Diluted net income per share attributable to common stockholders:				
Income from continuing operations	\$0.25	\$0.33	\$0.90	\$0.58
Income (loss) from discontinued operations	0.01	—	0.01	(0.01)
Net income per common share	\$0.26	\$0.33	\$0.91	\$0.57
Weighted-average common shares outstanding:				
Basic	275,175	277,477	275,205	277,754
Diluted	277,528	278,369	276,819	279,648
Dividends per common share	\$0.14	\$0.14	\$0.42	\$0.42
See Notes to Consolidated Financial Statements.				

SABRE CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income	\$74,543	\$92,296	\$257,110	\$164,167
Other comprehensive income, net of tax:				
Foreign currency translation adjustments ("CTA"), net of tax				
Foreign CTA (losses) gains, net of tax	(728	) 2,781	(4,052	) 10,450
Net change in foreign CTA (losses) gains, net of tax	(728	) 2,781	(4,052	) 10,450
Retirement-related benefit plans:				
Amortization of prior service credits	(278	) (229	) (865	) (686
Amortization of actuarial losses	1,516	745	4,311	3,141
Net change in retirement-related benefit plans, net of tax	1,238	516	3,446	2,455
Derivatives and securities:				
Unrealized gains, net of taxes of \$(442), \$(1,045), \$(1,351) and \$(2,693)	1,436	2,561	3,621	9,561
Reclassification adjustment for realized gains (losses), net of taxes of \$(661), \$67, \$(441) and \$(1,531)	2,406	(216	) 727	3,461
Net change in derivatives and securities, net of tax	3,842	2,345	4,348	13,022
Share of other comprehensive (loss) income of joint venture	(374	) 323	(105	) 372
Other comprehensive income	3,978	5,965	3,637	26,299
Comprehensive income	78,521	98,261	260,747	190,466
Less: Comprehensive income attributable to noncontrolling interests	(1,538	) (1,307	) (3,979	) (3,726
Comprehensive income attributable to Sabre Corporation	\$76,983	\$96,954	\$256,768	\$186,740

See Notes to Consolidated Financial Statements.

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

	September 30, 2018	December 31, 2017
Assets		
Current assets		
Cash and cash equivalents	\$ 444,321	\$ 361,381
Accounts receivable, net	589,858	490,558
Prepaid expenses and other current assets	170,110	108,753
Total current assets	1,204,289	960,692
Property and equipment, net of accumulated depreciation of \$1,452,558 and \$1,236,523	788,030	799,194
Investments in joint ventures	28,683	27,527
Goodwill	2,552,572	2,554,987
Acquired customer relationships, net of accumulated amortization of \$706,049 and \$687,072	330,528	351,034
Other intangible assets, net of accumulated amortization of \$626,713 and \$594,015	299,611	332,171
Deferred income taxes	30,347	31,817
Other assets, net	634,422	591,942
Total assets	\$ 5,868,482	\$ 5,649,364
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	\$ 158,788	\$ 162,755
Accrued compensation and related benefits	95,625	112,343
Accrued subscriber incentives	327,371	271,200
Deferred revenues	104,366	110,532
Other accrued liabilities	207,694	198,353
Current portion of debt	64,225	57,138
Tax Receivable Agreement	94,113	59,826
Total current liabilities	1,052,182	972,147
Deferred income taxes	200,767	99,801
Other noncurrent liabilities	322,002	480,185
Long-term debt	3,355,596	3,398,731
Commitments and contingencies (Note 10)		
Stockholders' equity		
Common Stock: \$0.01 par value; 450,000 authorized shares; 291,579 and 289,138 shares issued, 275,294 and 274,342 shares outstanding at September 30, 2018 and December 31, 2017, respectively	2,916	2,891
Additional paid-in capital	2,227,682	2,174,187
Treasury Stock, at cost, 16,285 and 14,796 shares at September 30, 2018 and December 31, 2017, respectively	(377,341)	(341,846)
Retained deficit	(814,446)	(1,053,446)
Accumulated other comprehensive loss	(107,146)	(88,484)
Noncontrolling interest	6,270	5,198
Total stockholders' equity	937,935	698,500

Total liabilities and stockholders' equity	\$ 5,868,482	\$ 5,649,364
--	--------------	--------------

See Notes to Consolidated Financial Statements.

3

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

	Nine Months Ended September 30,	
	2018	2017
Operating Activities		
Net income	\$257,110	\$164,167
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	307,551	295,729
Deferred income taxes	74,263	8,340
Amortization of upfront incentive consideration	57,324	50,298
Stock-based compensation expense	41,445	34,413
Allowance for doubtful accounts	7,433	7,879
(Income) loss from discontinued operations	(3,217)	) 2,228
Amortization of debt issuance costs	2,988	4,916
Joint venture equity income	(2,455)	) (1,768)
Debt modification costs	1,558	14,758
Dividends received from joint venture investments	1,193	1,088
Loss on extinguishment of debt	633	1,012
Impairment and related charges	—	92,022
Other	5,146	10,680
Changes in operating assets and liabilities:		
Accounts and other receivables	(114,043)	) (188,021)
Prepaid expenses and other current assets	3,417	518
Capitalized implementation costs	(29,781)	) (47,968)
Upfront incentive consideration	(67,697)	) (61,087)
Other assets	(18,989)	) (20,957)
Accrued compensation and related benefits	(31,308)	) 2,161
Accounts payable and other accrued liabilities	234	53,444
Deferred revenue including upfront solution fees	43,388	32,054
Cash provided by operating activities	536,193	455,906
Investing Activities		
Additions to property and equipment	(205,664)	) (242,811)
Other investing activities	—	) (141)
Cash used in investing activities	(205,664)	) (242,952)
Financing Activities		
Cash dividends paid to common stockholders	(115,557)	) (116,474)
Payments on Tax Receivable Agreement	(58,908)	) (99,241)
Payments on borrowings from lenders	(35,483)	) (1,868,655)
Repurchase of common stock	(26,281)	) (97,671)
Net receipts on the settlement of equity-based awards	2,758	11,466
Debt issuance and modification costs	(1,567)	) (19,052)
Proceeds of borrowings from lenders	—	1,897,625
Other financing activities	(17,371)	) (8,934)
Cash used in financing activities	(252,409)	) (300,936)

Edgar Filing: Sabre Corp - Form 10-Q

Cash Flows from Discontinued Operations		
Cash provided by (used in) operating activities	633	(3,636)
Cash provided by (used in) discontinued operations	633	(3,636)
Effect of exchange rate changes on cash and cash equivalents	4,187	(4,228)
Increase (decrease) in cash and cash equivalents	82,940	(95,846)
Cash and cash equivalents at beginning of period	361,381	364,114
Cash and cash equivalents at end of period	\$444,321	\$268,268

See Notes to Consolidated Financial Statements.

SABRE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. General Information

Sabre Corporation is a Delaware corporation formed in December 2006. On March 30, 2007, Sabre Corporation acquired Sabre Holdings Corporation (“Sabre Holdings”). Sabre Holdings is the sole subsidiary of Sabre Corporation. Sabre GLOB Inc. (“Sabre GLOB”) is the principal operating subsidiary and sole direct subsidiary of Sabre Holdings. Sabre GLOB or its direct or indirect subsidiaries conduct all of our businesses. In these consolidated financial statements, references to “Sabre,” the “Company,” “we,” “our,” “ours” and “us” refer to Sabre Corporation and its consolidated subsidiaries unless otherwise stated or the context otherwise requires.

We connect people and places with technology that reimagines the business of travel. We operate our business and present our results through three business segments: (i) Travel Network, our global travel marketplace for travel suppliers and travel buyers, (ii) Airline Solutions, a broad portfolio of software technology products and solutions primarily for airlines, and (iii) Hospitality Solutions, an extensive suite of leading software solutions for hoteliers. Basis of Presentation—The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (“GAAP”) for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP 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. Operating results for the three and nine months ended September 30, 2018 are not necessarily indicative of results that may be expected for any other interim period or for the year ending December 31, 2018. The accompanying interim financial statements should be read in conjunction with the consolidated financial statements and related notes thereto included in our Annual Report on Form 10-K filed with the SEC on February 16, 2018, as updated by our Current Report on Form 8-K/A filed with the SEC on May 3, 2018. Effective the first quarter of 2018, our business has three reportable segments and each segment now reflects a portion of our shared corporate costs that historically were not allocated to a business unit, based on relative consumption of shared technology infrastructure costs and defined revenue metrics. These changes have no impact on our consolidated results of operations, but result in a decrease of segment profitability only. Prior year amounts have been recast for the disaggregation of our segments and the modification of our allocation of shared corporate costs where applicable.

We consolidate all majority-owned subsidiaries and companies over which we exercise control through majority voting rights. No entities are consolidated due to control through operating agreements, financing agreements or as the primary beneficiary of a variable interest entity.

The consolidated financial statements include our accounts after elimination of all significant intercompany balances and transactions. All dollar amounts in the financial statements and the tables in the notes, except per share amounts, are stated in thousands of U.S. dollars unless otherwise indicated. All amounts in the notes reference results from continuing operations unless otherwise indicated.

Use of Estimates—The preparation of these interim financial statements in conformity with GAAP requires that certain amounts be recorded based on estimates and assumptions made by management. Actual results could differ from these estimates and assumptions. Our accounting policies, which consist of significant estimates and assumptions, include, among other things, the estimation of the collectability of accounts receivable, estimation of future cancellations of bookings processed through the Sabre global distribution system (“GDS”), revenue recognition for software arrangements, determination of the fair value of assets and liabilities acquired in a business combination, determination of the fair value of derivatives, the evaluation of the recoverability of the carrying value of intangible assets and goodwill, assumptions utilized in the determination of pension and other postretirement benefit liabilities, the evaluation of the recoverability of customer implementation costs, assumptions utilized to evaluate the recoverability of deferred customer advance and discounts, and estimation of uncertainties surrounding the calculation of our tax assets and liabilities. Our use of estimates and the related accounting policies are discussed in the consolidated financial statements and related notes thereto included in our Annual Report on Form 10-K filed with the

SEC on February 16, 2018, as updated by our Current Report on Form 8-K/A filed with the SEC on May 3, 2018. Additionally, see Note 2. Revenue from Contracts with Customers for additional information on the use of significant estimates and assumptions in recognizing revenue.

Stockholders' Equity—During the nine months ended September 30, 2018, we issued 2,441,045 shares of our common stock as a result of the exercise and settlement of employee equity-based awards. In addition, we had \$3 million in net receipts from the exercise of employee stock-option awards, which includes a \$9 million payment of income tax withholdings associated with the settlement of employee restricted-stock awards. We paid quarterly cash dividends on our common stock of \$0.14 per share, totaling \$116 million, during each of the nine months ended September 30, 2018 and 2017.

During the nine months ended September 30, 2018, certain of our stockholders sold an aggregate of 46,000,000 shares of our common stock through secondary public offerings. See "—Share Repurchase Program" for information on shares we repurchased in connection with one such offering. We did not offer any shares or receive any proceeds from these secondary public offerings.

Share Repurchase Program—In February 2017, we announced the approval of a multi-year share repurchase program to purchase up to \$500 million of Sabre's common stock outstanding. Repurchases under the program may take place in the open market or privately negotiated transactions. For the nine months ended September 30, 2018, we repurchased 1,075,255 shares totaling \$26 million pursuant to this share repurchase program, including the repurchase of 1,000,000 shares of our common stock for approximately \$24 million in connection with a secondary public offering as described in "—Stockholders' Equity." There were no shares repurchased during the third quarter of 2018. Approximately \$365 million remains authorized for repurchases under the Share Repurchase Program as of September 30, 2018.

Adoption of New Accounting Standards

In June 2018, the Financial Accounting Standards Board ("FASB") issued updated guidance for share-based payment awards issued to non-employees. The updated standard aligns the accounting for share-based payment awards for non-employees with employees, except for guidance related to the attribution of compensation costs for non-employees. The Accounting Standards Update ("ASU") is effective for fiscal years beginning after December 15, 2018, including interim periods within those annual periods for public business entities, with early adoption permitted. We early adopted this standard in the second quarter of 2018, which did not have a material impact on our consolidated financial statements.

In February 2018, the FASB issued updated guidance to give entities the option to reclassify to retained earnings the tax effects of items within accumulated other comprehensive income ("stranded tax effects") resulting from a reduction of the federal corporate income tax rate from 35% to 21% under the Tax Cuts and Jobs Act ("TCJA") signed into law in December 2017. The ASU is effective for annual periods beginning after December 15, 2018, with early adoption permitted. See Note 7. Income Taxes in our consolidated financial statements included in our Annual Report on Form 10-K filed with the SEC on February 16, 2018, as updated by our Current Report on Form 8-K/A filed with the SEC on May 3, 2018, for additional information on certain impacts related to the enactment of the TCJA. We early adopted the updated standard in the second quarter of 2018 and elected to reclassify the stranded income tax effects related to the enactment of the TCJA to retained earnings. The adoption of this ASU resulted in a decrease in our retained deficit of \$22 million with a corresponding increase to accumulated other comprehensive income primarily as a result of reclassifying stranded tax effects for our retirement-related benefit plans. The adoption of this updated standard did not have a material impact on our consolidated results of operations and statement of cash flows.

In August 2017, the FASB issued updated guidance to expand and simplify the application of hedge accounting. The updated standard eliminates the requirement to separately measure and report hedge ineffectiveness and generally requires the entire change in the fair value of a hedging instrument to be presented in the same income statement line as the hedged item. The guidance also eases certain documentation and assessment requirements and modifies the accounting for components excluded from the assessment of hedge effectiveness. The ASU is effective for annual periods beginning after December 15, 2018, with early adoption permitted. We early adopted this standard in the second quarter of 2018, which did not have a material impact on our consolidated financial statements.

In March 2017, the FASB issued updated guidance improving the presentation requirements related to reporting the service cost component of net benefit costs to require that the service cost component be reported in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period, disaggregating the component from other net benefit costs. Net benefit cost is composed of several items, which reflect different aspects of an employer's financial arrangements as well as the cost of benefits earned by employees. The updated guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within those annual periods for public business entities. We adopted this standard in the first quarter of 2018, which did not have a material impact on our consolidated financial statements.

In February 2017, the FASB issued updated guidance on gains and losses from the derecognition of non-financial assets. The updated guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within those annual periods for public business entities. We adopted this standard in the first quarter of 2018, which did not have a material impact on our consolidated financial statements.

In January 2016, the FASB issued updated guidance on accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure for financial instruments. Under this updated standard,

entities must measure equity investments at fair value and recognize changes in fair value in net income. For equity investments without readily determinable fair values, entities have the option to either measure these investments at fair value or at cost adjusted for changes in observable prices less impairment. The updated guidance does not apply to equity method investments or investments in consolidated subsidiaries. This new standard is effective for public companies for annual periods, including interim periods, beginning after December 15, 2017. We adopted this standard in the first quarter of 2018, which did not have a material impact on our consolidated financial statements.

Recent Accounting Pronouncements

In August 2018, the FASB issued updated guidance on customer's accounting for implementation costs incurred in a cloud computing arrangement that is a service contract. Under this updated standard, when the arrangement includes a license to software developed for internal use, implementation costs are capitalized and amortized on a straight-line basis over the related contract terms, and a liability is also recognized to the extent the payments attributable to the software license are made over time. When the cloud computing arrangement does not include a software license, implementation costs are to be expensed as incurred. The updated standard is effective for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. We do not expect the adoption of this updated standard will have a material impact on our consolidated financial statements.

In August 2018, the FASB issued updated guidance that eliminates, modifies and adds certain disclosure requirements related to defined benefit pension and other post-retirement plans. The updated standard is effective for public companies for fiscal years, and interim periods within those fiscal years, ending after December 15, 2020, with early adoption permitted, and is required to be applied retrospectively. We are currently evaluating the impact of this standard on disclosures in our consolidated financial statements.

In August 2018, the FASB issued updated guidance that eliminates, modifies and adds certain disclosure requirements related to fair value measurements. The updated standard is effective for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted for the eliminated or modified disclosures, while delaying the adoption of the additional disclosures until their effective date. We do not expect the adoption of this updated standard will have a material impact on disclosures in our consolidated financial statements.

In June 2016, the FASB issued updated guidance for the measurement of credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. Under this updated standard, the current "incurred loss" approach is replaced with an "expected loss" model for instruments measured at amortized cost. For available-for-sale debt securities, allowances for losses will now be required rather than reducing the instruments carrying value. The updated standard is effective for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. We are currently evaluating the impact of this standard on our consolidated financial statements.

In February 2016, the FASB issued updated guidance requiring organizations that lease assets—referred to as "lessees"—to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases, when the lease has a term of more than 12 months. The updated standard is effective for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. We plan to adopt the new standard using the cumulative-effect adjustment transition method on its effective date of January 1, 2019, and we expect to elect the package of practical expedients and the hindsight practical expedient upon adoption. We are in the process of cataloging our existing lease contracts and implementing changes to our processes and systems. We preliminarily estimate our other non-current assets and other non-current liabilities may be increased on our consolidated balance sheets by approximately \$65 million to \$80 million, with an immaterial impact to retained earnings, as a result of recognizing the right of use assets and corresponding lease liabilities in connection with the adoption of the updated standard. Our assessment is ongoing and subject to finalization such that the actual impact of the adoption may differ materially from this estimated range. We do not expect that the adoption of this updated standard will have a material impact on our consolidated results of operations and cash flows.

2. Revenue from Contracts with Customers

In the first quarter of 2018, we adopted the comprehensive update to revenue recognition guidance for Revenue from Contracts with Customers ("ASC 606"), which replaced the previous standard ("ASC 605"), using the modified retrospective approach, applied to contracts that were not completed as of the adoption date. Under ASC 606, revenue is recognized when a company transfers the promised goods or services to customers in an amount that reflects the consideration that is expected to be received for those goods and services. The key areas of impact on our financials include:

- Revenue recognition for our Travel Network and Hospitality Solutions businesses did not change significantly. The definition of a performance obligation for Travel Network under the new guidance impacts the calculation for our booking fee cancellation reserve, which resulted in a beginning balance sheet adjustment.
- Our Airline Solutions business is primarily impacted by ASC 606 due to the following:

Under ASC 605, we recognized revenue related to license fee and maintenance agreements ratably over the life of the contract. Under ASC 606, revenue for license fees is recognized upon delivery of the license and ongoing maintenance services are to be recognized ratably over the life of the contract. For existing open agreements, this change resulted in a beginning balance sheet adjustment and reduced revenue in subsequent years from these agreements.

Allocation of contract revenues among various products and solutions, and the timing of the recognition of those revenues, are impacted by agreements with tiered pricing or variable rate structures that do not correspond with the goods or services delivered to the customer. For existing open agreements, this change resulted in a beginning balance sheet adjustment and reduced revenue in subsequent years from these agreements.

- Capitalization of incremental contract acquisition costs (such as sales commissions), and recognition of these costs over the customer benefit period resulted in the recognition of an asset on our balance sheet and impacted our Airline Solutions and Hospitality Solutions businesses.

Results for reporting periods beginning after January 1, 2018 are presented under ASC 606, while prior period amounts have not been adjusted and continue to be reported in accordance with ASC 605. The impacts described above resulted in a net reduction to our opening retained deficit as of January 1, 2018 of approximately \$102 million (net of tax, \$78 million) with a corresponding increase primarily in current and long-term unbilled receivables, contract assets, other assets and other accrued liabilities.

Edgar Filing: Sabre Corp - Form 10-Q

The following tables set forth the impact of the adoption of the revenue recognition standard to our reported results on our consolidated statement of operations and consolidated balance sheet, respectively (in thousands):

	Nine Months Ended September 30, 2018		
	As reported	Adjustments	As adjusted
	ASC 606		ASC 605
Revenue	\$2,943,028	\$ 23,555	\$2,966,583
Cost of Revenue	2,117,984	6,275	2,124,259
Selling, general and administrative	384,047	(543)	383,504
Operating income	440,997	17,823	458,820
Income from continuing operations before income taxes	315,264	17,823	333,087
Provision for income taxes	61,371	4,354	65,725
Income from continuing operations	253,893	13,469	267,362
Net income	257,110	13,469	270,579
Net income attributable to common stockholders	253,131	13,469	266,600

	September 30, 2018		
	As reported	Adjustments	As adjusted
	ASC 606		ASC 605
Accounts receivable, net	\$589,858	\$ (56,189)	\$533,669
Prepaid expenses and other current assets	170,110	(13,147)	156,963
Total current assets	1,204,289	(69,336)	1,134,953
Other assets, net	634,422	(4,945)	629,477
Total assets	5,868,482	(74,281)	5,794,201
Accrued subscriber incentives	327,371	4,988	332,359
Deferred revenues	104,366	30,805	135,171
Other accrued liabilities	207,694	(25,901)	181,793
Total current liabilities	1,052,182	9,892	1,062,074
Deferred income taxes	200,767	(18,745)	182,022
Other noncurrent liabilities	322,002	(253)	321,749
Retained deficit	(814,446)	(65,175)	(879,621)
Total stockholders' equity	937,935	(65,175)	872,760
Total liabilities and stockholders' equity	5,868,482	(74,281)	5,794,201

Contract Balances

Revenue recognition for a significant portion of our revenue coincides with normal billing terms, including Travel Network's transactional revenues, and Airline Solutions' and Hospitality Solutions' Software-as-a-Service ("SaaS") and hosted revenues. Timing differences among revenue recognition, unconditional rights to bill, and receipt of contract consideration may result in a net contract asset or contract liability. Contract liabilities are included within deferred revenues and other noncurrent liabilities on the consolidated balance sheet. Contract liabilities totaled \$201 million and \$158 million as of September 30, 2018 and January 1, 2018, respectively. During the nine months ended September 30, 2018, we recognized revenue of approximately \$29 million from contract liabilities that existed as of January 1, 2018. Contract assets are included within prepaid expenses and other current assets and other assets, net on the consolidated balance sheet. The following table presents the changes in our contract assets balance (in thousands):

Contract assets as of January 1, 2018	\$75,624
Additions	10,579
Deductions	(26,414)
Other	(31)
Contract assets as of September 30, 2018	\$59,758

Our contract assets include deferred customer advances and discounts, which are capitalized and amortized in future periods as the related revenue is earned. The contract assets also include revenue recognized for services already transferred to a customer, for which the fulfillment of another contractual performance obligation is required, before we have the unconditional right to bill and collect based on contract terms. These assets are reviewed for recoverability on a periodic basis based on review of impairment indicators. For the nine months ended September 30, 2018, we did not impair any of our contract assets as a result of the related contract becoming uncollectable, modified or canceled. Our trade accounts receivable, net recorded in accounts receivable, net on the consolidated balance sheet as of September 30, 2018 and January 1, 2018 was \$585 million and \$506 million, respectively. Our long-term trade unbilled receivables, net recorded in other assets, net on the consolidated balance sheet as of September 30, 2018 and January 1, 2018 was \$55 million and \$54 million, respectively. We evaluate collectability of our accounts receivable based on a combination of factors and record reserves as reflected in Note 1. Summary of Business and Significant Accounting Policies in our consolidated financial statements in our Annual Report on Form 10-K filed with the SEC on February 16, 2018, as updated by our Current Report on Form 8-K/A filed with the SEC on May 3, 2018.

We may occasionally recognize revenue in the current period for performance obligations partially or fully satisfied in the previous periods resulting from changes in estimates for the transaction price, including any changes to our assessment of whether an estimate of variable consideration is constrained. For the nine months ended September 30, 2018, the impact on revenue recognized in the current period, from performance obligations partially or fully satisfied in the previous period, is immaterial.

Performance Obligations

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of account under ASC 606. The transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. Most of our contracts in the Travel Network and Hospitality Solutions businesses have a single performance obligation. In the Airline Solutions business, many of our contracts may have multiple performance obligations, which generally include software and product solutions through SaaS and hosted delivery, and other service fees. In addition, at times we enter into agreements with customers to provide access to Travel Network's GDS and, at or near the same time, enter into a separate agreement to provide Airline Solutions' software solutions through SaaS and hosted delivery, resulting in multiple performance obligations within a combined agreement.

For contracts with multiple performance obligations where the contracted price differs from the standalone selling price ("SSP") for any distinct good or service, we may be required to allocate the contract's transaction price to each performance obligation using our best estimate for the SSP. SSP is assessed annually using a historical analysis of contracts with customers executed in the most recently completed calendar year to determine the range of selling prices applicable to distinct good or service. In making these judgments, we analyze various factors, including value differentiators, customer segmentation and overall market and economic conditions. Based on these results, the estimated SSP is set for each distinct product or service delivered to customers.

We recognize revenue under long-term contracts that primarily includes variable consideration based on transactions processed. A majority of our consolidated revenue is recognized as a stand-ready performance obligation with the amount recognized based on the invoiced amounts for services performed, known as right to invoice revenue recognition. Certain of our contracts, primarily in the Airlines Solutions business, contain minimum transaction volumes, which in many instances are not considered substantive as the customer is expected to exceed the minimum in the contract. Unearned performance obligations primarily consist of deferred revenue for fixed implementation fees and future product implementations, which are included in deferred revenue and other noncurrent liabilities in our consolidated balance sheet. We have not disclosed the performance obligation related to contracts containing minimum transaction volume, as it represents a subset of our business, and therefore would not be meaningful in understanding the total future revenues expected to be earned from our long-term contracts. See the discussion below regarding revenue recognition of our various revenue streams for more information.

Revenue Recognition

Travel Network and Hospitality Solutions' revenue recognition is primarily driven by GDS and central reservation system ("CRS") transactions, respectively. Airline Solutions' revenue recognition is primarily driven by passengers boarded or other variable metrics relevant to the software service provided. Timing of revenue recognition is based on the consistent provision of services in a stand-ready series SaaS environment and the amount of revenue recognized varies with the volume of transactions processed. Our significant product and services and methods of recognition are as follows:

Stand-ready series revenue recognition

Travel Network—Travel Network's service offering is a GDS or GDS services linking and engaging transactions between travel agents (those that seek travel on behalf of travelers) and travel suppliers (such as airlines, hotels, car rental companies and cruise lines). Revenue is generated from contracts with the travel suppliers as each booking is made or transaction occurs and represents a stand-ready performance obligation where our systems perform the same service each day for the customer, based on the customer's level of usage. Variability in the amounts billed to the customer and revenue recognized coincides with the customer's level of usage or value received by the customer. Travel Network's revenue for air transactions is recognized at the time of booking of the reservation, net of estimated future cancellations. Travel Network's revenue for car rental, hotel transactions and other travel providers is recognized at the time the reservation is used by the customer.

Airline Solutions and Hospitality Solutions—Airline Solutions and Hospitality Solutions provide technology solutions and other professional services to airlines, hotels and other business consumers in the travel industry. The technology solutions are primarily provided in a SaaS or hosted environment. Customers are normally charged an upfront solutions fee and a recurring usage-based fee for the use of the software, which represents a stand-ready performance obligation where our systems perform the same service each day for the customer, based on the customer’s level of usage. Upfront solutions fees are recognized primarily on a straight-line basis over the relevant contract term, upon cut-over of the primary SaaS solution. Variability in the usage-based fee that does not align with the value provided to the customer can result in a difference between billings to the customer and the timing of contract performance and revenue recognition. This may result in a requirement to forecast expected usage-based fees and volumes over the contract term in order to determine rate for revenue recognition. This variable consideration is constrained if there is an inability to reliably forecast this revenue.

Other revenue recognition patterns

Airline Solutions also provides other services including development labor or professional consulting. These services can be sold separately or with other products and services, and Airline Solutions may bundle multiple technology solutions in one arrangement with these other services. Revenue from other services consisting of development services that represent minor configuration or professional consulting is generally recognized over the period the services are performed or upon completed delivery.

