Sabre Corp
Form 10-Q
October 29, 2015

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

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2015
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 incorporation or organization)	(I.R.S. Employer 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 x 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 x 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.

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	x (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 x

As of October 26, 2015, 277,548,548 shares of the registrant's common stock, par value $0.01 per share, were outstanding.

SABRE CORPORATION
TABLE OF CONTENTS

		Page No.
PART I. FINANCIAL INFORMATION		
Item 1.	Financial Statements:	
	Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2015 and 2014	1
	Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2015 and 2014	2
	Consolidated Balance Sheets as of September 30, 2015 and December 31, 2014	3
	Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2015 and 2014	4
	Notes to Consolidated Financial Statements	5
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	23
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	42
Item 4.	Controls and Procedures	42
PART II. OTHER INFORMATION		
Item 1.	Legal Proceedings	43
Item 1A.	Risk Factors	43
Item 6.	Exhibits	61

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenue	$785,002	$672,480	$2,202,441	$1,985,275
Cost of revenue [1] [2]	509,906	441,052	1,440,030	1,315,669
Selling, general and administrative [2]	166,324	113,581	412,042	351,970
Operating income	108,772	117,847	350,369	317,636
Other income (expense):				
Interest expense, net	(40,581)	(50,153)	(129,643)	(167,332)
Loss on extinguishment of debt	—	—	(33,235)	(33,538)
Joint venture equity income	372	2,867	14,198	9,367
Other, net	92,568	1,124	88,320	(839)
Total other income (expense), net	52,359	(46,162)	(60,360)	(192,342)
Income from continuing operations before income taxes	161,131	71,685	290,009	125,294
Provision for income taxes	38,007	30,456	84,966	55,651
Income from continuing operations	123,124	41,229	205,043	69,643
Income (loss) from discontinued operations, net of tax	53,892	(3,946)	213,499	(44,652)
Net income	177,016	37,283	418,542	24,991
Net income attributable to noncontrolling interests	676	720	2,501	2,168
Net income attributable to Sabre Corporation	176,340	36,563	416,041	22,823
Preferred stock dividends	—	—	—	11,381
Net income attributable to common stockholders	$176,340	$36,563	$416,041	$11,442
Basic net income per share attributable to common stockholders:				
Income from continuing operations	$0.44	$0.15	$0.74	$0.24
Income (loss) from discontinued operations	0.20	(0.01)	0.78	(0.19)
Net income per common share	$0.64	$0.14	$1.53	$0.05
Diluted net income per share attributable to common stockholders:				
Income from continuing operations	$0.44	$0.15	$0.73	$0.24
Income (loss) from discontinued operations	0.19	(0.01)	0.77	(0.19)
Net income per common share	$0.63	$0.13	$1.49	$0.05
Weighted-average common shares outstanding:				
Basic	275,471	264,768	272,224	229,405
Diluted	281,395	273,330	278,848	237,994
Dividends per common share	$0.09	$—	$0.27	$0.09
(1) Includes amortization of upfront incentive consideration	$9,525	$10,388	$31,575	$33,177

(2) Includes stock-based compensation as follows:

Cost of revenue	$2,853	$2,165	$9,288	$5,523
Selling, general and administrative	4,351	3,200	14,040	8,326

See Notes to Consolidated Financial Statements.

1

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income	$177,016	$37,283	$418,542	$24,991
Other comprehensive (loss) income, net of tax:				
Foreign currency translation adjustments ("CTA"), net of tax:				
Foreign CTA gains (losses), net of tax	525	1,522	(1,056)	3,711
Reclassification adjustment for realized losses on foreign CTA, net of tax of $12,152	(18,558)	—	(18,558)	—
Net change in foreign CTA gains (losses), net of tax	(18,033)	1,522	(19,614)	3,711
Retirement-related benefit plans:				
Amortization of prior service credits, net of taxes of $130, $129, $388 and $386	(228)	(229)	(687)	(686)
Amortization of actuarial losses, net of taxes of $(635), $(454), $(1,909) and $(1,299)	1,126	803	3,375	2,292
Total retirement-related benefit plans	898	574	2,688	1,606
Derivatives and available-for-sale securities:				
Unrealized gains (losses), net of taxes of $3,517, $1,096, $7,092 and $666	(9,589)	(3,799)	(17,383)	(3,181)
Reclassification adjustment for realized losses, net of taxes of $(600), $(1,057), $(2,777) and $(2,607)	1,970	1,684	8,902	2,747
Net change in unrealized gains (losses) on derivatives, net of tax	(7,619)	(2,115)	(8,481)	(434)
Share of other comprehensive income of joint venture	(7,249)	—	(6,327)	3,420
Other comprehensive (loss) income	(32,003)	(19)	(31,734)	8,303
Comprehensive income	145,013	37,264	386,808	33,294
Less: Comprehensive income attributable to noncontrolling interests	(676)	(720)	(2,501)	(2,168)
Comprehensive income attributable to Sabre Corporation	$144,337	$36,544	$384,307	$31,126

See Notes to Consolidated Financial Statements.

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

	September 30, 2015	December 31, 2014
Assets		
Current assets		
Cash and cash equivalents	$132,695	$155,679
Accounts receivable, net	430,362	362,911
Prepaid expenses and other current assets	27,966	34,841
Current deferred income taxes	148,190	182,277
Other receivables, net	50,733	29,893
Assets held for sale	—	112,558
Total current assets	789,946	878,159
Property and equipment, net of accumulated depreciation of $947,016 and $792,161	583,795	551,276
Investments in joint ventures	24,024	145,320
Goodwill	2,425,963	2,153,499
Acquired customer relationships, net of accumulated amortization of $588,059 and $535,334	447,904	170,629
Other intangible assets, net of accumulated amortization of $550,146 and $527,921	424,333	309,357
Other assets, net	635,755	509,764
Total assets	$5,331,720	$4,718,004
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	$149,976	$117,855
Accrued compensation and related benefits	91,916	83,828
Accrued subscriber incentives	206,023	145,581
Deferred revenues	178,965	167,827
Litigation settlement liability and related deferred revenue	40,140	73,252
Other accrued liabilities	190,854	189,612
Current portion of debt	420,244	22,435
Liabilities held for sale	—	96,544
Total current liabilities	1,278,118	896,934
Deferred income taxes	253,883	61,577
Other noncurrent liabilities	639,894	613,710
Long-term debt	2,701,085	3,061,400
Commitments and contingencies (Note 11)		
Stockholders' equity		
Common Stock: $0.01 par value; 450,000,000 authorized shares; 277,922,158 and 268,237,547 shares issued, 277,204,130 and 267,800,161 shares outstanding at September 30, 2015 and December 31, 2014, respectively	2,779	2,682
Additional paid-in capital	2,001,436	1,931,796
Treasury Stock, at cost, 718,028 and 437,386 shares at September 30, 2015 and December 31, 2014, respectively	(11,528)	(5,297)
Retained deficit	(1,433,129)	(1,775,616)

Accumulated other comprehensive loss	(101,537)	(69,803)
Noncontrolling interest	719	621
Total stockholders’ equity	458,740	84,383
Total liabilities and stockholders’ equity	$5,331,720	$4,718,004

See Notes to Consolidated Financial Statements.

