

Sabre Corp  
Form 10-Q  
November 02, 2016

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, 2016

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes  No

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

Edgar Filing: Sabre Corp - Form 10-Q

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

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 27, 2016, 280,226,696 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, 2016 and 2015</u>	<u>1</u>
<u>Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2016 and 2015</u>	<u>2</u>
<u>Consolidated Balance Sheets as of September 30, 2016 and December 31, 2015</u>	<u>3</u>
<u>Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2016 and 2015</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>20</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>37</u>
Item 4. <u>Controls and Procedures</u>	<u>38</u>
<u>PART II. OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	<u>38</u>
Item 1A. <u>Risk Factors</u>	<u>38</u>
Item 6. <u>Exhibits</u>	<u>56</u>

---

## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## SABRE CORPORATION

## CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Revenue	\$838,982	\$785,002	\$2,543,767	\$2,202,441
Cost of revenue <sup>(1) (2)</sup>	593,650	509,906	1,704,232	1,440,030
Selling, general and administrative <sup>(2)</sup>	155,182	166,324	435,924	412,042
Operating income	90,150	108,772	403,611	350,369
Other (expense) income:				
Interest expense, net	(38,002 )	(40,581 )	(116,414 )	(129,643 )
Loss on extinguishment of debt	(3,683 )	—	(3,683 )	(33,235 )
Joint venture equity income	718	372	2,244	14,198
Other, net	281	92,568	4,517	88,320
Total other (expense) income, net	(40,686 )	52,359	(113,336 )	(60,360 )
Income from continuing operations before income taxes	49,464	161,131	290,275	290,009
Provision for income taxes	7,208	38,007	79,905	84,966
Income from continuing operations	42,256	123,124	210,370	205,043
(Loss) income from discontinued operations, net of tax	(394 )	53,892	10,858	213,499
Net income	41,862	177,016	221,228	418,542
Net income attributable to noncontrolling interests	1,047	676	3,227	2,501
Net income attributable to common stockholders	\$40,815	\$176,340	\$218,001	\$416,041
Basic net income per share attributable to common stockholders:				
Income from continuing operations	\$0.15	\$0.44	\$0.75	\$0.74
Income from discontinued operations	—	0.20	0.04	0.78
Net income per common share	\$0.15	\$0.64	\$0.79	\$1.53
Diluted net income per share attributable to common stockholders:				
Income from continuing operations	\$0.15	\$0.44	\$0.73	\$0.73
Income from discontinued operations	—	0.19	0.04	0.77
Net income per common share	\$0.14	\$0.63	\$0.77	\$1.49
Weighted-average common shares outstanding:				
Basic	278,399	275,471	277,125	272,224
Diluted	283,462	281,395	282,919	278,848
Dividends per common share	\$0.13	\$0.09	\$0.39	\$0.27
(1) Includes amortization of upfront incentive consideration	\$17,139	\$9,525	\$43,372	\$31,575
(2) Includes stock-based compensation as follows:				
Cost of revenue	\$5,113	\$2,853	\$14,259	\$9,288
Selling, general and administrative	7,800	4,351	21,753	14,040
See Notes to Consolidated Financial Statements.				



SABRE CORPORATION  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Net income	\$41,862	\$177,016	\$221,228	\$418,542
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments, net of tax				
Foreign CTA (losses) gains, net of tax	(819 )	525	720	(1,056 )
Reclassification adjustment for realized losses on foreign CTA, net of tax	—	(18,558 )	(198 )	(18,558 )
Net change in foreign CTA (losses) gains, net of tax	(819 )	(18,033 )	522	(19,614 )
Retirement-related benefit plans:				
Amortization of prior service credits, net of taxes of \$130, \$130, \$389 and \$388	(229 )	(228 )	(686 )	(687 )
Amortization of actuarial losses, net of taxes of \$(520), \$(635), \$(1,551) and \$(1,909)	1,033	1,126	2,852	3,375
Total retirement-related benefit plans	804	898	2,166	2,688
Derivatives and available-for-sale securities:				
Unrealized gains (losses), net of taxes of \$(1,663), \$3,517, \$658 and \$7,092	11,076	(9,589 )	11,361	(17,383 )
Reclassification adjustment for realized losses, net of taxes of \$(154), \$(600), \$(494) and \$(2,777)	227	1,970	1,240	8,902
Net change in unrealized gains (losses) on derivatives and available-for-sale securities, net of tax	11,303	(7,619 )	12,601	(8,481 )
Share of other comprehensive (loss) of joint venture	(336 )	(7,249 )	(336 )	(6,327 )
Other comprehensive income (loss)	10,952	(32,003 )	14,953	(31,734 )
Comprehensive income	52,814	145,013	236,181	386,808
Less: Comprehensive income attributable to noncontrolling interests	(1,047 )	(676 )	(3,227 )	(2,501 )
Comprehensive income attributable to Sabre Corporation	\$51,767	\$144,337	\$232,954	\$384,307

See Notes to Consolidated Financial Statements.

SABRE CORPORATION  
CONSOLIDATED BALANCE SHEETS  
(In thousands, except share amounts)  
(Unaudited)

	September 30, 2016	December 31, 2015
Assets		
Current assets		
Cash and cash equivalents	\$ 272,004	\$ 321,132
Accounts receivable, net	452,494	375,789
Prepaid expenses and other current assets	158,158	81,167
Total current assets	882,656	778,088
Property and equipment, net of accumulated depreciation of \$925,771 and \$850,587	717,533	627,529
Investments in joint ventures	25,425	24,348
Goodwill	2,552,871	2,440,431
Acquired customer relationships, net of accumulated amortization of \$625,458 and \$561,876	405,597	416,887
Other intangible assets, net of accumulated amortization of \$523,950 and \$480,037	405,963	419,666
Deferred income taxes	93,695	44,464
Other assets, net	663,446	642,214
Total assets	\$ 5,747,186	\$ 5,393,627
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	\$ 117,681	\$ 138,421
Accrued compensation and related benefits	78,251	99,382
Accrued subscriber incentives	227,652	185,270
Deferred revenues	193,010	165,124
Other accrued liabilities	203,910	221,976
Current portion of debt	115,345	190,315
Tax Receivable Agreement	100,284	—
Total current liabilities	1,036,133	1,000,488
Deferred income taxes	108,057	83,562
Other noncurrent liabilities	536,160	656,093
Long-term debt	3,313,541	3,169,344
Commitments and contingencies (Note 10)		
Stockholders' equity		
Common Stock: \$0.01 par value; 450,000,000 authorized shares; 283,809,002 and 279,082,473 shares issued, 279,296,316 and 274,955,830 shares outstanding at September 30, 2016 and December 31, 2015, respectively	2,838	2,790
Additional paid-in capital	2,082,172	2,016,325
Treasury Stock, at cost, 4,512,686 and 4,126,643 shares at September 30, 2016 and December 31, 2015, respectively	(121,278 )	(110,548 )
Retained deficit	(1,129,682 )	(1,328,730 )
Accumulated other comprehensive loss	(82,183 )	(97,135 )
Noncontrolling interest	1,428	1,438
Total stockholders' equity	753,295	484,140
Total liabilities and stockholders' equity	\$ 5,747,186	\$ 5,393,627

See Notes to Consolidated Financial Statements.

3

---



SABRE CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2016	2015
Operating Activities		
Net income	\$221,228	\$418,542
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	303,956	254,854
Amortization of upfront incentive consideration	43,372	31,575
Litigation-related credits	(25,527 )	(49,194 )
Stock-based compensation expense	36,012	23,328
Allowance for doubtful accounts	9,232	6,745
Deferred income taxes	66,676	63,402
Joint venture equity income	(2,244 )	(14,198 )
Dividends received from joint venture investments	—	28,700
Amortization of debt issuance costs	6,738	4,893
Gain on remeasurement of previously-held joint venture interest	—	(86,082 )
Loss on extinguishment of debt	3,683	33,235
Other	4,303	10,730
Income from discontinued operations	(10,858 )	(213,499 )
Changes in operating assets and liabilities:		
Accounts and other receivables	(70,906 )	(64,296 )
Prepaid expenses and other current assets	(19,508 )	5,249
Capitalized implementation costs	(64,577 )	(49,642 )
Upfront incentive consideration	(55,284 )	(46,409 )
Other assets	(18,105 )	(55,439 )
Accrued compensation and related benefits	(21,540 )	10,294
Accounts payable and other accrued liabilities	8,424	60,554
Deferred revenue including upfront solution fees	17,459	16,368
Cash provided by operating activities	432,534	389,710
Investing Activities		
Additions to property and equipment	(254,232 )	(203,071 )
Acquisition, net of cash acquired	(164,481 )	(441,582 )
Other investing activities	—	148
Cash used in investing activities	(418,713 )	(644,505 )
Financing Activities		
Proceeds of borrowings from lenders	1,055,000	752,000
Payments on borrowings from lenders	(994,287 )	(719,507 )
Debt prepayment fees and issuance costs	(11,377 )	(40,214 )
Net proceeds on the settlement of equity-based awards	17,111	40,045
Cash dividends paid to common stockholders	(108,358 )	(73,554 )
Other financing activities	(4,736 )	1,975
Cash (used in) provided by financing activities	(46,647 )	(39,255 )
Cash Flows from Discontinued Operations		
Cash used in operating activities	(15,766 )	(908 )
Cash provided by investing activities	—	278,834

Edgar Filing: Sabre Corp - Form 10-Q

Cash (used in) provided by discontinued operations	(15,766 )	277,926
Effect of exchange rate changes on cash and cash equivalents	(536 )	(6,860 )
(Decrease) increase in cash and cash equivalents	(49,128 )	(22,984 )
Cash and cash equivalents at beginning of period	321,132	155,679
Cash and cash equivalents at end of period	\$272,004	\$132,695

See Notes to Consolidated Financial Statements.

4

---

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 are a leading technology solutions provider to the global travel and tourism industry. We operate through two business segments: (i) Travel Network, our global travel marketplace for travel suppliers and travel buyers, and (ii) Airline and Hospitality Solutions, an extensive suite of travel industry leading software solutions primarily for airlines and hotel properties.

**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, 2016 are not necessarily indicative of results that may be expected for any other interim period or for the year ending December 31, 2016. 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 19, 2016. 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, estimation of loss contingencies, 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 19, 2016.

**Stockholders’ Equity**—During the nine months ended September 30, 2016, we issued 4,726,529 shares of our common stock as a result of the exercise and settlement of employee equity-based awards. In addition, we received \$28 million in proceeds from the exercise of employee stock-option awards and paid \$11 million of income tax withholdings associated with the settlement of employee restricted-stock awards. We paid a quarterly cash dividend on our common stock of \$0.13 per share, totaling \$108 million, and \$0.09 per share, totaling \$74 million, during the nine months ended September 30, 2016 and 2015, respectively.

During the nine months ended September 30, 2016, certain of our stockholders sold an aggregate of 20,000,000 shares of our common stock through a secondary public offering. We did not offer any shares or receive any proceeds from this secondary public offering.

Adoption of New Accounting Standard—In the first quarter of 2016, we adopted Accounting Standards Update ("ASU") 2016-09, Improvements to Employee Share-Based Payment Accounting. This guidance was issued by the Financial Accounting Standards Board ("FASB") under their initiative to reduce complexity in financial reporting. The amendments of the updated standard include, among other things, the requirement to recognize excess tax benefits (or deficiencies) through earnings, the election of a policy to either estimate forfeitures when determining periodic expense or recognize actual forfeitures when they occur, and an increase in the allowable income tax withholding from the minimum to the maximum statutory rate.

In recent years, we have incurred significant excess tax benefits associated with settled equity-based awards that have not been recognized due to certain accounting policy elections we made under the previous accounting standard, combined with the significant amount of our net operating loss carryforwards. As a result of the adoption of ASU 2016-09, we recorded a cumulative-effect adjustment as of January 1, 2016 to increase retained earnings by \$92 million with a corresponding increase to deferred tax assets in order to recognize excess tax benefits that can be used to reduce income taxes payable in the future. Effective January 1, 2016, excess tax benefits or deficiencies are recognized in our results of operations and are included in cash flows from operating activities in our statement of cash flows.

In accordance with the updated standard, we elected to recognize actual forfeitures of equity-based awards as they occur. As we previously estimated forfeitures to determine stock-based compensation expense, this change resulted in a cumulative-effect adjustment as of January 1, 2016 to reduce retained earnings by \$2 million, net of tax.

For the nine months ended, September 30, 2016, we recognized \$25 million in excess tax benefits associated with employee equity-based awards, as a result of the adoption of this standard. There were no other material impacts to our consolidated financial statements as a result of adopting this updated standard.

Reclassifications—We reclassified all of our \$30 million litigation settlement liability as of December 31, 2015 to other accrued liabilities in our consolidated balance sheet to conform to our current period presentation. As of September 30, 2016, our litigation settlement liability included in other accrued liabilities totaled \$6 million.

## 2. Acquisitions

### Airpas Aviation

In April 2016, we completed the acquisition of Airpas Aviation, a software provider and consultancy company which offers route profitability and cost management software solutions. We acquired all of the outstanding stock and ownership interest of Airpas Aviation for net cash consideration of \$9 million, including the effect of net working capital adjustments. Assets acquired and liabilities assumed were recorded at their estimated fair values as of the acquisition date. The preliminary allocation of purchase price includes \$9 million of assets acquired, primarily consisting of \$4 million of goodwill, not deductible for tax purposes, and \$5 million of intangible assets. The intangible assets consist mainly of \$4 million of acquired customer relationships with a useful life of 10 years and \$1 million of purchased technology with a useful life of 5 years. The preliminary purchase price allocation is subject to change, which is expected to be finalized in the fourth quarter of 2016. Airpas Aviation is integrated and managed as part of our Airline and Hospitality Solutions segment. The acquisition of Airpas Aviation did not have a material impact to our consolidated financial statements, and therefore pro forma information is not presented.

### Trust Group

In January 2016, we completed the acquisition of the Trust Group, a central reservations, revenue management and hotel marketing provider, expanding our presence in Europe, the Middle East, and Africa ("EMEA") and Asia Pacific ("APAC"). The net cash consideration for the Trust Group was \$156 million, which includes the effect of net working capital adjustments. The acquisition was funded using proceeds from our 5.25% senior secured notes due in 2023 and cash on hand. The Trust Group is integrated and managed as part of our Airline and Hospitality Solutions segment.