Airline Solutions also directly licenses certain software to its customers where the customer obtains control of the license. Revenue from software license fees is recognized when the customer gains control of the software enabling them to directly use the software and obtain substantially all of the remaining benefits. Fees for ongoing software maintenance are recognized ratably over the life of the contract. Under these arrangements, often we are entitled to minimum fees which are collected over the term of the agreement, while the revenue from the license is recognized at the point when the customer gains control, which results in current and long-term unbilled receivables for these arrangements.

Variability in the amounts billed to the customer and revenue recognized coincides with the customer’s level of usage with the exception of upfront solution fees, variable consideration, license and maintenance agreements and other services including development labor and professional consulting. Contracts with the same customer which are entered into at or around the same period are analyzed for revenue recognition purposes on a combined basis across our businesses which can impact our revenue recognized.

Revenue recognition from our Airline Solutions business requires significant judgments such as identifying distinct performance obligations including material rights within an agreement, estimation of SSP, determination of whether variable pricing within a contract meets the allocation objective and forecasting future volumes. For a small subset of our contracts, we are required to forecast volumes as a result of pricing variability within the contract in order to calculate the net effective rate. Any changes in these judgments and estimates could have an impact on the revenue recognized in future periods.

We evaluate whether it is appropriate to record the gross amount of our revenues and related costs by considering whether the entity is a principal (gross presentation) or an agent (net presentation) by evaluating the nature of our promise to the customer. We report revenue net of any revenue based taxes assessed by governmental authorities that are imposed on and concurrent with specific revenue producing transactions.

The following table presents our revenues disaggregated by business (in thousands):

	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018
Air	\$ 566,887	\$ 1,747,518
Lodging, Ground and Sea	88,467	264,498
Other	44,842	129,001
Total Travel Network	700,196	2,141,017
SabreSonic Passenger Reservation System	127,298	377,476

Edgar Filing: Sabre Corp - Form 10-Q

Commercial and Operations Solutions ⁽¹⁾	81,253	239,813
Other	837	3,524
Total Airline Solutions	209,388	620,813
SynXis Software and Services	62,036	182,251
Other	7,875	24,102
Total Hospitality Solutions	69,911	206,353
Eliminations	(9,212	) (25,155
Total Sabre Revenue	\$ 970,283	\$ 2,943,028

(1) Includes \$12 million and \$25 million of license fee revenue recognized upon delivery to the customer for the three and nine months ended September 30, 2018, respectively.

Contract Costs

We incur contract acquisition costs related to new contracts with our customers in the form of sales commissions based on estimated contract value for our Airline Solutions and Hospitality Solutions businesses. These costs are capitalized, and our capitalization policy for these costs includes an annual review of the historical costs incurred to specifically obtain a new contract, as a percentage of total costs, to determine the capitalized amount for the annual period. We generally amortize these costs over the average contract term for those businesses, excluding commissions on contracts with a term of one year or less, which are generally expensed in the period earned and recorded within selling, general and administrative expenses. We also capitalize contract fulfillment costs, also referred to as capitalized implementation costs. We periodically assess contract costs for recoverability, and our assessment resulted in impairments of approximately \$1 million for the nine months ended September 30, 2018. See Note 1. Summary of Business and Significant Accounting Policies in our consolidated financial statements included in our Annual Report on Form 10-K filed with the SEC on February 16, 2018, as updated by our Current Report on Form 8-K/A filed with the SEC on May 3, 2018, for an overview of our policy for capitalization of implementation costs. The following table presents the changes in contract acquisition costs and capitalized implementation costs (in thousands):

	September 30, 2018
Contract acquisition costs:	
Beginning balance (1/1/2018)	\$ 19,353
Additions	5,533
Amortization	(4,745)
Other	425
Ending balance	\$ 20,566
Capitalized implementation costs:	
Beginning balance (1/1/2018)	\$ 194,501
Additions	29,781
Amortization	(30,511)
Other	(1,733)
Ending balance	\$ 192,038

Practical Expedients and Exemptions

There are several practical expedients and exemptions allowed under ASC 606 that impact timing of revenue recognition and our disclosures. Below is a list of practical expedients we applied in the adoption and application of ASC 606:

Application

When we have a right to receive consideration from a customer in an amount that corresponds directly with the value to the customer of the entity's performance completed to date, we recognize revenue in the amount to which we have a right to invoice.

We apply the allocation objective expedient where applicable, which precludes the requirement to allocate revenue across multiple performance obligations based on total transaction price.

We do not evaluate a contract for a significant financing component if payment is expected within one year or less from the transfer of the promised items to the customer.

We generally expense sales commissions when incurred when the amortization period would have been one year or less. These costs are recorded within selling, general and administrative expenses. We also used the practical expedient to calculate contract acquisition costs based on a portfolio of contracts with similar characteristics instead of a contract by contract analysis.

Modified Retrospective Transition Adjustments

For contract modifications, we reflected the aggregate effect of all modifications that occurred prior to the adoption date when identifying the satisfied and unsatisfied performance obligations, determining the transaction price and allocating the transaction price to satisfied and unsatisfied performance obligations for the modified contract at

transition.

11

3. Impairment and Related Charges

Capitalized implementation costs and deferred customer advances and discounts (now referred to as contract assets) are reviewed for impairment if events and circumstances indicate that their carrying amounts may not be recoverable. See Note 1. Summary of Business and Significant Accounting Policies and Note 4. Impairment and Related Charges in our consolidated financial statements included in our Annual Report on Form 10-K filed with the SEC on February 16, 2018, as updated by our Current Report on Form 8-K/A filed with the SEC on May 3, 2018, for more information. During the year ended December 31, 2017, we evaluated the recoverability of net capitalized contract costs related to an Airline Solutions' customer and recorded a charge of \$92 million in the second quarter of 2017, which was subsequently reduced to \$81 million in the fourth quarter of 2017. For the nine months ended September 30, 2018, there have been no adjustments to amounts previously recorded in 2017. Given the uncertainty associated with the ultimate resolution of the dispute with the customer, there could be further adjustments to our consolidated statement of operations.

4. Income Taxes

On December 22, 2017, the TCJA was signed into law. The TCJA contains significant changes to the U.S. corporate income tax system, including a reduction of the federal corporate income tax rate from 35% to 21%, a limitation of the tax deduction for interest expense to 30% of adjusted taxable income (as defined in the TCJA), base erosion and anti-avoidance tax ("BEAT"), foreign-derived intangible income ("FDII") and global intangible low-taxed income ("GILTI"), one-time taxation of offshore earnings at reduced rates in connection with the transition of U.S. international taxation from a worldwide tax system to a territorial tax system ("transition tax"), elimination of U.S. tax on foreign earnings (subject to certain important exceptions), and modifying or repealing many business deductions and credits.

As of September 30, 2018, we have not completed our December 31, 2017 accounting of the tax effects of the enactment of the TCJA due to complexities of the TCJA, pending clarifications and additional information needed to finalize certain calculations. We recorded a reasonable estimate in our results of operations for the year ended December 31, 2017 of the effects on our existing deferred tax balances, the one-time transition tax and the effect of the TCJA on our liability related to the tax receivable agreement ("TRA"). See Note 7. Income Taxes in our consolidated financial statements included in our Annual Report on Form 10-K filed with the SEC on February 16, 2018, as updated by our Current Report on Form 8-K/A filed with the SEC on May 3, 2018, for more information. In the second quarter of 2018, we remeasured certain deferred tax assets based on a change in the estimate of the tax rate at which they are expected to be reversed. This change resulted from our decision during the quarter to elect to utilize our net operating loss carryforwards ("NOLs") to offset the impacts of the transition tax. As a result of this remeasurement, we recorded a decrease in our deferred tax liability of \$19 million, which decreased our income tax expense from continuing operations.

We expect to finalize the accounting for the effects of the TCJA during the fourth quarter of 2018, in accordance with SEC Staff Accounting Bulletin No. 118 ("SAB 118"), and these adjustments will be reported as a component of income tax expense from continuing operations.

Our effective tax rate for the nine months ended September 30, 2018 was 19% due to the deferred tax benefit recognized in the second quarter of 2018 and the favorable impact of our geographic mix of taxable income in various jurisdictions, partially offset by a net increase due to the impacts of TCJA. Our effective tax rate for the nine months ended September 30, 2017 was 25% due to the favorable impact of our geographic mix of taxable income in various jurisdictions and the tax impact from an impairment charge associated with an Airline Solutions' customer contract, which was recognized as a tax benefit in the second quarter of 2017. See Note 3. Impairment and Related Charges. We recognize liabilities when we believe that an uncertain tax position may not be fully sustained upon examination by the tax authorities. This requires significant judgment, the use of estimates, and the interpretation and application of complex tax laws. When facts and circumstances change, we reassess these probabilities and record any changes in the consolidated financial statements as appropriate. In the three and nine months ended September 30, 2018, we recognized tax benefits of \$2 million and \$4 million, respectively, associated with the net reversal of income tax reserves across our jurisdictions. Our net unrecognized tax benefits, excluding interest and penalties, included in our consolidated balance sheets, were \$67 million and \$74 million as of September 30, 2018 and December 31, 2017,

respectively.

Other Matters

In July 2018, the U.S. Court of Appeals for the Ninth Circuit reversed the decision of the U.S. Tax Court in *Altera Corp. v. Commissioner* related to the treatment of stock-based compensation in an intercompany cost-sharing arrangement. In August 2018, this ruling was withdrawn leaving the Tax Court decision in effect. Considering the withdrawal, there is no current impact or change to our treatment of stock-based compensation; however, we will continue to monitor this case and evaluate any future impacts if and when those occur.

Tax Receivable Agreement

Immediately prior to the closing of our initial public offering in April 2014, we entered into the TRA, which provides the right to receive future payments from us to stockholders and equity award holders that were our stockholders and equity award holders, respectively, immediately prior to the closing of our initial public offering (collectively, the “Pre-IPO Existing Stockholders”). The future payments will equal 85% of the amount of cash savings, if any, in U.S. federal income tax that we and our subsidiaries realize as a result of the utilization of certain tax assets attributable to periods prior to our initial public offering, including NOLs, capital losses and the ability to realize tax amortization of certain intangible assets (collectively, the “Pre-IPO Tax Assets”). Consequently, stockholders who are not Pre-IPO Existing Stockholders will only be entitled to the economic benefit of the Pre-IPO Tax Assets to the extent of our continuing 15% interest in those assets. These payment obligations are our obligations and not obligations of any of our subsidiaries. The actual utilization of the Pre-IPO Tax Assets, as well as the timing of any payments under the TRA, will vary depending upon a number of factors, including the amount, character and timing of our and our subsidiaries’ taxable income in the future.

Based on current tax laws and assuming that we and our subsidiaries earn sufficient taxable income to realize the full tax benefits subject to the TRA, we estimate that payments under the TRA relating to the Pre-IPO Tax Assets total \$328 million, excluding interest. This includes a provisional reduction recorded in the fourth quarter of 2017 of \$60 million in the TRA liability primarily resulting from the enactment of TCJA which reduced the U.S. corporate income tax rate. The TRA payments accrue interest in accordance with the terms of the TRA. The estimate of future payments considers the impact of Section 382 of the Internal Revenue Code of 1986, as amended (the “Code”), which imposes an annual limit on the ability of a corporation that undergoes an ownership change to use its NOLs to reduce its liability. We do not anticipate any material limitations on our ability to utilize NOLs under Section 382 of the Code. We expect a majority of the future payments under the TRA to be made over the next two years. We made payments of \$60 million and \$101 million, which included accrued interest of approximately \$1 million each year, in January 2018 and 2017, respectively. As of September 30, 2018, the current portion of our TRA liability totaled \$94 million, which includes approximately \$2 million of accrued interest, and the remaining portion of \$77 million is included in other noncurrent liabilities in our consolidated balance sheet as of September 30, 2018. Payments under the TRA are not conditioned upon the parties’ continuing ownership of the company. Changes in the utility of the Pre-IPO Tax Assets will impact the amount of the liability recorded in respect of the TRA. Changes in the utility of these Pre-IPO Tax Assets are recorded in income tax expense and any changes in the obligation under the TRA are recorded in other expense.

5. Debt

As of September 30, 2018 and December 31, 2017, our outstanding debt included in our consolidated balance sheets totaled \$3,420 million and \$3,456 million, respectively, which are net of debt issuance costs of \$19 million and \$23 million, respectively, and unamortized discounts of \$8 million and \$9 million, respectively. The following table sets forth the face values of our outstanding debt as of September 30, 2018 and December 31, 2017 (in thousands):

	Rate	Maturity	September 30, December 31,	
			2018	2017
Senior secured credit facilities:				
Term Loan A	L + 2.00%	July 2022	\$ 534,375	\$ 555,750
Term Loan B ⁽¹⁾	L + 2.00%	February 2024	1,866,940	1,881,048
Revolver, \$400 million	L + 2.00%	July 2022	—	—
5.375% senior secured notes due 2023	5.375%	April 2023	530,000	530,000
5.25% senior secured notes due 2023	5.25%	November 2023	500,000	500,000
Capital lease obligations			15,856	21,235
Face value of total debt outstanding			3,447,171	3,488,033
Less current portion of debt outstanding			(64,225)	(57,138)
Face value of long-term debt outstanding			\$ 3,382,946	\$ 3,430,895

(1)

Pursuant to the March 2, 2018 refinancing, the interest rate on the Term Loan B was reduced from L+2.25% to L+2.00%.

Senior Secured Credit Facilities

In February 2013, Sabre GBLB entered into the Amended and Restated Credit Agreement. The agreement replaced (i) the existing term loans with new classes of term loans of \$1,775 million (the “2013 Term Loan B”) and \$425 million (the “2013 Term Loan C”) and (ii) the existing revolving credit facility with a new revolving credit facility of \$352 million (the “2013 Revolver”). In September 2013, Sabre GBLB entered into an agreement to amend the Amended and Restated Credit Agreement to add a new class of term loans in the amount of \$350 million (the “2013 Incremental Term Loan Facility”).

In July 2016, Sabre GBLB entered into a series of amendments (the “Credit Agreement Amendments”) to our Amended and Restated Credit Agreement to provide for an incremental term loan under a new class with an aggregate principal amount of \$600 million (the “2016 Term Loan A”) and to replace the 2013 Revolver with a new revolving credit facility totaling \$400 million (the “2016 Revolver”). The proceeds of \$597 million, net of \$3 million discount, from the 2016 Term Loan A, were used to repay \$350 million of outstanding principal on our 2013 Term Loan B and 2013 Incremental Term Loan Facility, on a pro rata basis, repay the \$120 million then-outstanding balance on the 2016 Revolver, and pay \$11 million in associated financing fees. We recognized a \$4 million loss on extinguishment of debt in connection with these transactions during the year ended December 31, 2016.

On February 22, 2017, Sabre GBLB entered into a Third Incremental Term Facility Amendment to our Amended and Restated Credit Agreement (the “2017 Term Facility Amendment”). The new agreement replaced the 2013 Term Loan B, 2013 Incremental Term Loan Facility and 2013 Term Loan C with a single class of term loan (the “2017 Term Loan B”) with an aggregate principal amount of \$1,900 million maturing on February 22, 2024. The proceeds of \$1,898 million, net of \$2 million discount on the 2017 Term Loan B, were used to pay off approximately \$1,761 million of all existing classes of outstanding term loans (other than the 2016 Term Loan A), pay related accrued interest and pay \$12 million in associated financing fees, which were recorded as debt modification costs in Other, net in the consolidated statement of operations during the three months ended March 31, 2017. The remaining proceeds of the 2017 Term Loan B were used to pay off approximately \$80 million of Sabre’s outstanding mortgage on its corporate headquarters on March 31, 2017, and for other general corporate purposes. Unamortized debt issuance costs and discount related to existing classes of outstanding term loans prior to the 2017 Term Facility Amendment of \$9 million and \$3 million, respectively, will continue to be amortized over the remaining term of the 2017 Term Loan B along with the Term Loan B discount of \$2 million. See Note 6. Derivatives for information regarding the discontinuation of hedge accounting related to our existing interest rate swaps as a result of the 2017 Term Facility Amendment.

On August 23, 2017, Sabre GBLB entered into a Fourth Incremental Term Facility Amendment to our Amended and Restated Credit Agreement, Term Loan A Refinancing Amendment to the Credit Agreement, and Second Revolving Facility Refinancing Amendment to the Credit Agreement to refinance and modify the terms of the 2017 Term Loan B, the 2016 Term Loan A, and the 2016 Revolver, resulting in a reduction of the applicable margins for each of these instruments and approximately a one-year extension of the maturity of the 2016 Term Loan A and 2016 Revolver (the “2017 Refinancing”). We incurred no additional indebtedness as a result of the 2017 Refinancing. The 2017 Refinancing included a \$400 million revolving credit facility (“Revolver”) that replaced the 2016 Revolver, as well as the application of the proceeds of the approximately \$1,891 million incremental Term Loan B facility (“Term Loan B”) and \$570 million Term Loan A facility (“Term Loan A”) to replace the 2017 Term Loan B and the 2016 Term Loan A. The maturity of the Revolver and the Term Loan A was extended from July 18, 2021 to July 1, 2022. The applicable margins for the Term Loan B were reduced to 2.25% per annum for Eurocurrency rate loans and 1.25% per annum for base rate loans. The applicable margins for the Term Loan A and the Revolver were reduced to (i) between 2.50% and 1.75% per annum for Eurocurrency rate loans and (ii) between 1.50% and 0.75% per annum for base rate loans, in each case with the applicable margin for any quarter reduced by 25 basis points (up to 75 basis points total) if the Senior Secured First-Lien Net Leverage Ratio (as defined in the Amended and Restated Credit Agreement) is less than 3.75 to 1.0, 3.00 to 1.0, or 2.25 to 1.0, respectively.

On March 2, 2018, Sabre GBLB entered into a Fifth Incremental Term Facility Amendment to our Amended and Restated Credit Agreement to refinance and modify the terms of the Term Loan B, resulting in a reduction of the applicable margins for the Term Loan B to 2.00% per annum for Eurocurrency rate loans and 1.00% per annum for base rate loans. We incurred no additional indebtedness as a result of this transaction and incurred \$2 million in financing fees recorded within Other, net and a \$1 million loss on extinguishment of debt, in our consolidated results of operations during the nine months ended September 30, 2018.

We had no balance outstanding under the Revolver as of September 30, 2018 and as of December 31, 2017. We had outstanding letters of credit totaling \$15 million and \$21 million as of September 30, 2018 and December 31, 2017, respectively, which reduced our overall credit capacity under the Revolver.

6. Derivatives

Hedging Objectives—We are exposed to certain risks relating to ongoing business operations. The primary risks managed by using derivative instruments are foreign currency exchange rate risk and interest rate risk. Forward contracts on various foreign currencies are entered into to manage the foreign currency exchange rate risk on operational expenditures' exposure denominated in foreign currencies. Interest rate swaps are entered into to manage interest rate risk associated with our floating-rate borrowings.

In accordance with authoritative guidance on accounting for derivatives and hedging, we designate foreign currency forward contracts as cash flow hedges on operational exposure and certain interest rate swaps as cash flow hedges of floating-rate borrowings.

Cash Flow Hedging Strategy—To protect against the reduction in value of forecasted foreign currency cash flows, we hedge portions of our revenues and expenses denominated in foreign currencies with forward contracts. For example, when the dollar strengthens significantly against the foreign currencies, the decline in present value of future foreign currency expense is offset by losses in the fair value of the forward contracts designated as hedges. Conversely, when the dollar weakens, the increase in the present value of future foreign currency expense is offset by gains in the fair value of the forward contracts.

We enter into interest rate swap agreements to manage interest rate risk exposure. The interest rate swap agreements modify our exposure to interest rate risk by converting floating-rate debt to a fixed rate basis, thus reducing the impact of interest rate changes on future interest expense and net earnings. These agreements involve the receipt of floating rate amounts in exchange for fixed rate interest payments over the life of the agreements without an exchange of the underlying principal amount.

For derivative instruments that are designated and qualify as cash flow hedges, the effective and ineffective portions of the gain or loss on the derivative instrument, and the hedge components excluded from the assessment of effectiveness, are reported as a component of other comprehensive income (loss) (“OCI”) and reclassified into earnings in the same line item associated with the forecasted transaction and in the same period or periods during which the hedged transaction affects earnings. Derivatives not designated as hedging instruments are carried at fair value with changes in fair value reflected in Other, net in the consolidated statements of operations.

Forward Contracts—In order to hedge our operational expenditures' exposure to foreign currency movements, we are a party to certain foreign currency forward contracts that extend until September 2019. We have designated these instruments as cash flow hedges. No hedging ineffectiveness was recorded in earnings relating to the forward contracts during the three and nine months ended September 30, 2018 and 2017. As of September 30, 2018, we estimate that \$7 million in losses will be reclassified from other comprehensive income (loss) to earnings over the next 12 months.

As of September 30, 2018 and December 31, 2017, we had the following unsettled purchased foreign currency forward contracts that were entered into to hedge our operational exposure to foreign currency movements (in thousands, except for average contract rates):

Outstanding Notional Amounts as of September 30, 2018

Buy Currency	Sell Currency	Foreign Amount	USD Amount	Average Contract Rate
Polish Zloty	US Dollar	238,000	66,666	0.2801
Singapore Dollar	US Dollar	65,050	48,595	0.7470
Indian Rupee	US Dollar	2,735,000	38,769	0.0141
British Pound Sterling	US Dollar	20,700	28,371	1.3706
Australian Dollar	US Dollar	26,300	19,751	0.7510
Swedish Krona	US Dollar	52,200	6,243	0.1196
Brazilian Real	US Dollar	20,850	5,628	0.2668

Outstanding Notional Amounts as of December 31, 2017

Buy Currency	Sell Currency	Foreign Amount	USD Amount	Average Contract Rate
Polish Zloty	US Dollar	225,000	61,016	0.2712
Singapore Dollar	US Dollar	70,750	52,065	0.7359
British Pound Sterling	US Dollar	25,900	34,307	1.3246
Indian Rupee	US Dollar	1,720,000	25,939	0.0151
Australian Dollar	US Dollar	20,750	15,932	0.7678
Swedish Krona	US Dollar	44,100	5,353	0.1214
Brazilian Real	US Dollar	16,800	4,976	0.2962

Interest Rate Swap Contracts—Interest rate swaps outstanding during the nine months ended September 30, 2018 and 2017 are as follows:

Notional Amount	Interest Rate Received	Interest Rate Paid	Effective Date	Maturity Date
Designated as Hedging Instrument				
\$750 million	1 month LIBOR ⁽²⁾	1.15%	March 31, 2017	December 31, 2017
\$750 million	1 month LIBOR ⁽²⁾	1.65%	December 29, 2017	December 31, 2018
\$1,350 million	1 month LIBOR ⁽²⁾	2.27%	December 31, 2018	December 31, 2019
\$1,050 million	1 month LIBOR ⁽²⁾	2.11%	December 31, 2019	December 31, 2020
\$450 million	1 month LIBOR ⁽²⁾	2.82%	December 31, 2020	December 31, 2021
Not Designated as Hedging Instrument ⁽¹⁾				
\$750 million	1 month LIBOR ⁽³⁾	2.19%	December 30, 2016	December 29, 2017
\$750 million	1.18%	1 month LIBOR	March 31, 2017	December 31, 2017
\$750 million	1 month LIBOR ⁽³⁾	2.61%	December 29, 2017	December 31, 2018
\$750 million	1.67%	1 month LIBOR	December 29, 2017	December 31, 2018

- (1) Subject to a 1% floor.
- (2) Subject to a 0% floor.
- (3) As of February 22, 2017.

15

As a result of the 2017 Term Facility Amendment in the first quarter of 2017, we discontinued hedge accounting for our existing swap agreements as of February 22, 2017. Accumulated losses of \$14 million in other comprehensive income as of the date hedge accounting was discontinued is amortized into interest expense through the maturity date of the respective swap agreements, and interest rate swap payments made are recorded in Other, net in the consolidated statement of operations. Losses reclassified from other comprehensive income to interest expense related to the derivatives that no longer qualified for hedge accounting were \$2 million and \$6 million for the three and nine months ended September 30, 2018, respectively, and were \$2 million and \$5 million for the three and nine months ended September 30, 2017, respectively. We also entered into new interest rate swaps with offsetting terms that are not designated as hedging instruments. Adjustments to the fair value of interest rate swaps not designated as hedging instruments did not have a material impact to our consolidated results of operations for the three and nine months ended September 30, 2018 and 2017.

In connection with the 2017 Term Facility Amendment, we entered into new forward starting interest rate swaps effective March 31, 2017 to hedge the interest payments associated with \$750 million of the floating-rate 2017 Term Loan B. The total notional amount outstanding is \$750 million in the remaining nine months of 2018 and the full year 2019. In September 2017, we entered into new forward starting interest rate swaps to hedge the interest payments associated with \$750 million of the floating-rate Term Loan B. The total notional outstanding of \$750 million becomes effective December 31, 2019 and extends through the full year 2020. In April 2018, we entered into new forward starting interest rate swaps to hedge the interest payments associated with \$600 million, \$300 million and \$450 million of the floating-rate Term Loan B related to full year 2019, 2020 and 2021, respectively. We have designated these swaps as cash flow hedges.

The estimated fair values of our derivatives designated as hedging instruments as of September 30, 2018 and December 31, 2017 are as follows (in thousands):

	Derivative Assets (Liabilities)		Fair Value as of	
	Consolidated Balance Sheet Location	September 30, 2018	December 31, 2017	December 31, 2017
Derivatives Designated as Hedging Instruments				
Foreign exchange contracts	Prepaid expenses and other current assets	\$ —	\$ 6,213	
Foreign exchange contracts	Other accrued liabilities	(7,142)	—	
Interest rate swaps	Prepaid expenses and other current assets	5,760	856	
Interest rate swaps	Other assets, net	12,221	3,093	
		\$ 10,839	\$ 10,162	
	Derivative Assets (Liabilities)		Fair Value as of	
Derivatives Not Designated as Hedging Instruments	Consolidated Balance Sheet Location	September 30, 2018	December 31, 2017	December 31, 2017
Interest rate swaps	Other accrued liabilities		\$(1,841)	\$(7,119)
			\$(1,841)	\$(7,119)

The effects of derivative instruments, net of taxes, on OCI for the three and nine months ended September 30, 2018 and 2017 are as follows (in thousands):

Edgar Filing: Sabre Corp - Form 10-Q

	Amount of (Loss) Gain Recognized in OCI on Derivative, Effective Portion			
	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Derivatives in Cash Flow Hedging Relationships				
Foreign exchange contracts	\$(1,606)	\$1,800	\$(7,897)	\$10,378
Interest rate swaps	3,042	810	12,018	(1,038)
Total	\$1,436	\$2,610	\$4,121	\$9,340

Derivatives in Cash Flow Hedging Relationships	Income Statement Location	Amount of Loss (Gain) Reclassified from Accumulated OCI into Income, Effective Portion			
		Three Months Ended		Nine Months Ended	
		September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Foreign exchange contracts	Cost of revenue	\$1,558	\$(1,385)	\$(2,769)	\$(502)
Interest rate swaps	Interest expense, net	848	1,169	3,496	3,963
Total		\$2,406	\$(216)	\$727	\$3,461

7. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market for that asset or liability. Guidance on fair value measurements and disclosures establishes a valuation hierarchy for disclosure of inputs used in measuring fair value defined as follows:

Level 1-Inputs are unadjusted quoted prices that are available in active markets for identical assets or liabilities.