3

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

	Nine Months Ended September 30,			
	2015		2014	
Operating Activities				
Net income	$418,542		$24,991	
Adjustments to reconcile net income to cash provided by operating activities:				
Depreciation and amortization	254,854		221,016	
Amortization of upfront incentive consideration	31,575		33,177	
Litigation-related (credits) charges	(49,194	)	(6,132	)
Stock-based compensation expense	23,328		13,849	
Allowance for doubtful accounts	6,745		5,916	
Deferred income taxes	63,402		34,952	
Joint venture equity income	(14,198	)	(9,367	)
Dividends received from joint venture investments	28,700		2,205	
Amortization of debt issuance costs	4,893		4,779	
Gain on remeasurement of previously-held joint venture interest	(86,082	)	—	
Loss on extinguishment of debt	33,235		33,538	
Other	10,730		1,880	
(Income) loss from discontinued operations	(213,499	)	44,652	
Changes in operating assets and liabilities:				
Accounts and other receivables	(64,296	)	(72,559	)
Prepaid expenses and other current assets	5,249		3,721	
Capitalized implementation costs	(49,642	)	(27,091	)
Upfront incentive consideration	(46,409	)	(31,633	)
Other assets	(55,439	)	(60,526	)
Accrued compensation and related benefits	10,294		(5,752	)
Accounts payable and other accrued liabilities	60,554		29,654	
Deferred revenue including upfront solution fees	16,368		44,274	
Cash provided by operating activities	389,710		285,544	
Investing Activities				
Additions to property and equipment	(203,071	)	(154,212	)
Acquisitions, net of cash acquired	(441,582	)	(31,799	)
Other investing activities	148		234	
Cash used in investing activities	(644,505	)	(185,777	)
Financing Activities				
Proceeds of borrowings from lenders	752,000		148,307	
Payments on borrowings from lenders	(719,507	)	(797,028	)
Debt prepayment fees and issuance costs	(40,214	)	(30,490	)
Acquisition-related contingent consideration paid	—		(27,000	)
Proceeds from issuance of common stock in initial public offering, net	—		672,137	
Net proceeds on the settlement of equity-based awards	40,045		2,376	
Cash dividends paid to common stockholders	(73,554	)	(23,831	)
Other financing activities	1,975		(3,755	)
Cash used in financing activities	(39,255	)	(59,284	)
Cash Flows from Discontinued Operations				

Cash used in operating activities	(908)	(189,802)
Cash provided by (used in) investing activities	278,834	(1,904)
Cash provided by (used in) discontinued operations	277,926	(191,706)
Effect of exchange rate changes on cash and cash equivalents	(6,860)	734
Decrease in cash and cash equivalents	(22,984)	(150,489)
Cash and cash equivalents at beginning of period	155,679	308,236
Cash and cash equivalents at end of period	$132,695	$157,747

See Notes to Consolidated Financial Statements.

SABRE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. General Information
Sabre Corporation is a Delaware corporation formed in December 2006. On March 30, 2007, Sabre Corporation acquired Sabre Holdings Corporation ("Sabre Holdings"). Sabre Holdings is the sole subsidiary of Sabre Corporation. Sabre GLBL Inc. ("Sabre GLBL") is the principal operating subsidiary and sole direct subsidiary of Sabre Holdings. Sabre GLBL 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 consolidate 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.
In the first quarter of 2015, we completed our exit of the online travel agency business through the sale of our Travelocity business in the United States and Canada ("Travelocity.com") and Europe ("lastminute.com"). Our Travelocity segment has no remaining operations as a result of these dispositions. The financial results of our Travelocity segment are included in net income (loss) from discontinued operations in our consolidated statements of operations for all periods presented. The assets and liabilities of Travelocity.com and lastminute.com that were disposed of are classified as held for sale in our consolidated balance sheet as of December 31, 2014.
Basis of Presentation—The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("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, 2015 are not necessarily indicative of results that may be expected for any other interim period or for the year ended December 31, 2015. 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 March 3, 2015.
We consolidate all of our 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.
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 significant estimates and assumptions relate to, among other things, the collectability of accounts receivable, future cancellations of bookings processed through the Sabre global distribution system ("GDS"), revenue recognition for software arrangements, the fair value of assets and liabilities acquired in a business combination, the fair value of derivatives, the evaluation of the recoverability of the carrying value of intangible assets and goodwill, equity-based compensation, pension and other postretirement benefit liabilities, contingent liabilities and the 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 March 3, 2015.
Stockholders' Equity—During the nine months ended September 30, 2015, we issued 9,684,911 shares of our common stock and received $46 million in proceeds as a result of the exercise and settlement of employee equity-based awards. We paid a quarterly cash dividend of $0.09 per share of our common stock, totaling $74 million, during the nine months ended September 30, 2015. In the third quarter of 2014, we paid a cash dividend of $0.09 per share of our

common stock, totaling $24 million. No dividends were declared or paid in the six months ended June 30, 2014.

Certain of our stockholders sold an aggregate of 73,970,000 shares of our common stock, which includes 7,170,000 shares of our common stock sold as a result of the underwriters' exercise of their overallotment options during the nine months ended September 30, 2015. We did not offer any shares or receive any proceeds from these secondary public offerings or from the exercise of the underwriters' allotment options.

2. Acquisition of Abacus

General

On July 1, 2015, we completed the acquisition of the remaining 65% interest in Abacus International Pte Ltd ("AIPL"), a Singapore-based business-to-business travel e-commerce provider that serves the Asia-Pacific region. Prior to the acquisition, AIPL was 65% owned by a consortium of 11 airlines and the remaining 35% was owned by us. Separately, AIPL has signed new long-term agreements with the consortium of 11 airlines to continue to utilize the Abacus GDS. In the third quarter of 2015, AIPL completed the acquisition of the remaining interest in two national marketing companies, Abacus Distribution Systems (Hong Kong) ("Hong Kong NMC") and Abacus Travel Systems (Singapore) ("Singapore NMC") (the Hong Kong NMC and Singapore NMC together with AIPL, "Abacus"). AIPL previously owned noncontrolling interests in the Hong Kong NMC and Singapore NMC. The net cash consideration for Abacus was $442 million, which excludes the effect of net working capital adjustments subject to finalization. The acquisition was funded with a combination of cash on hand and a $70 million draw on our revolving credit facility. We incurred acquisition-related costs of $9 million and $13 million during the three and nine months ended September 30, 2015, respectively, which are included in selling, general and administrative expenses in our consolidated statements of operations.

In August 2015, AIPL executed an agreement to acquire the remaining interest in a third national marketing company, Abacus Distribution Systems Sdn Bhd (Malaysia) ("Malaysia NMC"), which is expected to close in the fourth quarter of 2015.

In connection with our acquisition of Abacus, we recognized a gain of $86 million in the three months ended September 30, 2015 as a result of the remeasurement of our previously-held 35% equity interest in Abacus to its fair value as of the acquisition date. In addition, we recognized a gain of $12 million in the three months ended September 30, 2015 associated with the settlement of a pre-existing agreement between us and AIPL related to data processing services. The $86 million remeasurement gain and the $12 million settlement gain are reflected in other, net in our consolidated statements of operations.

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 a result, we recorded a restructuring charge of $9 million associated with termination benefits, of which less than $1 million was paid during the three months ended September 30, 2015. The plan is expected to be substantially complete by the third quarter of 2016 and we currently do not expect to incur significant additional charges in connection with the plan. These restructuring charges are included in selling, general and administrative expenses in our consolidated results of operations.

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, which may result in an adjustment to the $86 million gain we recognized in the third quarter of 2015 as a result of the remeasurement of our previously-held 35% equity interest in Abacus. We expect to finalize the purchase price allocation in the fourth quarter of 2015.