### Preliminary Purchase Price Allocation

The purchase price allocation presented below is preliminary and based on available information as of the filing date of this Quarterly Report on Form 10-Q. Accordingly, the purchase price allocation is subject to change when finalized. We expect to finalize the purchase price allocation during 2016. A summary of the acquisition price and estimated fair values of assets acquired and liabilities assumed as of the date of acquisition is as follows (in thousands):

Cash and cash equivalents	\$4,209
Accounts receivable	10,584
Other current assets	793
Goodwill	103,809
Intangible assets:	
Customer relationships	52,292

Purchased technology	23,362
Trademarks and brand names	2,183
Property and equipment, net	1,556
Current liabilities	(11,370 )
Deferred income taxes	(27,044 )
Total acquisition price	\$160,374

6

---

The goodwill recognized reflects expected synergies from combined operations and also the acquired assembled workforce of the Trust Group in EMEA and APAC. The goodwill recognized is assigned to our Airline and Hospitality Solutions segment and is not deductible for tax purposes. The weighted-average useful lives of the intangible assets acquired are 13 years for customer relationships, 2 years for purchased technology and 2 years for trademarks and brand names.

The acquisition of the Trust Group did not have a material impact to our consolidated financial statements, and therefore pro forma information is not presented.

#### Abacus

On July 1, 2015, we completed the acquisition of the remaining 65% interest in Abacus International Pte Ltd, a Singapore-based business-to-business travel e-commerce provider that serves the Asia-Pacific region, which is now named Sabre Asia Pacific Pte Ltd ("SAPPL"). Prior to the acquisition, SAPPL was 65% owned by a consortium of 11 airlines and the remaining 35% was owned by us. Separately, SAPPL has signed new long-term agreements with the consortium of 11 airlines to continue to utilize the Abacus GDS. In the third and fourth quarters of 2015, SAPPL completed the acquisition of the remaining interest in three national marketing companies, Abacus Distribution Systems (Hong Kong), Abacus Travel Systems (Singapore) and Abacus Distribution Systems Sdn Bhd (Malaysia) (the "NMCs" and, together with SAPPL, "Abacus"). SAPPL previously owned noncontrolling interests in the NMCs. The net cash consideration for Abacus was \$443 million, which includes the effect of net working capital adjustments. The acquisition was funded with a combination of cash on hand and a \$70 million draw on our revolving credit facility.

#### Purchase Price Allocation

The summary of the acquisition price and estimated fair values of assets acquired and liabilities assumed as of the date of acquisition is as follows (in thousands):

Cash and cash equivalents	\$65,641
Accounts receivable	49,099
Other current assets	12,522
Goodwill	292,267
Intangible assets:	
Customer relationships	319,000
Reacquired rights <sup>(1)</sup>	113,500
Purchased technology	14,000
Supplier agreements	13,000
Trademarks and brand names	4,000
Property and equipment, net	6,402
Other assets	66,423
Current liabilities	(123,307 )
Noncurrent liabilities	(44,245 )
Noncurrent deferred income taxes	(78,054 )
	710,248
Fair value of Sabre Corporation's previously held equity investment in SAPPL	(200,000 )
Fair value of SAPPL's previously held equity investment in national marketing companies	(1,880 )
Total acquisition price	\$508,368

(1) In connection with the acquisition of Abacus, we reacquired certain contractual rights that provided Abacus the exclusive right, within the Asia-Pacific region, to operate and profit from the Sabre GDS.

The goodwill recognized reflects expected synergies from combined operations and also the acquired assembled workforce of Abacus. The goodwill recognized is assigned to our Travel Network business and is not deductible for tax purposes. The useful lives of the intangible assets acquired are 20 years for customer relationships, 7 years for reacquired rights, 3 years for purchased technology, 7 years for supplier agreements and 2 years for trademarks and brand names.

The purchase price allocation includes estimates for contingent liabilities of \$25 million related to tax uncertainties.

As part of the integration strategy for Abacus, management evaluated actions to optimize the investment's potential, including the implementation of a restructuring plan to align the acquired business with Travel Network. This plan includes the elimination of redundant positions, centralization of key operations and termination of particular product offerings. As of December 31, 2015, our restructuring accrual associated with this plan was \$8 million, of which \$1 million was paid in the nine months ended September 30, 2016. We did not recognize material restructuring charges in the nine months ended September 30, 2016. The plan is expected to be substantially complete by the first quarter of 2017, and we currently do not expect to incur significant additional charges in connection with the plan.



## Unaudited Pro Forma Financial Information

The following unaudited pro forma results of operations information give effect to the acquisitions of Abacus as if it occurred on January 1, 2014. The unaudited pro forma results of operations information include adjustments to: (i) eliminate historical revenue and cost of revenue between us, SAPPL and the NMCs; (ii) remove historical amortization recognized by SAPPL associated with its upfront incentive consideration and software developed for internal use, which are replaced by acquired intangible assets; and (iii) add amortization expense associated with acquired intangible assets.

The following unaudited pro forma results of operations information is presented in thousands:

	Nine Months Ended September 30, 2015
Revenue	\$ 2,350,362
Income from continuing operations	126,531
Net income attributable to common stockholders	337,529

The unaudited pro forma financial information is for informational purposes only and is not necessarily indicative of what our financial performance would have been had the acquisition been completed on the date assumed nor is such unaudited pro forma combined financial information necessarily indicative of the results to be expected in any future period.

## 3. Discontinued Operations

In the first quarter of 2015, we completed the divestiture of our Travelocity business through the sale of Travelocity.com and lastminute.com. Our Travelocity segment has no remaining operations subsequent to these dispositions. The financial results of our Travelocity business are included in net income from discontinued operations in our consolidated statements of operations for all periods presented.

**Travelocity.com**—On January 23, 2015, we sold Travelocity.com to Expedia Inc. (“Expedia”), pursuant to the terms of an Asset Purchase Agreement (the “Travelocity Purchase Agreement”), dated January 23, 2015, by and among Sabre GLOBL, Travelocity.com LP, and Expedia. The signing and closing of the Travelocity Purchase Agreement occurred contemporaneously. Expedia purchased Travelocity.com pursuant to the Travelocity Purchase Agreement for cash consideration of \$280 million. The net assets of Travelocity.com disposed of primarily included a trade name with a carrying value of \$55 million. We recognized a gain on sale of \$143 million, net of tax, in the first quarter of 2015.

**lastminute.com**—On March 1, 2015, we sold lastminute.com to Bravofly Rumbo Group. The transaction was completed through the transfer of net liabilities as of the date of sale consisting primarily of a working capital deficit of \$70 million, partially offset by assets sold including intangible assets of \$27 million. We did not receive any cash proceeds or any other significant consideration in the transaction other than payments for specific services being provided to the acquirer under a transition services agreement, which concluded on March 31, 2016. Additionally, at the time of sale, the acquirer entered into a long-term agreement with us to continue to utilize our GDS for bookings, which generates incentive consideration paid by us to the acquirer. We recognized a gain on sale of \$24 million, net of tax, in the first quarter of 2015.

The following table summarizes the results of our discontinued operations (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenue	\$—	\$1,038	\$—	\$24,292
Cost of revenue	—	5,254	—	19,279
Selling, general and administrative	765	(42,046 )	8,964	(20,538 )
Operating loss	(765 )	37,830	(8,964 )	25,551
Other income (expense):				

Edgar Filing: Sabre Corp - Form 10-Q

Gain on sale of businesses	—	30,709	305	294,276
Other, net	702	(321 )	(1,126 )	2,178
Total other (expense) income, net	702	30,388	(821 )	296,454
(Loss) income from discontinued operations before income taxes	(63 )	68,218	(9,785 )	322,005
(Benefit) provision for income taxes <sup>(1)</sup>	331	14,326	(20,643 )	108,506
Net (loss) income from discontinued operations	\$(394)	\$53,892	\$10,858	\$213,499

(1) In the first quarter 2016, we recognized a \$17 million tax benefit associated with the resolution of uncertain tax positions; see Note 4, Income Taxes.

Divestiture of lastminute.com

#### Cumulative Translation Adjustments

Cumulative translation adjustment ("CTA") gains or losses of foreign subsidiaries related to divested businesses are reclassified into earnings once the liquidation of the respective foreign subsidiaries is substantially complete. During the three months ended September 30, 2015, we substantially completed the liquidation of our lastminute.com subsidiaries and, therefore, reclassified \$19 million, net of tax, of CTA gains from accumulated comprehensive income (loss) to our results of discontinued operations.

#### 4. Income Taxes

Our effective tax rates for the nine months ended September 30, 2016 and 2015 were 28% and 29%, respectively. The decrease in the effective tax rate for the nine months ended September 30, 2016 as compared to the same period in 2015 was primarily driven by a relative increase in full year forecasted earnings in lower tax jurisdictions, excess tax benefits associated with employee equity-based awards (see Note 1, General Information, for additional information related to our adoption of ASU 2016-09) and U.S. federal research tax credits, partially offset by an increase in foreign withholding taxes. The differences between our effective tax rates and the U.S. federal statutory income tax rate primarily result from our geographic mix of taxable income in various tax jurisdictions as well as the discrete tax items referenced above.

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 first quarter of 2016, we recognized a tax benefit of \$17 million associated with the effective settlement of uncertain tax positions in our discontinued Travelocity business.

Our net unrecognized tax benefits, excluding interest and penalties, included in our consolidated balance sheets, were \$56 million and \$69 million as of September 30, 2016 and December 31, 2015, respectively.

#### Tax Receivable Agreement

Immediately prior to the closing of our initial public offering in April 2014, we entered into a tax receivable agreement ("TRA") that provides 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 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 certain tax assets attributable to periods prior to our initial public offering, including federal net operating losses ("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 future payments under the TRA relating to the Pre-IPO Tax Assets to total \$387 million, excluding interest. The TRA payments accrue interest at a rate of LIBOR plus 1.00% beginning on the 15<sup>th</sup> day of March subsequent to the tax year in which the tax benefits are realized through the date of the benefit payment. 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 net operating loss carryforwards 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 future payments under the TRA to be made over the next five years with no material payments occurring in 2016. As of September 30, 2016, the current portion of our Tax Receivable Agreement liability totaled \$100 million, which includes accrued interest of less than \$1 million. We expect to pay the current portion of the Tax Receivable Agreement liability in the first quarter of 2017. The remaining portion of \$288 million is included in other noncurrent liabilities in our consolidated balance sheet as of September 30, 2016. Payments under the TRA are not conditioned upon the parties' continuing ownership of the

company.

9

---

## 5. Debt

As of September 30, 2016 and December 31, 2015, our outstanding debt included in our consolidated balance sheets totaled \$3.429 million and \$3,360 million, respectively, which are net of debt issuance costs of \$29 million and \$30 million, respectively, and unamortized discounts of \$6 million and \$6 million, respectively. The following table sets forth the face values of our outstanding debt as of September 30, 2016 and December 31, 2015 (in thousands):

	Rate	Maturity	September 30, 2016	December 31, 2015
Senior secured credit facilities:				
Term A facility <sup>(1)</sup>	L + 2.50%	November 2018	\$ 592,500	\$—
Term B facility	L + 3.00%	February 2019	1,420,896	1,721,750
Incremental term loan facility	L + 3.50%	February 2019	282,354	342,125
Term C facility	L + 3.00%	December 2017	49,313	49,313
New Revolver, \$400 million <sup>(1)</sup>	L + 2.50%	November 2018	—	—
Extended Revolver, \$370 million <sup>(2)</sup>	L + 2.75%	February 2019	—	—
Unextended Revolver, \$35 million <sup>(2)</sup>	L + 3.75%	February 2018	—	—
Senior unsecured notes due 2016	8.35%	March 2016	—	165,000
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
Mortgage facility	5.80%	April 2017	80,065	80,984
Capital lease obligations			9,529	6,502
Face value of total debt outstanding			3,464,657	3,395,674
Less current portion of debt outstanding			(115,345 )	(190,687 )
Face value of long-term debt outstanding			\$ 3,349,312	\$ 3,204,987

The Term Loan A and the New Revolver mature in July 2021 and include an accelerated maturity of November 19, (1)2018 if on November 19, 2018 the Term Loan B and Incremental Term Loan Facility have not been repaid in full or refinanced with a maturity date subsequent to July 18, 2021.

(2) Replaced on July 18, 2016 by the New Revolver.

## Senior Secured Credit Facilities

On July 18, 2016, Sabre GBL entered into a series of amendments to our Amended and Restated Credit Agreement (the “Credit Agreement Amendments”) to provide for an incremental term loan under a new class with an aggregate principal amount of \$600 million (the “Term Loan A”) and to replace the Prior Revolver with a new revolving credit facility totaling \$400 million (the “New Revolver”), both of which mature in July 2021. Principal payments on the Term Loan A are due on a quarterly basis equal to 1.25% of its initial aggregate principal amount during the first two years of its term and 2.50% of its initial aggregate principal amount during the next three years of its term. The applicable margins for the Term Loan A and the New Revolver are 2.50% for Eurocurrency borrowings and 1.50% for base rate borrowings, with a step down to 2.25% for Eurocurrency borrowings and 1.25% for base rate borrowings if the Senior Secured Leverage Ratio (as defined in the Amended and Restated Credit Agreement) is less than 2.50 to 1.00. The Term Loan A and the New Revolver include an accelerated maturity of November 19, 2018, if on November 19, 2018 the Term Loan B and Incremental Term Loan Facility have not been repaid in full or refinanced with a maturity date subsequent to July 18, 2021. The amount of the New Revolver commitments available as a letter of credit subfacility was set at \$150 million.

The proceeds of \$597 million, net of \$3 million discount on Term Loan A, were used to repay \$350 million of outstanding principal on our Term Loan B and Incremental Term Loan Facility, on a pro rata basis, repay the \$120 million outstanding balance on our Prior Revolver immediately prior to the execution of the Credit Agreement Amendments, and to pay \$11 million in associated financing fees. We intend to use the remaining proceeds for general corporate purposes. We recognized a \$4 million loss on extinguishment of debt in connection with these transactions.