Level 2-Inputs include quoted prices for similar assets and liabilities in active markets and quoted prices in non-active markets, inputs other than quoted prices that are observable, and inputs that are not directly observable, but are corroborated by observable market data.

Level 3-Inputs that are unobservable and are supported by little or no market activity and reflect the use of significant management judgment.

The classification of a financial asset or liability within the hierarchy is determined based on the least reliable level of input that is significant to the fair value measurement. In determining fair value, we utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. We also consider the counterparty and our own non-performance risk in our assessment of fair value.

Assets and Liabilities that are Measured at Fair Value on a Recurring Basis

Foreign Currency Forward Contracts—The fair value of the foreign currency forward contracts is estimated based upon pricing models that utilize Level 2 inputs derived from or corroborated by observable market data such as currency spot and forward rates.

Interest Rate Swaps—The fair value of our interest rate swaps is estimated using a combined income and market-based valuation methodology based upon Level 2 inputs, including credit ratings and forward interest rate yield curves obtained from independent pricing services reflecting broker market quotes.

The following tables present our assets (liabilities) that are required to be measured at fair value on a recurring basis as of September 30, 2018 and December 31, 2017 (in thousands):

	Fair Value at Reporting Date Using		
	September 30, 2018	Level 1 Level 2	Level 3
Derivatives:			
Foreign currency forward contracts	\$ (7,142)	\$-(7,142)	\$ —
Interest rate swap contracts	16,140	—16,140	—
Total	\$ 8,998	\$-\$8,998	\$ —

	Fair Value at Reporting Date Using		
	December 31, 2017	Level 1 Level 2	Level 3
Derivatives:			
Foreign currency forward contracts	\$ 6,213	\$-\$6,213	\$ —
Interest rate swap contracts	(3,170)	—(3,170)	—
Total	\$ 3,043	\$-\$3,043	\$ —

There were no transfers between Levels 1 and 2 within the fair value hierarchy for the three and nine months ended September 30, 2018.

Other Financial Instruments

The carrying value of our financial instruments including cash and cash equivalents, and accounts receivable approximates their fair values. The fair values of our senior secured notes due 2023 and term loans under our Amended and Restated Credit Agreement are determined based on quoted market prices for a similar liability when

traded as an asset in an active market, a Level 2 input.

17

The following table presents the fair value and carrying value of our senior notes and borrowings under our senior secured credit facilities as of September 30, 2018 and December 31, 2017 (in thousands):

Financial Instrument	Fair Value at		Carrying Value at ⁽¹⁾	
	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017
Term Loan A	\$536,379	\$ 559,223	\$532,497	\$ 553,444
Term Loan B	1,876,274	1,890,453	1,860,937	1,873,993
Revolver, \$400 million	—	—	—	—
5.375% Senior secured notes due 2023	533,684	546,563	530,000	530,000
5.25% Senior secured notes due 2023	501,265	512,500	500,000	500,000

⁽¹⁾ Excludes net unamortized debt issuance costs.

8. Accumulated Other Comprehensive Income (Loss)

As of September 30, 2018 and December 31, 2017, the components of accumulated other comprehensive income (loss), net of related deferred income taxes, are as follows (in thousands):

	September 30, 2018	December 31, 2017
Defined benefit pension and other post retirement benefit plans	\$ (121,469)	\$ (102,623)
Unrealized foreign currency translation gain	7,330	11,488
Unrealized gain on foreign currency forward contracts and interest rate swaps	6,993	2,651
Total accumulated other comprehensive loss, net of tax	\$ (107,146)	\$ (88,484)

The amortization of actuarial losses and periodic service credits associated with our retirement-related benefit plans is primarily included in other, net in the consolidated statements of operations. Defined benefit pension plans loss increased approximately \$22 million in the second quarter of 2018 upon adoption of the new accounting standard related to the enactment of the TCJA that allows the reclassification of stranded tax effects recorded in accumulated other comprehensive income (loss) to retained earnings. See Note 1. General Information for more information. For information on the income statement line items affected as the result of reclassification adjustments associated with derivatives, see Note 6. Derivatives.

9. Earnings Per Share

The following table reconciles the numerators and denominators used in the computations of basic and diluted earnings per share from continuing operations (in thousands, except per share data):

	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Numerator:				
Income from continuing operations	\$70,879	\$92,825	\$253,893	\$166,395
Less: Net income attributable to noncontrolling interests	1,538	1,307	3,979	3,726
Net income from continuing operations available to common stockholders, basic and diluted	\$69,341	\$91,518	\$249,914	\$162,669
Denominator:				
Basic weighted-average common shares outstanding	275,175	277,477	275,205	277,754
Add: Dilutive effect of stock options and restricted stock awards	2,353	892	1,614	1,894
Diluted weighted-average common shares outstanding	277,528	278,369	276,819	279,648
Earnings per share from continuing operations:				
Basic	\$0.25	\$0.33	\$0.91	\$0.59
Diluted	\$0.25	\$0.33	\$0.90	\$0.58

Basic earnings per share are based on the weighted-average number of common shares outstanding during each period. Diluted earnings per share are based on the weighted-average number of common shares outstanding plus the effect of all dilutive common stock equivalents during each period. The calculation of diluted weighted-average shares excludes the impact of 2 million and 3 million of anti-dilutive common stock equivalents for the three and nine months ended September 30, 2018, respectively. The calculation of diluted weighted-average shares excludes the impact of 8 million and 5 million of anti-dilutive common stock equivalents for the three and nine months ended September 30, 2017, respectively.

10. Contingencies

Legal Proceedings

While certain legal proceedings and related indemnification obligations to which we are a party specify the amounts claimed, these claims may not represent reasonably possible losses. Given the inherent uncertainties of litigation, the ultimate outcome of these matters cannot be predicted at this time, nor can the amount of possible loss or range of loss, if any, be reasonably estimated, except in circumstances where an aggregate litigation accrual has been recorded for probable and reasonably estimable loss contingencies. A determination of the amount of accrual required, if any, for these contingencies is made after careful analysis of each matter. The required accrual may change in the future due to new information or developments in each matter or changes in approach such as a change in settlement strategy in dealing with these matters.

Antitrust Litigation and DOJ Investigation

US Airways Antitrust Litigation

In April 2011, US Airways filed suit against us in federal court in the Southern District of New York, alleging violations of the Sherman Act Section 1 (anticompetitive agreements) and Section 2 (monopolization). The complaint was filed fewer than two months after we entered into a new distribution agreement with US Airways. In September 2011, the court dismissed all claims relating to Section 2. The claims that were not dismissed are claims brought under Section 1 of the Sherman Act, relating to our contracts with US Airways, which US Airways claims contain anticompetitive provisions, and an alleged conspiracy with the other GDSs, allegedly to maintain the industry structure and not to compete for content. We strongly deny all of the allegations made by US Airways.

Sabre filed summary judgment motions in April 2014. In January 2015, the court issued an order granting Sabre's summary judgment motions in part, eliminating a majority of US Airways' alleged damages and rejecting its request for injunctive relief by which US Airways sought to bar Sabre from enforcing certain provisions in our contracts. In September 2015, the court also dismissed US Airways' claim for declaratory relief. In February 2017, US Airways sought reconsideration of the court's opinion dismissing the claim for declaratory relief, which the court denied in March 2017.

The trial on the remaining claims commenced in October 2016. In December 2016, the jury issued a verdict in favor of US Airways with respect to its claim under Section 1 of the Sherman Act regarding Sabre's contract with US Airways and awarded it \$5 million in single damages. The jury rejected US Airways' claim alleging a conspiracy with the other GDSs. We continue to believe that our business practices and contract terms are lawful. In January 2017, we filed a motion seeking judgment as a matter of law in favor of Sabre on the one claim on which the jury found for US Airways, which the court denied in March 2017.

Based on the jury's verdict, in March 2017 the court entered final judgment in favor of US Airways in the amount of \$15 million, which is three times the jury's award of \$5 million as required by the Sherman Act.

In April 2017, we filed an appeal with the United States Court of Appeals for the Second Circuit seeking a reversal of the judgment. US Airways also filed a counter-appeal challenging earlier court orders, including the above-referenced orders dismissing and/or issuing summary judgment as to portions of its claims and damages. In connection with this appeal, we posted an appellate bond equal to the aggregate amount of the \$15 million judgment entered plus interest, which stayed the judgment pending the appeal.

As a result of the jury's verdict, US Airways is also entitled to receive reasonable attorneys' fees and costs under the Sherman Act. As such, it filed a motion seeking approximately \$125 million in attorneys' fees and costs, the amount of which we strongly dispute. In January 2018, the court denied US Airways' motion seeking attorneys' fees and costs, based on the fact that the appeal of the underlying judgment remains pending, as discussed above. The court's denial of the motion was without prejudice, and US Airways may refile the motion if it prevails on the appeal.

We have accrued a loss of \$32 million, which represents the court's final judgment of \$15 million, plus our estimate of \$17 million for US Airways' reasonable attorneys' fees, expenses and costs. We are unable to estimate the exact amount of the loss associated with the verdict, but we estimate that there is a range of outcomes between \$32 million and \$65 million, inclusive of the trebled damage award of approximately \$15 million. No amount within the range is considered a better estimate than any other amount within the range and therefore, the minimum within the range was recorded in selling, general and administrative expense in the fourth quarter of 2016. As noted above, the amount of

attorneys' fees and costs to be awarded is subject to conclusion of the appellate process and, if US Airways ultimately prevails on the appeal, final decision by the trial court, which may itself be appealed. The ultimate resolution of this matter may be greater or less than the amount recorded and, if greater, could adversely affect our results of operations. We have and will incur significant fees, costs and expenses for as long as the lawsuit, including any appeal, is ongoing. In addition, litigation by its nature is highly uncertain and fraught with risk, and it is therefore difficult to predict the outcome of any particular matter, including any appeal or changes to our business that may be required as a result of the litigation. Depending on the outcome of the litigation, any of these consequences could have a material adverse effect on our business, financial condition and results of operations.

Putative Class Action Lawsuit on Antitrust Claims

In July 2015, a putative class action lawsuit was filed against us and two other GDSs, in the United States District Court for the Southern District of New York. The plaintiffs, who are asserting claims on behalf of a putative class of consumers in various states, are generally alleging that the GDSs conspired to negotiate for full content from the airlines, resulting in higher ticket prices for consumers, in violation of various federal and state laws. The plaintiffs sought an unspecified amount of damages in connection with their state law claims, and they requested injunctive relief in connection with their federal claim. In July 2016, the court granted, in part, our motion to dismiss the lawsuit, finding that plaintiffs' state law claims are preempted by federal law, thereby precluding their claims for damages. The court declined to dismiss plaintiffs' claim seeking an injunction under federal antitrust law. The plaintiffs may appeal the court's dismissal of their state law claims upon a final judgment. In August 2018, the plaintiffs sought leave from the court to withdraw their motion for class certification. In October 2018, the court denied the plaintiffs' motion for class certification, with prejudice. We believe that the losses associated with this case are neither probable nor estimable and therefore have not accrued any losses as of September 30, 2018. We may incur significant fees, costs and expenses for as long as this litigation is ongoing. We intend to vigorously defend against the remaining claims.

Department of Justice Investigation

On May 19, 2011, we received a civil investigative demand ("CID") from the U.S. Department of Justice ("DOJ") investigating alleged anticompetitive acts related to the airline distribution component of our business. We are fully cooperating with the DOJ investigation and are unable to make any prediction regarding its outcome. The DOJ is also investigating other companies that own GDSs, and has sent CIDs to other companies in the travel industry. Based on its findings in the investigation, the DOJ may (i) close the file, (ii) seek a consent decree to remedy issues it believes violate the antitrust laws, or (iii) file suit against us for violating the antitrust laws, seeking injunctive relief. If injunctive relief were granted, depending on its scope, it could affect the manner in which our airline distribution business is operated and potentially force changes to the existing airline distribution business model. Any of these consequences would have a material adverse effect on our business, financial condition and results of operations. We have not received any communications from the DOJ regarding this matter for several years; however, we have not been notified that this matter is closed.

Indian Income Tax Litigation

We are currently a defendant in income tax litigation brought by the Indian Director of Income Tax ("DIT") in the Supreme Court of India. The dispute arose in 1999 when the DIT asserted that we have a permanent establishment within the meaning of the Income Tax Treaty between the United States and the Republic of India and accordingly issued tax assessments for assessment years ending March 1998 and March 1999, and later issued further tax assessments for assessment years ending March 2000 through March 2006. The DIT has continued to issue further tax assessments on a similar basis for subsequent years; however, the tax assessments for assessment years ending March 2007 and later are no longer material. We appealed the tax assessments for assessment years ending March 1998 through March 2006 and the Indian Commissioner of Income Tax Appeals returned a mixed verdict. We filed further appeals with the Income Tax Appellate Tribunal ("ITAT"). The ITAT ruled in our favor on June 19, 2009 and July 10, 2009, stating that no income would be chargeable to tax for assessment years ending March 1998 and March 1999, and from March 2000 through March 2006. The DIT appealed those decisions to the Delhi High Court, which found in our favor on July 19, 2010. The DIT has appealed the decision to the Supreme Court of India. Our case has been listed for hearing with the Supreme Court, and it has not yet been presented. We have appealed the tax assessments for the assessment years ended March 2013 and March 2015 with the ITAT and no trial date has been set for these subsequent years.

In addition, Sabre Asia Pacific Pte Ltd ("SAPPL") is currently a defendant in similar income tax litigation brought by the DIT. The dispute arose when the DIT asserted that SAPPL has a permanent establishment within the meaning of the Income Tax Treaty between Singapore and India and accordingly issued tax assessments for assessment years ending March 2000 through March 2005. SAPPL appealed the tax assessments, and the Indian Commissioner of Income Tax (Appeals) returned a mixed verdict. SAPPL filed further appeals with the ITAT. The ITAT ruled in SAPPL's favor, finding that no income would be chargeable to tax for assessment years ending March 2000 through March 2005. The DIT appealed those decisions to the Delhi High Court. No hearing date has been set. The DIT also

assessed taxes on a similar basis for assessment years ending March 2006 through March 2014 and appeals for assessment years ending March 2006 through 2014 are pending before the ITAT.

If the DIT were to fully prevail on every claim against us, including SAPPL, we could be subject to taxes, interest and penalties of approximately \$42 million as of September 30, 2018. We intend to continue to aggressively defend against each of the foregoing claims. Although we do not believe that the outcome of the proceedings will result in a material impact on our business or financial condition, litigation is by its nature uncertain. We do not believe this outcome is more likely than not and therefore have not made any provisions or recorded any liability for the potential resolution of any of these claims.

Indian Service Tax Litigation

SAPPL's Indian subsidiary is also subject to litigation by the India Director General (Service Tax) ("DGST"), which has assessed the subsidiary for multiple years related to its alleged failure to pay service tax on marketing fees and reimbursements of expenses. Indian courts have returned verdicts favorable to the Indian subsidiary. The DGST has appealed the verdict to the Indian Supreme Court. We do not believe that an adverse outcome is probable and therefore have not made any provisions or recorded any liability for the potential resolution of any of these claims.

Other Tax Matters

We pay and collect Value Added Tax (“VAT”) in most countries in which we operate related to the procurement of goods and services or the sale of services within the normal course of our business. We establish VAT receivables for the collection of refunds, which are subject to audit and collection risks in various countries. As of September 30, 2018, we have approximately \$20 million in VAT receivables resulting from claims with the Greek government beginning in 2014, which we have paid and we believe we are entitled to recover as a refund. The Greek tax authorities are currently reviewing our refund claims for 2014 and 2015 totaling \$8 million. Their preliminary audit report issued in October 2018 rejected the recoverability of these refund claims and instead claimed additional tax, penalties and interest due of \$5 million. If our claims are rejected by the tax authorities in their final audit report, we intend to aggressively defend our positions. In the event of an adverse ruling, claims for years subsequent to 2015 may not be collectible and any prior refunds received may potentially be reversed to the extent the applicable statute of limitations has not expired. We do not believe that an adverse outcome is probable with respect to Greek tax authorities’ claims for the amounts recently assessed and therefore have not accrued any losses for the potential resolution of any of these claims; however we may incur expenses in future periods including litigation costs and pre-payment of a portion of the tax amount in order to defend our position.

We operate in a number of jurisdictions in which the taxing authorities may challenge our tax positions. We routinely receive inquires, and may receive tax assessments in these additional foreign jurisdictions and we recognize liabilities when we believe it’s probable that amounts will be owed to the taxing authorities and such amounts are estimable. We continue to defend against any and all such claims as presented and may be required to prepay assessed amounts. As of September 30, 2018, we have accrued \$5 million for probable exposure related to such contingencies. If our positions are ultimately rejected it could have a material impact to our results of operations.

Litigation Relating to Routine Proceedings

We are also engaged from time to time in other routine legal and tax proceedings incidental to our business. We do not believe that any of these routine proceedings will have a material impact on the business or our financial condition.

Other

Air Berlin

In November 2017, in connection with Air Berlin’s insolvency proceedings, we requested that Air Berlin make an election under the German Insolvency Act on whether to perform or terminate its contract with us. In January 2018, Air Berlin notified us by letter that it was exercising its right under the German Insolvency Act to terminate its contract with us. In addition, Air Berlin’s letter alleged various breaches by us of the contract and asserted that it had suffered a significant amount of damages associated with its claims. Air Berlin has not commenced any formal action with respect to its claims. We believe that losses associated with these claims are neither probable nor estimable and therefore have not accrued any losses as of September 30, 2018. We may incur significant fees, costs and expenses for as long as this matter is ongoing. We intend to vigorously defend against these claims.

SynXis Central Reservation System

As previously disclosed, we became aware of an incident involving unauthorized access to payment information contained in a subset of hotel reservations processed through the Sabre Hospitality Solutions SynXis Central Reservation System (the "HS Central Reservation System"). Our investigation was supported by third party experts, including a leading cybersecurity firm. Our investigation determined that an unauthorized party: obtained access to account credentials that permitted access to a subset of hotel reservations processed through the HS Central Reservation System; used the account credentials to view a credit card summary page on the HS Central Reservation System and access payment card information (although we use encryption, this credential had the right to see unencrypted card data); and first obtained access to payment card information and some other reservation information on August 10, 2016. The last access to payment card information was on March 9, 2017. The unauthorized party was able to access information for certain hotel reservations, including cardholder name; payment card number; card expiration date; and, for a subset of reservations, card security code. The unauthorized party was also able, in some cases, to access certain information such as guest name(s), email, phone number, address, and other information if provided to the HS Central Reservation System. Information such as Social Security, passport, or driver's license number was not accessed. The investigation did not uncover forensic evidence that the unauthorized party removed any information from the system, but it is a possibility. We took successful measures to ensure this unauthorized access to the HS Central Reservation System was stopped and is no longer possible. There is no indication that any of our systems beyond the HS Central Reservation System, such as Sabre's Airline Solutions and Travel Network platforms, were affected or accessed by the unauthorized party. We notified law enforcement and the payment card brands, and engaged a payment card industry data ("PCI") forensic investigator at the payment card brands' request to investigate this incident. We have notified customers and other companies that use or interact with, directly or indirectly, the HS Central Reservation System about the incident. We are also cooperating with various governmental authorities that are investigating this incident. Separately, in November 2017, Sabre Hospitality Solutions observed a pattern of activity that, after further investigation, led it to believe that an unauthorized party improperly obtained access to certain hotel user credentials for purposes of accessing the HS Central Reservation System. We deactivated the compromised accounts and notified law enforcement of this activity. We also notified the payment card brands, and at their request, we have engaged a PCI forensic investigator to investigate this incident. We have not found any evidence of a breach of the network security of the HS Central Reservation System, and we believe that the number of affected reservations represents only a fraction of 1% of the bookings in the HS Central Reservation System. Although the costs related to these incidents, including any associated penalties assessed by any governmental authority or payment card brand or indemnification obligations to our customers, as well as any other impacts or remediation related to this incident, may be material, it is not possible at this time to determine whether we will incur, or to reasonably estimate the amount of, any liabilities in connection with them. We maintain insurance that covers certain aspects of cyber risks, and we continue to work with our insurance carriers in these matters.

11. Segment Information

Our reportable segments are based upon our internal organizational structure; the manner in which our operations are managed; the criteria used by our Chief Executive Officer, who is our Chief Operating Decision Maker ("CODM"), to evaluate segment performance; the availability of separate financial information; and overall materiality considerations. Effective the first quarter of 2018, our business has three reportable segments: (i) Travel Network, (ii) Airline Solutions and (iii) Hospitality Solutions. Each segment now reflects a portion of our shared corporate costs that historically were not allocated to a business unit, based on relative consumption of shared technology infrastructure costs and defined revenue metrics. These changes have no impact on our consolidated results of operations, but result in a decrease of segment profitability only.

Our CODM utilizes Adjusted Gross Profit, Adjusted Operating Income and Adjusted EBITDA as the measures of profitability to evaluate performance of our segments and allocate resources. Corporate includes a technology organization that provides development and support activities to our segments. The majority of costs associated with our technology organization are allocated to the segments primarily based on the segments' usage of resources. Benefit expenses, facility costs and depreciation expense on the corporate headquarters building are allocated to the segments based on headcount. Unallocated corporate costs include certain expenses such as accounting, finance, human

resources, legal, corporate systems, impairment and related charges, stock-based compensation, restructuring charges, legal reserves and other items not identifiable with one of our segments.

We account for significant intersegment transactions as if the transactions were with third parties, that is, at estimated current market prices. The majority of the intersegment revenues and cost of revenues are fees charged by Travel Network to Airline Solutions for airline trips booked through our GDS.

Our CODM does not review total assets by segment as operating evaluations and resource allocation decisions are not made on the basis of total assets by segment.

The performance of our segments is evaluated primarily on Adjusted Gross Profit, Adjusted Operating Income and Adjusted EBITDA which are not recognized terms under GAAP. Our uses of Adjusted Gross Profit, Adjusted Operating Income and Adjusted EBITDA have limitations as analytical tools, and should not be considered in isolation or as a substitute for analysis of our results as reported under GAAP.

We define Adjusted Gross Profit as operating income adjusted for selling, general and administrative expenses, impairment and related charges, the cost of revenue portion of depreciation and amortization, amortization of upfront incentive consideration, restructuring and other costs and stock-based compensation included in cost of revenue.

Edgar Filing: Sabre Corp - Form 10-Q

We define Adjusted Operating Income as operating income adjusted for joint venture equity income, impairment and related charges, acquisition-related amortization, restructuring and other costs, litigation costs (reimbursements), net, and stock-based compensation.

We define Adjusted EBITDA as income from continuing operations adjusted for depreciation and amortization of property and equipment, amortization of capitalized implementation costs, acquisition-related amortization, amortization of upfront incentive consideration, impairment and related charges, interest expense, net, loss on extinguishment of debt, other, net, restructuring and other costs, litigation costs (reimbursements), net, stock-based compensation and provision for income taxes.

Segment information for the three and nine months ended September 30, 2018 and 2017 is as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2018	2017	September 30, 2018	2017
Revenue				
Travel Network	\$700,196	\$632,349	\$2,141,017	\$1,931,441
Airline Solutions	209,388	207,121	620,813	610,608
Hospitality Solutions	69,911	67,802	206,353	194,071
Eliminations	(9,212)	(6,666)	(25,155)	(19,498)
Total revenue	\$970,283	\$900,606	\$2,943,028	\$2,716,622
Adjusted Gross Profit ^(a)				
Travel Network	\$268,604	\$255,429	\$842,359	\$822,889
Airline Solutions	90,428	98,313	264,450	265,009
Hospitality Solutions	23,069	25,455	61,965	66,052
Corporate	(4,315)	(7,965)	(12,732)	(13,363)
Total	\$377,786	\$371,232	\$1,156,042	\$1,140,587
Adjusted Operating Income ^(b)				
Travel Network	\$182,533	\$172,098	590,380	584,420
Airline Solutions	28,505	39,574	82,030	94,533
Hospitality Solutions	5,826	5,150	9,927	7,021
Corporate	(42,891)	(48,717)	(138,782)	(134,431)
Total	\$173,973	\$168,105	543,555	551,543
Adjusted EBITDA ^(c)				
Travel Network	\$229,983	\$216,487	\$735,669	\$713,977
Airline Solutions	74,094	80,361	217,629	210,329
Hospitality Solutions	16,116	13,242	38,830	30,087
Total segments	320,193	310,090	992,128	954,393
Corporate	(41,688)	(47,164)	(135,283)	(132,489)
Total	\$278,505	\$262,926	\$856,845	\$821,904
Depreciation and amortization				
Travel Network	\$29,243	\$26,384	\$87,965	\$79,259
Airline Solutions	45,589	40,787	135,599	115,796
Hospitality Solutions	10,290	8,092	28,903	23,066
Total segments	85,122	75,263	252,467	218,121
Corporate	17,610	21,779	55,084	77,608
Total	\$102,732	\$97,042	\$307,551	\$295,729
Capital Expenditures				
Travel Network	\$16,963	\$19,895	\$45,002	\$69,151
Airline Solutions	25,315	26,275	72,485	92,193
Hospitality Solutions	9,291	10,235	27,629	31,261
Total segments	51,569	56,405	145,116	192,605

Edgar Filing: Sabre Corp - Form 10-Q

Corporate	22,209	18,996	60,548	50,206
Total	\$73,778	\$75,401	\$205,664	\$242,811

Edgar Filing: Sabre Corp - Form 10-Q

(a) The following table sets forth the reconciliation of Adjusted Gross Profit to operating income in our statement of operations (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Adjusted Gross Profit	\$377,786	\$371,232	\$1,156,042	\$1,140,587
Less adjustments:				
Selling, general and administrative	130,152	91,840	384,047	383,137
Impairment and related charges ⁽⁶⁾	—	—	—	92,022
Cost of revenue adjustments:				
Depreciation and amortization ⁽¹⁾	85,552	79,976	254,490	229,688
Amortization of upfront incentive consideration ⁽²⁾	18,207	18,005	57,324	50,298
Restructuring and other costs ⁽⁴⁾	—	—	—	12,976
Stock-based compensation	7,112	4,615	19,184	13,626
Operating income	\$136,763	\$176,796	\$440,997	\$358,840

(b) The following table sets forth the reconciliation of Adjusted Operating Income to operating income in our statement of operations (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Adjusted Operating Income	\$173,973	\$168,105	\$543,555	\$551,543
Less adjustments:				
Joint venture equity income	333	357	2,455	1,768
Impairment and related charges ⁽⁶⁾	—	—	—	92,022
Acquisition-related amortization ^(1c)	16,407	20,226	51,585	75,666
Restructuring and other costs ⁽⁴⁾	—	—	—	25,304
Litigation costs (reimbursements), net ⁽⁵⁾	5,225	(40,929)	7,073	(36,470)
Stock-based compensation	15,245	11,655	41,445	34,413
Operating income	\$136,763	\$176,796	\$440,997	\$358,840

(c) The following table sets forth the reconciliation of Adjusted EBITDA to income from continuing operations in our statement of operations (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Adjusted EBITDA	\$278,505	\$262,926	\$856,845	\$821,904
Less adjustments:				
Depreciation and amortization of property and equipment ^(1a)	76,226	66,332	225,649	191,442
Amortization of capitalized implementation costs ^(1b)	10,099	10,484	30,317	28,621
Acquisition-related amortization ^(1c)	16,407	20,226	51,585	75,666
Amortization of upfront incentive consideration ⁽²⁾	18,207	18,005	57,324	50,298
Impairment and related charges ⁽⁶⁾	—	—	—	92,022
Interest expense, net	39,291	38,919	116,809	116,577
Loss on extinguishment of debt	—	1,012	633	1,012
Other, net ⁽³⁾	1,905	3,802	10,746	19,788
Restructuring and other costs ⁽⁴⁾	—	—	—	25,304
Litigation costs (reimbursements), net ⁽⁵⁾	5,225	(40,929)	7,073	(36,470)
Stock-based compensation	15,245	11,655	41,445	34,413
Provision for income taxes	25,021	40,595	61,371	56,836

Edgar Filing: Sabre Corp - Form 10-Q

Income from continuing operations	\$70,879	\$92,825	\$253,893	\$166,395
-----------------------------------	----------	----------	-----------	-----------

(1) Depreciation and amortization expenses:

a. Depreciation and amortization of property and equipment includes software developed for internal use.

b. Amortization of capitalized implementation costs represents amortization of upfront costs to implement new customer contracts under our SaaS and hosted revenue model.

c. Acquisition-related amortization represents amortization of intangible assets from the take-private transaction in 2007 as well as intangibles associated with acquisitions since that date and amortization of the excess basis in our underlying equity in joint ventures.