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	$64,604
Accounts receivable, net	60,349
Other current assets	11,525
Goodwill	273,451
Intangible assets:	
Customer relationships	330,000
Reacquired rights[(1)]	108,200
Purchased technology	14,000
Supplier agreements	11,000
Trademarks and brand names	4,000
Property and equipment, net	3,458
Other assets	55,492
Current liabilities	(120,576)
Noncurrent liabilities	(25,502)
Noncurrent deferred income taxes	(74,225)
	715,776
Fair value of Sabre Corporation's previously held equity investment in AIPL	(208,000)
Fair value of AIPL's previously held equity investment in national marketing companies	(1,590)
Total acquisition price	$506,186

[(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 weighted-average useful lives of the intangible assets acquired are 20 years for customer relationships, 7 years for reacquired rights, 5 years for purchased technology, 7 years for supplier agreements and 2 years for trademarks and brand names.

The preliminary purchase price allocation includes estimates for contingent liabilities of $25 million related to tax uncertainties. We are evaluating certain other contingencies that existed as of the acquisition date, which may impact the purchase price allocation.

Unaudited Pro Forma Financial Information

Since the acquisition date, Abacus contributed $96 million of revenue and $1 million of income from continuing operations for the three and nine months ended September 30, 2015. 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 excludes the $86 million gain on the remeasurement of our previously-held 35% investment in AIPL, the $12 million gain on the settlement of a pre-existing agreement between us and AIPL, and all acquisition-related costs incurred. The unaudited pro forma results of operations information include adjustments to: (i) eliminate historical revenue and cost of revenue between us, AIPL and the national marketing companies; (ii) remove historical amortization recognized by AIPL 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:

	Three Months Ended September 30,	Nine Months Ended September 30,	
	2014	2015	2014
Revenue	$740,980	$2,350,362	$2,201,341
Income from continuing operations	43,983	126,531	78,367

Net income attributable to common stockholders	39,317	337,529	20,166

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 and Dispositions

Over the past several years, we have disposed of non-core operations of our Travelocity business and, 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 (loss) from discontinued operations in our consolidated statements of operations for all periods presented. The assets and liabilities of Travelocity.com and lastminute.com that were disposed of are classified as held for sale in our consolidated balance sheet as of December 31, 2014.

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 GLBL Inc. and 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 $71 million, partially offset by assets sold including intangible assets of $26 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 through the end of 2015. 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 $25 million, net of tax, in the first quarter of 2015.

Travel Partner Network—In February 2014, we completed a sale of assets associated with Travelocity Partner Network (“TPN”), a business-to-business private white label website offering, for $10 million in proceeds. Pursuant to the sale agreement, we were to receive two annual earn-out payments, totaling up to $10 million, if the purchaser exceeded certain revenue thresholds during the calendar years ending December 31, 2014 and December 31, 2015. The revenue threshold was not met for the year ended December 31, 2014 and we do not expect that the revenue threshold for the year ended December 31, 2015 will be met. In connection with the sale, Travelocity entered into a Transition Services Agreement (“TSA”) with the acquirer to provide services to maintain the websites and certain technical and administrative functions for the acquirer until a complete transition occurs or the TSA terminates. Consideration received under both agreements has been allocated to the disposition and the services provided under the TSA; therefore, a significant portion of the upfront proceeds were deferred, based on the fair value of the TSA services, and are being recognized as an offset to operating expense within discontinued operations as the services are provided. In the first quarter of 2014, we recognized a loss on the disposition of $3 million, prior to considering the potential earn-out payments. We also recognized a $3 million receivable for earn-out proceeds during the first quarter of 2014, which offset the loss from disposition and resulted in no net impact to operating income for the disposition. During the third quarter of 2014, we determined that receipt of the earn-out proceeds was no longer probable and therefore fully impaired the receivable.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenue	$1,038	$85,978	$24,292	$260,652
Cost of revenue	5,254	26,921	19,279	94,472
Selling, general and administrative[1]	(42,046)	61,032	(20,538)	236,466
Operating income (loss)	37,830	(1,975)	25,551	(70,286)
Other income (expense):				

Interest expense, net	—	(2,559)	—	(5,917)
Gain on sale of businesses[(2)]	30,709	—	294,276	—
Other, net	(321)	(952)	2,178	(445)
Total other income (expense), net	30,388	(3,511)	296,454	(6,362)
Income (loss) from discontinuing operations before income taxes	68,218	(5,486)	322,005	(76,648)
Provision (benefit) for income taxes	14,326	(1,540)	108,506	(31,996)
Net income (loss) from discontinued operations	$53,892	$(3,946)	$213,499	$(44,652)

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(1) In September 2015, we recognized a gain of $40 million as a result of the favorable final ruling from the Supreme Court of Hawaii and receipt of a cash refund related to our litigation of hotel occupancy taxes. See Note 11, Contingencies, for additional information.

(2) Includes $31 million of reclassified cumulative translation gains associated with our lastminute.com subsidiaries. See below "Divestiture of lastminute.com—Cumulative Translation Adjustments" for additional information.

8

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.

U.S. Tax Benefit

We expect to write off the remaining US tax basis in goodwill and intangible assets during the fourth quarter of 2015, the period in which we expect the wind down of lastminute.com activities to be complete. We estimate the U.S. tax benefit will range between approximately $80 million to $95 million. The tax benefit will be included in our results of discontinued operations.

4. Income Taxes

Our effective tax rates for the nine months ended September 30, 2015 and 2014 were 29% and 44%, respectively. The decrease in the effective tax rate for the nine months ended September 30, 2015 as compared to the same period in 2014 was primarily due to an increase in forecasted earnings in lower tax jurisdictions and the $86 million gain on remeasurement of our previously-held equity interest in Abacus, which is non-taxable. 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. Our net unrecognized tax benefits, excluding interest and penalties, included in our consolidated balance sheets, were $82 million and $59 million as of September 30, 2015 and December 31, 2014, respectively.

5. Debt

As of September 30, 2015 and December 31, 2014, our outstanding debt included in our consolidated balance sheets totaled $3,121 million and $3,084 million, respectively, net of unamortized discounts of $9 million and $13 million, respectively. The following table sets forth the face values of our outstanding debt as of September 30, 2015 and December 31, 2014 (in thousands):

	Rate	Maturity	September 30, 2015	December 31, 2014
Senior secured credit facilities:				
Term B facility	L + 3.00%	February 2019	$1,726,188	$1,739,500
Incremental term loan facility	L + 3.00%	February 2019	343,000	345,625
Term C facility	L + 2.50%	December 2017	49,313	49,313
Revolver, $370 million	L + 2.75%	February 2019	—	—
Revolver, $35 million	L + 3.75%	February 2018	—	—
Senior unsecured notes due 2016	8.35%	March 2016	400,000	400,000
Senior secured notes due 2019	8.50%	May 2019	—	480,000
Senior secured notes due 2023	5.38%	April 2023	530,000	—
Mortgage facility	5.80%	March 2017	81,290	82,168
Face value of total debt outstanding			3,129,791	3,096,606
Less current portion of debt outstanding			(422,475)	(22,435)
Face value of long-term debt outstanding			$2,707,316	$3,074,171

Senior Secured Credit Facilities

We have a revolving credit facility totaling $405 million, of which $370 million expires in February 2019 ("Extended Revolver") and $35 million expires in February 2018 ("Unextended Revolver," collectively, the "Revolver"). We had no outstanding balance under the Extended or Unextended Revolver as of September 30, 2015 and December 31, 2014. We had outstanding letters of credit totaling $21 million and $47 million as of September 30, 2015 and December 31, 2014, respectively, which reduce our overall credit capacity under the Revolver.