We had no balance outstanding under the New Revolver as of September 30, 2016 or under the Prior Revolver as of December 31, 2015. We had outstanding letters of credit totaling \$36 million and \$25 million as of September 30, 2016 and December 31, 2015, respectively, which reduced our overall credit capacity under the New and Prior Revolver.

#### Senior Unsecured Notes Due 2016

In March 2016, the remaining principal balance of \$165 million of our senior unsecured notes matured. We repaid this remaining balance on the senior unsecured notes with a draw on our Prior Revolver and cash on hand.

#### 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 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 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 portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income (loss) 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. The remaining gain or loss on the derivative instrument in excess of the cumulative change in the present value of future cash flows of the hedged item, if any (ineffective portion), and hedge components excluded from the assessment of effectiveness, are recognized in the consolidated statements of operations during the current period.

**Forward Contracts**—In order to hedge our operational exposure to foreign currency movements, we are a party to certain foreign currency forward contracts that extend until September 2017. 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, 2016 and 2015. As of September 30, 2016, we estimate that \$0.5 million in gains will be reclassified from other comprehensive income (loss) to earnings over the next 12 months.

As of September 30, 2016 and December 31, 2015, 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, 2016

Buy Currency	Sell Currency	Foreign Amount	USD Amount	Average Contract Rate
Australian Dollar	US Dollar	19,700	14,454	0.7337
Euro	US Dollar	1,800	2,031	1.1283
British Pound Sterling	US Dollar	18,100	25,143	1.3891
Indian Rupee	US Dollar	1,195,500	17,136	0.0143
Polish Zloty	US Dollar	263,250	67,470	0.2563
Singapore Dollar	US Dollar	44,600	32,525	0.7293

Outstanding Notional Amounts as of December 31, 2015

Buy Currency	Sell Currency	Foreign Amount	USD Amount	Average Contract Rate
US Dollar	Australian Dollar	2,080	1,570	0.7548
US Dollar	Euro	2,870	3,169	1.1042
Australian Dollar	US Dollar	1,260	939	0.7452
Euro	US Dollar	2,870	3,122	1.0878
British Pound Sterling	US Dollar	18,075	27,415	1.5167
Indian Rupee	US Dollar	1,880,500	27,736	0.0147

Edgar Filing: Sabre Corp - Form 10-Q

Polish Zloty                      US Dollar                      226,500    59,120    0.2610

Interest Rate Swap Contracts—Interest rate swaps outstanding during the nine months ended September 30, 2016 and 2015 are as follows:

Notional Amount	Interest Rate Received	Interest Rate Paid	Effective Date	Maturity Date
\$750 million	1 month LIBOR <sup>(1)</sup>	1.48%	December 31, 2015	December 30, 2016
\$750 million	1 month LIBOR <sup>(1)</sup>	2.19%	December 30, 2016	December 29, 2017
\$750 million	1 month LIBOR <sup>(1)</sup>	2.61%	December 29, 2017	December 31, 2018

---

(1) Subject to a 1% floor.



In December 2014, we entered into eight forward starting interest rate swaps to hedge interest payments associated with \$750 million of floating-rate liabilities on the notional amounts of a portion of our senior secured debt. We have designated these interest rate swaps as cash flow hedges. The total notional amount outstanding is \$750 million in each of 2015, 2016 and 2017. There was no material hedge ineffectiveness for the three and nine months ended September 30, 2016. The effective portion of changes in the fair value of the interest rate swaps is reported as a component of other comprehensive income (loss) 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. As of September 30, 2016, we estimate that \$7 million in losses will be reclassified from other comprehensive income (loss) to earnings over the next 12 months.

The estimated fair values of our derivatives designated as hedging instruments as of September 30, 2016 and December 31, 2015 are as follows (in thousands):

Derivatives Designated as Hedging Instruments	Derivative Assets (Liabilities) Consolidated Balance Sheet Location	Fair Value as of	
		September 30, 2016	December 31, 2015
Foreign exchange contracts	Prepaid expenses and other current assets	\$1,670	\$ —
Foreign exchange contracts	Other accrued liabilities	(1,184 )	(1,759 )
Interest rate swaps	Other accrued liabilities	(7,363 )	(3,912 )
Interest rate swaps	Other noncurrent liabilities	(12,073 )	(9,822 )
		\$(18,950)	\$(15,493 )

The effects of derivative instruments, net of taxes, on OCI for the three and nine months ended September 30, 2016 and 2015 are as follows (in thousands):

Derivatives in Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Foreign exchange contracts	\$1,282	\$(1,069)	\$724	\$(4,115 )
Interest rate swaps	759	(4,255 )	(3,637 )	(9,003 )
Total	\$2,041	\$(5,324)	\$(2,913)	\$(13,118)

Derivatives in Cash Flow Hedging Relationships	Income Statement Location	Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)			
		Three Months Ended September 30,		Nine Months Ended September 30,	
		2016	2015	2016	2015
Foreign exchange contracts	Cost of revenue	\$227	\$(1,970)	\$1,240	\$(8,902)

## 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

Available-for-sale Securities—Our available-for-sale securities include securities of a publicly-traded non-U.S. entity. The fair value of these securities is obtained from market quotes as of the last day of the period. Our available-for-sale securities are included in prepaid and other current assets as of September 30, 2016 and in other assets as of December 31, 2015 in our consolidated balance sheets.

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, 2016 and December 31, 2015 (in thousands):

	September 30, 2016	Fair Value at Reporting Date Using		
		Level 1	Level 2	Level 3
Available-for-sale securities	\$ 52,614	\$52,614	\$—	\$ —
Derivatives				
Foreign currency forward contracts	486	—	486	—
Interest rate swap contracts	(19,436 )	—	(19,436 )	—
Total	\$ 33,664	\$52,614	\$(18,950)	\$ —

	December 31, 2015	Fair Value at Reporting Date Using		
		Level 1	Level 2	Level 3
Available-for-sale securities	\$ 36,711	\$36,711	\$—	\$ —
Derivatives				
Foreign currency forward contracts	(1,759 )	—	(1,759 )	—
Interest rate swap contracts	(13,734 )	—	(13,734 )	—
Total	\$ 21,218	\$36,711	\$(15,493)	\$ —

There were no transfers between Levels 1 and 2 within the fair value hierarchy for the nine months ended September 30, 2016.

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 unsecured notes due 2016, senior secured notes due 2023 and term loans under our Amended and Restated Credit Agreement are determined based on quoted market prices for the similar liability when traded as an asset in an active market, a Level 2 input. The outstanding principal balance of our mortgage facility approximated its fair value as of September 30, 2016 and December 31, 2015. The fair values of the mortgage facility were determined based on estimates of current interest rates for similar debt, a Level 2 input.

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, 2016 and December 31, 2015 (in thousands):

Financial Instrument	Fair Value at		Carrying Value at	
	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015
Term A facility	\$ 592,500	\$ —	\$ 589,766	\$ —
Term B facility	1,428,000	1,705,609	1,417,249	1,716,048
Incremental term loan facility	283,589	339,559	282,354	342,125

Edgar Filing: Sabre Corp - Form 10-Q

Term C facility	49,436	49,251	49,216	49,157
New Revolver, \$400 million	—	—	—	—
Extended Revolver, \$370 million <sup>(1)</sup>	—	—	—	—
Unextended Revolver, \$35 million <sup>(1)</sup>	—	—	—	—
5.375% Senior secured notes due 2023	545,900	528,013	530,000	530,000
5.25% Senior secured notes due 2023	511,250	494,375	500,000	500,000
Senior unsecured notes due 2016	—	165,804	—	164,628

---

(1) Replaced on July 18, 2016 by the New Revolver.

## 8. Accumulated Other Comprehensive Income (Loss)

As of September 30, 2016 and December 31, 2015, the components of accumulated other comprehensive income (loss), net of related deferred income taxes, are as follows (in thousands):

	September 30, December 31,	
	2016	2015
Defined benefit pension and other post retirement benefit plans	\$ (88,481 )	\$ (90,647 )
Unrealized gain (loss) on foreign currency forward contracts, interest rate swaps, and available-for-sale securities	6,216	(6,391 )
Unrealized foreign currency translation gain (loss)	82	(97 )
Total accumulated other comprehensive loss, net of tax	\$ (82,183 )	\$ (97,135 )

The amortization of actuarial losses and periodic service credits associated with our retirement-related benefit plans is included in selling, general and administrative expenses. See Note 6, Derivatives, for information on the income statement line items affected as the result of reclassification adjustments associated with 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 September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Numerator:				
Income from continuing operations	\$42,256	\$123,124	\$210,370	\$205,043
Less: Net income attributable to noncontrolling interests	1,047	676	3,227	2,501
Net income from continuing operations available to common stockholders, basic and diluted	\$41,209	\$122,448	\$207,143	\$202,542
Denominator:				
Basic weighted-average common shares outstanding	278,399	275,471	277,125	272,224
Add: Dilutive effect of stock options and restricted stock awards	5,063	5,924	5,794	6,624
Diluted weighted-average common shares outstanding	283,462	281,395	282,919	278,848
Earning per share from continuing operations:				
Basic	\$0.15	\$0.44	\$0.75	\$0.74
Diluted	\$0.15	\$0.44	\$0.73	\$0.73

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 1 million common stock equivalents for each of the three and nine months ended September 30, 2016 and 2015, 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 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.

Document, fact and expert witness discovery is complete. 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. US Airways may appeal the court's rulings upon a final judgment. Based on the summary judgment ruling, the potential remaining range of damages has been significantly reduced. With respect to the remaining claims, US Airways seeks damages (before trebling) of either \$45 million or \$73 million. We believe their damage calculations are based on faulty assumptions and analysis and, therefore, are highly overstated.

We believe that our business practices and contract terms are lawful, and we will continue to vigorously defend against the remaining claims. The trial on the remaining claims commenced in October 2016 and is expected to conclude in December 2016.

We believe that the claims associated with this case are not probable and therefore have not accrued any losses as of September 30, 2016. We have and will incur significant fees, costs and expenses for as long as the litigation 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 changes to our business that may be required as a result of the litigation. If favorable resolution of the matter is not reached, any monetary damages are subject to trebling under the antitrust laws and US Airways would be eligible to be reimbursed by us for its reasonable costs and attorneys' fees. Depending on the amount of any such judgment, if we do not have sufficient cash on hand, we may be required to seek private or public financing or utilize our revolving credit facility. 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

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. 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.

#### Insurance Carriers

We have disputes against some of our insurance carriers for failing to reimburse defense costs incurred in the American Airlines litigation, which we settled in October 2012. Both carriers admitted there is coverage and agreed to defend us, but reserved their rights not to pay should we be found liable for certain of American Airlines' allegations. Despite their admission of coverage, the insurers only reimbursed us for a small portion of our significant defense

costs. We filed suit against the entities in New York state court alleging breach of contract and a statutory cause of action for failure to promptly pay claims. Although the carriers never withdrew their agreement to defend us, they recently have taken the position in the lawsuit that they had no duty to defend or indemnify us. If we prevail, we may recover some or all amounts previously tendered to the insurance companies for payment within the limits of the policies and may be entitled to 18% interest on such amounts, all of which will be recorded in the period cash is received. To date, settlement discussions have been unsuccessful. Discovery is closed, and the parties are awaiting a ruling on summary judgment motions pending before the court.



#### 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 and no trial date has been set. We have appealed the tax assessment for the assessment year ended March 2013 with the ITAT and no trial date has been set.

In addition, 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 2012, which 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, 2016. 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 probable 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. No provision has been recorded for this matter as we believe we will ultimately prevail.

#### Litigation and Administrative Audit Proceedings Relating to Hotel Occupancy Taxes

On January 23, 2015, we sold Travelocity.com to Expedia. Pursuant to the Travelocity Purchase Agreement, we will continue to be liable for pre-closing liabilities of Travelocity, including fees, charges, costs and settlements relating to litigation arising from hotels booked on the Travelocity platform prior to our previous long-term strategic marketing agreement with Expedia (the “Expedia SMA”). Fees, charges, costs and settlements relating to litigation from hotels booked on Travelocity.com subsequent to the Expedia SMA and prior to the date of the sale of Travelocity.com will be shared with Expedia in accordance with the terms that were in the Expedia SMA. We are jointly and severally liable for certain indemnification obligations under the Travelocity Purchase Agreement for liabilities that may arise out of these litigation matters, which could adversely affect our cash flow.

Beginning in 2004, various state and local governments in the United States have filed more than 80 lawsuits against us and other OTAs pertaining primarily to whether our discontinued Travelocity segment and other online travel agencies (“OTAs”) owe sales or occupancy taxes on the revenues they earned from facilitating hotel reservations, where the customer paid us an amount at the time of booking that included (i) service fees, which we collected and retained, and (ii) the price of the hotel room and amounts for occupancy or other local taxes, which we passed along to

the hotel supplier. The complaints generally allege, among other things, that the defendants failed to pay to the relevant taxing authority hotel occupancy taxes on the service fees. Several lawsuits also allege that the OTAs owe state or local taxes on their fees for facilitating car rental reservations. Courts have dismissed more than 30 of these lawsuits, some for failure to exhaust administrative remedies and some on the basis that we are not subject to sales or occupancy tax. The remaining lawsuits are in various stages of litigation. We have also settled some cases individually, most for amounts not material to our results of operations, and with respect to these settlements, have generally reserved our rights to challenge any effort by the applicable tax authority to impose occupancy taxes in the future.

Although we have prevailed in the majority of these lawsuits and proceedings, there have been several adverse judgments or decisions on the merits, some of which are subject to appeal. As of September 30, 2016 and December 31, 2015, our reserve was not material for the potential resolution of issues identified related to litigation involving hotel and car sales, occupancy or excise taxes. We did not record material charges associated with these cases during the three and nine months ended September 30, 2016 and 2015. Our estimated liability is based on our current best estimate but the ultimate resolution of these issues may be greater or less than the amount recorded and, if greater, could adversely affect our results of operations.