Our Travel Network business at times makes upfront cash payments or other consideration to travel agency subscribers at the inception or modification of a service contract, which are capitalized and amortized over an average expected life of the service contract, generally over three years to five years. This consideration is made with the objective of increasing the number of clients or to ensure or improve customer loyalty. These service contract terms are established such that the supplier and other fees generated over the life of the contract will exceed the cost of the incentive consideration provided up front. These service contracts with travel agency subscribers require that the customer commit to achieving certain economic objectives and generally have terms requiring repayment of the upfront incentive consideration if those objectives are not met.

(2) During the nine months ended September 30, 2017, we recognized a \$15 million loss in other, net related to debt modification costs associated with our debt refinancing. In addition, other, net includes foreign exchange gains and losses related to the remeasurement of foreign currency denominated balances included in our consolidated balance sheets into the relevant functional currency.

(3) Restructuring and other costs represent charges associated with business restructuring and associated changes implemented which resulted in severance benefits related to employee terminations, integration and facility opening or closing costs and other business reorganization costs. During the nine months ended September 30, 2017, we recorded a \$25 million charge associated with a reduction to our workforce. This reduction aligned our operations with business needs and implemented an ongoing costs and organizational structure consistent with our expected growth needs and opportunities.

(4) Litigation costs (reimbursements), net represent charges associated with antitrust and other foreign non-income tax contingency matters. See Note 10. Contingencies. In the third quarter of 2018, we recorded a \$5 million accrual related to penalties and interest for certain non-income tax claims for historical periods regarding permanent establishment in a foreign jurisdiction. In the third quarter of 2017, we recorded a \$43 million reimbursement, net of accrued legal and related expenses, from a settlement with our insurance carriers with respect to the American Airlines litigation.

(5) During the nine months ended September 30, 2017, we recorded an impairment charge of \$92 million associated with net capitalized contract costs related to an Airline Solutions' customer based on our analysis of the recoverability of such amounts. See Note 3. Impairment and Related Charges.

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

Forward-Looking Statements

This Quarterly Report on Form 10-Q, including this "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part I, Item 2, contains information that may constitute forward-looking statements. Forward-looking statements relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts, such as statements regarding our future financial condition or results of operations, our prospects and strategies for future growth, the development and introduction of new products, and the implementation of our strategies. In many cases, you can identify forward-looking statements by terms such as "expects," "outlook," "believes," "may," "intends," "provisional," "plans," "will," "predicts," "potential," "anticipates," "estimates," "should," "plans" or the negative of these terms or other comparable terminology. The forward-looking statements are based on our current expectations and assumptions regarding our business, the economy and other future conditions and are subject to risks, uncertainties and changes in circumstances that may cause events or our actual activities or results to differ significantly from those expressed in any forward-looking statement. Certain of these risks, uncertainties and changes in circumstances are described in the "Risk Factors" section of this Quarterly Report on Form 10-Q and in the "Risk Factors" and "Forward-Looking Statements" sections included in our Annual Report on Form 10-K filed with the SEC on February 16, 2018, as updated by our Current Report on Form 8-K/A filed with the SEC on May 3, 2018. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future events, results, actions, levels of activity, performance or achievements. You are cautioned not to place undue reliance on these forward-looking statements. Unless required by law, we undertake no obligation to publicly update or revise any

forward-looking statements to reflect circumstances or events after the date they are made.

The following discussion and analysis should be read in conjunction with our consolidated financial statements and related notes contained elsewhere in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K filed with the SEC on February 16, 2018, as updated by our Current Report on Form 8-K/A filed with the SEC on May 3, 2018.

Overview

We connect people and places with technology that reimagines the business of travel. Effective the first quarter of 2018, we operate through three business segments: (i) Travel Network, our global business-to-business travel marketplace for travel suppliers and travel buyers, (ii) Airline Solutions, a broad portfolio of software technology products and solutions primarily for airlines, and (iii) Hospitality Solutions, an extensive suite of leading software solutions for hoteliers. Collectively, these offerings enable travel suppliers to better serve their customers across the entire travel lifecycle, from route planning to post-trip business intelligence and analytics.

A significant portion of our revenue is generated through transaction-based fees that we charge to our customers. For Travel Network, this fee is in the form of a transaction fee for bookings on our GDS; for Airline Solutions and Hospitality Solutions, this fee is a recurring usage-based fee for the use of our SaaS and hosted systems, as well as upfront fees and professional service fees. Items that are not allocated to our business segments are identified as corporate and primarily include stock-based compensation expense, litigation costs, corporate headcount-related costs and other items that are not identifiable with either one of our segments.

Recent Developments Affecting our Results of Operations

Effective the first quarter of 2018, we disaggregated the Airline and Hospitality Solutions reportable segment, such that our business has three reportable segments comprised of: (i) Travel Network, (ii) Airline Solutions and (iii) Hospitality Solutions. In conjunction with this change, we have modified the methodology we have historically used to allocate shared corporate technology costs. Each segment now reflects a portion of our shared corporate costs that historically were not allocated to a business unit, based on relative consumption of shared technology infrastructure costs and defined revenue metrics. These changes have no impact on our consolidated results of operations, but result in a decrease of segment profitability only, which aligns with information that our Chief Operating Decision Maker began utilizing in 2018 to evaluate segment performance and allocate resources.

In the first quarter of 2018, we adopted the comprehensive update to revenue recognition guidance, ASC 606, which replaced the previous standard ASC 605, using the modified retrospective approach. Under the updated standard, revenue is recognized when a company transfers the promised goods or services to customers in an amount that reflects the consideration that is expected to be received for those goods and services. See Note 2. Revenue from Contracts with Customers, to our consolidated financial statements for more information on impacts of ASC 606 to our various streams of revenue recognition.

On December 22, 2017, the TCJA was signed into law. The TCJA contains significant changes to the U.S. corporate income tax system, including a reduction of the federal corporate income tax rate from 35% to 21%, a limitation of the tax deduction for interest expense to 30% of adjusted taxable income (as defined in the TCJA), BEAT, FDII and GILTI, the transition tax, elimination of U.S. tax on foreign earnings (subject to certain important exceptions), and modifying or repealing many business deductions and credits. We recorded provisional amounts in the fourth quarter of 2017 for our one-time transition tax liability and a reduction to our TRA liability. In the second quarter of 2018, we remeasured certain deferred tax assets based on a change in the estimate of the tax rate at which they are expected to be reversed. This change resulted from our decision during the quarter to elect to utilize our NOLs to offset the impacts of the transition tax. As a result of this remeasurement, we recorded a decrease in our deferred tax liability of \$19 million, which decreased our income tax expense from continuing operations. We expect to finalize the accounting for the effects of the TCJA during the fourth quarter of 2018, in accordance with SAB 118, and these adjustments will be reported as a component of income tax expense from continuing operations. See Note 7. Income Taxes, to our consolidated financial statements in our Annual Report on Form 10-K filed with the SEC on February 16, 2018, as updated by our Current Report on Form 8-K/A filed with the SEC on May 3, 2018, for more information.

The rate of growth of Airline Solutions revenue on a year to date basis is impacted by the previously announced termination of an agreement with Southwest Airlines at the end of the second quarter in 2017 related to services and processing for their legacy reservations system.

Factors Affecting our Results

A discussion of trends that we believe are the most significant opportunities and challenges currently impacting our business and industry is included in the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations—Factors Affecting our Results" in our Annual Report on Form 10-K filed with the SEC on February 16, 2018, as updated by our Current Report on Form 8-K/A filed with the SEC on May 3, 2018. The discussion also includes management's assessment of the effects these trends have had and are expected to have on our results of continuing operations. The information is not an exhaustive list of all of the factors that could affect our results and should be read in conjunction with the factors referred to in the section entitled "Risk Factors" included in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K filed with the SEC on February 16, 2018, as updated by our Current Report on Form 8-K/A filed with the SEC on May 3, 2018.

Components of Revenues and Expenses

Revenues

Travel Network primarily generates revenues from Direct Billable Bookings processed on our GDS as well as the sale of aggregated bookings data to carriers. Airline Solutions and Hospitality Solutions primarily generate revenue through upfront solution fees and recurring usage-based fees for the use of our hosted software solutions or deployed through our SaaS and through other professional service fees including Digital Experience ("DX"). Certain

professional service fees are discrete sales opportunities that may have a high degree of variability from period to period, and we cannot guarantee that we will have such fees in the future consistent with prior periods. Airline Solutions also generates revenue through software licensing and maintenance fees.

In connection with the adoption of ASC 606 effective January 1, 2018, in the year of adoption and subsequent years, we currently expect a significant reduction in revenues for the Airline Solutions business for existing open contracts as of that date, and before the impact of new sales. See Note 2. Revenue from Contracts with Customers, to our consolidated financial statements, and "Recent Developments Affecting our Results of Operations" above. Revenue may occasionally include amounts from transactions that were partially or fully satisfied in previous periods, but recognized upon the resolution of an uncertainty regarding the amounts involved or changes in estimates.

Cost of Revenue

Cost of revenue incurred by Travel Network, Airline Solutions and Hospitality Solutions consists of expenses related to our technology infrastructure that hosts our GDS and software solutions, salaries and benefits, and allocated overhead such as facilities and other support costs. Cost of revenue for Travel Network also includes incentive consideration expense representing payments or other consideration to travel agencies for reservations made on our GDS which accrue on a monthly basis.

Corporate cost of revenue includes expenses associated with our technology organization such as corporate systems and risk and security. Corporate cost of revenue also includes certain expenses such as impairment and related charges, stock-based compensation, restructuring charges, legal reserves and other items not identifiable with one of our segments.

Depreciation and amortization included in cost of revenue is associated with property and equipment, amortization of contract implementation costs which relates to Airline Solutions and Hospitality Solutions, intangible assets for technology purchased through acquisitions or established with our take-private transaction, and software developed for internal use that supports our revenue, businesses and systems. Cost of revenue also includes amortization of upfront incentive consideration representing upfront payments or other consideration provided to travel agencies for reservations made on our GDS which are capitalized and amortized over the expected life of the contract.

Selling, General and Administrative Expenses

Selling, general and administrative expenses consist of personnel-related expenses, including stock-based compensation, for employees that sell our services to new customers and administratively support the business, information technology and communication costs, professional service fees, certain settlement charges or reimbursements, costs to defend legal disputes, bad debt expense, depreciation and amortization and other overhead costs.

Intersegment Transactions

We account for significant intersegment transactions as if the transactions were with third parties, that is, at estimated current market prices. Airline Solutions and Hospitality Solutions pay fees to Travel Network for airline trips and hotel stays booked through our GDS.

Key Metrics

“Direct Billable Bookings” and “Passengers Boarded” are the primary metrics utilized by Travel Network and Airline Solutions, respectively, to measure operating performance. Travel Network generates fees for each Direct Billable Booking which include bookings made through our GDS (e.g., Air, and Lodging, Ground and Sea (“LGS”)) and through our joint venture partners in cases where we are paid directly by the travel supplier. Passengers Boarded (“PBs”) is the primary metric used by Airline Solutions to recognize SaaS and hosted revenue from recurring usage-based fees. The following table sets forth these key metrics for the periods indicated (in thousands):

	Three Months Ended September 30, 2018			Nine Months Ended September 30, 2017		
	2018	2017	% Change	2018	2017	% Change
Travel Network						
Direct Billable Bookings - Air	123,233	114,259	7.9%	380,748	356,478	6.8%
Direct Billable Bookings - LGS	16,618	15,540	6.9%	50,752	46,934	8.1%
Total Direct Billable Bookings	139,851	129,799	7.7%	431,500	403,412	7.0%
Airline Solutions Passengers Boarded	198,063	186,887	6.0%	568,405	599,097	(5.1)%

Non-GAAP Financial Measures

We have included both financial measures compiled in accordance with GAAP and certain non-GAAP financial measures in this Quarterly Report on Form 10-Q, including Adjusted Gross Profit, Adjusted Operating Income (Loss), Adjusted Net Income from continuing operations (“Adjusted Net Income”), Adjusted EBITDA, Free Cash Flow and ratios based on these financial measures.

We define Adjusted Gross Profit as operating income (loss) adjusted for selling, general and administrative expenses, impairment and related charges, the cost of revenue portion of depreciation and amortization, amortization of upfront

incentive consideration, restructuring and other costs and stock-based compensation included in cost of revenue. We define Adjusted Operating Income (Loss) as operating income (loss) adjusted for joint venture equity income, impairment and related charges, acquisition-related amortization, restructuring and other costs, litigation costs (reimbursements), net, and stock-based compensation.

We define Adjusted Net Income as net income attributable to common stockholders adjusted for (income) loss from discontinued operations, net of tax, net income attributable to noncontrolling interests, acquisition-related amortization, impairment and related charges, loss on extinguishment of debt, other, net, restructuring and other costs, litigation costs (reimbursements), net, stock-based compensation and tax impact of net income adjustments.

We define Adjusted EBITDA as Adjusted Net Income adjusted for depreciation and amortization of property and equipment, amortization of capitalized implementation costs, amortization of upfront incentive consideration, interest expense, net, and the remaining provision for income taxes.

We define Free Cash Flow as cash provided by operating activities less cash used in additions to property and equipment.

We define Adjusted Net Income from continuing operations per share as Adjusted Net Income divided by diluted weighted-average common shares outstanding.

These non-GAAP financial measures are key metrics used by management and our board of directors to monitor our ongoing core operations because historical results have been significantly impacted by events that are unrelated to our core operations as a result of changes to our business and the regulatory environment. We believe that these non-GAAP financial measures are used by investors, analysts and other interested parties as measures of financial performance and to evaluate our ability to service debt obligations, fund capital expenditures and meet working capital requirements. We also believe that Adjusted Gross Profit, Adjusted Operating Income (Loss), Adjusted Net Income and Adjusted EBITDA assist investors in company-to-company and period-to-period comparisons by excluding differences caused by variations in capital structures (affecting interest expense), tax positions and the impact of depreciation and amortization expense. In addition, amounts derived from Adjusted EBITDA are a primary component of certain covenants under our senior secured credit facilities.

Adjusted Gross Profit, Adjusted Operating Income (Loss), Adjusted Net Income, Adjusted EBITDA, Free Cash Flow and ratios based on these financial measures are not recognized terms under GAAP. These non-GAAP financial measures and ratios based on them are unaudited and have important limitations as analytical tools, and should not be viewed in isolation and do not purport to be alternatives to net income as indicators of operating performance or cash flows from operating activities as measures of liquidity. These non-GAAP financial measures and ratios based on them exclude some, but not all, items that affect net income or cash flows from operating activities and these measures may vary among companies. Our use of these measures has limitations as an analytical tool, and you should not consider them in isolation or as substitutes for analysis of our results as reported under GAAP. Some of these limitations are:

- these non-GAAP financial measures exclude certain recurring, non-cash charges such as stock-based compensation expense and amortization of acquired intangible assets;

- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and Adjusted Gross Profit and Adjusted EBITDA do not reflect cash requirements for such replacements;

- Adjusted Operating Income (Loss), Adjusted Net Income and Adjusted EBITDA do not reflect changes in, or cash requirements for, our working capital needs;

- Adjusted EBITDA does not reflect the interest expense or the cash requirements necessary to service interest or principal payments on our indebtedness;

- Adjusted EBITDA does not reflect tax payments that may represent a reduction in cash available to us;

- Free Cash Flow removes the impact of accrual-basis accounting on asset accounts and non-debt liability accounts, and does not reflect the cash requirements necessary to service the principal payments on our indebtedness; and other companies, including companies in our industry, may calculate Adjusted Gross Profit, Adjusted Operating Income (Loss), Adjusted Net Income, Adjusted EBITDA or Free Cash Flow differently, which reduces their usefulness as comparative measures.

The following table sets forth the reconciliation of net income attributable to common stockholders to Adjusted Net Income, Adjusted EBITDA and Adjusted Operating Income (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Net income attributable to common stockholders	\$73,005	\$90,989	\$253,131	\$160,441
(Income) loss from discontinued operations, net of tax	(3,664	) 529	(3,217	) 2,228
Net income attributable to noncontrolling interests ⁽¹⁾	1,538	1,307	3,979	3,726
Income from continuing operations	70,879	92,825	253,893	166,395
Adjustments:				
Acquisition-related amortization ^(2a)	16,407	20,226	51,585	75,666
Impairment and related charges ⁽⁶⁾	—	—	—	92,022
Loss on extinguishment of debt	—	1,012	633	1,012
Other, net ⁽⁴⁾	1,905	3,802	10,746	19,788
Restructuring and other costs ⁽⁷⁾	—	—	—	25,304
Litigation costs (reimbursements), net ⁽⁵⁾	5,225	(40,929	) 7,073	(36,470
Stock-based compensation	15,245	11,655	41,445	34,413
Tax impact of net income adjustments	(689	) (1,670	) (32,850	) (75,973
Adjusted Net Income from continuing operations	\$108,972	\$86,921	\$332,525	\$302,157
Adjusted Net Income from continuing operations per share	\$0.39	\$0.31	\$1.20	\$1.08
Diluted weighted-average common shares outstanding	277,528	278,369	276,819	279,648
Adjusted Net Income from continuing operations	\$108,972	\$86,921	\$332,525	\$302,157
Adjustments:				
Depreciation and amortization of property and equipment ^(2b)	76,226	66,332	225,649	191,442
Amortization of capitalized implementation costs ^(2c)	10,099	10,484	30,317	28,621
Amortization of upfront incentive consideration ⁽³⁾	18,207	18,005	57,324	50,298
Interest expense, net	39,291	38,919	116,809	116,577
Remaining provision for income taxes	25,710	42,265	94,221	132,809
Adjusted EBITDA	\$278,505	\$262,926	\$856,845	\$821,904
Less:				
Depreciation and amortization ⁽²⁾	102,732	97,042	307,551	295,729
Amortization of upfront incentive consideration ⁽³⁾	18,207	18,005	57,324	50,298
Acquisition-related amortization ^(2a)	(16,407	) (20,226	) (51,585	) (75,666
Adjusted Operating Income	\$173,973	\$168,105	\$543,555	\$551,543

Edgar Filing: Sabre Corp - Form 10-Q

The following tables set forth the reconciliation of operating income (loss) in our statement of operations to Adjusted Gross Profit, Adjusted EBITDA and Adjusted Operating Income (Loss) by business segment (in thousands):

	Three Months Ended September 30, 2018				
	Travel Network	Airline Solutions	Hospitality Solutions	Corporate	Total
Operating income (loss)	\$182,200	28,505	\$ 5,826	\$(79,768)	\$136,763
Add back:					
Selling, general and administrative	41,633	18,710	7,844	61,965	130,152
Cost of revenue adjustments:					
Depreciation and amortization ⁽²⁾	26,564	43,213	9,399	6,376	85,552
Amortization of upfront incentive consideration ⁽³⁾	18,207	—	—	—	18,207
Stock-based compensation	—	—	—	7,112	7,112
Adjusted Gross Profit	268,604	90,428	23,069	(4,315)	377,786
Selling, general and administrative	(41,633)	(18,710)	(7,844)	(61,965)	(130,152)
Joint venture equity income	333	—	—	—	333
Selling, general and administrative adjustments:					
Depreciation and amortization ⁽²⁾	2,679	2,376	891	11,234	17,180
Litigation costs ⁽⁵⁾	—	—	—	5,225	5,225
Stock-based compensation	—	—	—	8,133	8,133
Adjusted EBITDA	229,983	74,094	16,116	(41,688)	278,505
Less:					
Depreciation and amortization ⁽²⁾	29,243	45,589	10,290	17,610	102,732
Amortization of upfront incentive consideration ⁽³⁾	18,207	—	—	—	18,207
Acquisition-related amortization ^(2a)	—	—	—	(16,407)	(16,407)
Adjusted Operating Income (Loss)	\$182,533	\$ 28,505	\$ 5,826	\$(42,891)	\$173,973
	Three Months Ended September 30, 2017				
	Travel Network	Airline Solutions	Hospitality Solutions	Corporate	Total
Operating income (loss)	\$171,741	39,574	\$ 5,150	\$(39,669)	\$176,796
Add back:					
Selling, general and administrative	42,460	20,151	12,596	16,633	91,840
Cost of revenue adjustments:					
Depreciation and amortization ⁽²⁾	23,223	38,588	7,709	10,456	79,976
Amortization of upfront incentive consideration ⁽³⁾	18,005	—	—	—	18,005
Stock-based compensation	—	—	—	4,615	4,615
Adjusted Gross Profit	255,429	98,313	25,455	(7,965)	371,232
Selling, general and administrative	(42,460)	(20,151)	(12,596)	(16,633)	(91,840)
Joint venture equity income	357	—	—	—	357
Selling, general and administrative adjustments:					
Depreciation and amortization ⁽²⁾	3,161	2,199	383	11,323	17,066
Litigation reimbursements ⁽⁵⁾	—	—	—	(40,929)	(40,929)
Stock-based compensation	—	—	—	7,040	7,040
Adjusted EBITDA	216,487	80,361	13,242	(47,164)	262,926
Less:					
Depreciation and amortization ⁽²⁾	26,384	40,787	8,092	21,779	97,042
Amortization of upfront incentive consideration ⁽³⁾	18,005	—	—	—	18,005
Acquisition-related amortization ^(2a)	—	—	—	(20,226)	(20,226)
Adjusted Operating Income (Loss)	\$172,098	\$ 39,574	\$ 5,150	\$(48,717)	\$168,105

Edgar Filing: Sabre Corp - Form 10-Q

	Nine Months Ended September 30, 2018				
	Travel Network	Airline Solutions	Hospitality Solutions	Corporate	Total
Operating income (loss)	\$587,925	82,030	\$ 9,927	\$(238,885)	\$440,997
Add back:					
Selling, general and administrative	117,604	55,494	25,303	185,646	384,047
Cost of revenue adjustments:					
Depreciation and amortization ⁽²⁾	79,506	126,926	26,735	21,323	254,490
Amortization of upfront incentive consideration ⁽³⁾	57,324	—	—	—	57,324
Stock-based compensation	—	—	—	19,184	19,184
Adjusted Gross Profit	842,359	264,450	61,965	(12,732)	1,156,042
Selling, general and administrative	(117,604)	(55,494)	(25,303)	(185,646)	(384,047)
Joint venture equity income	2,455	—	—	—	2,455
Selling, general and administrative adjustments:					
Depreciation and amortization ⁽²⁾	8,459	8,673	2,168	33,761	53,061
Litigation costs ⁽⁵⁾	—	—	—	7,073	7,073
Stock-based compensation	—	—	—	22,261	22,261
Adjusted EBITDA	735,669	217,629	38,830	(135,283)	856,845
Less:					
Depreciation and amortization ⁽²⁾	87,965	135,599	28,903	55,084	307,551
Amortization of upfront incentive consideration ⁽³⁾	57,324	—	—	—	57,324
Acquisition-related amortization ^(2a)	—	—	—	(51,585)	(51,585)
Adjusted Operating Income (Loss)	\$590,380	\$ 82,030	\$ 9,927	\$(138,782)	\$543,555
	Nine Months Ended September 30, 2017				
	Travel Network	Airline Solutions	Hospitality Solutions	Corporate	Total
Operating income (loss)	\$582,652	94,533	\$ 7,021	\$(325,366)	\$358,840
Add back:					
Selling, general and administrative	120,297	61,266	37,003	164,571	383,137
Impairment and related charges ⁽⁶⁾	—	—	—	92,022	92,022
Cost of revenue adjustments:					
Depreciation and amortization ⁽²⁾	69,642	109,210	22,028	28,808	229,688
Amortization of upfront incentive consideration ⁽³⁾	50,298	—	—	—	50,298
Restructuring and other costs ⁽⁷⁾	—	—	—	12,976	12,976
Stock-based compensation	—	—	—	13,626	13,626
Adjusted Gross Profit	822,889	265,009	66,052	(13,363)	1,140,587
Selling, general and administrative	(120,297)	(61,266)	(37,003)	(164,571)	(383,137)
Joint venture equity income	1,768	—	—	—	1,768
Selling, general and administrative adjustments:					
Depreciation and amortization ⁽²⁾	9,617	6,586	1,038	48,800	66,041
Restructuring and other costs ⁽⁷⁾	—	—	—	12,328	12,328
Litigation reimbursements ⁽⁵⁾	—	—	—	(36,470)	(36,470)
Stock-based compensation	—	—	—	20,787	20,787
Adjusted EBITDA	713,977	210,329	30,087	(132,489)	821,904
Less:					
Depreciation and amortization ⁽²⁾	79,259	115,796	23,066	77,608	295,729
Amortization of upfront incentive consideration ⁽³⁾	50,298	—	—	—	50,298
Acquisition-related amortization ^(2a)	—	—	—	(75,666)	(75,666)
Adjusted Operating Income (Loss)	\$584,420	\$ 94,533	\$ 7,021	\$(134,431)	\$551,543

The following tables present information from our statements of cash flows and set forth the reconciliation of Free Cash Flow to cash provided by operating activities, the most directly comparable GAAP measure (in thousands):

	Nine Months Ended September 30,	
	2018	2017
Cash provided by operating activities	\$536,193	\$455,906
Cash used in investing activities	(205,664)	(242,952)
Cash used in financing activities	(252,409)	(300,936)

	Nine Months Ended September 30,	
	2018	2017
Cash provided by operating activities	\$536,193	\$455,906
Additions to property and equipment	(205,664)	(242,811)
Free Cash Flow	\$330,529	\$213,095

Net income attributable to noncontrolling interests represents an adjustment to include earnings allocated to noncontrolling interests held in (i) Sabre Travel Network Middle East of 40%, (ii) Sabre Seyahat Dagitim Sistemleri A.S. of 40%, (iii) Abacus International Lanka Pte Ltd of 40%, and (iv) Sabre Bulgaria of 40% beginning in November 2017.

(2) Depreciation and amortization expenses:

a. Acquisition-related amortization represents amortization of intangible assets from the take-private transaction in a. 2007 as well as intangibles associated with acquisitions since that date and amortization of the excess basis in our underlying equity in joint ventures.

b. Depreciation and amortization of property and equipment includes software developed for internal use.

c. Amortization of capitalized implementation costs represents amortization of upfront costs to implement new customer contracts under our SaaS and hosted revenue model.

Our Travel Network business at times provides upfront incentive consideration to travel agency subscribers at the inception or modification of a service contract, which are capitalized and amortized to cost of revenue over an average expected life of the service contract, generally over three to five years. This consideration is made with the objective of increasing the number of clients or to ensure or improve customer loyalty. These service contract terms are established such that the supplier and other fees generated over the life of the contract will exceed the cost of the incentive consideration provided upfront. These service contracts with travel agency subscribers require that the customer commit to achieving certain economic objectives and generally have terms requiring repayment of the upfront incentive consideration if those objectives are not met.