Issuance of 2023 Notes and Extinguishment of 2019 Notes

In April 2015, we extinguished our $480 million senior secured notes due 2019 with a stated interest rate of 8.50% (“2019 Notes”) through the issuance of $530 million senior secured notes due in 2023 with a stated interest rate of 5.375% (“2023 Notes”). The 2023 Notes were issued by Sabre GLBL and are guaranteed by Sabre Holdings and each of Sabre GLBL’s existing and subsequently acquired or organized subsidiaries that are borrowers under or guarantors of our senior secured credit facilities. The 2023 Notes are secured by a first priority security interest in substantially all present and after acquired property and assets of Sabre GLBL and the guarantors of the notes, which also constitutes collateral securing indebtedness under our senior secured facilities on a first priority basis. We received proceeds of approximately $522 million, net of underwriting fees and commissions, from the 2023 Notes which were used to redeem all of the $480 million principal of the 2019 Notes, pay the 6.375% 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. The remaining proceeds, combined with cash on hand, were used to pay accrued but unpaid interest of $19 million. We recognized a loss on extinguishment of debt in the second quarter of 2015 of $33 million, which includes the redemption premium and the make whole premium.

Aggregate Maturities

As of September 30, 2015, aggregate maturities of our long-term debt, which excludes amounts outstanding under our Revolver, were as follows (in thousands):

	Amount
2015 (remaining)	$5,620
2016	422,493
2017	150,303
2018	21,250
2019	2,000,125
Thereafter	530,000
Total	$3,129,791

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. Derivatives not designated as hedging instruments are carried at fair value with changes in fair value reflected in the consolidated statement of operations.

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 2016. 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, 2015 and 2014. As of September 30, 2015, we estimate that $2 million in losses will be reclassified from other comprehensive income (loss) to earnings as the outstanding contracts settle.
As of September 30, 2015 and December 31, 2014, 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, 2015

Buy Currency	Sell Currency	Foreign Amount	USD Amount	Average Contract Rate
US Dollar	Australian Dollar	3,950	3,053	0.7729
US Dollar	Euro	10,570	11,658	1.1029
Australian Dollar	US Dollar	1,600	1,225	0.7656
Euro	US Dollar	7,880	9,602	1.2185
British Pound Sterling	US Dollar	18,400	28,276	1.5367
Indian Rupee	US Dollar	1,209,500	18,091	0.015
Polish Zloty	US Dollar	196,000	52,702	0.2689

Outstanding Notional Amounts as of December 31, 2014

Buy Currency	Sell Currency	Foreign Amount	USD Amount	Average Contract Rate
US Dollar	Australian Dollar	6,750	5,838	0.8649
Euro	US Dollar	30,200	38,777	1.2840
British Pound Sterling	US Dollar	22,950	37,343	1.6271
Indian Rupee	US Dollar	1,205,000	18,748	0.0156
Polish Zloty	US Dollar	171,000	52,821	0.3089

Interest Rate Swap Contracts—Interest rate swaps outstanding during the nine months ended September 30, 2015 and 2014 are as follows:

	Notional Amount	Interest Rate Received	Interest Rate Paid	Effective Date	Maturity Date
Outstanding:	$750 million	1 month LIBOR[(1)]	1.48%	December 31, 2015	December 30, 2016
	$750 million	1 month LIBOR[(1)]	2.19%	December 30, 2016	December 29, 2017
	$750 million	1 month LIBOR[(1)]	2.61%	December 29, 2017	December 31, 2018
Matured:	$400 million	1 month LIBOR	2.03%	July 29, 2011	September 30, 2014
	$350 million	1 month LIBOR	2.51%	April 30, 2012	September 30, 2014

(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, 2015. 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, 2015, we estimate that $2 million in losses will be reclassified from other comprehensive income (loss) to earnings over the next 12 months.

In January 2013, our then outstanding swaps were not designated in a cash flow hedging relationship because we no longer qualified for hedge accounting treatment following the amendment and restatement of our senior secured credit facility in February 2013. These interest rate swaps matured on September 30, 2014. Derivatives not designated as hedging instruments are carried at fair value with changes in fair value recognized in the consolidated statements of operations. The adjustments to fair value of our matured interest rate swaps for the three and nine months ended September 30, 2014 was not material to our results of operations. During the three and nine months ended September 30, 2014, we reclassified losses, net of tax, of $2 million and $7 million,

respectively, from other comprehensive income ("OCI") to interest expense related to the derivatives that no longer qualified for hedge accounting.

The estimated fair values of our derivatives designated as hedging instruments as of September 30, 2015 and December 31, 2014 are as follows (in thousands):

	Derivative Assets (Liabilities)		
		Fair Value as of	
Derivatives Designated as Hedging Instruments	Consolidated Balance Sheet Location	September 30, 2015	December 31, 2014
Foreign exchange contracts	Other accrued liabilities	$(2,401)	$(8,475)
Interest rate swaps	Other accrued liabilities	(2,630)	—
	Other noncurrent liabilities	(12,705)	(1,401)
		$(17,736)	$(9,876)

The effects of derivative instruments, net of taxes, on OCI for the three and nine months ended September 30, 2015 and 2014 are as follows (in thousands):

	Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
Derivatives in Cash Flow Hedging Relationships	2015	2014	2015	2014
Foreign exchange contracts	$(1,069)	$(3,799)	$(4,115)	$(3,181)
Interest rate swaps	(4,255)	—	(9,003)	—
Total	$(5,324)	$(3,799)	$(13,118)	$(3,181)

		Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)			
Derivatives in Cash Flow Hedging Relationships	Income Statement Location	Three Months Ended September 30,		Nine Months Ended September 30,	
		2015	2014	2015	2014
Foreign exchange contracts	Cost of revenue	$(1,970)	$646	$(8,902)	$4,242

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—We acquired equity securities of a publicly-traded non-U.S. entity as part of our acquisition of Abacus. The fair value of our available-for-sale securities are obtained from market quotes as of the last day of the period. Our available-for-sale securities are included in other assets 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, 2015 and December 31, 2014 (in thousands):

		Fair Value at Reporting Date Using		
	September 30, 2015	Level 1	Level 2	Level 3
Available-for-sale securities	$27,723	$27,723	$—	$—
Derivatives				
Foreign currency forward contracts	(2,401)	—	(2,401)	—
Interest rate swap contracts	(15,335)	—	(15,335)	—
Total	$9,987	$27,723	$(17,736)	$—

		Fair Value at Reporting Date Using		
	December 31, 2014	Level 1	Level 2	Level 3
Derivatives				
Foreign currency forward contracts	$(8,475)	$—	$(8,475)	$—
Interest rate swap contracts	(1,401)	—	(1,401)	—
Total	$(9,876)	$—	$(9,876)	$—

Other Financial Instruments
The carrying value of our financial instruments including cash and cash equivalents, and accounts receivable approximate their fair values. The fair values of our senior notes and term loans under our senior secured credit facilities are determined based on quoted market prices for the identical liability when traded as an asset in an active market, a Level 1 input. The outstanding principal balance of our mortgage facility approximated its fair value as of September 30, 2015 and December 31, 2014. The fair values of the mortgage facility and Revolver are determined based on estimates of current interest rates for similar debt, a Level 2 input.
As of September 30, 2015, we had no outstanding balance under our Revolver. The following table presents the fair value and carrying value of our senior notes and term loans under our senior secured credit facilities as of September 30, 2015 and December 31, 2014 (in thousands):

Financial Instrument	Fair Value at September 30, 2015	December 31, 2014	Carrying Value at September 30, 2015	December 31, 2014
Term B facility	$1,736,976	$1,718,843	$1,720,053	$1,732,101
Incremental term loan facility	346,644	341,737	343,000	345,625
Term C facility	49,929	48,758	49,137	49,080
Senior unsecured notes due 2016	410,060	426,250	397,769	393,973
Senior secured notes due 2019	—	516,300	—	480,741
Senior secured notes due 2023	522,713	—	530,000	—

8. Accumulated Other Comprehensive Income (Loss)

As of September 30, 2015 and December 31, 2014, the components of accumulated other comprehensive income (loss), net of related deferred income taxes, are as follows (in thousands):

	September 30, 2015	December 31, 2014
Defined benefit pension and other post retirement benefit plans	$(87,484)	$(90,172)
Unrealized loss on foreign currency forward contracts and interest rate swaps	(11,610)	(7,395)
Unrealized loss on available-for-sale securities	(4,265)	—
Unrealized foreign currency translation gain	1,822	22,843
Other [1]	—	4,921
Total accumulated other comprehensive loss, net of tax	$(101,537)	$(69,803)

(1) As of December 31, 2014, this balance was primarily related to our share of accumulated other comprehensive income of our previously-held joint venture, AIPL. We acquired the remaining interest in AIPL on July 1, 2015.