In addition to the actions by the tax authorities, two consumer class action lawsuits have been filed against us in which the plaintiffs allege that we made misrepresentations concerning the description of the fees received in relation to facilitating hotel reservations. Generally, the consumer claims relate to whether Travelocity provided adequate notice to consumers regarding the nature of our fees and the amount of taxes charged or collected. One of these lawsuits is pending in Texas state court, where the court is currently considering the plaintiffs' motion to certify a class action; and the other is pending in federal court, but has been stayed pending the outcome of the Texas state court action. We believe the notice we provided was appropriate and therefore have not accrued any losses related to these cases. Furthermore, a number of state and local governments have initiated inquiries, audits and other administrative proceedings that could result in an assessment of sales or occupancy taxes on fees. If we do not prevail at the administrative level, those cases could lead to formal litigation proceedings.

#### 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.

#### 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.

Our business has two reportable segments: (i) Travel Network and (ii) Airline and Hospitality Solutions, which aggregates the Airline Solutions and Hospitality Solutions operating segments as these operating segments have similar economic characteristics, generate revenues on transaction-based fees, incur the same types of expenses and use our software-as-a-service ("SaaS") based and hosted applications and platforms to market to the travel industry. In January 2016 and April 2016, we completed the acquisitions of the Trust Group and Airpas Aviation, respectively, which are integrated and managed as part of our Airline and Hospitality Solutions segment.

Our CODM utilizes Adjusted Gross Profit 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 shared expenses such as accounting, human resources, legal, corporate systems, and other shared technology costs, as well as all amortization of intangible assets and any related impairments that originate from purchase accounting, 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 and Hospitality 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. Our CODM uses Adjusted Capital Expenditures in making product investment decisions and determining development resource requirements.

The performance of our segments is evaluated primarily on Adjusted Gross Profit and Adjusted EBITDA which are not recognized terms under GAAP. Our uses of Adjusted Gross Profit 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 (loss) adjusted for selling, general and administrative expenses, amortization of upfront incentive consideration, and the cost of revenue portion of depreciation and amortization and stock-based compensation.

We define Adjusted EBITDA as income (loss) 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, interest expense, net, loss on extinguishment of debt, other, net, restructuring and other costs, acquisition-related costs, litigation costs (reimbursements), net, stock-based compensation, and income taxes.

We define Adjusted Capital Expenditures as additions to property and equipment and capitalized implementation costs during the periods presented.

Edgar Filing: Sabre Corp - Form 10-Q

Segment information for the three and nine months ended September 30, 2016 and 2015 is as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2016	2015	September 30, 2016	2015
<b>Revenue</b>				
Travel Network	\$582,364	\$569,190	\$1,805,750	\$1,571,635
Airline and Hospitality Solutions	262,391	218,978	752,940	640,510
Eliminations	(5,773 )	(3,166 )	(14,923 )	(9,704 )
<b>Total revenue</b>	<b>\$838,982</b>	<b>\$785,002</b>	<b>\$2,543,767</b>	<b>\$2,202,441</b>
<b>Adjusted Gross Profit <sup>(a)</sup></b>				
Travel Network	\$255,657	\$263,732	\$842,557	\$733,778
Airline and Hospitality Solutions	114,136	99,373	323,481	284,354
Corporate	(24,812 )	(16,297 )	(59,596 )	(37,778 )
<b>Total</b>	<b>\$344,981</b>	<b>\$346,808</b>	<b>\$1,106,442</b>	<b>\$980,354</b>
<b>Adjusted EBITDA <sup>(b)</sup></b>				
Travel Network	\$219,865	\$231,230	\$744,626	\$669,274
Airline and Hospitality Solutions	95,072	85,275	269,955	237,748
<b>Total segments</b>	<b>314,937</b>	<b>316,505</b>	<b>1,014,581</b>	<b>907,022</b>
Corporate	(77,080 )	(74,839 )	(217,760 )	(194,197 )
<b>Total</b>	<b>\$237,857</b>	<b>\$241,666</b>	<b>\$796,821</b>	<b>\$712,825</b>
<b>Depreciation and amortization</b>				
Travel Network	\$19,519	\$15,947	\$57,725	\$45,571
Airline and Hospitality Solutions	41,732	32,363	114,080	107,270
<b>Total segments</b>	<b>61,251</b>	<b>48,310</b>	<b>171,805</b>	<b>152,841</b>
Corporate	47,979	39,927	132,151	102,013
<b>Total</b>	<b>\$109,230</b>	<b>\$88,237</b>	<b>\$303,956</b>	<b>\$254,854</b>
<b>Adjusted Capital Expenditures <sup>(c)</sup></b>				
Travel Network	\$25,763	\$18,957	\$72,918	\$46,515
Airline and Hospitality Solutions	68,990	61,370	200,455	168,349
<b>Total segments</b>	<b>94,753</b>	<b>80,327</b>	<b>273,373</b>	<b>214,864</b>
Corporate	16,195	14,862	45,436	37,849
<b>Total</b>	<b>\$110,948</b>	<b>\$95,189</b>	<b>\$318,809</b>	<b>\$252,713</b>

<sup>(a)</sup> 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, 2016	2015	September 30, 2016	2015
Adjusted Gross Profit	\$344,981	\$346,808	\$1,106,442	\$980,354
Less adjustments:				
Selling, general and administrative	155,182	166,324	435,924	412,042
Cost of revenue adjustments:				
Depreciation and amortization <sup>(1)</sup>	77,397	59,334	209,276	177,080

Edgar Filing: Sabre Corp - Form 10-Q

Amortization of upfront incentive consideration <sup>(2)</sup>	17,139	9,525	43,372	31,575
Stock-based compensation	5,113	2,853	14,259	9,288
Operating income	\$90,150	\$108,772	\$403,611	\$350,369

18

---

(b) 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 September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Adjusted EBITDA	\$237,857	\$241,666	\$796,821	\$712,825
Less adjustments:				
Depreciation and amortization of property and equipment <sup>(1a)</sup>	58,271	49,247	168,150	157,154
Amortization of capitalized implementation costs <sup>(1b)</sup>	11,529	7,606	28,228	23,032
Acquisition-related amortization <sup>(1c)</sup>	39,430	31,384	107,578	76,270
Amortization of upfront incentive consideration <sup>(2)</sup>	17,139	9,525	43,372	31,575
Interest expense, net	38,002	40,581	116,414	129,643
Loss on extinguishment of debt	3,683	—	3,683	33,235
Other, net <sup>(3)</sup>	(281	) (92,568	) (4,517	) (88,320
Restructuring and other costs <sup>(4)</sup>	583	8,888	1,823	8,888
Acquisition-related costs <sup>(5)</sup>	90	9,350	714	13,214
Litigation costs, net <sup>(6)</sup>	7,034	9,318	5,089	14,797
Stock-based compensation	12,913	7,204	36,012	23,328
Provision for income taxes	7,208	38,007	79,905	84,966
Income from continuing operations	\$42,256	\$123,124	\$210,370	\$205,043

(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. Such consideration is made with the objective of increasing the number of clients or to ensure or improve customer loyalty. Such 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. Such 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.

(3) In the first quarter of 2016, we recognized a gain of \$6 million associated with the receipt of an earn-out payment from the sale of a business in 2013. Additionally, in the third quarter of 2015, we recognized a gain of \$86 million associated with the remeasurement of our previously-held 35% investment in SAPPL to its fair value and a gain of \$12 million related to the settlement of pre-existing agreements between us and SAPPL. 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.

(4) 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.

(5) Acquisition-related costs represent fees and expenses incurred associated with the acquisition of Abacus, the Trust Group and Airpas Aviation (see Note 2, Acquisitions).

Edgar Filing: Sabre Corp - Form 10-Q

(6) Litigation costs, net represent charges and legal fee reimbursements associated with antitrust litigation (see Note 10, Contingencies).

(c) Includes capital expenditures and capitalized implementation costs as summarized below (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Additions to property and equipment	\$89,639	\$75,108	\$254,232	\$203,071
Capitalized implementation costs	21,309	20,081	64,577	49,642
Adjusted Capital Expenditures	\$110,948	\$95,189	\$318,809	\$252,713



## 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 marketing and branding strategies. In many cases, you can identify forward-looking statements by terms such as "expects," "potential," "will," "estimates," "outlook," "should," "may," "intend," "believes," "anticipates," "predicts," "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 19, 2016. 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 19, 2016.

### Overview

We are a leading technology solutions provider to the global travel and tourism industry. We operate through two business segments: (i) Travel Network, our global B2B travel marketplace for travel suppliers and travel buyers, and (ii) Airline and Hospitality Solutions, an extensive suite of leading software solutions primarily for airlines and hotel properties. 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 analysis.

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 and Hospitality Solutions, this fee is a recurring usage-based fee for the use of our SaaS and hosted systems, as well as upfront solution fees and consulting fees. Items that are not allocated to our business segments are identified as corporate and include primarily certain shared technology costs as well as stock-based compensation expense, litigation costs and other items that are not identifiable with either of our segments.

In January 2016, we completed the acquisition of the Trust Group, a central reservations, revenue management and hotel marketing provider, expanding our presence in EMEA and APAC, for net cash consideration of \$156 million, which includes the effect of net working capital adjustments. The Trust Group is integrated and managed as part of our Airline and Hospitality Solutions segment.

### 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" included in our Annual Report on Form 10-K filed with the SEC on February 19, 2016. 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 19, 2016.

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. Prior to our acquisition of the remaining interest in SAPPL on July 1, 2015, we generated revenue from certain services we provided SAPPL. Airline and Hospitality Solutions primarily generates revenue through upfront solution fees and recurring usage-based fees for the use of our software solutions hosted on our own secure platforms or deployed through our SaaS. Airline and Hospitality Solutions also generates revenue through consulting services and software licensing fees.

20

---

### Cost of Revenue

Cost of revenue incurred by Travel Network and Airline 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 a technology organization that provides development and support activities to our segments. The costs associated with our technology organization primarily include labor, data processing and technology costs, of which the majority are allocated to the segments primarily based on the segments' usage of resources. Corporate cost of revenue also includes stock-based compensation expense, professional services and other items that are not directly identifiable with our segments. Over time, we expect a substantial increase in stock-based compensation expense, as we have moved to granting broad-based equity awards annually, rather than biennially, beginning in March 2016 primarily in the form of restricted stock units. These awards generally vest over a four-year period, with 25% vesting annually. Stock compensation expense is based on the number of restricted stock units granted and the stock price on the date of grant, which is amortized over the four-year vesting period.

Depreciation and amortization included in cost of revenue is associated with property and equipment; software developed for internal use that supports our revenue, businesses and systems; amortization of contract implementation costs which relates to Airline and Hospitality Solutions; and intangible assets for technology purchased through acquisitions or established with our take-private transaction. 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 services fees, certain settlement charges and costs to defend legal disputes, bad debt expense, depreciation and amortization and other overhead costs. Over time, we expect a substantial increase in stock-based compensation expense as described above.

### Intersegment Transactions

We account for significant intersegment transactions as if the transactions were with third parties, that is, at estimated current market prices. Airline and Hospitality Solutions pays 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, car and hotel bookings) 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			Nine Months		
	Ended			Ended		
	September 30,			September 30,		
	2016	2015	% Change	2016	2015	% Change
<b>Travel Network</b>						
Direct Billable Bookings - Air	110,585	107,361	3.0%	342,353	287,226	19.2%
Direct Billable Bookings - Non-Air	15,165	15,499	(2.2)%	46,078	44,197	4.3%
Total Direct Billable Bookings	125,750	122,860	2.4%	388,431	331,423	17.2%
Airline Solutions Passengers Boarded	206,332	141,994	45.3%	589,512	407,433	44.7%

### 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 Net Income, Adjusted EBITDA, Adjusted Capital Expenditures, 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, amortization of upfront incentive consideration, and the cost of revenue portion of depreciation and amortization 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, loss on extinguishment of debt, other, net, restructuring and other costs, acquisition-related costs, litigation costs (reimbursements), net, stock-based compensation, and the 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 (benefit) for income taxes. This Adjusted EBITDA metric differs from (i) the EBITDA metric referenced in the section entitled “—Liquidity and Capital Resources—Senior Secured Credit Facilities,” which is calculated for the purposes of compliance with our debt covenants, and (ii) the Pre-VCP EBITDA and EBITDA metrics referenced in the section entitled “Compensation Discussion and Analysis” in our 2016 Proxy Statement, which are calculated for the purposes of our annual incentive compensation program and performance-based awards, respectively.

We define Adjusted Net Income from continuing operations per share as Adjusted Net Income divided by the applicable share count.

We define Adjusted Capital Expenditures as additions to property and equipment and capitalized implementation costs.

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

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. Adjusted Capital Expenditures include cash flows used in investing activities, for property and equipment, and cash flows used in operating activities, for capitalized implementation costs. Our management uses this combined metric in making product investment decisions and determining development resource requirements. We also believe that Adjusted Gross Profit, Adjusted Net Income, Adjusted EBITDA and Adjusted Capital Expenditures 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 Net Income, Adjusted EBITDA, Adjusted Capital Expenditures, 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 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 Net Income and Adjusted EBITDA do not reflect changes in, or cash requirements for, our working capital needs;

Edgar Filing: Sabre Corp - Form 10-Q

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 Net Income,

Adjusted EBITDA, Adjusted Capital Expenditures, or Free Cash Flow differently, which reduces their usefulness as comparative measures.