(4) During the nine months ended September 30, 2017, we recognized a \$15 million loss in other, net related to debt modification costs associated with our debt refinancing. In addition, other, net includes foreign exchange gains and losses related to the remeasurement of foreign currency denominated balances included in our consolidated balance sheets into the relevant functional currency.

(5) Litigation costs (reimbursements), net represent charges associated with antitrust and other foreign non-income tax contingency matters. See Note 10. Contingencies, to our consolidated financial statements. In the third quarter of 2018, we recorded a \$5 million accrual related to penalties and interest for certain non-income tax claims for historical periods regarding permanent establishment in a foreign jurisdiction. In the third quarter of 2017, we recorded a \$43 million reimbursement, net of accrued legal and related expenses, from a settlement with our insurance carriers with respect to the American Airlines litigation.

(6) During the nine months ended September 30, 2017, we recorded an impairment charge of \$92 million associated with net capitalized contract costs related to an Airline Solutions' customer based on our analysis of the recoverability of such amounts. See Note 3. Impairment and Related Charges, to our consolidated financial

statements.

Restructuring and other costs represent charges associated with business restructuring and associated changes implemented which resulted in severance benefits related to employee terminations, integration and facility opening or closing costs and other business reorganization costs. During the nine months ended September 30, (7) 2017, we recorded a \$25 million charge associated with an announced action to reduce our workforce. This reduction aligned our operations with business needs and implemented an ongoing costs and organizational structure consistent with our expected growth needs and opportunities.

Results of Operations

The following table sets forth our consolidated statement of operations data for each of the periods presented:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
	(Amounts in thousands)			
Revenue	\$970,283	\$900,606	\$2,943,028	\$2,716,622
Cost of revenue	703,368	631,970	2,117,984	1,882,623
Selling, general and administrative	130,152	91,840	384,047	383,137
Impairment and related charges	—	—	—	92,022
Operating income	136,763	176,796	440,997	358,840
Interest expense, net	(39,291)	(38,919)	(116,809)	(116,577)
Loss on extinguishment of debt	—	(1,012)	(633)	(1,012)
Joint venture equity income	333	357	2,455	1,768
Other expense, net	(1,905)	(3,802)	(10,746)	(19,788)
Income from continuing operations before income taxes	95,900	133,420	315,264	223,231
Provision for income taxes	25,021	40,595	61,371	56,836
Income from continuing operations	\$70,879	\$92,825	\$253,893	\$166,395

Three Months Ended September 30, 2018 and 2017

Revenue

	Three Months Ended		Change	
	September 30,			
	2018	2017		
	(Amounts in thousands)			
Travel Network	\$700,196	\$632,349	\$67,847	11 %
Airline Solutions	209,388	207,121	2,267	1 %
Hospitality Solutions	69,911	67,802	2,109	3 %
Total segment revenue	979,495	907,272	72,223	8 %
Eliminations	(9,212)	(6,666)	(2,546)	(38)%
Total revenue	\$970,283	\$900,606	\$69,677	8 %

Travel Network—Revenue increased \$68 million, or 11%, for the three months ended September 30, 2018 compared to the same period in the prior year, primarily due to an increase in transaction-based revenue of \$66 million to \$655 million. This increase is a result of an 8% increase in Direct Billable Bookings to 140 million in Asia Pacific, North America and Europe, as well as an increase in the average booking fee rate due to a favorable mix including a discrete shift in the distribution pricing structure for specific European carriers during the three months ended September 30, 2018.

Airline Solutions—Revenue increased \$2 million, or 1%, for the three months ended September 30, 2018 compared to the same period in the prior year. The \$2 million increase in revenue primarily resulted from:

SabreSonic Passenger Reservation System revenue remained consistent for the three months ended September 30, 2018 compared to the same period in the prior year. Passengers Boarded increased by 6% to 198 million for the three months ended September 30, 2018 driven by an increase in volumes from consistent carrier growth of 1%, as well as the full implementation of LATAM Airlines Group S.A. Brasil in the second quarter of 2018. These increases were substantially offset by a reduction in project-based SabreSonic services revenue;

a \$5 million increase in AirVision and AirCentre commercial and operations solutions revenue driven by newly implemented SaaS products, as well as upfront license fee revenue from renewals and new implementations

recognized upon delivery to the customer of \$12 million. This increase was partially offset by other impacts related to the adoption of ASC 606 (see "Recent Developments Affecting our Results of Operations" above); and a \$2 million decrease in discrete professional service fees revenue, as a result of reduced sales compared to the prior period.

Hospitality Solutions—Revenue increased \$2 million, or 3%, for the three months ended September 30, 2018 compared to the same period in the prior year, driven primarily from a \$5 million, or 9%, increase in SynXis Software and Services revenue from new and existing customers, offset by a decrease of \$3 million in DX revenue. Total Central Reservation System transactions for the three months ended September 30, 2018 were 27 million.

Cost of Revenue

	Three Months Ended				
	September 30,		Change		
	2018	2017			
	(Amounts in thousands)				
Travel Network	\$431,592	\$376,920	\$54,672	15	%
Airline Solutions	118,961	108,807	10,154	9	%
Hospitality Solutions	46,842	42,348	4,494	11	%
Eliminations	(9,212)	(6,715)	(2,497)	(37)	%
Total segment cost of revenue	588,183	521,360	66,823	13	%
Corporate	11,426	12,629	(1,203)	(10)	%
Depreciation and amortization	85,552	79,976	5,576	7	%
Amortization of upfront incentive consideration	18,207	18,005	202	1	%
Total cost of revenue	\$703,368	\$631,970	\$71,398	11	%

Travel Network—Cost of revenue increased \$55 million, or 15%, for the three months ended September 30, 2018 compared to the same period in the prior year, primarily due to a \$45 million increase in incentive consideration in all regions. Labor and technology infrastructure costs increased \$7 million primarily to support the growth in the business, increased investments in the modernization, stability and security of our technology platforms and a shift to cloud-based solutions.

Airline Solutions—Cost of revenue increased \$10 million, or 9%, for the three months ended September 30, 2018 compared to the same period in the prior year. Technology infrastructure costs increased primarily as a result of increased investments in the modernization, stability and security of our technology platforms and a shift to cloud-based solutions. This increase was partially offset by a decrease in service level agreement penalties, which are now recorded as a reduction to revenue under ASC 606, and labor costs.

Hospitality Solutions—Cost of revenue increased \$4 million, or 11%, for the three months ended September 30, 2018 compared to the same period in the prior year from an increase in labor and transaction related costs to support the growth in the business.

Corporate—Cost of revenue associated with corporate costs decreased \$1 million, or 10%, for the three months ended September 30, 2018 compared to the same period in the prior year. This decrease resulted from a reduction in labor costs partially offset by higher technology infrastructure costs.

Depreciation and amortization—Depreciation and amortization increased \$6 million, or 7%, for the three months ended September 30, 2018 compared to the same period in the prior year. The increase was primarily due to the completion and amortization of software developed for internal use.

Selling, General and Administrative Expenses

	Three Months				
	Ended		Change		
	2018	2017			
	(Amounts in thousands)				

Selling, general and administrative \$130,152 \$91,840 \$38,312 42%

Selling, general and administrative expenses increased \$38 million, or 42%, for the three months ended September 30, 2018 compared to the same period in the prior year. Professional services increased primarily due to a \$43 million reimbursement, net of accrued legal and related expenses, from a settlement in the third quarter of 2017 with our insurance carriers with respect to the American Airlines litigation, and a \$5 million accrual in the third quarter of 2018 related to certain tax claims for historical periods regarding permanent establishment in a foreign jurisdiction. See Note 10. Contingencies, to our consolidated financial statements for additional information. Additionally, costs associated with implementing corporate systems and enhancements to our risk and security programs increased \$8

million. These increases were offset by a decrease of \$13 million in labor costs associated with the benefits of the cost reduction and business alignment program initiated in the prior year.

Provision for Income Taxes

Three Months
 Ended
 September 30,
 2018 2017 Change
 (Amounts in
 thousands)

Provision for income taxes \$25,021 \$40,595 \$(15,574) (38)%

Our effective tax rate for the three months ended September 30, 2018 was 26%, primarily driven by a net increase due to the impacts of TCJA, partially offset by the favorable impact of our geographic mix of taxable income in various jurisdictions. Our effective tax rate for the three months ended September 30, 2017 was 30% as a result of the favorable impact of our geographic mix of taxable income in various jurisdictions.

Nine Months Ended September 30, 2018 and 2017

Revenue

Nine Months Ended
 September 30,
 2018 2017 Change
 (Amounts in thousands)

Travel Network	\$2,141,017	\$1,931,441	\$209,576	11	%
Airline Solutions	620,813	610,608	10,205	2	%
Hospitality Solutions	206,353	194,071	12,282	6	%
Total segment revenue	2,968,183	2,736,120	232,063	8	%
Eliminations	(25,155)	(19,498)	(5,657)	(29)	%
Total revenue	\$2,943,028	\$2,716,622	\$226,406	8	%

Travel Network—Revenue increased \$210 million, or 11%, for the nine months ended September 30, 2018 compared to the same period in the prior year, primarily due to an increase in transaction-based revenue of \$212 million to \$2,012 million. Direct Billable bookings increased by 7% to 432 million, and the average booking fee rate increased due to a favorable mix including a discrete shift in the distribution pricing structure for specific European carriers in the nine months ended September 30, 2018.

Airline Solutions—Revenue increased \$10 million, or 2%, for the nine months ended September 30, 2018 compared to the same period in the prior year. The \$10 million increase in revenue primarily resulted from:

a \$2 million decrease in SabreSonic Passenger Reservation System revenue for the nine months ended September 30, 2018 compared to the same period in the prior year. Passengers Boarded decreased by 5% to 568 million for the nine months ended September 30, 2018, driven by the termination of an agreement with Southwest Airlines related to services and processing for their legacy air reservation system at the end of the second quarter in 2017, which was at a lower than average passengers boarded rate. This decrease was offset by an increase in volumes from consistent carrier growth of 6%, as well as the full implementation of LATAM Airlines Group S.A. Brasil in the second quarter of 2018;

a \$20 million increase in AirVision and AirCentre commercial and operations solutions revenue driven primarily by newly implemented SaaS products and organic growth, as well as upfront license fee revenue from renewals and new implementations recognized upon delivery to the customer of \$25 million. This increase was partially offset by other impacts related to the adoption of ASC 606 (see "Recent Developments Affecting our Results of Operations" above); and

a \$7 million decrease in discrete professional service fees revenue, as a result of reduced sales compared to the prior period.

Hospitality Solutions—Revenue increased \$12 million, or 6%, for the nine months ended September 30, 2018 compared to the same period in the prior year, driven primarily by a \$19 million, or 12%, increase in SynXis Software and Services revenue from new and existing customers, offset by a decrease of \$7 million in DX revenue. Total Central Reservation System transactions for the nine months ended September 30, 2018 were 66 million.

Cost of Revenue

	Nine Months Ended			Change	
	September 30,				
	2018	2017			
	(Amounts in thousands)				
Travel Network	\$1,298,658	\$1,108,552	\$190,106	17	%
Airline Solutions	356,363	345,598	10,765	3	%
Hospitality Solutions	144,388	128,021	16,367	13	%
Eliminations	(25,156)	(19,498)	(5,658)	(29)	%
Total segment cost of revenue	1,774,253	1,562,673	211,580	14	%
Corporate	31,917	39,964	(8,047)	(20)	%
Depreciation and amortization	254,490	229,688	24,802	11	%
Amortization of upfront incentive consideration	57,324	50,298	7,026	14	%
Total cost of revenue	\$2,117,984	\$1,882,623	\$235,361	13	%

Travel Network—Cost of revenue increased \$190 million, or 17%, for the nine months ended September 30, 2018 compared to the same period in the prior year primarily due to a \$154 million increase in incentive consideration in all regions, including a prior year reduction to incentive consideration associated with the renegotiation of an out of market agreement with a travel agency from our acquisition of Abacus of \$16 million. Labor and technology infrastructure costs increased \$36 million primarily to support the growth in the business, increased investments in the modernization, stability and security of our technology platforms, shift to cloud-based solutions and costs incurred in connection with the General Data Protection Regulation ("GDPR").

Airline Solutions—Cost of revenue increased \$11 million, or 3%, for the nine months ended September 30, 2018 compared to the same period in the prior year. Technology infrastructure costs increased as a result of increased investments in the modernization, stability and security of our technology platforms and a shift to cloud-based solutions, which were partially offset by decreased labor costs and service level agreement penalties. Service level agreement penalties are now recorded as a reduction to revenue under ASC 606.

Hospitality Solutions—Cost of revenue increased \$16 million, or 13%, for the nine months ended September 30, 2018 compared to the same period in the prior year primarily as a result of an increase in labor and transaction related costs to support the growth in the business.

Corporate—Cost of revenue associated with corporate costs decreased \$8 million, or 20%, for the nine months ended September 30, 2018 compared to the same period in the prior year. The decrease was primarily due to a \$12 million charge in the second quarter of 2017 associated with a reduction of our workforce partially offset by higher technology infrastructure costs as a result of increased investments in the modernization, stability and security of our technology platforms, shift to cloud-based solutions and costs incurred in connection with the GDPR.

Depreciation and amortization—Depreciation and amortization increased \$25 million, or 11%, for the nine months ended September 30, 2018 compared to the same period in the prior year. The increase was primarily due to the completion and amortization of software developed for internal use.

Amortization of upfront incentive consideration—Amortization of upfront incentive consideration increased \$7 million, or 14%, for the nine months ended September 30, 2018 compared to the same period in the prior year primarily due to an increase in upfront consideration provided to travel agencies.

Selling, General and Administrative Expenses

	Nine Months Ended			Change	
	September 30,				
	2018	2017			
	(Amounts in thousands)				
Selling, general and administrative	\$384,047	\$383,137	\$910	%	

Selling, general and administrative expenses increased by \$1 million for the nine months ended September 30, 2018 compared to the same period in the prior year. Professional services increased primarily due to a \$43 million reimbursement, net of accrued legal and related expenses, from a settlement in the third quarter of 2017 with our insurance carriers with respect to the American Airlines litigation, and a \$5 million accrual in the third quarter of 2018 related to certain tax claims for historical periods regarding permanent establishment in a foreign jurisdiction. See Note 10. Contingencies, to our consolidated financial statements for more information. Additionally, costs associated with implementing corporate systems and enhancements to our risk and security programs increased \$21 million. These increases were offset by a decrease of \$48 million in labor costs associated with the benefits of the cost reduction and business alignment program initiated in the prior year, including a \$13 million charge recorded in the second quarter of 2017 related to that program. Intangible amortization expense decreased by \$15 million due to the completion at the end of the first quarter of 2017 of amortization of certain intangible assets from the take-private transaction in 2007.

Impairment and Related Charges

Nine Months Ended September 30, 2018		2017	Change
(Amounts in thousands)			

Impairment and related charges	\$ -	\$ 92,022	\$(92,022)	100 %
--------------------------------	------	-----------	------------	-------

During the nine months ended September 30, 2017, we recorded an impairment charge of \$92 million associated with net capitalized contract costs related to an Airline Solutions' customer based on our analysis of the recoverability of such amounts. See Note 3. Impairment and Related Charges, to our consolidated financial statements.

Other Expense, Net

Nine Months Ended September 30, 2018		2017	Change
(Amounts in thousands)			

Other expense, net	\$(10,746)	\$(19,788)	\$9,042	(46)%
--------------------	------------	------------	---------	-------

During the nine months ended September 30, 2018, we recognized realized and unrealized foreign currency exchange losses and the amortization of actuarial losses associated with our pension plan. During the nine months ended September 30, 2017, we recognized a \$15 million loss related to debt modification costs associated with our debt refinancing in the first and third quarter of 2017 and realized and unrealized foreign currency exchange losses.

Provision for Income Taxes

Nine Months Ended September 30, 2018		2017	Change
(Amounts in thousands)			

Provision for income taxes	\$61,371	\$56,836	\$4,535	8%
----------------------------	----------	----------	---------	----

Our effective tax rate for the nine months ended September 30, 2018 was 19%, due to the deferred tax benefit recognized in the second quarter of 2018 and the favorable impact of our geographic mix of taxable income in various jurisdictions, partially offset by a net increase due to the impacts of TCJA. See Note 4. Income Taxes, to our consolidated financial statements for more details. Our effective tax rate for the nine months ended September 30, 2017 was 25% due to the favorable impact of our geographic mix of taxable income in various jurisdictions and the tax impact from an impairment charge associated with an Airline Solutions' customer contract, which was recognized as a tax benefit in the second quarter of 2017. See Note 3. Impairment and Related Charges, to our consolidated financial statements.

Liquidity and Capital Resources

Our principal sources of liquidity are: (i) cash flows from operations, (ii) cash and cash equivalents and (iii) borrowings under our \$400 million Revolver (see “—Senior Secured Credit Facilities”). Borrowing availability under our Revolver is reduced by our outstanding letters of credit and restricted cash collateral. As of September 30, 2018 and December 31, 2017, our cash and cash equivalents, Revolver and outstanding letters of credit were as follows (in thousands):

	September 30, December 31,	
	2018	2017
Cash and cash equivalents	\$ 444,321	\$ 361,381

Edgar Filing: Sabre Corp - Form 10-Q

Available balance under the Revolver	384,677	378,542
Reductions to the Revolver:		
Revolver outstanding balance	—	—
Outstanding letters of credit	15,323	21,458

We consider cash equivalents to be highly liquid investments that are readily convertible into cash. Securities with contractual maturities of three months or less, when purchased, are considered cash equivalents. We record changes in a book overdraft position, in which our bank account is not overdrawn but recently issued and outstanding checks result in a negative general ledger balance, as cash flows from financing activities. We invest in a money market fund which is classified as cash and cash equivalents in our consolidated balance sheets and statements of cash flows. We held no short-term investments as of September 30, 2018 and December 31, 2017.

Liquidity Outlook

Our ability to generate cash depends on many factors beyond our control, and any failure to meet our debt service obligations could harm our business, financial condition and results of operations. Our ability to make payments on and to refinance our indebtedness, and to fund working capital needs, planned capital expenditures, share repurchases and dividends will depend on our ability to generate cash in the future, which is subject to general economic, financial, competitive, business, legislative, regulatory and other factors that are beyond our control. See “Risk Factors—We may require more cash than we generate in our operating activities, and additional funding on reasonable terms or at all may not be available.”

We utilize cash and cash equivalents, supplemented by our Revolver, primarily to pay our operating expenses, make capital expenditures, invest in our products and offerings, pay quarterly dividends on our common stock, make payments under the TRA, and service our debt and other long-term liabilities. Furthermore, on an ongoing basis, we will evaluate and consider strategic acquisitions, divestitures, joint ventures, repurchasing shares of our common stock (including pursuant to the multi-year \$500 million Share Repurchase Program) or our outstanding debt obligations in open market or in privately negotiated transactions, as well as other transactions we believe may create stockholder value or enhance financial performance. These transactions may require cash expenditures or generate proceeds and, to the extent they require cash expenditures, may be funded through a combination of cash on hand, debt or equity offerings, or utilization of our Revolver.

We believe that cash flows from operations, cash and cash equivalents on hand and our Revolver provide adequate liquidity for our operational expenses, capital expenditures, cash taxes and other obligations over the next twelve months. We may supplement our current liquidity through debt or equity offerings to support future strategic investments, or to pay down debt. We funded TRA payments of \$60 million and \$101 million, including interest, due in January 2018 and 2017, respectively, with cash on hand. We expect to fund future TRA payments through a combination of cash on hand, utilization of our Revolver or debt offerings.

Dividends

During the nine months ended September 30, 2018, we paid a quarterly cash dividend of \$0.14 per share of our common stock totaling \$116 million. We expect to continue to pay quarterly cash dividends on our common stock, subject to declaration of our board of directors. We intend to fund any future dividends from cash generated from our operations. Future cash dividends, if any, will be at the discretion of our board of directors and the amount of cash dividends per share will depend upon, among other things, our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions, number of shares of common stock outstanding and other factors the board of directors may deem relevant. The timing and amount of future dividend payments will be at the discretion of our board of directors. See “Risk Factors—Our ability to pay regular dividends to our stockholders is subject to the discretion of our board of directors and may be limited by our holding company structure and applicable provisions of Delaware law.”

Recent Events Impacting Our Liquidity and Capital Resources

Term Facility Amendment

On March 2, 2018, Sabre GLBL entered into a Fifth Incremental Term Facility Amendment to our Amended and Restated Credit Agreement to refinance and modify the terms of the Term Loan B, resulting in a reduction of the applicable margins for the Term Loan B to 2.00% per annum for Eurocurrency rate loans and 1.00% per annum for base rate loans. We incurred no additional indebtedness as a result of this transaction.

Secondary Public Offerings

During the nine months ended September 30, 2018, certain of our stockholders sold an aggregate of 46,000,000 shares of our common stock through secondary public offerings. See “—Share Repurchase Program” for information on shares we repurchased in connection with one such offering. We did not offer any shares or receive any proceeds from these secondary public offerings.

Share Repurchase Program

In February 2017, our Board approved a \$500 million multi-year Share Repurchase Program. Repurchases under the program may take place in the open market or privately negotiated transactions. Approximately \$365 million remains

authorized for repurchases under the Share Repurchase Program as of September 30, 2018. For the nine months ended September 30, 2018, we repurchased 1,075,255 shares totaling \$26 million pursuant to this share repurchase program, including the repurchase of 1,000,000 shares of our common stock for approximately \$24 million in connection with a secondary public offering as described in "—Secondary Public Offerings."

Senior Secured Credit Facilities

On February 22, 2017, Sabre GBLB entered into the 2017 Term Facility Amendment. The new agreement replaced the 2013 Term Loan B, 2013 Incremental Term Loan Facility and 2013 Term Loan C with the 2017 Term Loan B with an aggregate principal amount of \$1,900 million maturing on February 22, 2024. The proceeds of \$1,898 million, net of \$2 million discount on the 2017 Term Loan B, were used to pay off approximately \$1,761 million of all existing classes of outstanding term loans (other than the 2016 Term Loan A), pay related accrued interest and pay \$12 million in associated financing fees, which were recorded as debt modification costs in Other, net in the consolidated statement of operations during the three months ended March 31, 2017. The remaining proceeds of the 2017 Term Loan B were used to pay off approximately \$80 million of Sabre's outstanding mortgage on its corporate headquarters on March 31, 2017 and for other general corporate purposes. Unamortized debt issuance costs and discount related to existing classes of outstanding term loans prior to the 2017 Term Facility Amendment of \$9 million and \$3 million, respectively, will continue to be amortized over the remaining term of the Term Loan B along with the Term Loan B discount of \$2 million. See Note 6. Derivatives, to our consolidated financial statements for information regarding the discontinuation of hedge accounting related to our existing interest rate swaps as a result of the 2017 Term Facility Amendment.

On August 23, 2017, Sabre GBLB conducted the 2017 Refinancing to refinance and modify the terms of the 2017 Term Loan B, the 2016 Term Loan A, and the 2016 Revolver, resulting in a reduction of the applicable margins for each of these instruments and approximately a one-year extension of the maturity of the 2016 Term Loan A and 2016 Revolver. We incurred no additional indebtedness as a result of the 2017 Refinancing. The 2017 Refinancing included the \$400 million Revolver that replaced the 2016 Revolver, as well as the application of the proceeds of the approximately \$1,891 million Term Loan B and \$570 million Term Loan A to replace the 2017 Term Loan B and the 2016 Term Loan A. The maturity of the Revolver and the Term Loan A was extended from July 18, 2021 to July 1, 2022. The applicable margins for the Term Loan B were reduced to 2.25% per annum for Eurocurrency rate loans and 1.25% per annum for base rate loans. The applicable margins for the Term Loan A and the Revolver were reduced to (i) between 2.50% and 1.75% per annum for Eurocurrency rate loans and (ii) between 1.50% and 0.75% per annum for base rate loans, in each case with the applicable margin for any quarter reduced by 25 basis points (up to 75 basis points total) if the Senior Secured First-Lien Net Leverage Ratio (as defined in the Amended and Restated Credit Agreement) is less than 3.75 to 1.0, 3.00 to 1.0, or 2.25 to 1.0, respectively. The applicable interest rate margins opened at 2.25% per annum for Eurocurrency rate loans and 1.25% per annum for base rate loans until November 2, 2017.

On March 2, 2018, Sabre GBLB entered into a Fifth Incremental Term Facility Amendment to our Amended and Restated Credit Agreement to refinance and modify the terms of the Term Loan B as discussed above. See "—Recent Events Impacting Our Liquidity and Capital Resources" above.

We had no balance outstanding under the Revolver as of September 30, 2018 and as of December 31, 2017. We had outstanding letters of credit totaling \$15 million and \$21 million as of September 30, 2018 and December 31, 2017, respectively, which reduced our overall credit capacity under the Revolver.

Under the Amended and Restated Credit Agreement, the loan parties are subject to certain customary non-financial covenants, including certain restrictions on incurring certain types of indebtedness, creation of liens on certain assets, making of certain investments, and payment of dividends, as well as a maximum leverage ratio. Pursuant to Credit Agreement Amendments, effective July 18, 2016, the maximum leverage ratio has been adjusted to be based on the Total Net Leverage Ratio (as defined in the Amended and Restated Credit Agreement) and we are required, at all times (no longer solely when a threshold amount of revolving loans or letters of credit were outstanding), to maintain a Total Net Leverage Ratio of less than 4.5 to 1.0.

We are also required to pay down the term loans by an amount equal to 50% of annual excess cash flow, as defined in the Amended and Restated Credit Agreement. This percentage requirement may decrease or be eliminated if certain leverage ratios are achieved. We are further required to pay down the term loan with proceeds from certain asset sales or borrowings as defined in the Amended and Restated Credit Agreement.

Tax Receivable Agreement

Immediately prior to the closing of our initial public offering, we entered into the TRA that provides the Pre-IPO Existing Stockholders (as defined in Note 4. Income Taxes, to our consolidated financial statements) the right to receive future payments from us. The future payments will equal 85% of the amount of cash savings, if any, in U.S. federal income tax that we and our subsidiaries realize as a result of the utilization of the Pre-IPO Tax Assets (as defined in Note 4. Income Taxes, to our consolidated financial statements). Based on current tax laws and assuming that we and our subsidiaries earn sufficient taxable income to realize the full tax benefits subject to the TRA, we estimate that future payments under the TRA relating to Pre-IPO Tax Assets will total \$170 million, excluding interest. The current portion of our TRA liability totaled \$94 million, which includes approximately \$2 million of accrued interest, and the remaining portion of \$77 million is included in other noncurrent liabilities in our consolidated balance sheet as of September 30, 2018. We expect a majority of the future payments under the TRA to be made over the next two years. In the fourth quarter of 2017, we recorded a reduction of \$60 million in the TRA liability primarily due to a provisional adjustment resulting from the enactment of the TCJA, which reduced the U.S. corporate income tax rate. See “Recent Developments Affecting our Results of Operations” for additional information on the expected effects of the enactment of the TCJA. The TRA payments accrue interest in accordance with the terms of the TRA subsequent to the tax year in which the tax benefits are realized through the date of the benefit payment. We made payments of \$60 million and \$101 million, including interest, in January 2018 and 2017, respectively. The estimate of future payments considers the impact of Section 382 of the Code, which imposes an annual limit on the ability of a corporation that undergoes an ownership change to use its NOLs to reduce its liability. We do not anticipate any material limitations on our ability to utilize U.S. federal NOLs under Section 382 of the Code.