During the three months ended September 30, 2015, we reclassified $19 million, net of tax, of foreign currency translation gains from accumulated other comprehensive income (loss) into income from discontinued operations as a result of the substantial liquidation of our lastminute.com subsidiaries. The amortization of actuarial losses and periodic service credits associated with our retirement-related benefit plans are 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,	
	2015	2014	2015	2014
Numerator:				
Income from continuing operations	$123,124	$41,229	$205,043	$69,643
Less: Net income attributable to noncontrolling interests	676	720	2,501	2,168
Less: Preferred stock dividends	—	—	—	11,381
Net income from continuing operations available to common stockholders, basic and diluted	$122,448	$40,509	$202,542	$56,094
Denominator:				
Basic weighted-average common shares outstanding	275,471	264,768	272,224	229,405
Add: Dilutive effect of stock options and restricted stock awards	5,924	8,562	6,624	8,589
Diluted weighted-average common shares outstanding	281,395	273,330	278,848	237,994
Earning per share from continuing operations:				
Basic	$0.44	$0.15	$0.74	$0.24
Diluted	$0.44	$0.15	$0.73	$0.24

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 less than 1 million and 1 million common stock equivalents for the three and nine months ended September 30, 2015, respectively, and 2 million and 1 million common stock equivalents for the three and nine months ended September 30, 2014, respectively, as the inclusion would have been antidilutive.

14

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10. Pension and Other Postretirement Benefit Plans

We sponsor the Sabre Inc. Legacy Pension Plan which is a tax-qualified defined benefit pension plan for employees meeting certain eligibility requirements. We also provide retiree life insurance benefits to certain employees who retired prior to January 1, 2014. The following table provides the components of net periodic benefit costs associated with our pension and other postretirement benefit plans for the three and nine months ended September 30, 2015 and 2014 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Pension and Other Postretirement Benefits:				
Interest cost	$4,774	$4,886	$14,323	$14,688
Expected return on plan assets	(5,279)	(5,909)	(15,838)	(17,959)
Amortization of prior service credit	(358)	(358)	(1,075)	(1,074)
Amortization of actuarial loss, net	1,761	1,257	5,284	3,591
Net periodic cost (credit)	$898	$(124)	$2,694	$(754)

We are not required to make any contributions to our defined benefit pension plans during 2015 under the Employee Retirement Income Security Act of 1974, as amended. We made no contributions to fund our defined benefit pension plans during the three and nine months ended September 30, 2015 and do not expect to make any contributions during the remainder of 2015. We made contributions of $4 million during the nine months ended September 30, 2014. Contributions to our defined benefit pension plans in the United States and Canada are based on several factors that may vary from year to year. Thus, past contributions are not always indicative of future contributions.

11. 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.

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 entered into with Expedia, 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 the Expedia SMA (as defined below). 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 Travelocity's indemnification obligations under the Travelocity Purchase Agreement for liabilities that may arise out of these litigation matters, which could adversely affect our cash flow.

Over the past ten years, various state and local governments in the United States have filed approximately 70 lawsuits against us and other online travel agencies ("OTAs") pertaining primarily to whether our discontinued Travelocity segment and other OTAs owe sales or occupancy taxes on the revenues they earn from facilitating hotel reservations using the merchant revenue model. 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. 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. Courts have dismissed approximately 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 Fourth, Sixth and Eleventh Circuits of the United States Courts of Appeals each have ruled in our favor on the merits, as have state appellate courts in Missouri, Alabama, Texas, California, Kentucky, Florida, Colorado and Pennsylvania, and a number of state and federal trial courts. 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.

We have received recent favorable decisions pertaining to cases in Florida, North Dakota, North Carolina, California, Montana, Arizona and Colorado. In Florida, Travelocity has been named as a defendant in several proceedings and lawsuits brought by cities and counties in Florida, including the Counties of Leon, Broward, Osceola, and Volusia; and the City of Miami. The suits brought by Leon County and Broward County have been decided on the merits, and both were decided in favor of Travelocity and other OTAs. On February 28, 2013 and February 12, 2014, respectively, those decisions were affirmed by the intermediate court of appeals. On June 11, 2015, the Supreme Court of Florida affirmed the Leon County judgment in favor of Travelocity and other OTAs, ruling they are not subject to state or local taxes that apply to the renting, leasing, or letting of hotel rooms. Similarly, on July 9, 2015, a district court in North Dakota ruled that Travelocity and other OTAs are not engaged in the business of leasing or renting hotel accommodations and thus are not subject to the City of Fargo's hotel tax. On August 19, 2014, the North Carolina Court of Appeals affirmed a judgment in favor of Travelocity and other OTAs after concluding they are not operators of hotels, motel or similar-type businesses and therefore are not subject to hotel occupancy tax. On May 28, 2014, an administrative hearing officer in Arizona ruled that Travelocity is not responsible for collecting or remitting local hotel taxes and set aside assessments made by twelve municipalities, including Phoenix, Scottsdale, Tempe, and Tucson. Those municipalities have appealed the decision to state court. On March 27, 2014, a California court of appeals upheld a trial court ruling that OTAs, including Travelocity, are not subject to the City of San Diego's transient occupancy tax because they are not hotel operators or managing agents. That case is now pending before the Supreme Court of California. The California court of appeals' decision marked the third time that a California appellate court has ruled in favor of Travelocity on the question of whether OTAs are subject to transient occupancy taxes in California, the prior two cases being brought by the City of Anaheim and City of Santa Monica. Travelocity also has prevailed at the trial court level in cases brought by San Francisco and Los Angeles, both of which are being appealed by the cities. On March 6, 2014, a Montana trial court ruled by summary judgment that Travelocity and other OTAs are not subject to the State of Montana's lodging facility use tax or its sales tax on accommodations and vehicles. On August 12, 2015, the Supreme Court of Montana affirmed the trial court's decision that Travelocity is not subject to the lodging facility use tax, but concluded that Travelocity's service fees are subject to sales tax on accommodations and vehicles. On July 3, 2014, the Colorado Court of Appeals entered judgment that Travelocity and OTAs are not liable for lodging taxes as claimed by the City of Denver. The City of Denver has appealed the decision to the Supreme Court of Colorado.

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. On April 3, 2014, the Supreme Court of Wyoming affirmed a decision by the Wyoming State Board of Equalization that Travelocity and other OTAs are subject to sales tax on lodging. Similarly, on July 23, 2015 a court of appeals for the District of Columbia ruled in favor of the District on its claim that Travelocity and other OTAs are subject to the District's hotel occupancy tax. As a result, we paid $6 million to the District during the three months ended September 30, 2015, most of which was previously accrued. We did not record material charges associated with these cases during the three and nine months ended September 30, 2015 and 2014.