Edgar Filing: Sabre Corp - Form 10-Q

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Net income attributable to common stockholders	\$40,815	\$176,340	\$218,001	\$416,041
Loss (income) from discontinued operations, net of tax	394	(53,892 )	(10,858 )	(213,499 )
Net income attributable to noncontrolling interests <sup>(1)</sup>	1,047	676	3,227	2,501
Income from continuing operations	42,256	123,124	210,370	205,043
Adjustments:				
Acquisition-related amortization <sup>(2a)</sup>	39,430	31,384	107,578	76,270
Loss on extinguishment of debt	3,683	—	3,683	33,235
Other, net <sup>(4)</sup>	(281 )	(92,568 )	(4,517 )	(88,320 )
Restructuring and other costs <sup>(5)</sup>	583	8,888	1,823	8,888
Acquisition-related costs <sup>(6)</sup>	90	9,350	714	13,214
Litigation costs, net <sup>(7)</sup>	7,034	9,318	5,089	14,797
Stock-based compensation	12,913	7,204	36,012	23,328
Tax impact of net income adjustments	(30,349 )	(15,806 )	(66,698 )	(54,573 )
Adjusted Net Income from continuing operations	\$75,359	\$80,894	\$294,054	\$231,882
Adjusted Net Income from continuing operations per share	\$0.27	\$0.29	\$1.04	\$0.83
Diluted weighted-average common shares outstanding	283,462	281,395	282,919	278,848
Adjusted Net Income from continuing operations	\$75,359	\$80,894	\$294,054	\$231,882
Adjustments:				
Depreciation and amortization of property and equipment <sup>(2b)</sup>	58,271	49,247	168,150	157,154
Amortization of capitalized implementation costs <sup>(2c)</sup>	11,529	7,606	28,228	23,032
Amortization of upfront incentive consideration <sup>(3)</sup>	17,139	9,525	43,372	31,575
Interest expense, net	38,002	40,581	116,414	129,643
Remaining provision for income taxes	37,557	53,813	146,603	139,539
Adjusted EBITDA	\$237,857	\$241,666	\$796,821	\$712,825

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

	Three Months Ended September 30, 2016			
	Travel Network	Airline and Hospitality Solutions	Corporate	Total
Operating income (loss)	\$182,489	\$53,340	\$(145,679)	\$90,150
Add back:				
Selling, general and administrative	37,583	19,405	98,194	155,182
Cost of revenue adjustments:				
Depreciation and amortization <sup>(2)</sup>	18,446	41,391	17,560	77,397
Amortization of upfront incentive consideration <sup>(3)</sup>	17,139	—	—	17,139
Stock-based compensation	—	—	5,113	5,113
Adjusted Gross Profit	255,657	114,136	(24,812 )	344,981
Selling, general and administrative	(37,583 )	(19,405 )	(98,194 )	(155,182 )
Joint venture equity income	718	—	—	718
Selling, general and administrative adjustments:				
Depreciation and amortization <sup>(2)</sup>	1,073	341	30,419	31,833
Restructuring and other costs <sup>(5)</sup>	—	—	583	583

Edgar Filing: Sabre Corp - Form 10-Q

Acquisition-related costs <sup>(6)</sup>	—	—	90	90
Litigation costs <sup>(7)</sup>	—	—	7,034	7,034
Stock-based compensation	—	—	7,800	7,800
Adjusted EBITDA	\$219,865	\$ 95,072	\$(77,080 )	\$237,857

23

---



	Three Months Ended September 30, 2015			
	Travel Network	Airline and Hospitality Solutions	Corporate	Total
Operating income (loss)	\$205,386	\$ 52,912	\$(149,526)	\$108,772
Add back:				
Selling, general and administrative	34,258	14,287	117,779	166,324
Cost of revenue adjustments:				
Depreciation and amortization <sup>(2)</sup>	14,563	32,174	12,597	59,334
Amortization of upfront incentive consideration <sup>(3)</sup>	9,525	—	—	9,525
Stock-based compensation	—	—	2,853	2,853
Adjusted Gross Profit	263,732	99,373	(16,297 )	346,808
Selling, general and administrative	(34,258 )	(14,287 )	(117,779 )	(166,324 )
Joint venture equity income	372	—	—	372
Selling, general and administrative adjustments:				
Depreciation and amortization <sup>(2)</sup>	1,384	189	27,330	28,903
Restructuring and other costs <sup>(5)</sup>	—	—	8,888	8,888
Acquisition-related costs <sup>(6)</sup>	—	—	9,350	9,350
Litigation costs <sup>(7)</sup>	—	—	9,318	9,318
Stock-based compensation	—	—	4,351	4,351
Adjusted EBITDA	\$231,230	\$ 85,275	\$(74,839 )	\$241,666
	Nine Months Ended September 30, 2016			
	Travel Network	Airline and Hospitality Solutions	Corporate	Total
Operating income (loss)	\$641,285	\$ 155,875	\$(393,549)	\$403,611
Add back:				
Selling, general and administrative	103,701	54,408	277,815	435,924
Cost of revenue adjustments:				
Depreciation and amortization <sup>(2)</sup>	54,199	113,198	41,879	209,276
Amortization of upfront incentive consideration <sup>(3)</sup>	43,372	—	—	43,372
Stock-based compensation	—	—	14,259	14,259
Adjusted Gross Profit	842,557	323,481	(59,596 )	1,106,442
Selling, general and administrative	(103,701 )	(54,408 )	(277,815 )	(435,924 )
Joint venture equity income	2,244	—	—	2,244
Selling, general and administrative adjustments:				
Depreciation and amortization <sup>(2)</sup>	3,526	882	90,272	94,680
Restructuring and other costs <sup>(5)</sup>	—	—	1,823	1,823
Acquisition-related costs <sup>(6)</sup>	—	—	714	714
Litigation costs, net <sup>(7)</sup>	—	—	5,089	5,089
Stock-based compensation	—	—	21,753	21,753
Adjusted EBITDA	\$744,626	\$ 269,955	\$(217,760)	\$796,821

Edgar Filing: Sabre Corp - Form 10-Q

	Nine Months Ended September 30, 2015			
	Travel Network	Airline and Hospitality Solutions	Corporate	Total
Operating income (loss)	\$576,328	\$ 130,478	\$(356,437)	\$ 350,369
Add back:				
Selling, general and administrative	82,742	47,302	281,998	412,042
Cost of revenue adjustments:				
Depreciation and amortization <sup>(2)</sup>	43,133	106,574	27,373	177,080
Amortization of upfront incentive consideration <sup>(3)</sup>	31,575	—	—	31,575
Stock-based compensation	—	—	9,288	9,288
Adjusted Gross Profit	733,778	284,354	(37,778 )	980,354
Selling, general and administrative	(82,742 )	(47,302 )	(281,998 )	(412,042 )
Joint venture equity income	14,198	—	—	14,198
Joint venture intangible amortization <sup>(2a)</sup>	1,602	—	—	1,602
Selling, general and administrative adjustments:				
Depreciation and amortization <sup>(2)</sup>	2,438	696	74,640	77,774
Restructuring and other costs <sup>(5)</sup>	—	—	8,888	8,888
Acquisition-related costs <sup>(6)</sup>	—	—	13,214	13,214
Litigation costs <sup>(7)</sup>	—	—	14,797	14,797
Stock-based compensation	—	—	14,040	14,040
Adjusted EBITDA	\$669,274	\$ 237,748	\$(194,197)	\$ 712,825

The components of Adjusted Capital Expenditures are presented below (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Additions to property and equipment	\$89,639	\$75,108	\$254,232	\$203,071
Capitalized implementation costs	21,309	20,081	64,577	49,642
Adjusted Capital Expenditures	\$110,948	\$95,189	\$318,809	\$252,713

The following tables present information from our statements of cash flows and sets 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,	
	2016	2015
Cash provided by operating activities	\$432,534	\$389,710
Cash used in investing activities	(418,713 )	(644,505 )
Cash used in financing activities	(46,647 )	(39,255 )

	Nine Months Ended September 30,	
	2016	2015
Cash provided by operating activities	\$432,534	\$389,710
Additions to property and equipment	(254,232 )	(203,071 )
Free Cash Flow	\$178,302	\$186,639

Net income attributable to noncontrolling interests represents an adjustment to include earnings allocated to (1) noncontrolling interests held in (i) Sabre Travel Network Middle East of 40%, (ii) Sabre Seyahat Dagitim Sistemleri A.S. of 40%, and (iii) Abacus International Lanka Pte Ltd of 40% beginning in July 2015.

(2) Depreciation and amortization expenses:

a. 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.

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. Such consideration is made with the objective of increasing the number of clients or to ensure or improve customer loyalty. Such 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. Such 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.

In the first quarter of 2016, we recognized a gain of \$6 million associated with the receipt of an earn-out payment related to the sale of a business in 2013. Additionally, in the third quarter of 2015, we recognized a gain of \$86 million associated with the remeasurement of our previously-held 35% investment in SAPPL to its fair value and a gain of \$12 million related to the settlement of pre-existing agreements between us and SAPPL. 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.

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.

Acquisition-related costs represent fees and expenses incurred associated with the acquisition of Abacus, the Trust Group and Airpas Aviation.

Litigation costs (reimbursements), net represent charges and legal fee reimbursements associated with antitrust litigation.

#### 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, 2016	2015	September 30, 2016	2015
	(Amounts in thousands)			
Revenue	\$838,982	\$785,002	\$2,543,767	\$2,202,441
Cost of revenue	593,650	509,906	1,704,232	1,440,030
Selling, general and administrative	155,182	166,324	435,924	412,042
Operating income	90,150	108,772	403,611	350,369
Interest expense, net	(38,002 )	(40,581 )	(116,414 )	(129,643 )
Loss on extinguishment of debt	(3,683 )	—	(3,683 )	(33,235 )
Joint venture equity income	718	372	2,244	14,198
Other income (expense), net	281	92,568	4,517	88,320
Income from continuing operations before income taxes	49,464	161,131	290,275	290,009
Provision for income taxes	7,208	38,007	79,905	84,966
Income from continuing operations	\$42,256	\$123,124	\$210,370	\$205,043

#### Three Months Ended September 30, 2016 and 2015

##### Revenue

	Three Months Ended		Change
	September 30, 2016	2015	
	(Amounts in thousands)		

Edgar Filing: Sabre Corp - Form 10-Q

Travel Network	\$582,364	\$569,190	\$13,174	2	%
Airline and Hospitality Solutions	262,391	218,978	43,413	20	%
Total segment revenue	844,755	788,168	56,587	7	%
Eliminations	(5,773 )	(3,166 )	(2,607 )	(82)	%
Total revenue	\$838,982	\$785,002	\$53,980	7	%

Travel Network—Revenue increased \$13 million, or 2%, for the three months ended September 30, 2016 compared to the same period in the prior year, primarily due an increase in transaction-based revenue of \$16 million to \$540 million, mainly as a result of a 2% increase in Direct Billable Bookings to 126 million in the three months ended September 30, 2016. These increases were partially offset by a \$3 million decrease in other revenue, primarily related to development of product services provided to third parties.

Airline and Hospitality Solutions—Revenue increased \$43 million, or 20%, for the three months ended September 30, 2016 compared to the same period in the prior year. The \$43 million increase in revenue primarily resulted from: a \$21 million increase in Airline Solutions’ SabreSonic Customer Sales and Service (“SabreSonic CSS”) revenue for the three months ended September 30, 2016 compared to the same period in the prior year. Passengers Boarded increased by 45% to 206 million for the three months ended September 30, 2016, driven by the cutover of American Airlines Group to SabreSonic CSS in the fourth quarter of 2015 and also by existing customers. The growth in PBs resulted in a \$31 million increase in revenue for the three months ended September 30, 2016. This increase was partially offset by a \$10 million decrease in non-PB revenue, primarily due to the expiration of a services contract that was extended with a significant customer in conjunction with a litigation settlement agreement with that customer in 2012; a \$10 million increase in Airline Solutions’ commercial and operations solutions revenue driven by growth in multiple products across our portfolio, partially offset by a \$6 million decrease in consulting revenue; and a \$18 million increase in Hospitality Solutions revenue for the three months ended September 30, 2016 compared to the same period in the prior year, driven primarily by an increase in Central Reservation System (“CRS”) revenue, mainly due to \$8 million from new and existing customers and \$11 million from the acquisition of the Trust Group.

Cost of Revenue

	Three Months Ended			
	September 30,		Change	
	2016	2015		
	(Amounts in thousands)			
Travel Network	\$326,707	\$305,458	\$21,249	7 %
Airline and Hospitality Solutions	148,256	119,606	28,650	24 %
Eliminations	(5,630 )	(3,152 )	(2,478 )	(79)%
Total segment cost of revenue	469,333	421,912	47,421	11 %
Corporate	29,781	19,135	10,646	56 %
Depreciation and amortization	77,397	59,334	18,063	30 %
Amortization of upfront incentive consideration	17,139	9,525	7,614	80 %
Total cost of revenue	\$593,650	\$509,906	\$83,744	16 %

Travel Network—Cost of revenue increased \$21 million, or 7%, for the three months ended September 30, 2016 compared to the same period in the prior year, primarily as a result of an increase in incentive consideration in all regions and a \$7 million impairment of a prepaid incentive for a European travel agency due to its insolvency.

Airline and Hospitality Solutions—Cost of revenue increased \$29 million, or 24%, for the three months ended September 30, 2016 compared to the same period in the prior year. The increase was primarily the result of higher transaction-related expenses driven by growth in transaction volumes and an increase in headcount-related costs, which includes the impact of the Trust Group acquisition.

Corporate—Cost of revenue associated with corporate costs increased \$11 million, or 56%, for the three months ended September 30, 2016 compared to the same period in the prior year. This increase was primarily due to higher shared technology labor costs.

Depreciation and amortization—Depreciation and amortization increased \$18 million, or 30%, for the three months ended September 30, 2016 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 and additional amortization of capital labor related to customer implementations. We also incurred an increase in amortization of definite-lived intangible assets associated with the acquisition of the Trust Group and Airpas Aviation.

Amortization of upfront incentive consideration—Amortization of upfront incentive consideration increased \$8 million, or 80%, for the three months ended September 30, 2016 compared to the same period in the prior year primarily due to an increase in upfront consideration provided to travel agencies during 2016 and the fourth quarter of 2015. This

increase includes an impairment of \$2 million of upfront incentive consideration provided to a European travel agency due to its insolvency.

27

---

## Selling, General and Administrative Expenses

	Three Months Ended September 30, 2016      2015      Change		
	(Amounts in thousands)		
Selling, general and administrative	\$ 155,182	\$ 166,324	\$(11,142) (7)%

Selling, general and administrative expenses ("SG&A") decreased by \$11 million, or 7%, for the three months ended September 30, 2016 compared to the same period in the prior year. Professional services and legal expenses decreased by \$16 million, which includes \$6 million of insurance reimbursements and \$9 million in acquisition related costs from the 2015 acquisition of Abacus. Headcount costs increased \$3 million due to \$8 million of higher expenses to support the growth of the business and \$3 million of higher stock-based compensation expenses, offset by reduction in restructuring costs of \$8 million related to the 2015 acquisition of Abacus. Additionally, depreciation and amortization expenses increased \$3 million due to the amortization of intangible assets obtained in the acquisition of the Trust Group and Airpas Aviation earlier this year.