These payment obligations are our obligations and not obligations of any of our subsidiaries. The actual utilization of the Pre-IPO Tax Assets, as well as the timing of any payments under the TRA, will vary depending upon a number of factors, including the amount, character and timing of our and our subsidiaries' taxable income in the future. See Note 4. Income Taxes, to our consolidated financial statements for additional information regarding income taxes and the TRA.

Technology Expenditures

We maintain and make enhancements, upgrades and additions to our products, services, technologies and systems in response to technological developments, industry standards and trends and customer demands. We deploy resources in research and development in order to help maintain a competitive advantage and deliver innovation to the marketplace. We develop products internally to seek to improve the speed, accuracy and comprehensiveness of our services and make changes to our technology platforms by investing in modern technology and systems. Software developed for internal use includes costs incurred to develop or obtain applications, infrastructure and graphics development for our GDS, our SaaS and hosted systems. Additionally, we rely on third-party providers for computer data centers and network systems operated by DXC Technology ("DXC") and other providers for hosting services. The aggregation of these costs represent our total technology expenditures of \$772 million and \$728 million for the nine months ended September 30, 2018 and 2017, respectively. This includes capitalized expenditures, primarily relating to internally developed software, of \$204 million and \$231 million for the same respective periods.

Cash Flows

	Nine Months Ended	
	September 30,	
	2018	2017
	(Amounts in thousands)	
Cash provided by operating activities	\$536,193	\$455,906
Cash used in investing activities	(205,664)	(242,952)
Cash used in financing activities	(252,409)	(300,936)
Cash provided by (used in) discontinued operations	633	(3,636)
Effect of exchange rate changes on cash and cash equivalents	4,187	(4,228)
Increase (decrease) in cash and cash equivalents	\$82,940	\$(95,846)

Operating Activities

Cash provided by operating activities for the nine months ended September 30, 2018 was \$536 million and consisted of net income from continuing operations of \$254 million, adjustments for non-cash and other items of \$497 million and a decrease in cash from changes in operating assets and liabilities of \$215 million. The adjustments for non-cash and other items consist primarily of \$308 million of depreciation and amortization, \$74 million in deferred income taxes, \$57 million in amortization of upfront incentive consideration and \$41 million stock-based compensation expense. The decrease in cash from changes in operating assets and liabilities of \$215 million was primarily the result of a \$114 million increase in accounts receivable primarily due to seasonality, \$68 million used for upfront incentive consideration, \$31 million used for accrued compensation and related benefits, \$30 million used for capitalized implementation costs and a \$19 million increase in other assets. These decreases were partially offset by an increase of \$43 million in deferred revenue partially driven by upfront solution fees.

Cash provided by operating activities for the nine months ended September 30, 2017 was \$456 million and consisted of net income from continuing operations of \$166 million, adjustments for non-cash and other items of \$519 million and a decrease in cash from changes in operating assets and liabilities of \$230 million. The adjustments for non-cash and other items consist primarily of \$296 million of depreciation and amortization, \$92 million of impairment and related charges, \$50 million in amortization of upfront incentive consideration, \$34 million stock-based compensation expense, and a \$15 million loss on modification of debt. The decrease in cash from changes in operating assets and liabilities of \$230 million was primarily the result of a \$188 million increase in accounts receivable due to seasonality and a \$29 million receivable related to an insurance settlement, \$61 million used for upfront incentive consideration, \$48 million used for capitalized implementation costs, and a \$20 million increase in prepaid expenses and other assets.

These decreases were partially offset by an increase of \$53 million in accounts payable and other accrued liabilities due to seasonality in incentives, business growth and a \$15 million payable for accrued legal and related expenses related to an insurance settlement and an increase of \$32 million in deferred revenue partially driven by upfront solution fees.

Investing Activities

For the nine months ended September 30, 2018, we used cash of \$206 million on capital expenditures, including \$182 million related to software developed for internal use.

For the nine months ended September 30, 2017, we used cash of \$243 million on capital expenditures, including \$192 million related to software developed for internal use.

Financing Activities

For the nine months ended September 30, 2018, we used \$252 million for financing activities. Significant highlights of our financing activities include:

- payment of \$116 million in dividends on our common stock;
- second annual payment on the TRA liability for \$59 million, excluding interest;
- payment of \$35 million on our Term Loan A and Term Loan B and \$2 million in debt issuance and modification costs;
- repurchase of 1,075,255 shares of our common stock outstanding totaling \$26 million; and
- net receipts of \$3 million from the settlement of employee stock-option awards, including payments of \$9 million in income tax withholdings associated with the settlement of employee restricted-stock awards.

For the nine months ended September 30, 2017, we used \$301 million for financing activities. Significant highlights of our financing activities include:

In February 2017, we received proceeds of \$1,898 million (net of \$2 million discount) from the Term Loan B, which were used to pay off approximately \$1,753 million of all existing classes of outstanding term loans (other than the Term Loan A) and \$12 million in debt issuance costs. The remaining proceeds were used for purposes of repaying approximately \$80 million of Sabre's outstanding mortgage on its corporate headquarters, and for other general corporate purposes;

- payments totaling \$36 million on the principal outstanding on our term loans;
- pursuant to the Refinancing in August 2017, payments of \$7 million in debt modification costs;
- first annual payment on the TRA liability for \$99 million, excluding interest;
- payment of \$116 million in dividends on our common stock;
- repurchase of 5,153,241 shares of our common stock outstanding totaling \$98 million; and
- net receipts of \$11 million from the settlement of employee stock-option awards, including payments of \$11 million in income tax withholdings associated with the settlement of employee restricted-stock awards.

Discontinued Travelocity Business

Cash flows provided by (used in) discontinued operating activities was \$1 million and \$(4) million for the nine months ended September 30, 2018 and 2017, respectively. The increase in cash flows provided by discontinued operations primarily resulted from a \$5 million refund from the city of San Francisco associated with a favorable ruling in hotel occupancy tax litigation.

Contractual Obligations

On March 2, 2018, Sabre GBLB entered into a Fifth Incremental Term Facility Amendment to our Amended and Restated Credit Agreement to refinance and modify the terms of the Term Loan B. There were no other material changes to our future minimum contractual obligations since December 31, 2017 as previously disclosed in our Annual Report on Form 10-K filed with the SEC on February 16, 2018, as updated by our Current Report on Form 8-K/A filed with the SEC on May 3, 2018.

Off Balance Sheet Arrangements

We had no off balance sheet arrangements during the nine months ended September 30, 2018 and year ended December 31, 2017.

Recent Accounting Pronouncements

Information related to Recent Accounting Pronouncements is included in Note 1. General Information, to our consolidated financial statements included in Part I, Item 1 in this Quarterly Report on Form 10-Q, which is incorporated herein by reference.

Critical Accounting Estimates

This discussion and analysis of our financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect our reported assets and liabilities, revenues and expenses and other financial information. Actual results may differ significantly from these estimates, and our reported financial condition and results of operations could vary under different assumptions and conditions. In addition, our reported financial condition and results of operations could vary due to a change in the application of a particular accounting standard.

We regard an accounting estimate underlying our financial statements as a “critical accounting estimate” if the accounting estimate requires us to make assumptions about matters that are uncertain at the time of estimation and if changes in the estimate are reasonably likely to occur and could have a material effect on the presentation of financial condition, changes in financial condition, or results of operations. For a discussion of the accounting policies involving material estimates and assumptions that we believe are most critical to the preparation of our financial statements, how we apply such policies and how results differing from our estimates and assumptions would affect the amounts presented in our financial statements, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Estimates” included in our Annual Report on Form 10-K filed with the SEC on February 16, 2018, as updated by our Current Report on Form 8-K/A filed with the SEC on May 3, 2018.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the potential loss from adverse changes in: (i) prevailing interest rates, (ii) foreign exchange rates, (iii) credit risk and (iv) inflation. Our exposure to market risk relates to interest payments due on our long-term debt, Revolver, derivative instruments, income on cash and cash equivalents, accounts receivable and payable and travel supplier liabilities and related deferred revenue. We manage our exposure to these risks through established policies and procedures. We do not engage in trading, market making or other speculative activities in the derivatives markets. Our objective is to mitigate potential income statement, cash flow and fair value exposures resulting from possible future adverse fluctuations in interest and foreign exchange rates. There were no material changes in our market risk since December 31, 2017 as previously disclosed under "Quantitative and Qualitative Disclosures About Market Risk" included in our Annual Report on Form 10-K filed with the SEC on February 16, 2018.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as this term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as of the end of the period covered by this report. Based on this evaluation, our principal executive officer and principal financial officer have concluded that, as of the end of this period, our disclosure controls and procedures were effective.

Internal Control Over Financial Reporting

There have not been any changes in our internal control over financial reporting (as this term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company and its subsidiaries are from time to time engaged in routine legal proceedings incidental to our business. For a description of our material legal proceedings, see Note 10. Contingencies, to our consolidated financial statements included in Part I, Item 1 in this Quarterly Report on Form 10-Q, which is incorporated herein by reference.

ITEM 1A. RISK FACTORS

The following risk factors may be important to understanding any statement in this Quarterly Report on Form 10-Q or elsewhere. Our business, financial condition and operating results can be affected by a number of factors, whether currently known or unknown, including but not limited to those described below. Any one or more of these factors could directly or indirectly cause our actual results of operations and financial condition to vary materially from past or anticipated future results of operations and financial condition. Any of these factors, in whole or in part, could materially and adversely affect our business, financial condition, results of operations and stock price.

Our revenue is highly dependent on transaction volumes in the global travel industry, particularly air travel transaction volumes.

Our Travel Network, Airline Solutions and Hospitality Solutions revenue is largely tied to travel suppliers' transaction volumes rather than to their unit pricing for an airplane ticket, hotel room or other travel products. This revenue is generally not contractually committed to recur annually under our agreements with our travel suppliers. As a result, our revenue is highly dependent on the global travel industry, particularly air travel from which we derive a substantial amount of our revenue, and directly correlates with global travel, tourism and transportation transaction volumes. Our revenue is therefore highly susceptible to declines in or disruptions to leisure and business travel that may be caused by factors entirely out of our control, and therefore may not recur if these declines or disruptions occur. Various factors may cause temporary or sustained disruption to leisure and business travel. The impact these disruptions would have on our business depends on the magnitude and duration of such disruption. These factors include, among others:

- general and local economic conditions;

- financial instability of travel suppliers and the impact of any fundamental corporate changes to such travel suppliers, such as airline bankruptcies or consolidations, on the cost and availability of travel content;

- factors that affect demand for travel such as outbreaks of contagious diseases, including influenza, Zika, Ebola and the MERS virus, increases in fuel prices, changing attitudes towards the environmental costs of travel and safety concerns;

- political events like acts or threats of terrorism, hostilities, and war;

- inclement weather, natural or man-made disasters; and

- factors that affect supply of travel such as travel restrictions or changes to regulations governing airlines and the travel industry, like government sanctions that do or would prohibit doing business with certain state-owned travel suppliers, work stoppages or labor unrest at any of the major airlines, hotels or airports.

Our success depends on maintaining the integrity of our systems and infrastructure, which may suffer from failures, capacity constraints, business interruptions and forces outside of our control.

We may be unable to maintain and improve the efficiency, reliability and integrity of our systems. Unexpected increases in the volume of our business could exceed system capacity, resulting in service interruptions, outages and delays. These constraints can also lead to the deterioration of our services or impair our ability to process transactions. We occasionally experience system interruptions that make certain of our systems unavailable including, but not limited to, our GDS and the services that our Airline Solutions and Hospitality Solutions businesses provide to airlines and hotels. System interruptions may prevent us from efficiently providing services to customers or other third parties, which could cause damage to our reputation and result in our losing customers and revenues or cause us to incur litigation and liabilities. Although we have contractually limited our liability for damages caused by outages of our GDS (other than damages caused by our gross negligence or willful misconduct), we cannot guarantee that we will not be subject to lawsuits or other claims for compensation from our customers in connection with such outages for which we may not be indemnified or compensated.

Our systems may also be susceptible to external damage or disruption. Much of the computer and communications hardware upon which we depend is located across multiple data center facilities in a single geographic region. Our systems could be damaged or disrupted by power, hardware, software or telecommunication failures, human errors, natural events including floods, hurricanes, fires, winter storms, earthquakes and tornadoes, terrorism, break-ins, hostilities, war or similar events. Computer viruses, malware, denial of service attacks, attacks on hardware vulnerabilities, physical or electronic break-ins, cybersecurity incidents or other security breaches, and similar disruptions affecting the Internet, telecommunication services or our systems could cause service interruptions or the loss of critical data, and could prevent us from providing timely services. See “—Security breaches could expose us to liability and damage our reputation and our business.” Failure to efficiently provide services to customers or other third parties could cause damage to our reputation and result in the loss of customers and revenues, significant recovery costs or litigation and liabilities. Moreover, such risks are likely to increase as we expand our business and as the tools and techniques involved become more sophisticated.

Although we have implemented measures intended to protect certain systems and critical data and provide comprehensive disaster recovery and contingency plans for certain customers that purchase this additional protection, these protections and plans are not in place for all systems. Furthermore, several of our existing critical backup systems are located in the same metropolitan area as our primary systems and we may not have sufficient disaster recovery tools or resources available, depending on the type or size of the disruption. Disasters affecting our facilities, systems or personnel might be expensive to remedy and could significantly diminish our reputation and our brands, and we may not have adequate insurance to cover such costs.

Customers and other end-users who rely on our software products and services, including our SaaS and hosted offerings, for applications that are integral to their businesses may have a greater sensitivity to product errors and security vulnerabilities than customers for software products generally. Additionally, security breaches that affect third parties upon which we rely, such as travel suppliers, may further expose us to negative publicity, possible liability or regulatory penalties. Events outside our control could cause interruptions in our IT systems, which could have a material adverse effect on our business operations and harm our reputation.

We rely on the availability and performance of information technology services provided by third parties, including DXC, which manages a significant portion of our systems.

Our businesses are largely dependent on the computer data centers and network systems operated for us by DXC, and its third-party providers, including AT&T, which DXC began outsourcing certain network services to in the fourth quarter of 2017. We also rely on other developers and service providers to maintain and support our global telecommunications infrastructure, including to connect our computer data center and call centers to end-users.

Our success is dependent on our ability to maintain effective relationships with these third-party technology and service providers. Some of our agreements with third-party technology and service providers are terminable for cause on short notice and often provide limited recourse for service interruptions. For example, our agreement with DXC provides us with limited indemnification rights. We could face significant additional cost or business disruption if:

Any of these providers fail to enable us to provide our customers and suppliers with reliable, real-time access to our systems. For example, in 2013, we experienced a significant outage of the Sabre platform due to a failure on the part of one of our service providers. This outage, which affected both our Travel Network business and our Airline Solutions business, lasted several hours and caused significant problems for our customers. Any such future outages could cause damage to our reputation, customer loss and require us to pay compensation to affected customers for which we may not be indemnified or compensated.

Our arrangements with such providers are terminated or impaired and we cannot find alternative sources of technology or systems support on commercially reasonable terms or on a timely basis. For example, our substantial dependence on DXC for many of our systems makes it difficult for us to switch vendors and makes us more sensitive to changes in DXC's pricing for its services.

In addition, DXC was formed in April 2017 from the spin-off of HP Enterprises' Services segment business and merger with CSC. There could be uncertainty, delays or disruptions in DXC's services as a result of these transactions, which could result in additional costs or business disruptions for us.

Security breaches could expose us to liability and damage our reputation and our business.

We process, store, and transmit large amounts of data, including personally identifiable information ("PII") and PCI of our customers, and it is critical to our business strategy that our facilities and infrastructure, including those provided by DXC or other vendors, remain secure and are perceived by the marketplace to be secure. Our infrastructure may be vulnerable to physical or electronic break-ins, computer viruses, or similar disruptive problems.

In addition, we, like most technology companies, are the target of cybercriminals who attempt to compromise our systems. We are subject to and experience threats and intrusions that have to be identified and remediated to protect sensitive information along with our intellectual property and our overall business. To address these threats and intrusions, we have a team of experienced security experts and support from firms that specialize in data security and cybersecurity. We are periodically subject to these threats and intrusions, and sensitive or material information could be compromised as a result. The costs of any investigation of such incidents, as well as any remediation related to these incidents, may be material. As previously disclosed, we became aware of an incident involving unauthorized access to payment information contained in a subset of hotel reservations processed through the Sabre Hospitality Solutions SynXis Central Reservation system (the "HS Central Reservation System"). Our investigation was supported by third party experts, including a leading cybersecurity firm. Our investigation determined that an unauthorized party: obtained access to account credentials that permitted access to a subset of hotel reservations processed through the HS Central Reservation System; used the account credentials to view a credit card summary page on the HS Central Reservation System and access payment card information (although we use encryption, this credential had the right to see unencrypted card data); and first obtained access to payment card information and some other reservation information on August 10, 2016. The last access to payment card information was on March 9, 2017. The unauthorized party was able to access information for certain hotel reservations, including cardholder name; payment card number; card expiration date; and, for a subset of reservations, card security code. The unauthorized party was also able, in some cases, to access certain information such as guest name(s), email, phone number, address, and other information if provided to the HS Central Reservation System. Information such as Social Security, passport, or driver's license number was not accessed. The investigation did not uncover forensic evidence that the unauthorized party removed any information from the system, but it is a possibility. We took successful measures to ensure this unauthorized access to the HS Central Reservation System was stopped and is no longer possible. There is no indication that any of our systems beyond the HS Central Reservation System, such as Sabre's Airline Solutions and Travel Network platforms, were affected or accessed by the unauthorized party. We notified law enforcement and the payment card brands and engaged a PCI forensic investigator at the payment card brands' request to investigate this incident. We have notified customers and other companies that use or interact with, directly or indirectly, the HS Central Reservation System about the incident. We are also cooperating with various governmental authorities that are investigating this incident. Separately, in November 2017, Sabre Hospitality Solutions observed a pattern of activity that, after further investigation, led it to believe that an unauthorized party improperly obtained access to certain hotel user credentials for purposes of accessing the HS Central Reservation System. We deactivated the compromised accounts and notified law enforcement of this activity. We also notified the payment card brands, and at their request, we have engaged a PCI forensic investigator to investigate this incident. We have not found any evidence of a breach of the network security of the HS Central Reservation System, and we believe that the number of affected reservations represents only a fraction of 1% of the bookings in the HS Central Reservation System. The costs related to these incidents, including any associated penalties assessed by any governmental authority or payment card brand, or indemnification obligations to our customers, as well as any other impacts or remediation related to them, may be material. As noted below, we maintain insurance that covers certain aspects of cyber risks, and we continue to work with our insurance carriers in these matters.

Any computer viruses, malware, denial of service attacks, attacks on hardware vulnerabilities, physical or electronic break-ins, cybersecurity incidents, such as the items described above, or other security breach or compromise of the information handled by us or our service providers may jeopardize the security or integrity of information in our computer systems and networks or those of our customers and cause significant interruptions in our and our customers' operations.

Any systems and processes that we have developed that are designed to protect customer information and prevent data loss and other security breaches cannot provide absolute security. In addition, we may not successfully implement remediation plans to address all potential exposures. It is possible that we may have to expend additional financial and other resources to address these problems. Failure to prevent or mitigate data loss or other security breaches could expose us or our customers to a risk of loss or misuse of such information, cause customers to lose confidence in our data protection measures, damage our reputation, adversely affect our operating results or result in litigation or

potential liability for us. While we maintain insurance coverage that may, subject to policy terms and conditions, cover certain aspects of cyber risks, this insurance coverage is subject to a retention amount and may not be applicable to a particular incident or otherwise may be insufficient to cover all our losses beyond any retention. Similarly, we expect to continue to make significant investments in our information technology infrastructure. The implementation of these investments may be more costly or take longer than we anticipate, or could otherwise adversely affect our business operations, which could negatively impact our financial position, results of operations or cash flows.

Implementation of software solutions often involves a significant commitment of resources, and any failure to deliver as promised on a significant implementation could adversely affect our business.

In our Travel Network, Airline Solutions and Hospitality Solutions businesses, the implementation of software solutions often involves a significant commitment of resources and is subject to a number of significant risks over which we may or may not have control. These risks include:

- the features of the implemented software may not meet the expectations or fit the business model of the customer;
- our limited pool of trained experts for implementations cannot quickly and easily be augmented for complex implementation projects, such that resources issues, if not planned and managed effectively, could lead to costly project delays;

- customer-specific factors, such as the stability, functionality, interconnection and scalability of the customer's pre-existing information technology infrastructure, as well as financial or other circumstances could destabilize, delay or prevent the completion of the implementation process, which, for airline reservations systems, typically takes 12 to 18 months; and

- customers and their partners may not fully or timely perform the actions required to be performed by them to ensure successful implementation, including measures we recommend to safeguard against technical and business risks.

As a result of these and other risks, some of our customers may incur large, unplanned costs in connection with the purchase and installation of our software products. Also, implementation projects could take longer than planned or fail. We may not be able to reduce or eliminate protracted installation or significant additional costs. Significant delays or unsuccessful customer implementation projects could result in cancellation or renegotiation of existing agreements, claims from customers, harm our reputation and negatively impact our operating results.

Our Travel Network business is exposed to pricing pressure from travel suppliers.

Travel suppliers continue to look for ways to decrease their costs and to increase their control over distribution. For example, consolidation in the airline industry, the growth of LCC/hybrids and macroeconomic factors, among other things, have driven some airlines to negotiate for lower fees during contract renegotiations, thereby exerting increased pricing pressure on our Travel Network business, which, in turn, negatively affects our revenues and margins. In addition, travel suppliers' use of alternative distribution channels, such as direct distribution through supplier-operated websites, may also adversely affect our contract renegotiations with these suppliers and negatively impact our transaction fee revenue. For example, as we attempt to renegotiate new agreements with our travel suppliers, they may withhold some or all of their content (fares and associated economic terms) for distribution exclusively through their direct distribution channels (for example, the relevant airline's website) or offer travelers more attractive terms for content available through those direct channels after their contracts expire. As a result of these sources of negotiating pressure, we may have to decrease our prices to retain their business. If we are unable to renew our contracts with these travel suppliers on similar economic terms or at all, or if our ability to provide this content is similarly impeded, this would also adversely affect the value of our Travel Network business as a marketplace due to our more limited content. See "—Travel suppliers' use of alternative distribution models, such as direct distribution models, could adversely affect our Travel Network business."

Our travel supplier customers may experience financial instability or consolidation, pursue cost reductions, change their distribution model or undergo other changes.

We generate the majority of our revenue and accounts receivable from airlines. We also derive revenue from hotels, car rental brands, rail carriers, cruise lines, tour operators and other suppliers in the travel and tourism industries. Adverse changes in any of these relationships or the inability to enter into new relationships could negatively impact the demand for and competitiveness of our travel products and services. For example, a lack of liquidity in the capital markets or weak economic performance may cause our travel suppliers to increase the time they take to pay or to default on their payment obligations, which could lead to a higher level of bad debt expense and negatively affect our results. Any large-scale bankruptcy or other insolvency proceeding of an airline or hospitality supplier could subject our agreements with that customer to rejection or early termination. Because we generally do not require security or collateral from our customers as a condition of sale, our revenues may be subject to credit risk more generally. Furthermore, supplier consolidation, particularly in the airline industry, could harm our business. Our Travel Network business depends on a relatively small number of U.S.-based airlines for a substantial portion of its revenue, and all of

our businesses are highly dependent on airline ticket volumes. Consolidation among airlines could result in the loss of an existing customer and the related fee revenue, decreased airline ticket volumes due to capacity restrictions implemented concurrently with the consolidation, and increased airline concentration and bargaining power to negotiate lower transaction fees. See "—Our Travel Network business is exposed to pricing pressure from travel suppliers." In addition, consolidation among travel suppliers may result in one or more suppliers refusing to provide certain content to Sabre but rather making it exclusively available on the suppliers' proprietary websites, hurting the competitive position of our GDS relative to those websites. See "—Travel suppliers' use of alternative distribution models, such as direct distribution models, could adversely affect our Travel Network business."

Travel suppliers' use of alternative distribution models, such as direct distribution models, could adversely affect our Travel Network business.

Some travel suppliers that provide content to Travel Network, including some of Travel Network's largest airline customers, have sought to increase usage of direct distribution channels. For example, these travel suppliers are trying to move more consumer traffic to their proprietary websites, and some travel suppliers have explored direct connect initiatives linking their internal reservations systems directly with travel agencies or travel management companies ("TMCs"), thereby bypassing the GDSs. This direct distribution trend enables them to apply pricing pressure on intermediaries and negotiate travel distribution arrangements that are less favorable to intermediaries. With travel suppliers' adoption of certain technology solutions over the last decade, including those offered by our Airline Solutions business, air travel suppliers have increased the proportion of direct bookings relative to indirect bookings. In the future, airlines may increase their use of direct distribution, which may cause a material decrease in their use of our GDS. Travel suppliers may also offer travelers advantages through their websites such as special fares and bonus miles, which could make their offerings more attractive than those available through our GDS platform. Similarly, travel suppliers may also seek to encourage travelers' and travel agencies' usage of their proprietary booking platforms by selectively increasing the ticket price in our GDS, making our GDS platform's offerings more expensive than some alternative offerings. For example, we are currently engaged in litigation with the Lufthansa Group in connection with a surcharge that the Lufthansa Group has imposed on tickets purchased through three selected GDSs, including Sabre. The Lufthansa Group is seeking declaratory judgment that this surcharge does not violate the terms of its agreement with us, in addition to damages related to the allegations of breach of contract and tortious interference with agency contracts. We deny the allegations and we have filed a counterclaim that asserts the Lufthansa Group's surcharge is a violation of its agreement and that seeks an order requiring the Lufthansa Group to specifically perform its obligations under the agreement.

In addition, with respect to ancillary products, travel suppliers may choose not to comply with the technical standards that would allow ancillary products to be immediately distributed via intermediaries, thus resulting in a delay before these products become available through our GDS relative to availability through direct distribution. In addition, if enough travel suppliers choose not to develop ancillary products in a standardized way with respect to technical standards our investment in adapting our various systems to enable the sale of ancillary products may not be successful.

Companies with close relationships with end consumers, like Facebook, as well as new entrants introducing new paradigms into the travel industry, such as metasearch engines, like Google, may promote alternative distribution channels to our GDS by diverting consumer traffic away from intermediaries, which may adversely affect our GDS business.

Additionally, technological advancements may allow airlines and hotels to facilitate broader connectivity to and integration with large travel buyers, such that certain airline and hotel offerings could be made available directly to such travel buyers without the involvement of intermediaries such as Travel Network and its competitors.

Any inability or failure to adapt to technological developments or the evolving competitive landscape could harm our business operations and competitiveness.

We depend upon the use of sophisticated information technology and systems. Our competitiveness and future results depend on our ability to maintain and make timely and cost-effective enhancements, upgrades and additions to our products, services, technologies and systems in response to new technological developments, industry standards and trends and customer demands. For example, IATA has promulgated its new distribution capability ("NDC") standard. Depending on the level of adoption of this standard, our failure to integrate NDC into our technology or anticipate the evolution of next generation retailing and distribution could adversely affect our financial performance. As another example, migration of our enterprise applications and platforms to other hosting environments could cause us to incur substantial costs, as well as result in instability and business interruptions, which could materially harm our business. Adapting to new technological and marketplace developments, such as NDC, may require substantial expenditures and lead time and we cannot guarantee that projected future increases in business volume will actually materialize. We may experience difficulties that could delay or prevent the successful development, marketing and implementation of enhancements, upgrades and additions. Moreover, we may fail to maintain, upgrade or introduce new products,

services, technologies and systems as quickly as our competitors or in a cost-effective manner. For example, we must constantly update our GDS with new capabilities to adapt to the changing technological environment and customer needs. However, this process can be costly and time-consuming, and our efforts may not be successful as compared to our competitors in the travel distribution market. Those that we do develop may not achieve acceptance in the marketplace sufficient to generate material revenue or may be rendered obsolete or non-competitive by our competitors' offerings.