On April 4, 2013, the United States District Court for the Western District of Texas ("W.D.T.") entered a final judgment against Travelocity and other OTAs in a class action lawsuit filed by the City of San Antonio. The final judgment was based on a jury verdict from October 30, 2009 that the OTAs "control" hotels for purposes of city hotel occupancy taxes. Following that jury verdict, on July 1, 2011, the W.D.T. concluded that fees charged by the OTAs are subject to hotel occupancy taxes and that the OTAs have a duty to collect and remit these taxes. We disagree with the jury's finding and with the W.D.T.'s conclusions based on the jury finding, and intend to appeal the final judgment to the United States Court of Appeals for the Fifth Circuit. The verdict against us, including penalties and interest, is $4 million which we do not believe we will ultimately pay and therefore have not accrued any loss related to this case.

We believe the Fifth Circuit's resolution of the San Antonio appeal may be affected by a separate Texas state appellate court decision in our favor. On October 26, 2011, the Fourteenth Court of Appeals of Texas affirmed a trial court's summary judgment ruling in favor of the OTAs in a case brought by the City of Houston and the Harris County-Houston Sports Authority on a similarly worded tax ordinance as the one at issue in the San Antonio case. The Texas Supreme Court denied the City of Houston's petition to review the case. We believe this decision should

provide persuasive authority to the Fifth Circuit in its review of the San Antonio case.

On March 17, 2015, the Supreme Court of Hawaii issued a decision affirming in part and reversing in part a final judgment entered by the Hawaii Tax Appeal Court. In that case, the Tax Appeal Court had ruled that Travelocity and other OTAs are not subject to Hawaii's transient accommodation tax, but also had ruled in favor of the State of Hawaii on the issue of whether the state's general excise tax, which is assessed on all business activity in the state, applies to hotel bookings, in which we were the merchant of record for credit card processing for travel accommodations, for the period 2002 to 2011.

The State of Hawaii appealed the Tax Appeal Court's decision that Travelocity is not subject to transient accommodation tax, and Travelocity appealed the decision that we are subject to general excise tax. On March 17, 2015, the Supreme Court of Hawaii issued its decision affirming that Travelocity is not subject to transient accommodation tax, affirming that Travelocity is subject to general excise tax, and reversing the Tax Appeal Court's decision that Travelocity is liable for general excise tax on the gross receipts collected from customers. Instead, the Hawaii Supreme Court held Travelocity is liable for general excise tax only on its own service fees. On March 27, 2015, the State of Hawaii filed a motion for reconsideration, which was denied.

The proceeding in the Hawaii Supreme Court involved all merchant model hotel bookings for the period 2002 to 2011. While that appeal was pending, the State also issued additional assessments of general excise tax, interest, and penalties for merchant model hotel bookings for 2012; merchant model car reservations for the period 2004-2012; and combined merchant model hotel and car reservations for 2013. Further, notwithstanding the Tax Appeal Court's ruling that Travelocity is not subject to transient accommodation tax, the State issued additional transient accommodation tax assessments for 2012 and 2013. Travelocity has appealed all of the additional assessments to the Tax Appeal Court, which initially stayed the assessments pending the Hawaii Supreme Court's final decision on the original assessments. Those stays have now been lifted.

In September 2015, we received a final ruling on the amounts owed by Travelocity, and as a result, received a cash refund of $30 million from the State of Hawaii. We had previously paid the State of Hawaii $35 million to appeal. In addition, we reduced our accrued liability by $10 million as a result of the final ruling. The total gain of $40 million is included in income (loss) from discontinued operations in our consolidated statements of operations and the $30 million cash refund is included in cash flows from discontinued operations in our consolidated statements of cash flows. As of September 30, 2015, we maintained an accrued liability of $2 million included in other accrued liabilities for this case and did not make material payments in the three and nine months ended September 30, 2015.

As of September 30, 2015, we have a reserve of $5 million, included in other accrued liabilities in the consolidated balance sheet, for the potential resolution of issues identified related to litigation involving hotel and car sales, occupancy or excise taxes, which includes the $2 million reserve liability for the estimated remaining payments to the State of Hawaii. 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.

In addition to the lawsuits, 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.

Antitrust Litigation and DOJ Investigation

US Airways Antitrust Litigation

In April 2011, US Airways sued 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 that relate to our contracts with US Airways, which US Airways says 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. Summary judgment motions were filed in April 2014 and in January 2015, the court issued a ruling eliminating a majority of the alleged damages as well as rejecting a request for injunctive relief. The injunctive relief sought by US Airways could have resulted in the court requiring us to modify

language in our customer contracts.

With respect to the remaining claims in this case, we believe that our business practices and contract terms are lawful, and we will continue to vigorously defend against the remaining claims.

In June 2015, US Airways filed a Second Amended Complaint that limited its request for relief for the remaining claims to an amount not to exceed twenty dollars (post-trebling), plus reasonable costs, attorneys' fees and pre- and post-judgment interest, as well as declaratory relief with respect to those claims, including claims that we acted anticompetitively and maintained alleged market power.
In July 2015, we made an offer of judgment to US Airways, in which we offered to pay US Airways twenty dollars plus reasonable costs and attorneys' fees incurred to date in an amount to be determined by the court. The offer of judgment provided for the entry of a judgment against us on all remaining claims without an admission of liability. US Airways rejected our offer of judgment. We filed a motion for entry of judgment requesting that the court enter judgment pursuant to the terms of our offer because it provides US Airways with complete relief on all remaining, available claims. US Airways responded that entry of judgment was not appropriate because our offer did not address US Airways' claim for declaratory relief, which we contended was moot in light of, among other things, the fact that US Airways' remaining claims relate to only an expired contract and a past alleged conspiracy.
In September 2015, the court agreed with our position regarding declaratory relief, and dismissed US Airways' request for declaratory judgment. The ruling left in place US Airways' request for relief for twenty dollars (post-trebling), plus reasonable costs and attorneys' fees, and any applicable pre- and post- judgment interest. We renewed our offer of judgment on the same terms as the earlier offer. The court allowed US Airways to make a motion to amend its complaint to reinstate its claim for damages (before trebling) of either $45 million or $73 million. We have opposed US Airways' motion to amend. No ruling has been made as of the date of this Quarterly Report on Form 10-Q as to whether US Airways may amend its complaint. If the court does not allow US Airways to amend its complaint, we expect to renew our motion for entry of judgment, which if granted would require us to pay US Airways twenty dollars plus reasonable costs and attorneys' fees incurred as of the date of the offer, based on the terms of our most recent offer of judgment.

If the Court allows US Airways to amend its complaint, the case would proceed to trial. The date of the trial, which had been set for October 2015, has not been rescheduled as of the date of this filing, as the parties are awaiting the court's ruling on US Airways' motion to amend. The claims that have been dismissed to date are subject to appeal. To the extent that US Airways appeals the claims that the court previously dismissed, we would continue to defend against those claims.
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. If favorable resolution of the matter is not reached, US Airways would be eligible to be reimbursed by us for its reasonable costs and attorneys' fees. In addition, if US Airways is permitted to reinstate its claim for damages, and if favorable resolution of the matter is not reached, any monetary damages are subject to trebling under the antitrust laws. 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. We have not made any provisions or recorded any liability for the potential resolution of this matter. 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.
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 in over two years; however, we have not

been notified that this matter is closed.