## Interest Expense, net

	Three Months Ended September 30, 2016      2015      Change		
	(Amounts in thousands)		
Interest expense, net	\$ 38,002	\$ 40,581	\$(2,579) (6)%

Interest expense, net decreased \$3 million, or 6%, for the three months ended September 30, 2016 compared to the same period in the prior year. The decrease was primarily the result of a lower effective interest rate from the partial extinguishment in December 2015 of our 8.35% senior unsecured notes due 2016, funded by the issuance of our 5.25% senior secured notes due 2023, and the maturity in March 2016 of our remaining senior unsecured notes. This decrease was partially offset by an increase in average debt outstanding compared to the same period in the prior year, the impacts of our interest rate swaps in the three months ended September 30, 2016, and an increase in amortization of debt issuance costs.

## Loss on Extinguishment of Debt

	Three Months Ended September 30, 2016      2015      Change		
	(Amounts in thousands)		
Loss on extinguishment of debt	\$ 3,683	\$	-\$3,683 **

## \*\* Not meaningful

As a result of a prepayment of a portion of Term Loan B and Incremental Term Loan Facility in July 2016, we recognized a loss on extinguishment of debt of \$4 million. See "Liquidity and Capital Resources—Senior Secured Credit Facilities."

## Other Income, Net



	Three Months Ended September 30, 2016 2015		Change
	(Amounts in thousands)		
Other income (expense), net	\$281	\$92,568	\$(92,287) **

\*\* Not meaningful

Other income, net decreased by \$92 million for the three months ended September 30, 2016 compared to the same period in the prior year, primarily due to the acquisition of Abacus. We recognized a gain of \$86 million in the third quarter of 2015 as a result of the remeasurement of our previously-held 35% equity interest in SAPPL to its fair value as of the acquisition date. In addition, we recognized a gain of \$12 million in the same period in 2015 associated with the settlement of a pre-existing agreement between us and SAPPL related to data processing services. These gains were partially offset by realized and unrealized foreign currency exchange losses.

## Provision for Income Taxes

Three Months  
Ended  
September 30,  
2016 2015 Change  
(Amounts in  
thousands)

Provision for income taxes \$7,208 \$38,007 \$(30,799) (81)%

Our effective tax rates for the three months ended September 30, 2016 and 2015 were 15% and 24%, respectively. The decrease in the effective tax rate for the three months ended September 30, 2016 as compared to the same period in 2015 was primarily driven by a relative increase in full year forecasted earnings in lower tax jurisdictions, excess tax benefits associated with employee equity-based awards and U.S. federal research tax credits.

The differences between our effective tax rates and the U.S. federal statutory income tax rate primarily result from our geographic mix of taxable income in various tax jurisdictions as well as the discrete tax items referenced above.

Nine Months Ended September 30, 2016 and 2015

## Revenue

Nine Months Ended  
September 30,  
2016 2015 Change  
(Amounts in thousands)

Travel Network	\$1,805,750	\$1,571,635	\$234,115	15 %
Airline and Hospitality Solutions	752,940	640,510	112,430	18 %
Total segment revenue	2,558,690	2,212,145	346,545	16 %
Eliminations	(14,923 )	(9,704 )	(5,219 )	(54)%
Total revenue	\$2,543,767	\$2,202,441	\$341,326	15 %

Travel Network—Revenue increased \$234 million, or 15%, for the nine months ended September 30, 2016 compared to the same period in the prior year, primarily due to the acquisition of Abacus. Transaction-based revenue increased by \$275 million to \$1,674 million, mainly as a result of a 17% increase in Direct Billable Bookings to 388 million in the nine months ended September 30, 2016. Excluding the impact of the acquisition of Abacus, Direct Billable Bookings increased by 3% compared to the same period in the prior year, which was driven by growth of 2% in North America and 5% in EMEA. In addition, other revenue increased by \$12 million compared to the same period in the prior year. These increases were partially offset by a \$52 million decrease in other revenue related to services we provided to Abacus prior to its acquisition in July 2015.

Airline and Hospitality Solutions—Revenue increased \$112 million, or 18%, for the nine months ended September 30, 2016 compared to the same period in the prior year. The \$112 million increase in revenue primarily resulted from: a \$54 million increase in Airline Solutions' SabreSonic CSS revenue for the nine months ended September 30, 2016 compared to the same period in the prior year. Passengers Boarded increased by 45% to 590 million for the nine months ended September 30, 2016, driven by the cutover of American Airlines Group to SabreSonic CSS in the fourth quarter of 2015 and also by existing customers. The growth in PBs resulted in a \$88 million increase in revenue for the nine months ended September 30, 2016. This increase was partially offset by a \$34 million decrease in non-PB revenue, primarily due to the expiration of a services contract that was extended with a significant customer in conjunction with a litigation settlement agreement with that customer in 2012; a \$23 million increase in Airline Solutions' commercial and operations solutions revenue driven by growth in multiple products across our portfolio, partially offset by a \$12 million decrease in consulting revenue; and a \$48 million increase in Hospitality Solutions revenue for the nine months ended September 30, 2016 compared to the same period in the prior year driven primarily by an increase in CRS revenue. The increase was mainly driven by \$18 million from new and existing customers and \$30 million from the acquisition of the Trust Group.



## Cost of Revenue

	Nine Months Ended			Change	
	September 30,		Change		
	2016	2015			
	(Amounts in thousands)				
Travel Network	\$963,193	\$837,857	\$125,336	15	%
Airline and Hospitality Solutions	429,460	356,156	73,304	21	%
Eliminations	(14,693)	(9,680)	(5,013)	(52)	%
Total segment cost of revenue	1,377,960	1,184,333	193,627	16	%
Corporate	73,624	47,042	26,582	57	%
Depreciation and amortization	209,276	177,080	32,196	18	%
Amortization of upfront incentive consideration	43,372	31,575	11,797	37	%
Total cost of revenue	\$1,704,232	\$1,440,030	\$264,202	18	%

Travel Network—Cost of revenue increased \$125 million, or 15%, for the nine months ended September 30, 2016 compared to the same period in the prior year. The increase was primarily the result of costs associated with Abacus' operations, an increase in incentive consideration primarily in North America and EMEA, and a \$7 million impairment of a prepaid incentive for a European travel agency due to its insolvency.

Airline and Hospitality Solutions—Cost of revenue increased \$73 million, or 21%, for the nine months ended September 30, 2016 compared to the same period in the prior year. The increase was primarily the result of higher transaction-related expenses driven by growth in transaction volumes and an increase in headcount-related costs, which includes the impact of the Trust Group acquisition.

Corporate—Cost of revenue associated with corporate costs increased \$27 million, or 57%, for the nine months ended September 30, 2016 compared to the same period in the prior year. The increase was primarily due to higher shared technology labor costs, including transition costs associated with our new information technology services agreement with Hewlett Packard Enterprise, LLC ("HPE").

Depreciation and amortization—Depreciation and amortization increased \$32 million, or 18%, for the nine months ended September 30, 2016 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 and additional amortization of capital labor related to customer implementations. We also incurred an increase in amortization of definite-lived intangible assets associated with the acquisition of Abacus, the Trust Group and Airpas Aviation.

Amortization of upfront incentive consideration—Amortization of upfront incentive consideration increased \$12 million, or 37%, for the nine months ended September 30, 2016 compared to the same period in the prior year primarily due to an increase in upfront consideration provided to travel agencies during 2016 and the fourth quarter of 2015. The increase includes upfront consideration provided to travel agencies served by Abacus and an impairment of \$2 million upfront consideration provided to a European travel agency due to its insolvency.

## Selling, General and Administrative Expenses

	Nine Months Ended			Change	
	September 30,		Change		
	2016	2015			
	(Amounts in thousands)				
Selling, general and administrative	\$435,924	\$412,042	\$23,882	6	%

SG&A increased by \$24 million, or 6%, for the nine months ended September 30, 2016 compared to the same period in the prior year. This increase is primarily due to a \$34 million increase in headcount-related expenses driven by the

acquisitions of Abacus and the Trust Group, headcount growth to support the business, and a \$7 million increase in stock-based compensation, offset by a \$7 million decrease in restructuring expenses related to the 2015 acquisition of Abacus. Additionally, depreciation and amortization expenses increased \$17 million due to the amortization of intangible assets obtained in the acquisition of Abacus in 2015, and the Trust Group and Airpas Aviation acquisitions earlier this year. Professional service expenses decreased \$28 million primarily due to \$12 million from insurance and legal fee reimbursements, and a \$13 million decrease in acquisition-related costs from the 2015 acquisition of Abacus.

## Interest Expense, net

	Nine Months Ended September 30,		
	2016	2015	Change
	(Amounts in thousands)		
Interest expense, net	\$ 116,414	\$ 129,643	\$(13,229) (10)%

Interest expense, net decreased \$13 million, or 10%, for the nine months ended September 30, 2016 compared to the same period in the prior year. The decrease was primarily the result of a lower effective interest rate from the partial extinguishment in December 2015 of our 8.35% senior unsecured notes due 2016, funded by the issuance of our 5.25% senior secured notes due 2023, and the maturity in March 2016 of our remaining senior unsecured notes. This decrease was partially offset by an increase in average debt outstanding compared to the same period in the prior year, the impacts of our interest rate swaps in the nine months ended September 30, 2016 and an increase in amortization of debt issuance costs.

## Loss on Extinguishment of Debt

	Nine Months Ended September 30,		
	2016	2015	Change
	(Amounts in thousands)		
Loss on extinguishment of debt	\$ 3,683	\$ 33,235	\$(29,552) (89)%

Loss on extinguishment of debt decreased by \$30 million, or 89%, compared to the same period in prior year. This was due to the refinancing of our 2019 Notes in April of 2015, which resulted in a loss on extinguishment of debt of \$33 million, consisting of a redemption premium of \$31 million and the make whole premium of \$2 million representing scheduled interest payable for the period between the redemption date of April 29, 2015 and the first call date of May 15, 2015. This decrease was offset by an increase of \$4 million of loss on extinguishment of debt due to the prepayment of a portion of Term Loan B in July 2016.

## Joint Venture Equity Income

	Nine Months Ended September 30,		
	2016	2015	Change
	(Amounts in thousands)		
Joint venture equity income	\$ 2,244	\$ 14,198	\$(11,954) (84)%

On July 1, 2015, we acquired the remaining 65% of a former joint venture, which represented the majority of our joint venture income for the nine months ended September 30, 2015. We do not expect significant joint venture income subsequent to this acquisition.

Other Income (Expense), Net

Nine Months  
 Ended  
 September 30,  
 2016 2015 Change  
 (Amounts in  
 thousands)

Other income (expense), net \$4,517 \$88,320 \$(83,803) \*\*

---

\*\* not meaningful

Other income (expense), net decreased \$84 million for the nine months ended September 30, 2016 compared to the prior year, primarily due to the acquisition of Abacus. We recognized a gain of \$86 million in the third quarter of 2015 as a result of the remeasurement of our previously-held 35% equity interest in SAPPL to its fair value as of the acquisition date. In addition, we recognized a gain of \$12 million the same period in the prior year associated with the settlement of a pre-existing agreement between us and SAPPL related to data processing services. This decrease was primarily offset by the receipt of an earn-out payment of \$6 million associated with the sale of a business in 2013 and realized and unrealized foreign currency exchange gains for the nine months ended September 30, 2016 compared to the prior year.

## Provision for Income Taxes

Nine Months  
 Ended  
 September 30,  
 2016    2015    Change  
 (Amounts in  
 thousands)

Provision for income taxes \$79,905 \$84,966 \$(5,061) (6)%

Our effective tax rates for the nine months ended September 30, 2016 and 2015 were 28% and 29%, respectively. The decrease in the effective tax rate for the nine months ended September 30, 2016 as compared to the same period in 2015 was primarily driven by a relative increase in full year forecasted earnings in lower tax jurisdictions, excess tax benefits associated with employee equity-based awards and U.S. federal research tax credits, partially offset by an increase in foreign withholding taxes.

The differences between our effective tax rates and the U.S. federal statutory income tax rate primarily result from our geographic mix of taxable income in various tax jurisdictions as well as the discrete tax items referenced above.

## 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 revolving credit facility (see “—Senior Secured Credit Facilities”). Borrowing availability under our revolving credit facility is reduced by our outstanding letters of credit and restricted cash collateral. As of September 30, 2016 and December 31, 2015, our cash and cash equivalents, availability under our revolving credit facility and outstanding letters of credit were as follows (in thousands):

	September 30, December 31,	
	2016	2015
Cash and cash equivalents	\$ 272,004	\$ 321,132
Available balance under the revolving credit facility	364,015	380,603
Reductions to the revolving credit availability:		
Outstanding revolving credit facility balance	—	—
Outstanding letters of credit	35,985	24,560

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, 2016 and December 31, 2015.

## 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 the revolving credit facility, 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 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 revolving credit facility. We believe that cash flows from operations, cash and cash equivalents on hand and our revolving credit facility provide adequate liquidity for our operational and capital expenditures 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 our Term Loan B, Incremental Term Loan Facility or our Term Loan C. We intend either to refinance our \$80 million mortgage note due April 1, 2017 or to fund its maturity through a sale and leaseback transaction or a combination of cash on hand, utilization of our revolving credit facility or debt offerings. We intend to fund the estimated TRA payments of \$101 million, including interest, due in the first quarter of 2017 through a combination of cash on hand, utilization of our revolving credit facility or debt offerings.

## Dividends

During the third quarter of 2016, we paid a quarterly cash dividend of \$0.13 per share of our common stock totaling \$36 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

### Amendments to Amended and Restated Credit Agreement

On July 18, 2016, Sabre GBL Inc. entered into a series of amendments to our Amended and Restated Credit Agreement to provide for an incremental term loan under a new class and to replace the existing revolving credit facility with a new revolving credit facility. See “—Senior Secured Credit Facilities” for additional information.