In addition, our competitors are constantly increasing their product and service offerings through organic research and development or through strategic acquisitions. As a result, we must continue to invest significant resources in research and development in order to continually improve the speed, accuracy and comprehensiveness of our services and we may be required to make changes to our technology platforms or increase our investment in technology, increase marketing, adjust prices or business models and take other actions, which could affect our financial performance and liquidity.

Our ability to maintain and grow our Airline Solutions and Hospitality Solutions businesses may be negatively affected by competition from other third-party solutions providers and new participants that seek to enter the solutions market.

Our Airline Solutions and Hospitality Solutions businesses principally face competition from existing third-party solutions providers. We also compete with various point solutions providers on a more limited basis in several discrete functional areas. For our Hospitality Solutions business, we face competition across many aspects of our business but our primary competitors are in the hospitality CRS and property management system ("PMS") fields.

Factors that may affect the competitive success of our Airline Solutions and Hospitality Solutions businesses include our pricing structure, our ability to keep pace with technological developments, the effectiveness and reliability of our implementation and system migration processes, our ability to meet a variety of customer specifications, the effectiveness and reliability of our systems, the cost and efficiency of our system upgrades and our customer support services. Our failure to compete effectively on these and other factors could decrease our market share, adversely impact our pricing or otherwise negatively affect our Airline Solutions and Hospitality Solutions businesses.

The travel distribution market is highly competitive, and we are subject to competition from other GDS providers, direct distribution by travel suppliers and new entrants or technologies that may challenge the GDS business model. The evolution of the global travel and tourism industry, the introduction of new technologies and standards and the expansion of existing technologies in key markets, among other factors, could contribute to an intensification of competition in the business areas and regions in which we operate. Increased competition could require us to increase spending on marketing activities or product development, to decrease our booking or transaction fees and other charges (or defer planned increases in such fees and charges), to increase incentive consideration or take other actions that could harm our business. A GDS has two broad categories of customers: (i) travel suppliers, such as airlines, hotels, car rental brands, rail carriers, cruise lines and tour operators, and (ii) travel buyers, such as online and offline travel agencies, TMCs and corporate travel departments. The competitive positioning of a GDS depends on the success it achieves with both customer categories. Other factors that may affect the competitive success of a GDS include the comprehensiveness, timeliness and accuracy of the travel content offered, the reliability, ease of use and innovativeness of the technology, the perceived value proposition of our GDS by travel suppliers and travel buyers, the incentive consideration provided to travel agencies, the transaction fees charged to travel suppliers and the range of products and services available to travel suppliers and travel buyers. Our GDS competitors could seek to capture market share by offering more differentiated content, products or services, increasing the incentive consideration to travel agencies, or decreasing the transaction fees charged to travel suppliers, which would harm our business to the extent they gain market share from us or force us to respond by lowering our prices or increasing the incentive consideration we provide.

We cannot guarantee that we will be able to compete successfully against our current and future competitors in the travel distribution market, some of which may achieve greater brand recognition than us, have greater financial, marketing, personnel and other resources or be able to secure services and products from travel suppliers on more favorable terms. If we fail to overcome these competitive pressures, we may lose market share and our business may otherwise be negatively affected.

Our Travel Network business depends on relationships with travel buyers.

Our Travel Network business relies on relationships with several large travel buyers, including TMCs and OTAs, to generate a large portion of its revenue through bookings made by these travel companies. This revenue concentration in a relatively small number of travel buyers makes us particularly dependent on factors affecting those companies. For example, if demand for their services decreases, or if a key supplier pulls its content from us, travel buyers may stop utilizing our services or move all or some of their business to competitors or competing channels.

Although our contracts with larger travel agencies often increase the incentive consideration when the travel agency processes a certain volume or percentage of its bookings through our GDS, travel buyers are not contractually required to book exclusively through our GDS during the contract term. Travel buyers may shift bookings to other distribution intermediaries for many reasons, including to avoid becoming overly dependent on a single source of travel content or to increase their bargaining power with GDS providers. Additionally, some regulations allow travel buyers to terminate their contracts earlier.

These risks are exacerbated by increased consolidation among travel agencies and TMCs, which may ultimately reduce the pool of travel agencies that subscribe to GDSs. We must compete with other GDSs and other competitors for their business by offering competitive upfront incentive consideration, which, due to the strong bargaining power of these large travel buyers, tend to increase in each round of contract renewals. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Factors Affecting Our Results—Increasing travel agency incentive consideration" included in Part II, Item 7 of our Annual Report on Form 10-K filed with the SEC on February 16, 2018, as updated by our Current Report on Form 8-K/A filed with the SEC on May 3, 2018, for more information about our incentive consideration. However, any reduction in transaction fees from travel suppliers due to supplier consolidation or other market forces could limit our ability to increase incentive consideration to travel agencies in a cost-effective manner or otherwise affect our margins.

Our Travel Network, Airline Solutions and Hospitality Solutions businesses depend on maintaining and renewing contracts with their customers and other counterparties.

In our Travel Network business, we enter into participating carrier distribution and services agreements with airlines. Our contracts with major carriers typically last for three- to five-year terms and are generally subject to automatic renewal at the end of the term, unless terminated by either party with the required advance notice. Our contracts with smaller airlines generally last for one year and are also subject to automatic renewal at the end of the term, unless terminated by either party with the required advance notice. Airlines are not contractually obligated to distribute exclusively through our GDS during the contract term and may terminate their agreements with us upon providing the required advance notice after the expiration of the initial term. We cannot guarantee that we will be able to renew our airline contracts in the future on favorable economic terms or at all. See “—Our Travel Network business is exposed to pricing pressure from travel suppliers.”

We also enter into contracts with travel buyers. Although most of our travel buyer contracts have terms of one to three years, we typically have non-exclusive, five- to ten-year contracts with our major travel agency customers. We also typically have three- to five-year contracts with corporate travel departments, which generally renew automatically unless terminated with the required advance notice. A meaningful portion of our travel buyer agreements, typically representing approximately 15% to 20% of our bookings, are up for renewal in any given year. We cannot guarantee that we will be able to renew our travel buyer agreements in the future on favorable economic terms or at all.

Similarly, our Airline Solutions and Hospitality Solutions businesses are based on contracts with travel suppliers for a typical duration of three to seven years for airlines and one to five years for hotels, respectively. We cannot guarantee that we will be able to renew our solutions contracts in the future on favorable economic terms or at all.

Additionally, we use several third-party distributor partners and joint ventures to extend our GDS services in EMEA and APAC. The termination of our contractual arrangements with any of these third-party distributor partners and joint ventures could adversely impact our Travel Network business in the relevant markets. See “—We rely on third-party distributor partners and joint ventures to extend our GDS services to certain regions, which exposes us to risks associated with lack of direct management control and potential conflicts of interest” for more information on our relationships with our third-party distributor partners and joint ventures.

Our failure to renew some or all of these agreements on economically favorable terms or at all, or the early termination of these existing contracts, would adversely affect the value of our Travel Network business as a marketplace due to our limited content and distribution reach, which could cause some of our subscribers to move to a competing GDS or use other travel technology providers for the solutions we provide and would materially harm our business, reputation and brand. Our business therefore relies on our ability to renew our agreements with our travel buyers, travel suppliers, third-party distributor partners and joint ventures or developing relationships with new travel buyers and travel suppliers to offset any customer losses.

We are subject to a certain degree of revenue concentration among a portion of our customer base. Because of this concentration among a small number of customers, if an event were to adversely affect one of these customers, it could have a material impact on our business.

Our ability to recruit, train and retain employees, including our key executive officers and technical employees, is critical to our results of operations and future growth.

Our continued ability to compete effectively depends on our ability to recruit new employees and retain and motivate existing employees, particularly professionals with experience in our industry, information technology and systems, as well as our key executive officers. For example, the specialized skills we require can be difficult and time-consuming to acquire and are often in short supply. There is high demand and competition for well-qualified employees on a global basis, such as software engineers, developers and other technology professionals with specialized knowledge in software development, especially expertise in certain programming languages. This competition affects both our ability to retain key employees and to hire new ones. Similarly, uncertainty in the global political environment may adversely affect our ability to hire and retain key employees.

Any of our employees may choose to terminate their employment with us at any time, and a lengthy period of time is required to hire and train replacement employees when such skilled individuals leave the company. For example, Sean Menke was elected as President and Chief Executive Officer of Sabre on December 31, 2016. Subsequent to his

election, we have announced modifications to our business strategies and increased long-term investment in key areas, such as technology infrastructure, that may continue to have a negative impact in the short term due to expected increases in operating expenses and capital expenditures.

If we fail to attract well-qualified employees or to retain or motivate existing employees, our business could be materially hindered by, for example, a delay in our ability to deliver products and services under contract, bring new products and services to market or respond swiftly to customer demands or new offerings from competitors. Even if we are able to maintain our employee base, the resources needed to recruit and retain such employees may adversely affect our business, financial condition and results of operations.

Our collection, processing, storage, use and transmission of personal data could give rise to liabilities as a result of governmental regulation, conflicting legal requirements, differing views on data privacy or security breaches. We collect, process, store, use and transmit a large volume of personal data on a daily basis, including, for example, to process travel transactions for our customers and to deliver other travel-related products and services. Personal data is increasingly subject to legal and regulatory protections around the world, which vary widely in approach and which possibly conflict with one another. In recent years, for example, U.S. legislators and regulatory agencies, such as the Federal Trade Commission, as well as U.S. states, have increased their focus on protecting personal data by law and regulation, and have increased enforcement actions for violations of privacy and data protection requirements. The GDPR, a new data protection law adopted by the European Commission, went into effect on May 25, 2018. These data protection laws and regulations are intended to protect the privacy and security of personal data, including credit card information that is collected, processed and transmitted in or from the relevant jurisdiction. Implementation of and compliance with these laws and regulations may be more costly or take longer than we anticipate, or could otherwise adversely affect our business operations, which could negatively impact our financial position or cash flows. Additionally, media coverage of data breaches has escalated, in part because of the increased number of enforcement actions, investigations and lawsuits. As this focus and attention on privacy and data protection increases, we also risk exposure to potential liabilities and costs resulting from the compliance with, or any failure to comply with applicable legal requirements, conflicts among these legal requirements or differences in approaches to privacy and security of travel data. Our business could be materially adversely affected by our inability, or the inability of our vendors who receive personal data from us, to comply with legal obligations regarding the use of personal data, new data handling requirements that conflict with or negatively impact our business practices. In addition, our agreements with customers may also require that we indemnify the customer for liability arising from data breaches under the terms of our agreements with these customers. These indemnification obligations could be significant and may exceed the limits of any applicable insurance policy we maintain. See “—Security breaches could expose us to liability and damage our reputation and our business.”

We are exposed to risks associated with PCI compliance.

The PCI Data Security Standard (“PCI DSS”) is a specific set of comprehensive security standards required by credit card brands for enhancing payment account data security, including but not limited to requirements for security management, policies, procedures, network architecture, and software design. PCI DSS compliance is required in order to maintain credit card processing services. The cost of compliance with PCI DSS is significant and may increase as the requirements change. We are tested periodically for assurance and successfully completed our last annual assessment in September 2018. Compliance does not guarantee a completely secure environment and notwithstanding the results of this assessment there can be no assurance that payment card brands will not request further compliance assessments or set forth additional requirements to maintain access to credit card processing services. See “—Security breaches could expose us to liability and damage our reputation and our business.” Compliance is an ongoing effort and the requirements evolve as new threats are identified. In the event that we were to lose PCI DSS compliance status (or fail to renew compliance under a future version of the PCI DSS), we could be exposed to increased operating costs, fines and penalties and, in extreme circumstances, may have our credit card processing privileges revoked, which would have a material adverse effect on our business.

Our business could be harmed by adverse global and regional economic and political conditions.

Travel expenditures are sensitive to personal and business discretionary spending levels and grow more slowly or decline during economic downturns. We derive the majority of our revenue from the United States and Europe, and we have expanded Travel Network's presence in APAC. Our geographic concentration in the United States and Europe, as well as our expanded focus in APAC, makes our business potentially vulnerable to economic and political conditions that adversely affect business and leisure travel originating in or traveling to these regions.

Despite modest growth in the U.S. economy, there is still weakness in other parts of the global economy, including increased unemployment, reduced financial capacity of both business and leisure travelers, diminished liquidity and credit availability, declines in consumer confidence and discretionary income and general uncertainty about economic stability. Furthermore, recent changes in the U.S. political environment have resulted in additional uncertainties with respect to travel restrictions, and the regulatory, tax and economic environment in the United States, which could

adversely impact travel demand, our business operations or our financial results. We cannot predict the magnitude, length or recurrence of recessionary or low-growth economic patterns, which have impacted, and may continue to impact, demand for travel and lead to reduced spending on the services we provide.

We derive the remainder of our revenues from Latin America, the Middle East and Africa and APAC. Any unfavorable economic, political or regulatory developments in these regions could negatively affect our business, such as delays in payment or non-payment of contracts, delays in contract implementation or signing, carrier control issues and increased costs from regulatory changes particularly as parts of our growth strategy involve expanding our presence in these emerging markets. For example, markets that have traditionally had a high level of exports to China, or that have commodities-based economies, have continued to experience slowing or deteriorating economic conditions. These adverse economic conditions may negatively impact our business results in those regions.

Similarly, in Venezuela, due to currency controls that impact the ability of certain of our airline customers operating in the country to obtain U.S. dollars to make timely payments to us, the collection of accounts receivable due to us can be, and has been, delayed. Due to the nature of this delay, we are deferring the recognition of any future revenues until cash is collected in accordance with our policies. Accordingly, our accounts receivable are subject to a general collection risk, as there can be no assurance that we will be paid from such customers in a timely manner, if at all. In response to the political and economic uncertainty in Venezuela, certain airlines have scaled back operations in response to the reduced demand for travel by local consumers as well as the currency controls which has impacted our airline customers in Venezuela.

Voters in the U.K. have approved the exit of that country from the E.U. (“Brexit”), and the British government has provided official notification to the E.U. that it intends to withdraw from the E.U. The Brexit vote and related process have created significant economic uncertainty in the U.K. and in EMEA, which may negatively impact our business results in those regions. In addition, the terms of the U.K.’s withdrawal from the E.U., once negotiated, could potentially disrupt the markets we serve and the tax jurisdictions in which we operate and adversely change tax benefits or liabilities in these or other jurisdictions, and may cause us to lose customers, suppliers, and employees. In addition, Brexit could lead to legal uncertainty and potentially divergent national laws and regulations as the U.K. determines which E.U. laws to replace or replicate.

We operate a global business that exposes us to risks associated with international activities.

Our international operations involve risks that are not generally encountered when doing business in the United States. These risks include, but are not limited to:

- business, political and economic instability in foreign locations, including actual or threatened terrorist activities, and military action;

- adverse laws and regulatory requirements, including more comprehensive regulation in the E.U. and the possible effects of the Brexit vote;

- changes in foreign currency exchange rates and financial risk arising from transactions in multiple currencies;

- difficulty in developing, managing and staffing international operations because of distance, language and cultural differences;

- disruptions to or delays in the development of communication and transportation services and infrastructure;

- more restrictive data privacy requirements, including the GDPR;

- consumer attitudes, including the preference of customers for local providers;

- increasing labor costs due to high wage inflation in foreign locations, differences in general employment conditions and regulations, and the degree of employee unionization and activism;

- export or trade restrictions or currency controls;

- governmental policies or actions, such as consumer, labor and trade protection measures and travel restrictions;

- taxes, restrictions on foreign investment and limits on the repatriation of funds;

- diminished ability to legally enforce our contractual rights; and

- decreased protection for intellectual property.

Any of the foregoing risks may adversely affect our ability to conduct and grow our business internationally.

We rely on the value of our brands, which may be damaged by a number of factors, some of which are out of our control.

We believe that maintaining and expanding our portfolio of product and service brands are important aspects of our efforts to attract and expand our customer base. Our brands may be negatively impacted by, among other things, unreliable service levels from third-party providers, customers’ inability to properly interface their applications with our technology, the loss or unauthorized disclosure of personal data, including PCI or PII, or other bad publicity due to litigation, regulatory concerns or otherwise relating to our business. See “—Security breaches could expose us to liability and damage our reputation and our business.” Any inability to maintain or enhance awareness of our brands among our existing and target customers could negatively affect our current and future business prospects.

We are involved in various legal proceedings which may cause us to incur significant fees, costs and expenses and may result in unfavorable outcomes.

We are involved in various legal proceedings that involve claims for substantial amounts of money or which involve how we conduct our business. See Note 10. Contingencies, to our consolidated financial statements. For example, the court has entered a judgment against us as a result of the jury verdict we recently received in the antitrust litigation with US Airways, and we have appealed this judgment. Other parties might likewise seek to benefit from any unfavorable outcome by threatening to bring or actually bringing their own claims against us on the same or similar grounds or utilizing the litigation to seek more favorable contract terms. We are also subject to a U.S. Department of Justice ("DOJ") antitrust investigation from 2011 relating to the pricing and conduct of the airline distribution industry. We received a civil investigation demand ("CID") from the DOJ and we are fully cooperating. The DOJ has also sent CIDs to other companies in the travel industry. Based on its findings in the investigation, the DOJ may (i) close the file, (ii) seek a consent decree to remedy issues it believes violate the antitrust laws, or (iii) file suit against us for violating the antitrust laws, seeking injunctive relief. Depending on the outcome of any of these proceedings, and the scope of the outcome, the manner in which our airline distribution business is operated could be affected and could potentially force changes to the existing airline distribution business model.

The defense of these actions, as well as any of the other actions described under Note 10. Contingencies, to our consolidated financial statements or elsewhere in this Quarterly Report on Form 10-Q, and any other actions brought against us in the future, is time consuming and diverts management's attention. Even if we are ultimately successful in defending ourselves in such matters, we are likely to incur significant fees, costs and expenses as long as they are ongoing. Any of these consequences could have a material adverse effect on our business, financial condition and results of operations.

Any failure to comply with regulations or any changes in such regulations governing our businesses could adversely affect us.

Parts of our business operate in regulated industries and could be adversely affected by unfavorable changes in or the enactment of new laws, rules or regulations applicable to us, which could decrease demand for our products and services, increase costs or subject us to additional liabilities. Moreover, regulatory authorities have relatively broad discretion to grant, renew and revoke licenses and approvals and to implement or interpret regulations. Accordingly, these regulatory authorities could prevent or temporarily suspend us from carrying on some or all of our activities or otherwise penalize us if our practices were found not to comply with the applicable regulatory or licensing requirements or any interpretation of such requirements by the regulatory authority. Our failure to comply with any of these requirements or interpretations could have a material adverse effect on our operations.

Further, the United States has imposed economic sanctions that affect transactions with designated countries, including Cuba, Iran, Crimea region, North Korea and Syria, and nationals and others of those countries, and certain specifically targeted individuals and entities engaged in conduct detrimental to U.S. national security interests. These sanctions are administered by the U.S. Department of the Treasury's Office of Foreign Assets Control ("OFAC") and are typically known as the OFAC regulations. These regulations are extensive and complex, and they differ from one sanctions regime to another. Failure to comply with these regulations could subject us to legal and reputational consequences, including civil and criminal penalties.

We have contracts with carriers that fly to Cuba, Iran, Crimea region, North Korea and Syria but are based outside of those countries and are not owned by those governments or nationals of those governments. With respect to Iran, North Korea and Syria we believe that our activities are designed to comply with certain information and travel-related exemptions. With respect to Cuba, we have advised OFAC that customers outside the United States we display on the Sabre GDS flight information for, and support booking and ticketing of, services of non-Cuban airlines that offer service to Cuba. Based on advice of counsel, we believe these activities to fall under an exemption from OFAC regulations applicable to the transmission of information and informational materials and transactions related thereto.

We believe that our activities with respect to these countries are known to OFAC. We note, however, that OFAC regulations and related interpretive guidance are complex and subject to varying interpretations. Due to this complexity, OFAC's interpretation of its own regulations and guidance vary on a case to case basis. As a result, we

cannot provide any guarantees that OFAC will not challenge any of our activities in the future, which could have a material adverse effect on our results of operations.

In Europe, GDS regulations or interpretations thereof may increase our cost of doing business or lower our revenues, limit our ability to sell marketing data, impact relationships with travel buyers, airlines, rail carriers or others, impair the enforceability of existing agreements with travel buyers and other users of our system, prohibit or limit us from offering services or products, or limit our ability to establish or change fees. Although regulations specifically governing GDSs have been lifted in the United States, they remain subject to general regulation regarding unfair trade practices by the U.S. Department of Transportation (“DOT”). In addition, continued regulation of GDSs in the E.U. and elsewhere could also create the operational challenge of supporting different products, services and business practices to conform to the different regulatory regimes. We do not currently maintain a central database of all regulatory requirements affecting our worldwide operations and, as a result, the risk of non-compliance with the laws and regulations described above is heightened. Our failure to comply with these laws and regulations may subject us to fines, penalties and potential criminal violations. Any changes to these laws or regulations or any new laws or regulations may make it more difficult for us to operate our business.

We rely on third-party distributor partners and joint ventures to extend our GDS services to certain regions, which exposes us to risks associated with lack of direct management control and potential conflicts of interest.

Our Travel Network business utilizes third-party distributor partners and joint ventures to extend our GDS services in EMEA and APAC. We work with these partners to establish and maintain commercial and customer service relationships with both travel suppliers and travel buyers. Since, in many cases, we do not exercise full management control over their day-to-day operations, the success of their marketing efforts and the quality of the services they provide are beyond our control. If these partners do not meet our standards for distribution, our reputation may suffer materially, and sales in those regions could decline significantly. Any interruption in these third-party services, deterioration in their performance or termination of our contractual arrangements with them could negatively impact our ability to extend our GDS services in the relevant markets. In addition, our business may be harmed due to potential conflicts of interest with our joint venture partners.

We use open source software in our solutions that may subject our software solutions to general release or require us to re-engineer our solutions.

We use open source software in our solutions and may use more open source software in the future. From time to time, there have been claims by companies claiming ownership of software that was previously thought to be open source and that was incorporated by other companies into their products. As a result, we could be subject to suits by parties claiming ownership of what we believe to be open source software. Some open source licenses contain requirements that we make available source code for modifications or derivative works we create based upon the open source software and that we license these modifications or derivative works under the terms of a particular open source license or other license granting third parties certain rights of further use. If we combine or, in some cases, link our proprietary software solutions with or to open source software in a certain manner, we could, under certain of the open source licenses, be required to release the source code of our proprietary software solutions or license such proprietary solutions under the terms of a particular open source license or other license granting third parties certain rights of further use. In addition to risks related to license requirements, usage of open source software can lead to greater risks than use of third-party commercial software, as open source licensors generally do not provide warranties or controls on origin of the software. In addition, open source license terms may be ambiguous and many of the risks associated with usage of open source cannot be eliminated, and could, if not properly addressed, negatively affect our business. If we were found to have inappropriately used open source software, we may be required to seek licenses from third parties in order to continue offering our software, to re-engineer our solutions, to discontinue the sale of our solutions in the event re-engineering cannot be accomplished on a timely basis or take other remedial action that may divert resources away from our development efforts, any of which could adversely affect our business, operating results and financial condition.

We are exposed to risks associated with acquiring or divesting businesses or business operations.

We have acquired, and, as part of our growth strategy, may in the future acquire, businesses or business operations. We may not be able to identify suitable candidates for additional business combinations and strategic investments, obtain financing on acceptable terms for such transactions, obtain necessary regulatory approvals or otherwise consummate such transactions on acceptable terms, or at all. Any acquisitions that we are able to identify and complete may also involve a number of risks, including our inability to successfully or profitably integrate, operate, maintain and manage our newly acquired operations or employees; the diversion of our management's attention from our existing business to integrate operations and personnel; possible material adverse effects on our results of operations during the integration process; becoming subject to contingent or other liabilities, including liabilities arising from events or conduct predating the acquisition that were not known to us at the time of the acquisition; and our possible inability to achieve the intended objectives of the transaction, including the inability to achieve cost savings and synergies. Acquisitions may also have unanticipated tax, regulatory and accounting ramifications, including recording goodwill and nonamortizable intangible assets that are subject to impairment testing on a regular basis and potential periodic impairment charges and incurring amortization expenses related to certain intangible assets. To consummate any such transactions, we may need to raise external funds through the sale of equity or the issuance of debt in the capital markets or through private placements, which may affect our liquidity and may dilute the value of our common stock. See "—We have a significant amount of indebtedness, which could adversely affect our

cash flow and our ability to operate our business and to fulfill our obligations under our indebtedness."

We have also divested, and may in the future divest, businesses or business operations. Any divestitures may involve a number of risks, including the diversion of management's attention, significant costs and expenses, the loss of customer relationships and cash flow, and the disruption of the affected business or business operations. Failure to timely complete or to consummate a divestiture may negatively affect the valuation of the affected business or business operations or result in restructuring charges.

Intellectual property infringement actions against us could be costly and time consuming to defend and may result in business harm if we are unsuccessful in our defense.

Third parties may assert, including by means of counterclaims against us as a result of the assertion of our intellectual property rights, that our products, services or technology, or the operation of our business, violate their intellectual property rights. We are currently subject to such assertions, including patent infringement claims, and may be subject to such assertions in the future. These assertions may also be made against our customers who may seek indemnification from us. In the ordinary course of business, we enter into agreements that contain indemnity obligations whereby we are required to indemnify our customers against these assertions arising from our customers' usage of our products, services or technology. As the competition in our industry increases and the functionality of technology offerings further overlaps, these claims and counterclaims could become more common. We cannot be certain that we do not or will not infringe third parties' intellectual property rights.

Legal proceedings involving intellectual property rights are highly uncertain, and can involve complex legal and scientific questions. Any intellectual property claim against us, regardless of its merit, could result in significant liabilities to our business, and can be expensive and time consuming to defend. Depending on the nature of such claims, our businesses may be disrupted, our management's attention and other company resources may be diverted and we may be required to redesign, reengineer or rebrand our products and services, if feasible, to stop offering certain products and services or to enter into royalty or licensing agreements in order to obtain the rights to use necessary technologies, which may not be available on terms acceptable to us, if at all, and may result in a decrease of our competitive advantage. Our failure to prevail in such matters could result in loss of intellectual property rights, judgments awarding substantial damages, including possible treble damages and attorneys' fees, and injunctive or other equitable relief against us. If we are held liable, we may be unable to exploit some or all of our intellectual property rights or technology. Even if we are not held liable, we may choose to settle claims by making a monetary payment or by granting a license to intellectual property rights that we otherwise would not license. Further, judgments may result in loss of reputation, may force us to take costly remediation actions, delay selling our products and offering our services, reduce features or functionality in our services or products, or cease such activities altogether. Insurance may not cover or be insufficient for any such claim.

We may not have sufficient insurance to cover our liability in pending litigation claims and future claims either due to coverage limits or as a result of insurance carriers seeking to deny coverage of such claims, which in either case could expose us to significant liabilities.

We maintain third-party insurance coverage against various liability risks, including securities, stockholders, derivative, ERISA, and product liability claims, as well as other claims that form the basis of litigation matters pending against us. We believe these insurance programs are an effective way to protect our assets against liability risks. However, the potential liabilities associated with litigation matters pending against us, or that could arise in the future, could exceed the coverage provided by such programs. In addition, our insurance carriers have in the past sought or may in the future seek to rescind or deny coverage with respect to pending claims or lawsuits, completed investigations or pending or future investigations and other legal actions against us. If we do not have sufficient coverage under our policies, or if the insurance companies are successful in rescinding or denying coverage, we may be required to make material payments in connection with third-party claims.