Putative Class Action Lawsuits

On July 14, 2015 and July 20, 2015, two putative class action lawsuits (with virtually identical complaints) were filed against us and two other GDSs, in the Federal District Court of New York, Southern Division. In August 2015, the plaintiffs voluntarily dismissed the second lawsuit that was filed on July 20, 2015. 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, for example, negotiate for full content from the airlines, resulting in higher ticket prices for consumers, in violation of various federal and state laws. Although

the amount of damages allegedly incurred by the plaintiffs has not been asserted to date, the plaintiffs are also seeking declaratory and injunctive relief. We may incur significant fees, costs and expenses for as long as this litigation is ongoing. We intend to vigorously defend against these claims.

Insurance Carriers

We have disputes against some of our insurance carriers for failing to reimburse defense costs incurred in the American Airlines antitrust litigation, which we settled in October 2012. Both carriers admitted there is coverage, 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 have 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. If we prevail, we may recover some or all amounts already 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 has been closed, and we expect that summary judgment briefing will be completed by the end of 2015.

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. We appealed the tax assessments and the Indian Commissioner of Income Tax Appeals returned a mixed verdict. We filed further appeals with the Income Tax Appellate Tribunal, or the 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.

In addition, AIPL is currently a defendant in similar income tax litigation brought by the DIT. The dispute arose when the DIT asserted that AIPL 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. AIPL appealed the tax assessments, and the Indian Commissioner of Income Tax (Appeals) returned a mixed verdict. AIPL filed further appeals with the Income Tax Appellate Tribunal (ITAT). The ITAT ruled in AIPL'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 2011, which are pending before the ITAT.

If the DIT were to fully prevail on every claim against us, including AIPL, we could be subject to taxes, interest and penalties of approximately $40 million as of September 30, 2015, which could have an adverse effect on our business, financial condition and results of operations. We and AIPL 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

The Indian subsidiary of AIPL 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 that it is not probable that the DGST will prevail.

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.

19

12. 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 the third quarter of 2015, we acquired Abacus which is managed as a region of our Travel Network segment. In the first quarter of 2015, we disposed of our Travelocity segment; therefore, the financial results of Travelocity are excluded from the segment information presented below and are included in net income (loss) from discontinued operations in our consolidated financial statements.

Our CODM utilizes Adjusted Gross Margin and Adjusted EBITDA as the measures of profitability to evaluate performance of our segments and allocate resources. Segment results do not include unallocated expenses or interest expenses which are centrally managed costs. Benefits expense, including pension expense, postretirement benefits, medical insurance and workers' compensation are allocated to the segments based on headcount. Depreciation expense on the corporate headquarters building and related facilities costs are allocated to the segments through a facility fee based on headcount. Corporate includes certain shared expenses such as accounting, human resources, legal, corporate systems, and other shared technology costs. Corporate also includes all amortization of intangible assets and any related impairments that originate from purchase accounting, as well as stock based compensation expense, restructuring charges, legal reserves, occupancy taxes 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 Margin and Adjusted EBITDA which are not recognized terms under GAAP. Our uses of Adjusted Gross Margin 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 Margin as operating income adjusted for selling, general and administrative expenses, amortization of upfront incentive consideration, and the cost of revenue portion of depreciation and amortization, restructuring and other costs and stock-based compensation.

We define Adjusted EBITDA as income from continuing operations adjusted for depreciation and amortization of property and equipment, amortization of capitalized implementation costs, acquisition-related amortization, amortization of upfront incentive consideration, interest expense, net, loss on extinguishment of debt, other, net, restructuring and other costs, acquisition-related costs, litigation costs, stock-based compensation, management fees and income taxes. We define Adjusted Capital Expenditures as additions to property and equipment and capitalized implementation costs during the periods presented.

Segment information for the three and nine months ended September 30, 2015 and 2014 is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenue				
Travel Network	$569,190	$466,278	$1,571,635	$1,420,341
Airline and Hospitality Solutions	218,978	208,684	640,510	571,975
Eliminations	(3,166)	(2,482)	(9,704)	(7,041)
Total revenue	$785,002	$672,480	$2,202,441	$1,985,275
Adjusted Gross Margin [(a)]				
Travel Network	$263,732	$216,214	$733,778	$670,023
Airline and Hospitality Solutions	99,373	94,747	284,354	235,546
Corporate	(16,297)	(18,138)	(37,778)	(38,918)
Total	$346,808	$292,823	$980,354	$866,651
Adjusted EBITDA [(b)]				
Travel Network	$231,230	$193,823	$669,274	$606,637
Airline and Hospitality Solutions	85,275	81,671	237,748	197,686
Total segments	316,505	275,494	907,022	804,323
Corporate	(74,839)	(59,952)	(194,197)	(162,970)
Total	$241,666	$215,542	$712,825	$641,353
Depreciation and amortization				
Travel Network	$15,947	$14,788	$45,571	$46,597
Airline and Hospitality Solutions	32,363	26,031	107,270	79,729
Total segments	48,310	40,819	152,841	126,326
Corporate	39,927	27,860	102,013	94,690
Total	$88,237	$68,679	$254,854	$221,016
Adjusted Capital Expenditures [(c)]				
Travel Network	$18,957	$13,238	$46,515	$43,858
Airline and Hospitality Solutions	61,370	39,994	168,349	117,784
Total segments	80,327	53,232	214,864	161,642
Corporate	14,862	4,004	37,849	19,661
Total	$95,189	$57,236	$252,713	$181,303

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Adjusted Gross Margin	$346,808	$292,823	$980,354	$866,651
Less adjustments:				
Selling, general and administrative	166,324	113,581	412,042	351,970
Cost of revenue adjustments:				
Depreciation and amortization [(1)]	59,334	46,148	177,080	153,072
Amortization of upfront incentive consideration [(2)]	9,525	10,388	31,575	33,177

Restructuring and other costs [4]	—	2,694	—	5,273
Stock-based compensation	2,853	2,165	9,288	5,523
Operating income	$108,772	$117,847	$350,369	$317,636

21

(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,	
	2015	2014	2015	2014
Adjusted EBITDA	$241,666	$215,542	$712,825	$641,353
Less adjustments:				
Depreciation and amortization of property and equipment [(1a)]	49,247	38,498	157,154	119,608
Amortization of capitalized implementation costs [(1b)]	7,606	9,083	23,032	27,070
Acquisition-related amortization [(1c)]	31,384	21,899	76,270	76,741
Amortization of upfront incentive consideration [(2)]	9,525	10,388	31,575	33,177
Interest expense, net	40,581	50,153	129,643	167,332
Loss on extinguishment of debt	—	—	33,235	33,538
Other, net [(3)]	(92,568)	(1,124)	(88,320)	839
Restructuring and other costs [(4)]	8,888	5,150	8,888	8,834
Acquisition-related costs [(5)]	9,350	—	13,214	—
Litigation costs [(6)]	9,318	4,252	14,797	11,370
Stock-based compensation	7,204	5,365	23,328	13,849
Management fees [(7)]	—	193	—	23,701
Provision for income taxes	38,007	30,456	84,966	55,651
Income from continuing operations	$123,124	$41,229	$205,043	$69,643

(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.

(2) 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 third quarter of 2015, we recognized a gain of $86 million associated with the remeasurement of our previously-held 35% investment in AIPL to its fair value and a gain of $12 million related to the settlement of pre-existing agreements between us and AIPL. In addition, all periods presented include 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.

(6) Litigation costs represent charges associated with antitrust litigation (see Note 11, Contingencies).

