

Sabre Corp
Form 10-Q
October 30, 2018

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

FORM 10-Q

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

For the quarterly period ended September 30, 2018

or

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

Commission File Number: 001-36422

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

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

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

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

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

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

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

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

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

SABRE CORPORATION
TABLE OF CONTENTS

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

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SABRE CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

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

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

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

See Notes to Consolidated Financial Statements.

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

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

Total liabilities and stockholders' equity	\$ 5,868,482	\$ 5,649,364
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See Notes to Consolidated Financial Statements.

3

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

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

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

See Notes to Consolidated Financial Statements.

SABRE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. General Information

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

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

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

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

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

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

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

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

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

Adoption of New Accounting Standards

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

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

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

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

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

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

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

Recent Accounting Pronouncements

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

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

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

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

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

2. Revenue from Contracts with Customers

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

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

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

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

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

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

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

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

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

Contract Balances

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

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

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

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

Performance Obligations

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

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

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

Revenue Recognition

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

Stand-ready series revenue recognition

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

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

Other revenue recognition patterns

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

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

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

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

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

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

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

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

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

Contract Costs

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

	September 30, 2018
Contract acquisition costs:	
Beginning balance (1/1/2018)	\$ 19,353
Additions	5,533
Amortization	(4,745)
Other	425
Ending balance	\$ 20,566

Capitalized implementation costs:

Beginning balance (1/1/2018)	\$ 194,501
Additions	29,781
Amortization	(30,511)
Other	(1,733)
Ending balance	\$ 192,038

Practical Expedients and Exemptions

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

Application

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

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

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

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

Modified Retrospective Transition Adjustments

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

transition.

11

3. Impairment and Related Charges

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

4. Income Taxes

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

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

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

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

respectively.

Other Matters

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

Tax Receivable Agreement

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

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

5. Debt

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

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

(1)

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

Senior Secured Credit Facilities

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

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

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

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

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

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

6. Derivatives

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

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

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

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

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

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

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

Outstanding Notional Amounts as of September 30, 2018

Buy Currency	Sell Currency	Foreign Amount	USD Amount	Average Contract Rate
Polish Zloty	US Dollar	238,000	66,666	0.2801
Singapore Dollar	US Dollar	65,050	48,595	0.7470