### Acquisition of the Trust Group

In January 2016, we completed the acquisition of the Trust Group, a central reservations, revenue management and hotel marketing provider, expanding our presence in EMEA and APAC. The Trust Group is integrated and managed as part of our Airline and Hospitality Solutions segment. We paid net cash consideration of \$156 million, which includes the effect of net working capital adjustments. The acquisition was funded using proceeds from our 5.25% senior secured notes due in 2023 and cash on hand.

### Senior Unsecured Notes Due 2016

In March 2016, the remaining principal balance of \$165 million of our senior unsecured notes matured. We repaid the remaining principal on the senior unsecured notes with a draw on our Prior Revolver and cash on hand.

### Political and Economic Environment in Venezuela

Venezuela has imposed currency controls, including volume restrictions on the conversion of bolivars to U.S. dollars, which impact the ability of certain of our airline customers operating in the country to obtain U.S. dollars to make timely payments to us. Consequently, the collection of accounts receivable due to us can be, and has been, delayed. Due to the nature of this delay, we have recorded specific reserves against all outstanding balances due to us and are deferring the recognition of any future revenues effective January 1, 2014 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. Certain airlines have scaled back operations in response to the reduced demand for travel in conjunction with the political and economic uncertainty, as well as the currency controls that have impacted our airline customers in Venezuela. During the nine months ended September 30, 2016, we collected \$4 million from customers in Venezuela, all of which was outstanding as of December 31, 2015. Accounts receivable outstanding from customers in Venezuela totaled \$20 million as of September 30, 2016, which will be recognized as revenue when cash is received.

### Secondary Public Offering

During the nine months ended September 30, 2016, certain of our stockholders sold an aggregate of 20,000,000 shares of our common stock through a secondary public offering. We did not offer any shares or receive any proceeds from this secondary public offering.

### Senior Secured Credit Facilities

On February 19, 2013, Sabre GBL 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 “Term Loan B”) and \$425 million (the “Term Loan C”) and (ii) the existing revolving credit facility with a new revolving credit facility of \$352 million, which we now refer to as the Prior Revolver. On September 30, 2013, Sabre GBL 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 “Incremental Term Loan Facility”). On July 18, 2016, Sabre GBL entered into the Credit Agreement

Amendments to provide for the Term Loan A with an aggregate principal amount of \$600 million and to replace the Prior Revolver with the \$400 million New Revolver. The proceeds of \$597 million (net of \$3 million discount) from the Term Loan A were used to repay \$350 million of outstanding principal on our Term Loan B and Incremental Term Loan Facility, on a pro rata basis, repay the \$120 million outstanding balance on our Prior Revolver immediately prior to the execution of the Credit Agreement Amendments, and to pay \$11 million in associated financing fees. We intend to use the remaining proceeds for general corporate purposes. As of September 30, 2016, we had outstanding face value amounts of \$593 million on our Term

Loan A, \$1,421 million on our Term Loan B, \$282 million on our Incremental Term Loan Facility, \$49 million on our Term Loan C, and no outstanding balance on the New Revolver.

The Term Loan A matures in July 2021 and amortizes in equal quarterly installments of 1.25% during the first two years of its term and 2.50% during the next three years of its term. The Term Loan B and Incremental Term Loan Facility mature in February 2019 and no longer require quarterly principal payments as a result of the Credit Agreement Amendments. The Term Loan C matures in December 2017, with \$17 million due in September 2017 and the remaining \$32 million due in December 2017. We are scheduled to make \$47 million in principal payments on our senior secured credit facilities over the next twelve months, consisting of \$30 million for the Term Loan A and \$17 million for the Term Loan C. The Term Loan A and the New Revolver mature in July 2021 and include an accelerated maturity of November 19, 2018, if on November 19, 2018 the Term Loan B and Incremental Term Loan Facility have not been repaid in full or refinanced with a maturity date subsequent to July 18, 2021. The amount of the New Revolver commitments available as a letter of credit subfacility was set at \$150 million. The applicable margins for the Term Loan A and the New Revolver are 2.50% for Eurocurrency borrowings and 1.50% for base rate borrowings, with a step down to 2.25% for Eurocurrency borrowings and 1.25% for base rate borrowings if the Senior Secured Leverage Ratio (as defined in the Amended and Restated Credit Agreement) is less than 2.50 to 1.00. The applicable margin for the Term Loan B is 3.00% for Eurocurrency borrowings and 2.00% for base rate borrowings, with a step up to 3.25% for Eurocurrency borrowings and 2.25% for base rate borrowings if the Senior Secured Leverage Ratio is more than 3.25 to 1.00. The applicable margins for the Incremental Term Loan Facility are 3.50% for Eurocurrency borrowings and 2.50% for base rate borrowings, with a step down to 3.00% for Eurocurrency borrowings and 2.00% for base rate borrowings if the Senior Secured Leverage Ratio is less than or equal to 3.00 to 1.00.

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. Prior to July 18, 2016, this ratio applied if our revolver utilization exceeded a certain threshold and was calculated as senior secured debt (net of cash) to EBITDA, as defined by the credit agreement. The maximum ratio was 4.5 to 1.0 for 2015 and 4.0 to 1.0 until July 18, 2016. The definition of EBITDA is based on a trailing twelve months EBITDA adjusted for certain items including non-recurring expenses and the pro forma impact of cost saving initiatives. 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. No excess cash flow payment is required in 2016 with respect to our results for the year ended December 31, 2015. 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 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. 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 \$387 million, excluding interest, and will be made over the next five years. The TRA payments accrue interest at a rate of LIBOR plus 1.00% beginning on the 15<sup>th</sup> day of March subsequent to the tax year in which the tax benefits are realized through the date of the benefit payment. We expect no material payments to occur in 2016 and expect to make estimated payments of \$101 million, including interest, in the first quarter of 2017. The estimate of future payments considers the impact of Section 382 of the Internal Revenue Code, which imposes an annual limit on the ability of a corporation that undergoes an ownership change to use its net operating loss carryforwards to reduce its liability. We do not anticipate any material limitations on our ability to utilize 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.

34

---

## Cash Flows

	Nine Months Ended	
	September 30,	
	2016	2015
	(Amounts in thousands)	
Cash provided by operating activities	\$432,534	\$389,710
Cash used in investing activities	(418,713 )	(644,505 )
Cash (used in) provided by financing activities	(46,647 )	(39,255 )
Cash (used in) provided by discontinued operations	(15,766 )	277,926
Effect of exchange rate changes on cash and cash equivalents	(536 )	(6,860 )
(Decrease) increase in cash and cash equivalents	\$(49,128 )	\$(22,984 )

## Operating Activities

Cash provided by operating activities for the nine months ended September 30, 2016 was \$433 million and consisted of net income from continuing operations of \$210 million, adjustments for non-cash and other items of \$446 million and a decrease in cash from changes in operating assets and liabilities of \$224 million. The adjustments for non-cash and other items consist primarily of \$304 million of depreciation and amortization, \$67 million of deferred income taxes, \$43 million in amortization of upfront incentive consideration, and \$36 million stock-based compensation expense, partially offset by \$26 million of litigation related credits. The decrease in cash from changes in operating assets and liabilities of \$224 million was primarily the result of a \$71 million increase in accounts receivable due to seasonality, \$55 million used for upfront incentive consideration, \$65 million used for capitalized implementation costs, \$38 million increase in prepaid expenses and other assets, and a \$22 million decrease in accrued compensation and related benefits. These decreases were partially offset by an increase of \$17 million in deferred revenue primarily due to upfront solution fees and an increase of \$8 million in accounts payable and other accrued liabilities.

Cash provided by operating activities for the nine months ended September 30, 2015 was \$390 million and consisted of net income from continuing operations of \$205 million, adjustments for non-cash and other items of \$308 million and a decrease in cash from changes in operating assets and liabilities of \$123 million. The adjustments for non-cash and other items consist primarily of \$255 million of depreciation and amortization, \$63 million of deferred income taxes, \$33 million of loss on extinguishment of debt, \$32 million in amortization of upfront incentive consideration, \$29 million of dividends received from joint venture investments, and \$23 million stock-based compensation expense, partially offset by \$49 million of litigation related credits. The decrease in cash from changes in operating assets and liabilities of \$123 million was primarily the result of a \$55 million increase in other assets mainly attributable to deferred advances to customers, \$50 million used for capitalized implementation costs, \$46 million used for upfront incentive consideration, \$64 million increase in accounts receivable due to seasonality, and a \$10 million increase in accrued compensation and related benefits. These decreases were partially offset by an increase of \$61 million in accounts payable and other accrued liabilities, mainly related to an increase in accrued incentive consideration driven by volume growth and seasonality, and an increase of \$16 million in deferred revenue primarily related to upfront solution fees.

## Investing Activities

For the nine months ended September 30, 2016, we used cash of \$164 million for the acquisition of the Trust Group and Airpas Aviation and \$254 million on capital expenditures, including \$217 million related to software developed for internal use.

For the nine months ended September 30, 2015, we used cash of \$442 million for the acquisition of the remaining 65% of SAPPL, and \$203 million on capital expenditures, including \$163 million related to software developed for internal use.

## Financing Activities

## Edgar Filing: Sabre Corp - Form 10-Q

For the nine months ended September 30, 2016, we used \$47 million for financing activities. Significant highlights of our financing activities include:

- we received proceeds of \$597 million (net of \$3 million discount) from the Term Loan A and used a portion of the proceeds to repay \$350 million of outstanding principal on our Term Loan B and Incremental Term Loan Facility;
- we paid the remaining principal of \$165 million on our senior secured notes due 2016, which matured in March 2016;
- we made draws on our Prior Revolver totaling \$458 million and payments totaling \$458 million resulting in no outstanding balance as of September 30, 2016;
- we paid \$108 million in dividends on our common stock; and
- we received proceeds of \$28 million from the settlement of employee stock-option awards and paid \$11 million in income tax withholdings associated with the settlement of employee restricted-stock awards.

For the nine months ended September 30, 2015, we used \$39 million for financing activities. Significant highlights of our financing activities include:

- We issued \$530 million of senior secured notes due in 2023 and used a portion of the proceeds to extinguish our 2019 Notes of \$480 million;
- on our Revolver, we made draws totaling \$222 million and payments totaling \$222 million resulting in no outstanding balance as of September 30, 2015;
- we paid \$40 million of debt prepayment fees and issuance costs;
- we made payments totaling \$17 million on the principal outstanding on our term loans and mortgage;
- we paid \$74 million in dividends on our common stock; and
- we received net proceeds of \$40 million from the settlement of equity-based awards.

#### Discontinued Travelocity Business

Cash flows used by discontinued operating activities totaled \$16 million and \$1 million for the nine months ended September 30, 2016 and 2015, respectively. The increase in cash flows used by discontinued operating activities in the nine months ended September 30, 2016 compared to 2015 is primarily due to a tax benefit associated with the resolution of uncertain tax positions.

Cash flows provided by discontinued investing activities for the nine months ended September 30, 2015 totaled \$279 million which consisted of \$280 million in proceeds from the sale of Travelocity.com, partially offset by \$1 million in capital expenditures associated with lastminute.com prior to its sale.

As a result of our completed divestiture of the Travelocity segment, we do not expect our discontinued operations to have material ongoing liquidity requirements. See Note 10, Contingencies, to our consolidated financial statements regarding litigation and other contingencies associated with our discontinued Travelocity segment.

#### Contractual Obligations

In March 2016, the remaining \$165 million of our 8.35% senior unsecured notes matured which we repaid in full. In July 2016, Sabre GLOB entered into a series of amendments to our Amended and Restated Credit Agreement to provide for an incremental term loan under a new class and to replace the revolving credit facility with a new revolving credit facility. See "—Liquidity and Capital Resources—Senior Secured Credit Facilities." In addition, we expect to make estimated payments of \$101 million, including interest, under our TRA in the first quarter of 2017. There were no other material changes to our future minimum contractual obligations as of December 31, 2015 as previously disclosed in our Annual Report on Form 10-K filed with the SEC on February 19, 2016.

#### Off Balance Sheet Arrangements

We had no off balance sheet arrangements during the nine months ended September 30, 2016 and year ended December 31, 2015.

#### Recent Accounting Pronouncements

In March 2016, the FASB issued an updated guidance to simplify accounting for share-based payments. The amendments of the updated standard include, among other things, the requirement to recognize excess tax benefits (or deficiencies) through earnings, the election of a policy to either estimate forfeitures when determining periodic expense or recognize actual forfeitures when they occur, and an increase in the allowable income tax withholding from the minimum to the maximum statutory rate. The updated guidance is effective for fiscal years beginning after December 15, 2016, and interim periods within those years for public business entities. Early adoption is permitted in any interim or annual period provided that the entire ASU is adopted. We early adopted this updated guidance in the first quarter of 2016. See Note 1, General Information, to our consolidated financial statements.

In February 2016, FASB issued an 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 are currently evaluating the impact of this standard on our consolidated financial statements.

In January 2016, the FASB issued an 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 adjust 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 do not expect that the adoption of this updated standard will have a material impact to our consolidated financial statements.

In April 2015, the FASB issued new guidance on a customer's accounting for fees paid in cloud computing arrangement. Prior to this standard, there was no specific guidance under GAAP on accounting for these fees from the customer's perspective. Under the new standard, customers will apply the same criteria as vendors to determine whether cloud computing agreement contains a software license or is solely a service contract. This new standard is effective for public companies for annual periods, including interim periods, beginning after December 15, 2015. We adopted this standard prospectively in the first quarter of 2016, which did not have a material impact on our consolidated financial statements.

In June 2014, the FASB issued final guidance that a performance target in a share-based payment that affects vesting and that could be achieved after the requisite service period should be accounted for as a performance condition. The guidance was issued to resolve diversity in practice. The standard is effective for annual and interim reporting periods beginning after December 15, 2015. We adopted this standard in the first quarter of 2016, and its adoption did not have a material impact on our consolidated financial statements.

In May 2014, the FASB issued a comprehensive update to revenue recognition guidance that will replace current standards. Under the updated standard, revenue is recognized when a company transfers 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 updated standard also requires additional disclosures on the nature, timing, and uncertainty of revenue and related cash flows. On July 9, 2015, the FASB approved to defer the effective date of the new standard which is now effective for annual and interim reporting periods beginning after December 15, 2017. Early adoption of the new standard is permitted for annual and interim reporting periods beginning after December 15, 2016. We are currently evaluating the impact this standard will have on our consolidated financial statements.