(7) We paid an annual management fee, pursuant to a Management Services Agreement ("MSA"), to TPG Global, LLC ("TPG") and Silver Lake Management Company ("Silver Lake") in an amount between (i) $5 million and (ii) $7 million, the actual amount of which is calculated based upon 1% of Adjusted EBITDA, earned by the company in such fiscal year up to a maximum of $7 million. In addition, we paid a $21 million fee, in the aggregate, to TPG and Silver Lake at the closing of our initial public offering in April of 2014. The MSA was terminated thereafter.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Additions to property and equipment	$75,108	$47,742	$203,071	$154,212
Capitalized implementation costs	20,081	9,494	49,642	27,091
Adjusted Capital Expenditures	$95,189	$57,236	$252,713	$181,303

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

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements about future trends, events, uncertainties and our plans and expectations of what may happen in the future. Any statements that are not historical or current facts are forward-looking statements. In many cases, you can identify forward-looking statements by terms such as "expect," "may," "will," "should," "intend," "plan," "anticipate," "believe," "estimate," "potential" or the negative of these ter comparable terminology. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performances or achievements expressed or implied by the forward-looking statements. Certain of these risks and uncertainties 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 March 3, 2015. 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. Readers 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 March 3, 2015.

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.

On July 1, 2015, we completed the acquisition of the remaining 65% interest in Abacus International Pte Ltd ("AIPL"), a Singapore-based business-to-business travel e-commerce provider that serves the Asia-Pacific region. Prior to the acquisition, AIPL was 65% owned by a consortium of 11 airlines and the remaining 35% was owned by us. In addition, in the third quarter of 2015, AIPL completed the acquisition of the remaining interest in Abacus Distribution Systems (Hong Kong) ("Hong Kong NMC") and Abacus Travel Systems (Singapore) ("Singapore NMC") (the Hong Kong NMC and Singapore NMC together with AIPL, "Abacus"). The net cash consideration for Abacus was $442 million, which excludes the effect of net working capital adjustments subject to finalization. Abacus is managed as a region of our Travel Network business. Separately, AIPL has signed new long-term agreements with the consortium of 11 airlines to continue to utilize the Abacus GDS. In addition, AIPL has executed an agreement to acquire the remaining interest in the Malaysia NMC, which we expect to close in the fourth quarter of 2015.

In the first quarter of 2015, we completed our exit of the online travel agency business through the sale of Travelocity.com and lastminute.com. Our Travelocity segment has no remaining operations as a result of these dispositions. The financial results of our Travelocity segment are included in net income (loss) from discontinued operations in our consolidated statements of operations for all periods presented. The assets and liabilities of Travelocity.com and lastminute.com that were disposed of are classified as assets held for sale and liabilities held for sale in our consolidated balance sheet as of December 31, 2014. The discussion and analysis of our results of operations refer to continuing operations unless otherwise indicated.

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.

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 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 March 3, 2015. 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 March 3, 2015. There have been no material changes to the Factors Affecting our Results previously disclosed in our Annual Report.

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 AIPL on July 1, 2015, we generated revenue from certain services we provided AIPL. 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.

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 have accrued on a monthly basis.

Corporate cost of revenue includes certain shared technology costs as well as stock-based compensation expense, litigation costs and other items that are not identifiable with our segments.

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 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.

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 hotel reservations booked through our GDS. Travel Network historically recognized intersegment incentive consideration expense for bookings generated by our discontinued Travelocity business. Such costs are representative of costs incurred on a consolidated basis relating to Travel Network’s revenue from airlines for bookings transacted 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 our key metrics (in thousands):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2015	2014	% Change	2015	2014	% Change
Travel Network						
Direct Billable Bookings - Air	107,361	81,047	32.5%	287,226	251,145	14.4%
Direct Billable Bookings - Non-Air	15,499	13,806	12.3%	44,197	41,274	7.1%
Total Direct Billable Bookings	122,860	94,853	29.5%	331,423	292,419	13.3%
Airline Solutions Passengers Boarded	141,994	136,545	4.0%	407,433	385,611	5.7%

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 Margin, Adjusted Net Income, Adjusted EBITDA, Adjusted Capital Expenditures, Free Cash Flow, Adjusted Free Cash Flow and ratios based on these financial measures.

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

We define Adjusted Net Income as income from continuing operations adjusted for acquisition-related amortization, loss on extinguishment of debt, other, net, restructuring and other costs, acquisition-related costs, litigation costs, stock-based compensation, management fees 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 remaining provision 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 2015 Proxy Statement, which are calculated for the purposes of our annual incentive compensation program and performance-based awards, respectively.

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

We define Free Cash Flow as cash provided by operating activities less cash used in additions to property and equipment. We define Adjusted Free Cash Flow as Free Cash Flow plus the cash flow effect of restructuring and other costs, acquisition-related costs, litigation settlement, other litigation costs and management fees.

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 Margin, 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 Margin, Adjusted Net Income, Adjusted EBITDA, Adjusted Capital Expenditures, Free Cash Flow, Adjusted 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 Margin 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;
- 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 and Adjusted Free Cash Flow do not reflect the cash requirements necessary to service the principal payments on our indebtedness;
- Free Cash Flow and Adjusted Free Cash Flow do not reflect payments related to restructuring, litigation, acquisition-related and management fees;
- Free Cash Flow and Adjusted Free Cash Flow remove the impact of accrual-basis accounting on asset accounts and non-debt liability accounts; and
- other companies, including companies in our industry, may calculate Adjusted Gross Margin, Adjusted Net Income, Adjusted EBITDA, Adjusted Capital Expenditures, Free Cash Flow or Adjusted Free Cash Flow differently, which reduces their usefulness as comparative measures.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income attributable to common stockholders	$176,340	$36,563	$416,041	$11,442
(Income) loss from discontinued operations, net of tax	(53,892)	3,946	(213,499)	44,652
Net income attributable to noncontrolling interests(1)	676	720	2,501	2,168
Preferred stock dividends	—	—	—	11,381
Income from continuing operations	123,124	41,229	205,043	69,643
Adjustments:				
Acquisition-related amortization(2a)	31,384	21,899	76,270	76,741
Loss on extinguishment of debt	—	—	33,235	33,538
Other, net(4)	(92,568)	(1,124)	(88,320)	839
Restructuring and other costs(5)	8,888	5,150	8,888	8,834
Acquisition-related costs (6)	9,350	—	13,214	—
Litigation costs(7)	9,318	4,252	14,797	11,370
Stock-based compensation	7,204	5,365	23,328	13,849
Management fees(8)	—	193	—	23,701
Tax impact of net income adjustments	(15,806)	(14,035)	(54,573)	(65,959)
Adjusted Net Income from continuing operations	$80,894	$62,929	$231,882	$172,556
Adjusted Net Income from continuing operations per share	$0.29	$0.23	$0.83	$0.73
Diluted weighted-average common shares outstanding	281,395	273,330	278,848	237,994
Adjusted Net Income from continuing operations	$80,894	$62,929	$231,882	$172,556
Adjustments:				
Depreciation and amortization of property and equipment(2b)	49,247	38,498	157,154	119,608
Amortization of capitalized implementation costs(2c)	7,606	9,083	23,032	27,070
Amortization of upfront incentive consideration(3)	9,525	10,388	31,575	33,177
Interest expense, net	40,581	50,153	129,643	167,332
Remaining provision for income taxes	53,813	44,491	139,539	121,610
Adjusted EBITDA	$241,666	$215,542	$712,825	$641,353

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

	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(2)	14,563	32,174	12,597	59,334
Amortization of upfront incentive consideration(3)	9,525	—	—	9,525
Stock-based compensation	—	—	2,853	2,853

Adjusted Gross Margin	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(2)	1,384	189	27,330	28,903
Restructuring and other costs(5)	—	—	8,888	8,888
Acquisition-related costs(6)	—	—	9,350	9,350
Litigation costs(7)	—	—		