We may not be able to protect our intellectual property effectively, which may allow competitors to duplicate our products and services.

Our success and competitiveness depend, in part, upon our technologies and other intellectual property, including our brands. Among our significant assets are our proprietary and licensed software and other proprietary information and intellectual property rights. We rely on a combination of copyright, trademark and patent laws, laws protecting trade secrets, confidentiality procedures and contractual provisions to protect these assets both in the United States and in foreign countries. The laws of some jurisdictions may provide less protection for our technologies and other intellectual property assets than the laws of the United States.

There is no certainty that our intellectual property rights will provide us with substantial protection or commercial benefit. Despite our efforts to protect our intellectual property, some of our innovations may not be protectable, and our intellectual property rights may offer insufficient protection from competition or unauthorized use, lapse or expire,

be challenged, narrowed, invalidated, or misappropriated by third parties, or be deemed unenforceable or abandoned, which could have a material adverse effect on our business, financial condition and results of operations and the legal remedies available to us may not adequately compensate us. We cannot be certain that others will not independently develop, design around, or otherwise acquire equivalent or superior technology or intellectual property rights.

While we take reasonable steps to protect our brands and trademarks, we may not be successful in maintaining or defending our brands or preventing third parties from adopting similar brands. If our competitors infringe our principal trademarks, our brands may become diluted or if our competitors introduce brands or products that cause confusion with our brands or products in the marketplace, the value that our consumers associate with our brands may become diminished, which could negatively impact revenue.

Our patent applications may not be granted, and the patents we own could be challenged, invalidated, narrowed or circumvented by others and may not be of sufficient scope or strength to provide us with any meaningful protection or commercial advantage. Once our patents expire, or if they are invalidated, narrowed or circumvented, our competitors may be able to utilize the technology protected by our patents which may adversely affect our business.

Although we rely on copyright laws to protect the works of authorship created by us, we do not generally register the copyrights in our copyrightable works where such registration is permitted. Copyrights of U.S. origin must be registered before the copyright owner may bring an infringement suit in the United States. Accordingly, if one of our unregistered copyrights of U.S. origin is infringed by a third party, we will need to register the copyright before we can file an infringement suit in the United States, and our remedies in any such infringement suit may be limited. We use reasonable efforts to protect our trade secrets. However, protecting trade secrets can be difficult and our efforts may provide inadequate protection to prevent unauthorized use, misappropriation, or disclosure of our trade secrets, know how, or other proprietary information.

We also rely on our domain names to conduct our online businesses. While we use reasonable efforts to protect and maintain our domain names, if we fail to do so the domain names may become available to others. Further, the regulatory bodies that oversee domain name registration may change their regulations in a way that adversely affects our ability to register and use certain domain names.

We license software and other intellectual property from third parties. These licensors may breach or otherwise fail to perform their obligations, or claim that we have breached or otherwise attempt to terminate their license agreements with us. We also rely on license agreements to allow third parties to use our intellectual property rights, including our software, but there is no guarantee that our licensees will abide by the terms of our license agreements or that the terms of our agreements will always be enforceable.

In addition, policing unauthorized use of and enforcing intellectual property can be difficult and expensive. The fact that we have intellectual property rights, including registered intellectual property rights, may not guarantee success in our attempts to enforce these rights against third parties. Besides general litigation risks, changes in, or interpretations of, intellectual property laws may compromise our ability to enforce our rights. We may not be aware of infringement or misappropriation, or elect not to seek to prevent it. Our decisions may be based on a variety of factors, such as costs and benefits of taking action, and contextual business, legal, and other issues. Any inability to adequately protect our intellectual property on a cost-effective basis could harm our business.

Defects in our products may subject us to significant warranty liabilities or product liability claims and we may have insufficient product liability insurance to pay material uninsured claims.

Our business exposes us to the risk of product liability claims that are inherent in software development. We may inadvertently create defective software, or supply our customers with defective software or software components that we acquire from third parties, which could result in personal injury, property damage or other liabilities, and may result in warranty or product liability claims brought against us, our travel supplier customers or third parties.

Under our customer agreements, we generally must indemnify our customers for liability arising from intellectual property infringement claims with respect to our software. These indemnification obligations could be significant and we may not have adequate insurance coverage to protect us against all claims. The combination of our insurance coverage, cash flows and reserves may not be adequate to satisfy product liabilities we may incur in the future. Even meritless claims could subject us to adverse publicity, hinder us from securing insurance coverage in the future, require us to incur significant legal fees, decrease demand for any products that we successfully develop, divert management's attention, and force us to limit or forgo further development and commercialization of these products. The cost of any product liability litigation or other proceedings, even if resolved in our favor, could be substantial. We may have higher than anticipated tax liabilities.

We are subject to a variety of taxes in many jurisdictions globally, including income taxes in the United States at the federal, state and local levels, and in many other countries. Significant judgment is required in determining our worldwide provision for income taxes. In the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is uncertain. We operate in numerous countries where our income tax returns are subject to audit and adjustment by local tax authorities. Because we operate globally, the nature of the uncertain tax positions is often very complex and subject to change, and the amounts at issue can be substantial. It is inherently difficult and subjective to estimate such amounts, as we have to determine the probability of various possible outcomes. We re-evaluate uncertain tax positions on a quarterly basis. This evaluation is based on factors including, but not limited to, changes in facts or circumstances, changes in tax law, effectively settled issues under audit and new audit activity. Although we believe our tax estimates are reasonable, the final determination of tax

audits could be materially different from our historical income tax provisions and accruals. Our effective tax rate may change from year to year based on changes in the mix of activities and income allocated or earned among various jurisdictions, tax laws in these jurisdictions, tax treaties between countries, our eligibility for benefits under those tax treaties, and the estimated values of deferred tax assets and liabilities. Such changes could result in an increase in the effective tax rate applicable to all or a portion of our income which would reduce our profitability.

We establish reserves for our potential liability for U.S. and non-U.S. taxes, including sales, occupancy and VAT, consistent with applicable accounting principles and in light of all current facts and circumstances. We also establish reserves when required relating to the collection of refunds related to value-added taxes, which are subject to audit and collection risks in various countries. Historically our right to recover certain value-added tax receivables associated with our European businesses has been questioned by tax authorities. These reserves represent our best estimate of our contingent liability for taxes. The interpretation of tax laws and the determination of any potential liability under those laws are complex, and the amount of our liability may exceed our established reserves.

We consider the investment in our foreign subsidiaries as of September 30, 2018 to be indefinitely reinvested and, accordingly, no U.S. income taxes have been provided thereon.

New tax laws, statutes, rules, regulations or ordinances could be enacted at any time and existing tax laws, statutes, rules, regulations and ordinances could be interpreted, changed, modified or applied adversely to us. These events could require us to pay additional tax amounts on a prospective or retroactive basis, as well as require us to pay fees, penalties or interest for past amounts deemed to be due. New, changed, modified or newly interpreted or applied laws could also increase our compliance, operating and other costs, as well as the costs of our products and services. For example, on December 22, 2017, the TCJA was signed into law. The TCJA contains significant changes to the U.S. corporate income tax system, including a reduction of the federal corporate income tax rate from 35% to 21%, a limitation of the tax deduction for interest expense to 30% of adjusted taxable income (as defined in the TCJA), base erosion provisions related to intercompany foreign payments and global low-taxed income, one-time taxation of offshore earnings at reduced rates in connection with the transition of U.S. international taxation from a worldwide tax system to a territorial tax system, elimination of U.S. tax on foreign earnings (subject to certain important exceptions), and modifying or repealing many business deductions and credits. We continue to evaluate the potential effects that the TCJA may have on our operations, cash flows and results of operations. Notwithstanding the reduction in the federal corporate income tax rate, the future impact of the TCJA, including on our global operations, is uncertain, and our business and financial condition could be adversely affected.

We may recognize impairments on long-lived assets, including goodwill and other intangible assets, or recognize impairments on our equity method investments.

Our consolidated balance sheet at September 30, 2018 contained goodwill and intangible assets, net totaling \$3 billion. Future acquisitions that result in the recognition of additional goodwill and intangible assets would cause an increase in these types of assets. We do not amortize goodwill and intangible assets that are determined to have indefinite useful lives, but we amortize definite-lived intangible assets on a straight-line basis over their useful economic lives, which range from four to thirty years, depending on classification.

We evaluate goodwill for impairment on an annual basis or earlier if impairment indicators exist and we evaluate definite-lived intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of definite-lived intangible assets used in combination to generate cash flows largely independent of other assets may not be recoverable. We record an impairment charge whenever the estimated fair value of our reporting units or of such intangible assets is less than its carrying value.

The fair values used in our impairment evaluation are estimated using a combined approach based upon discounted future cash flow projections and observed market multiples for comparable businesses. Changes in estimates based on changes in risk-adjusted discount rates, future booking and transaction volume levels, future price levels, rates of growth in our consumer and corporate direct booking businesses, rates of increase in operating expenses, cost of revenue and taxes could result in material impairment charges.

Our pension plan obligations are currently unfunded, and we may have to make significant cash contributions to our plans, which could reduce the cash available for our business.

Our pension plans in the aggregate are estimated to be unfunded by \$112 million as of December 31, 2017. With approximately 5,000 participants in our pension plans, we incur substantial costs relating to pension benefits, which can vary substantially as a result of changes in healthcare laws and costs, volatility in investment returns on pension plan assets and changes in discount rates used to calculate related liabilities. Our estimates of liabilities and expenses for pensions and other post-retirement healthcare benefits require the use of assumptions, including assumptions relating to the rate used to discount the future estimated liability, the rate of return on plan assets, inflation and several assumptions relating to the employee workforce (medical costs, retirement age and mortality). Actual results may differ, which may have a material adverse effect on our business, prospects, financial condition or results of operations. Future volatility and disruption in the stock markets could cause a decline in the asset values of our pension plans. In addition, a decrease in the discount rate used to determine minimum funding requirements could result in increased future contributions. If either occurs, we may need to make additional pension contributions above what is currently estimated, which could reduce the cash available for our businesses.

We may require more cash than we generate in our operating activities, and additional funding on reasonable terms or at all may not be available.

We cannot guarantee that our business will generate sufficient cash flow from operations to fund our capital investment requirements or other liquidity needs. Moreover, because we are a holding company with no material direct operations, we depend on loans, dividends and other payments from our subsidiaries to generate the funds necessary to meet our financial obligations. Our subsidiaries are legally distinct from us and may be prohibited or restricted from paying dividends or otherwise making funds available to us under certain conditions.

As a result, we may be required to finance our cash needs through bank loans, additional debt financing, public or private equity offerings or otherwise. Our ability to arrange financing and the cost of such financing are dependent on numerous factors, including but not limited to general economic and capital market conditions, the availability of credit from banks or other lenders, investor confidence in us, and our results of operations.

There can be no assurance that financing will be available on terms favorable to us or at all, which could force us to delay, reduce or abandon our growth strategy, increase our financing costs, or both. Additional funding from debt financings may make it more difficult for us to operate our business because a portion of our cash generated from internal operations would be used to make principal and interest payments on the indebtedness and we may be obligated to abide by restrictive covenants contained in the debt financing agreements, which may, among other things, limit our ability to make business decisions and further limit our ability to pay dividends.

In addition, any downgrade of our debt ratings by Standard & Poor's, Moody's Investor Service or similar ratings agencies, increases in general interest rate levels and credit spreads or overall weakening in the credit markets could increase our cost of capital. Furthermore, raising capital through public or private sales of equity to finance acquisitions or expansion could cause earnings or ownership dilution to your shareholding interests in our company. We have a significant amount of indebtedness, which could adversely affect our cash flow and our ability to operate our business and to fulfill our obligations under our indebtedness.

We have a significant amount of indebtedness. As of September 30, 2018, we had \$3.4 billion of indebtedness outstanding in addition to \$385 million of availability under our Revolver, after taking into account the availability reduction of \$15 million for letters of credit issued under our Revolver. Our substantial level of indebtedness increases the possibility that we may not generate enough cash flow from operations to pay, when due, the principal of, interest on or other amounts due in respect of, these obligations. Other risks relating to our long-term indebtedness include:

- increased vulnerability to general adverse economic and industry conditions;
- higher interest expense if interest rates increase on our floating rate borrowings and our hedging strategies do not effectively mitigate the effects of these increases;
- need to divert a significant portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of cash to fund working capital, capital expenditures, acquisitions, investments and other general corporate purposes;
- limited ability to obtain additional financing, on terms we find acceptable, if needed, for working capital, capital expenditures, expansion plans and other investments, which may adversely affect our ability to implement our business strategy;
- limited flexibility in planning for, or reacting to, changes in our businesses and the markets in which we operate or to take advantage of market opportunities; and
- a competitive disadvantage compared to our competitors that have less debt.

In addition, it is possible that we may need to incur additional indebtedness in the future in the ordinary course of business. The terms of our Amended and Restated Credit Agreement and the indentures governing our senior secured notes due in 2023 allow us to incur additional debt subject to certain limitations. If new debt is added to current debt levels, the risks described above could intensify. In addition, our inability to maintain certain leverage ratios could result in acceleration of a portion of our debt obligations and could cause us to be in default if we are unable to repay the accelerated obligations.

We are exposed to interest rate fluctuations.

Our floating rate indebtedness exposes us to fluctuations in prevailing interest rates. To reduce the impact of large fluctuations in interest rates, we typically hedge a portion of our interest rate risk by entering into derivative agreements with financial institutions. Our exposure to interest rates relates primarily to our borrowings under the Amended and Restated Credit Agreement.

The derivative agreements that we use to manage the risk associated with fluctuations in interest rates may not be able to eliminate the exposure to these changes. Interest rates are sensitive to numerous factors outside of our control, such as government and central bank monetary policy in the jurisdictions in which we operate. Depending on the size of the exposures and the relative movements of interest rates, if we choose not to hedge or fail to effectively hedge our exposure, we could experience a material adverse effect on our results of operations and financial condition.

We are exposed to exchange rate fluctuations.

We conduct various operations outside the United States, primarily in APAC, Europe and Latin America. During the nine months ended September 30, 2018, foreign currency operations included \$209 million of revenue and \$446 million of operating expenses, representing approximately 7% and 18% of our total revenue and operating expenses, respectively. During the year ended December 31, 2017, foreign currency operations included \$256 million of revenue and \$595 million of operating expenses, representing approximately 7% and 20% of our total revenue and operating expenses, respectively. Our most significant foreign currency operating expenses are in the Euro, representing approximately 8% of our operating expenses for the nine months ended September 30, 2018 and the year ended December 31, 2017. As a result, we face exposure to movements in currency exchange rates. These exposures include but are not limited to:

- re-measurement gains and losses from changes in the value of foreign denominated assets and liabilities;
- translation gains and losses on foreign subsidiary financial results that are translated into U.S. dollars, our functional currency, upon consolidation;
- planning risk related to changes in exchange rates between the time we prepare our annual and quarterly forecasts and when actual results occur; and
- the impact of relative exchange rate movements on cross-border travel, principally travel between Europe and the United States.

Depending on the size of the exposures and the relative movements of exchange rates, if we choose not to hedge or fail to hedge effectively our exposure, we could experience a material adverse effect on our results of operations and financial condition. As we have seen in prior periods, in the event of severe volatility in exchange rates, these exposures can increase, and the impact on our results of operations and financial condition can be more pronounced. In addition, the current environment and the increasingly global nature of our business have made hedging these exposures more complex and costly.

To reduce the impact of this earnings volatility, we hedge our foreign currency exposure by entering into foreign currency forward contracts on several of our largest foreign currency exposures, including the Singaporean Dollar, the British Pound Sterling, the Polish Zloty, the Australian Dollar, the Indian Rupee, the Brazilian Real, and the Swedish Krona. Although we have increased and may continue to increase the scope, complexity and duration of our foreign exchange risk management strategy, our current or future hedging activities may not sufficiently protect us from the adverse effects of currency exchange rate movements. Moreover, we make a number of estimates in conducting hedging activities, including in some cases the level of future bookings, cancellations, refunds, customer stay patterns and payments in foreign currencies. In the event those estimates differ significantly from actual results, we could experience greater volatility as a result of our hedging activities.

The terms of our debt covenants could limit our discretion in operating our business and any failure to comply with such covenants could result in the default of all of our debt.

The agreements governing our indebtedness contain and the agreements governing our future indebtedness will likely contain various covenants, including those that restrict our or our subsidiaries' ability to, among other things:

- incur liens on our property, assets and revenue;
- borrow money, and guarantee or provide other support for the indebtedness of third parties;
- pay dividends or make other distributions on, redeem or repurchase our capital stock;
- prepay, redeem or repurchase certain of our indebtedness;
- enter into certain change of control transactions;
- make investments in entities that we do not control, including joint ventures;
- enter into certain asset sale transactions, including divestiture of certain company assets and divestiture of capital stock of wholly-owned subsidiaries;
- enter into certain transactions with affiliates;
- enter into secured financing arrangements;
- enter into sale and leaseback transactions;
- change our fiscal year; and
- enter into substantially different lines of business.

These covenants may limit our ability to effectively operate our businesses or maximize stockholder value. In addition, our Amended and Restated Credit Agreement requires that we meet certain financial tests, including the maintenance of a leverage ratio and a minimum net worth. Our ability to satisfy these tests may be affected by factors and events beyond our control, and we may be unable to meet such tests in the future.

Any failure to comply with the restrictions of our Amended and Restated Credit Agreement, the indentures governing our senior secured notes due 2023 or any agreement governing our other indebtedness may result in an event of default under those agreements. Such default may allow the creditors to accelerate the related debt, which may trigger cross-acceleration or cross-default provisions in other debt. In addition, lenders may be able to terminate any commitments they had made to supply us with further funds.

We are updating our enterprise resource planning system, and problems with the design or implementation of this system could interfere with our business and operations.

We are continuing to implement a project to consolidate our business technology infrastructure to a single global ERP system. We expect to invest capital and human resources in the design and implementation of the ERP system, which may be disruptive to our underlying business. Any disruptions, delays or deficiencies in the design and implementation of the ERP system, particularly ones that impact our financial reporting and accounting systems, could adversely affect our business. Even if we do not encounter these adverse effects, the design and implementation of the ERP system may be more costly than we anticipate, which could negatively impact our financial position, results of operations and cash flows. In addition, the ERP system will be outsourced to a third-party provider, and any disruption to those outsourced systems may negatively impact our business. See “—We rely on the availability and performance of information technology services provided by third parties, including DXC, which manages a significant portion of our systems.”

Maintaining and improving our financial controls and the requirements of being a public company may strain our resources, divert management’s attention and affect our ability to attract and retain qualified board members.

As a public company, we are subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act of 2002 (the “Sarbanes-Oxley Act”), the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd-Frank Act”) and The NASDAQ Stock Market (“NASDAQ”) rules. The requirements of these rules and regulations have increased and will continue to significantly increase our legal and financial compliance costs, including costs associated with the hiring of additional personnel, making some activities more difficult, time-consuming or costly, and may also place undue strain on our personnel, systems and resources. The Exchange Act requires, among other things, that we file annual, quarterly and current reports with respect to our business and financial condition.

The Sarbanes-Oxley Act requires, among other things, that we maintain disclosure controls and procedures and internal control over financial reporting. Ensuring that we have adequate internal financial and accounting controls and procedures in place, as well as maintaining these controls and procedures, is a costly and time-consuming effort that needs to be re-evaluated frequently. Section 404 of the Sarbanes-Oxley Act (“Section 404”) requires that we annually evaluate our internal control over financial reporting to enable management to report on, and our independent auditors to audit as of the end of each fiscal year the effectiveness of those controls. In connection with the Section 404 requirements, both we and our independent registered public accounting firm test our internal controls and could, as part of that documentation and testing, identify material weaknesses, significant deficiencies or other areas for further attention or improvement.

Implementing any appropriate changes to our internal controls may require specific compliance training for our directors, officers and employees, require the hiring of additional finance, accounting and other personnel, entail substantial costs to modify our existing accounting systems, and take a significant period of time to complete. These changes may not, however, be effective in maintaining the adequacy of our internal controls, and any failure to maintain that adequacy, or consequent inability to produce accurate financial statements on a timely basis, could increase our operating costs and could materially impair our ability to operate our business. Moreover, adequate internal controls are necessary for us to produce reliable financial reports and are important to help prevent fraud. As a result, our failure to satisfy the requirements of Section 404 on a timely basis could result in the loss of investor confidence in the reliability of our financial statements, which in turn could cause the market value of our common stock to decline.

Various rules and regulations applicable to public companies make it more difficult and more expensive for us to maintain directors’ and officers’ liability insurance, and we may be required to accept reduced coverage or incur substantially higher costs to maintain coverage. If we are unable to maintain adequate directors’ and officers’ liability insurance, our ability to recruit and retain qualified officers and directors, especially those directors who may be deemed independent for purposes of the NASDAQ rules, will be significantly curtailed.

Concentration of ownership among our Principal Stockholders may prevent new investors from influencing significant corporate decisions and may result in conflicts of interest.

As of September 30, 2018, the Principal Stockholders (as defined below) own, in the aggregate, approximately 8.5% of our outstanding common stock and, consequently, have significant influence over us.

We are a party to an amended and restated Stockholders' Agreement (as further amended and restated, the "Stockholders' Agreement") with the Silver Lake Funds, the TPG Funds and the Sovereign Co-Invest II (each as defined below). Pursuant to the Stockholders' Agreement, the TPG Funds currently have the right to designate for nomination one director, and the Silver Lake Funds currently have the right to designate for nomination one director. In addition, the Silver Lake Funds and the TPG Funds also jointly have the right to designate one additional director who must qualify as independent under the NASDAQ rules and must meet the independence requirements of Rule 10A-3 of the Exchange Act so long as they collectively own at least 10% of their collective Closing Date Shares (as defined in the Stockholders' Agreement). As a result, the Principal Stockholders are able to exercise significant influence over all matters requiring stockholder approval, including: the election of directors; approval of mergers or a sale of all or substantially all of our assets and other significant corporate transactions; and the amendment of our Certificate of Incorporation and our Bylaws. This concentration of influence may delay, deter or prevent acts that would be favored by our other stockholders, who may have interests different from those of our Principal Stockholders. In addition, this significant concentration of share ownership may adversely affect the trading price of our common stock because investors often perceive disadvantages in owning common stock in companies with Principal Stockholders.

"TPG" refers to TPG Global, LLC and its affiliates, the "TPG Funds" refer to one or more of TPG Partners IV, L.P. ("TPG Partners IV"), TPG Partners V, L.P. ("TPG Partners V"), TPG FOF V-A, L.P. ("TPG FOF V-A") and TPG FOF V-B, L.P. ("TPG FOF V-B"), "Silver Lake" refers to Silver Lake Management Company, L.L.C. and its affiliates and "Silver Lake Funds" refer to either or both of Silver Lake Partners II, L.P. and Silver Lake Technology Investors II, L.P. "Sovereign Co-Invest II" refers to Sovereign Co-Invest II, LLC, an entity co-managed by TPG and Silver Lake. "Principal Stockholders" refer to the TPG Funds, the Silver Lake Funds and Sovereign Co-Invest II.

The market price of our common stock could decline due to the large number of outstanding shares of our common stock eligible for future sale.

Sales of substantial amounts of our common stock in the public market in future offerings, or the perception that these sales could occur, could cause the market price of our common stock to decline. These sales could also make it more difficult for us to sell equity or equity-related securities in the future, at a time and price that we deem appropriate. In addition, the additional sale of our common stock by our officers, directors and Principal Stockholders in the public market, or the perception that these sales may occur, could cause the market price of our common stock to decline.

We may issue shares of our common stock or other securities from time to time as consideration for, or to finance, future acquisitions and investments or for other capital needs. We cannot predict the size of future issuances of our shares or the effect, if any, that future sales and issuances of shares would have on the market price of our common stock. If any such acquisition or investment is significant, the number of shares of common stock or the number or aggregate principal amount, as the case may be, of other securities that we may issue may in turn be substantial and may result in additional dilution to our stockholders. We may also grant registration rights covering shares of our common stock or other securities that we may issue in connection with any such acquisitions and investments.

To the extent that any of us, our executive officers, directors or the Principal Stockholders sell, or indicate an intent to sell, substantial amounts of our common stock in the public market, the trading price of our common stock could decline significantly.

Our ability to pay regular dividends to our stockholders is subject to the discretion of our board of directors and may be limited by our holding company structure and applicable provisions of Delaware law.

We intend to continue to pay quarterly cash dividends on our common stock. However, our board of directors may, in its sole discretion, change the amount or frequency of dividends or discontinue the payment of dividends entirely. In addition, because we are a holding company with no material direct operations, we are dependent on loans, dividends and other payments from our operating subsidiaries to generate the funds necessary to pay dividends on our common stock. We expect to cause our subsidiaries to make distributions to us in an amount sufficient for us to pay dividends. However, their ability to make such distributions will be subject to their operating results, cash requirements and financial condition, the applicable provisions of Delaware law that may limit the amount of funds available for distribution and our ability to pay cash dividends, compliance with covenants and financial ratios related to existing or future indebtedness, including under our Amended and Restated Credit Agreement, our senior secured notes due in 2023, and other agreements with third parties. In addition, each of the companies in our corporate chain must manage

its assets, liabilities and working capital in order to meet all of its cash obligations, including the payment of dividends or distributions. As a consequence of these various limitations and restrictions, we may not be able to make, or may have to reduce or eliminate, the payment of dividends on our common stock. Any change in the level of our dividends or the suspension of the payment thereof could adversely affect the market price of our common stock.

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

Share repurchases are made pursuant to a multi-year share repurchase program (the "Share Repurchase Program") authorized by our board of directors on February 6, 2017. This program was announced on February 7, 2017 and allows for the purchase of up to \$500 million of outstanding shares of our common stock in privately negotiated transactions or in the open market, or otherwise. There were no shares repurchased during the third quarter of 2018. Approximately \$365 million remains authorized for repurchases under the Share Repurchase Program as of September 30, 2018.

ITEM 6. EXHIBITS

The following exhibits are filed as part of this Quarterly Report on Form 10-Q.

Exhibit Number	Description of Exhibit
10.63+	<u>Amendment to Employment Agreement, by and between Sabre Corporation and David Shirk, dated July 17, 2018 (incorporated by reference to Exhibit 10.1 of Sabre Corporation's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 18, 2018).</u>
10.64+*	<u>Offer Letter by and between Sabre Corporation and Kimberly Warmbier, dated June 22, 2018.</u>
10.65+*	<u>Offer Letter by and between Sabre Corporation and Cem Tanyel, dated September 4, 2018.</u>
31.1*	<u>Rule 13a-14(a) Certification of Principal Executive Officer</u>
31.2*	<u>Rule 13a-14(a) Certification of Principal Financial Officer</u>
32.1*	<u>Section 1350 Certification of Principal Executive Officer</u>
32.2*	<u>Section 1350 Certification of Principal Financial Officer</u>
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase
101.DEF*	XBRL Taxonomy Extension Definition Linkbase
101.LAB*	XBRL Taxonomy Extension Label Linkbase
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase

+ Indicates management contract or compensatory plan or arrangement.

* Filed herewith

SIGNATURE

Pursuant to 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.

SABRE CORPORATION
(Registrant)

Date: October 30, 2018 By: /s/ Douglas E. Barnett

Douglas E. Barnett
Executive Vice President and Chief Financial Officer
(principal financial officer of the registrant)