#### 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 19, 2016.

#### 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, revolving credit facility, derivative instruments, income on cash and cash equivalents, accounts receivable and payable 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, 2015 as previously disclosed under Item 7A, Quantitative and Qualitative Disclosures About Market

Risk, included in our Annual Report on Form 10-K filed with the SEC on February 19, 2016.

37

---

## 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.

We are implementing a project to consolidate our business technology infrastructure to a single global enterprise resource planning (“ERP”) system. A key component of our ERP implementation project is to ensure appropriate internal controls over financial reporting is maintained.

## 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 and Airline 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 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 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.

38

---

Our Travel Network business and our Airline and Hospitality Solutions business 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.

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 and Hospitality Solutions business is based on contracts with travel suppliers for a typical duration of three to seven years for airlines and one to five years for hotels. 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 such 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 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 and the recent economic downturn, among other factors, 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 Network business depends on relationships with travel buyers.

Our Travel Network business relies on relationships with several large travel buyers, including travel management companies ("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 2015 Annual Report on Form 10-K 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 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. 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."

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 through the acquisition of SAPPL. 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 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. 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 experienced 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.

In June 2016, voters in the U.K. approved the exit of that country from the E.U. (“Brexit”), and the British government has indicated that it intends to negotiate the withdrawal of the U.K. from the E.U. based on the results of this vote. The Brexit vote has 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.

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 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 and Hospitality 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.

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;

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

• adverse laws and regulatory requirements, including more comprehensive regulation in the EU;

• 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;

• 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 the degree of employee unionization and activism;
- export or trade restrictions or currency controls;
- more restrictive data privacy requirements;
- governmental policies or actions, such as consumer, labor and trade protection measures;
- 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. 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 ability to maintain and grow our Airline and Hospitality Solutions business may be negatively affected by competition from other third-party solutions providers and new participants that seek to enter the solutions market. Our Airline and Hospitality Solutions business principally faces 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 Central Reservation System and Property Management System fields. Although new entrants specializing in a particular type of software occasionally enter the solutions market, they typically focus on emerging or evolving business problems, niche solutions or small regional customers. Factors that may affect the competitive success of our Airline and Hospitality Solutions business 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 and negatively affect our Airline and Hospitality Solutions business.

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. Such constraints can also lead to the deterioration of our services or impair our ability to process transactions. From time to time, we experience system interruptions that make certain of our systems unavailable including, but not limited to, our GDS and the services that our Airline and Hospitality Solutions business provides 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, physical or electronic break-ins 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.

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

We process, store, and transmit large amounts of data, including personal information of our customers, and it is critical to our business strategy that our facilities and infrastructure, including those provided by HPE or other vendors, remain secure and are perceived by the marketplace to be secure. Our infrastructure may be vulnerable to physical 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. From time to time, we experience cybersecurity incidents 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 cybersecurity. In 2015, we were made aware of a cybersecurity incident involving several servers managed by a third party. Accordingly, we conducted an investigation with respect to this incident. We have concluded this investigation, and our review found no loss of traveler data, including no unauthorized access to or acquisition of sensitive protected information, such as payment card industry data (“PCI”) or personally identifiable information (“PII”), in connection with this incident. There is a risk that additional incidents could occur and sensitive or material information could be compromised in the future. The costs of any investigation of such future incidents, as well as any remediation of the costs related to these incidents, may be material.

Any physical or electronic break-in, cybersecurity incidents 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 such 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 be insufficient to cover all our losses beyond any retention.

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 business and our Airline and Hospitality Solutions business, 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.

We rely on the availability and performance of information technology services provided by third parties, including HPE, 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 HPE, including through our recently amended agreement with HPE. 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 HPE 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 HPE for many of our systems makes it difficult for us to switch vendors and makes us more sensitive to changes in HPE's pricing for its services.

In addition, HPE has announced a plan to spin off its Enterprise Services segment business and merge it with CSC. There could be uncertainty, delays or disruptions in HPE's services in anticipation or as a result of these transactions, which could result in additional costs or business disruptions for us.

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, we currently utilize mainframe infrastructure technology for certain of



our enterprise applications and platforms due to its ability to provide the reliability and scalability we require for our complex technological operations. Because the number of users and programmers able to service this technology is decreasing, we may eventually have to migrate to another business environment, which could cause us to incur substantial costs, result in instability and business interruptions and materially harm our business.

Adapting to new technological and marketplace developments, such as IATA's new distribution capability ("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.

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.

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. 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.

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, we have announced that Tom Klein, President and Chief Executive Officer, intends to resign from Sabre and from our

board of directors at the end of 2016. A subcommittee of the board consisting of Lawrence Kellner, Renee James and Joseph Osness has been formed to coordinate the search process. There may be some uncertainty in our business operations during the transition period as this subcommittee and the board work to identify a successor.

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.

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 we do not exercise 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 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, including our acquisition of Abacus in July 2015. 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.

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, we are involved in antitrust litigation with US Airways. If this matter is not resolved favorably, we could be subject to

monetary damages, including treble damages under the antitrust laws, payment of reasonable attorneys' fees and costs, and depending on the amount of any such judgment, if we do not have sufficient cash on hand, we may be required to seek financing from private or public financing. 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 investigative 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. With respect to these proceedings, if declaratory or injunctive relief were to be 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.

Additionally, a number of state and local governments have filed lawsuits against us pertaining to sales or occupancy taxes they claim are due on some or all of our fees relating to hotel content distributed and sold via the merchant revenue model by our discontinued Travelocity business. In the merchant revenue model, the customer pays us an amount at the time of booking that includes (i) service fees, which we collect and retain, and (ii) the price of the hotel room and amounts for occupancy or other local taxes, which we pass along to the hotel supplier. Even if we are successful in defending these types of lawsuits, state and local governments could adopt new ordinances directly taxing hotel booking fees and we may not be able to successfully challenge such ordinances.

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.

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 sought or may 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. See Note 10, Contingencies, to our consolidated financial

statements for more information on our current litigation with our insurance carriers. 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 Airline and Hospitality Solutions 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 Airline and Hospitality Solutions business' 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. We currently rely on a combination of self-insurance and third-party insurance to cover potential product liability exposure. 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.

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, such 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. In particular, after a voluntary disclosure, we received a warning letter from the Bureau of Industry and Security regarding our failure to comply fully with the Export Administration Regulations as to software updates for a few travel agency customers located outside the United States. Although the Bureau of Industry and Security declined to prosecute or sanction us, if we were to violate the Export Administration Regulations again, the matter could be reopened or taken into consideration when investigating future matters and we may be subject to criminal prosecution or administrative sanctions.

Further, the United States has imposed economic sanctions that affect transactions with designated foreign countries, including Cuba, Iran, Sudan 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. Failure to comply with these regulations could subject us to legal and reputational consequences, including civil and criminal penalties.

We have GDS contracts with carriers that fly to Cuba, Iran, Sudan 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, Sudan and Syria we believe that our activities comply with certain travel-related exemptions. With respect to Cuba, for 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 EU 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.

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.

In our processing of travel transactions, we collect, process, store, use and transmit large amounts of sensitive personal data. This information is increasingly subject to legal restrictions around the world, which may result in conflicting legal requirements in the United States and other jurisdictions. For example, the U.S. Congress and federal agencies, including the Federal Trade Commission, have started to take a more aggressive stance in drafting and enforcing privacy and data protection laws. The EU also recently made significant reforms to its data privacy legal framework and is in the process of reforming other parts of its data protection laws. These legal restrictions are generally intended to protect the privacy and security of personal information, including credit card information that is collected, processed and transmitted in or from the governing jurisdiction. Companies that handle this type of data have also been subject to investigations, lawsuits and adverse publicity due to allegedly improper disclosure or use of sensitive personal information. As privacy and data protection becomes an increasingly politicized issue, we may also become exposed to potential liabilities as a result of conflicting legal requirements, differing views on the privacy of travel data or failure to comply with applicable requirements. Our business could be materially adversely affected if we are unable or unwilling to comply with legal restrictions on the use of sensitive personal information or if such restrictions are expanded to require changes in our current business practices or are interpreted in ways that conflict with or negatively impact our present or future business practices. Additionally, we are required to indemnify some of our customers for liability arising from data breaches under the terms of our agreements with these customers. These indemnification obligations could be significant and we may not have adequate insurance

coverage to protect us against all claims. See “—Security breaches could expose us to liability and damage our reputation and our business.”

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 value-added taxes (“VAT”), consistent with applicable accounting principles and in light of all current facts and circumstances. We have also established reserves relating to the collection of refunds related to value-added taxes, which are subject to audit and collection risks in various regions of Europe. Recently 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 undistributed earnings of our foreign subsidiaries as of September 30, 2016 to be indefinitely reinvested and, accordingly, no U.S. income taxes have been provided thereon. As of December 31, 2015, the amount of indefinitely reinvested foreign earnings was approximately \$235 million. If cash, cash equivalents and marketable securities are needed for our operations in the United States, we would be required to accrue and pay taxes to repatriate all such cash, cash equivalents and marketable securities. We have not, nor do we anticipate the need to, repatriate funds to the United States to satisfy domestic liquidity needs arising in the ordinary course of business, including liquidity needs associated with our domestic debt service requirements.

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. For example, there have been proposals to amend U.S. tax laws that would significantly impact how U.S. companies are taxed on foreign earnings. 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.

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, 2016 contained goodwill and intangible assets, net totaling \$3.4 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 \$94 million as of December 31, 2015. With approximately 5,150 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 are exposed to risks associated with PCI compliance.

The PCI Data Security Standard (“PCI DSS”) is a set of comprehensive requirements endorsed by credit card issuers for enhancing payment account data security that includes requirements for security management, policies, procedures, network architecture, software design and other critical protective measures. PCI DSS compliance is required in order to maintain credit card processing services. The cost of compliance with the PCI DSS is significant and may increase as the requirements change. We are tested periodically for compliance and completed our last annual assessment in September 2016. We were found to be compliant in that assessment. Compliance does not guarantee a completely secure environment. Moreover, compliance is an ongoing activity and the formal requirements continue to evolve as new threats and protective measures 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.

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.

51

---

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, 2016, we had \$3.4 billion of indebtedness outstanding in addition to \$364 million of availability under the revolving portion of our Amended and Restated Credit Agreement (as defined in Item 1. Financial Statements, Note 5, Debt), after taking into account the availability reduction of \$36 million for letters of credit issued under the revolving portion. Our remaining outstanding mortgage note of \$80 million matures on April 1, 2017. We have no other indebtedness due in the next twelve months. In July 2016, Sabre GLBL entered into the Credit Agreement Amendments to provide for the Term Loan A and to replace the Prior Revolver with the New Revolver. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Senior Secured Credit Facilities" in Part I, Item 2. 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, 2016, foreign currency operations included \$162 million of revenue and \$510 million of operating expenses, representing approximately 6% and 24% of our total revenue and operating expenses, respectively. During the year ended December 31, 2015, foreign currency operations included \$178 million of revenue and \$481 million of operating expenses, representing approximately 6% and 19% of our total revenue and operating expenses, respectively, including the impact of our Abacus acquisition on July 1, 2015. Our most significant foreign currency operating expenses are in the Euro, representing approximately 7% and 6% of our operating expenses for the



nine months ended September 30, 2016 and for the year ended December 31, 2015, respectively. 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 some recent 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 Euro, the Singaporean Dollar, the British Pound Sterling, the Polish Zloty, the Australian Dollar and the Indian Rupee. 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 plan to update our enterprise resource planning system, and problems with the design or implementation of this system could interfere with our business and operations.

In 2016 and 2017, we are implementing 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 HPE, 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, 2016, the Principal Stockholders (as defined below) own, in the aggregate, approximately 25% of our outstanding common stock. Since the Principal Stockholders no longer hold more than 50% of the voting power of Sabre, we are no longer a “controlled company” within the meaning of the corporate governance requirements of the NASDAQ. Even though we are no longer a “controlled company” under NASDAQ listing rules, the Principal Stockholders will continue to 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 Silver Lake Funds and the TPG Funds currently have the right to designate for nomination two directors and three directors, respectively, which collectively will represent a majority of

the members of our board of directors. In addition, the Silver Lake Funds and the TPG Funds also jointly have the right to designate one additional director, defined herein as the Joint Designee, 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 6. EXHIBITS

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

Exhibit Number	Description of Exhibit
10.71	Revolving Facility Refinancing Amendment to Amended and Restated Credit Agreement, dated July 18, 2016, among Sabre GLOB Inc., Sabre Holdings Corporation, each of the other Loan Parties party thereto, Bank of America, N.A., as Administrative Agent and the Revolving Credit Lenders party thereto (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 19, 2016)
10.72	Amendment No. 2 to Amended and Restated Credit Agreement, dated July 18, 2016, among Sabre GLOB Inc., Sabre Holdings Corporation, each of the other Loan Parties party thereto, Bank of America, N.A., as Administrative Agent and the Lenders party thereto (incorporated by reference to Exhibit 10.2 of Sabre Corporation's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 19, 2016)
10.73	Second Incremental Term Facility Amendment to Amended and Restated Credit Agreement, dated July 18, 2016, among Sabre GLOB Inc., Sabre Holdings Corporation, each of the other Loan Parties party thereto, Bank of America, N.A., as Administrative Agent and the Incremental Term A Lenders party thereto (incorporated by reference to Exhibit 10.3 of Sabre Corporation's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 19, 2016)
10.74+	Letter Agreement by and between Sabre Corporation and Alex Alt, dated August 31, 2016
31.1	Rule 13a-14(a) Certification of Principal Executive Officer
31.2	Rule 13a-14(a) Certification of Principal Financial Officer
32.1	Section 1350 Certification of Principal Executive Officer
32.2	Section 1350 Certification of Principal Financial Officer
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.

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: November 2, 2016 By: /s/ Richard A. Simonson  
Richard A. Simonson  
Chief Financial Officer  
(principal financial officer of the registrant)