

Sabre Corp  
Form 10-Q  
November 12, 2014

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, 2014

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 20-8647233  
(State or other jurisdiction of (I.R.S. Employer

incorporation or organization) Identification No.)

3150 Sabre Drive

Southlake, TX 76092

(Address, including zip code, of principal executive offices)

(682) 605-1000

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

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

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

As of November 10, 2014, 265,364,515 shares of the registrant's common stock, par value \$0.01 per share, were outstanding.

SABRE CORPORATION

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## PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS  
SABRE CORPORATION

## CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Revenue	\$756,303	\$775,823	\$2,229,286	\$2,303,399
Cost of revenue <sup>(1) (2)</sup>	465,689	474,090	1,399,919	1,423,242
Selling, general and administrative <sup>(2)</sup>	169,183	208,033	575,413	620,226
Impairment	—	2,837	—	138,435
Restructuring charges	4,735	15,889	2,325	15,889
Operating income	116,696	74,974	251,629	105,607
Other income (expense):				
Interest expense, net	(50,153 )	(63,454 )	(167,332 )	(209,653 )
Loss on extinguishment of debt	—	—	(33,538 )	(12,181 )
Joint venture equity income	2,867	1,841	9,367	7,873
Other, net	565	(2,429 )	760	(1,099 )
Total other expense, net	(46,721 )	(64,042 )	(190,743 )	(215,060 )
Income (loss) from continuing operations before income taxes	69,975	10,932	60,886	(109,453 )
Provision (benefit) for income taxes	30,956	7,861	27,878	(5,229 )
Income (loss) from continuing operations	39,019	3,071	33,008	(104,224 )
(Loss) income from discontinued operations, net of tax	(1,736 )	3,015	(8,017 )	(20,895 )
Net income (loss)	37,283	6,086	24,991	(125,119 )
Net income attributable to noncontrolling interests	720	714	2,168	2,135
Net income (loss) attributable to Sabre Corporation	36,563	5,372	22,823	(127,254 )
Preferred stock dividends	—	9,242	11,381	27,219
Net income (loss) attributable to common shareholders	\$36,563	\$(3,870 )	\$11,442	\$(154,473 )
Basic net income (loss) per share attributable to common shareholders:				
Income (loss) from continuing operations	\$0.14	\$(0.04 )	\$0.08	\$(0.75 )
(Loss) income from discontinued operations	(0.01 )	0.02	(0.03 )	(0.12 )
Net income (loss) per common share	\$0.14	\$(0.02 )	\$0.05	\$(0.87 )
Diluted net income (loss) per share attributable to common shareholders:				
Income (loss) from continuing operations	\$0.14	\$(0.04 )	\$0.08	\$(0.75 )

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(Loss) income from discontinued operations	(0.01 )	0.02	(0.03 )	(0.12 )
Net income (loss) per common share	\$0.13	\$(0.02 )	\$0.05	\$(0.87 )
Weighted average common shares outstanding:				
Basic	264,768	178,140	229,405	178,051
Diluted	273,330	178,140	237,994	178,051
Dividends per common share	\$0.09	\$—	\$0.09	\$—

(1) Includes amortization of upfront incentive consideration \$10,388 \$9,385 \$33,177 \$28,736

(2) Includes stock-based compensation as follows:

Cost of revenue	\$2,172	\$544	\$5,618	\$816
Selling, general and administrative	3,300	2,142	16,816	4,630

See Notes to Consolidated Financial Statements.

## SABRE CORPORATION

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Net income (loss)	\$37,283	\$6,086	\$24,991	\$(125,119)
Other comprehensive (loss) income, net of tax:				
Foreign currency translation adjustments ("CTA"):				
Foreign CTA gains (losses), net of tax	1,522	(612 )	3,711	(276 )
Reclassification adjustment for realized losses				
on foreign CTA, net of tax	—	—	—	8,162
Net change in foreign CTA gains (losses), net of tax	1,522	(612 )	3,711	7,886
Retirement-related benefit plans:				
Amortization of prior service credits, net of taxes of \$129 and				
\$1,041 for the three months ended September 30, 2014 and				
2013, respectively, and \$386 and \$3,740 for the nine months				
ended September 30, 2014 and 2013, respectively	(229 )	(2,405 )	(686 )	(6,596 )
Amortization of actuarial losses, net of taxes of \$(454) and				
\$(414) for the three months ended September 30, 2014 and				
2013, respectively, and \$(1,299) and \$(1,482) for the nine				
months ended September 30, 2014 and 2013, respectively	803	955	2,292	2,615
Total retirement-related benefit plans	574	(1,450)	1,606	(3,981 )
Derivatives:				
Unrealized gains (losses), net of taxes of \$1,096 and \$(1,311)				
for the three months ended September 30, 2014 and 2013,				
respectively, and \$666 and \$(484) for the nine months ended				
September 30, 2014 and 2013, respectively	(3,799 )	2,752	(3,181 )	564
Reclassification adjustment for realized losses, net of taxes of	1,684	2,703	2,747	6,312

\$(1,057) and \$(1,615) for the three months ended

September 30, 2014 and 2013, respectively, and \$(2,607)

and \$(4,079) for the nine months ended September 30, 2014

and 2013, respectively

Net change in unrealized (losses) gains on derivatives, net of tax	(2,115 )	5,455	(434 )	6,876
Share of other comprehensive income of joint venture	—	—	3,420	—
Other comprehensive (loss) income	(19 )	3,393	8,303	10,781
Comprehensive income (loss)	37,264	9,479	33,294	(114,338)
Less: Comprehensive income attributable to				
noncontrolling interests	(720 )	(714 )	(2,168 )	(2,135 )
Comprehensive income (loss) attributable to Sabre Corporation	\$36,544	\$8,765	\$31,126	\$(116,473)

See Notes to Consolidated Financial Statements.



## SABRE CORPORATION

## CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)

(Unaudited)

	September 30, 2014	December 31, 2013
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 157,747	\$ 308,236
Restricted cash	755	2,359
Accounts receivable, net	466,753	434,288
Prepaid expenses and other current assets	56,315	53,378
Current deferred income taxes	39,184	41,431
Other receivables, net	28,902	29,511
Assets of discontinued operations	9,364	13,624
Total current assets	759,020	882,827
Property and equipment, net of accumulated depreciation of \$824,146 and \$722,916	526,722	498,523
Investments in joint ventures	142,639	132,082
Goodwill	2,152,590	2,138,175
Trademarks and brandnames, net of accumulated amortization of \$554,286 and \$545,597	307,445	323,035
Other intangible assets, net of accumulated amortization of \$956,606 and \$889,904	261,581	311,523
Other assets, net	522,397	469,543
Total assets	\$4,672,394	\$4,755,708
<b>Liabilities, temporary equity and stockholders' equity (deficit)</b>		
Current liabilities		
Accounts payable	\$ 129,555	\$ 111,386
Travel supplier liabilities and related deferred revenue	107,409	213,504
Accrued compensation and related benefits	91,700	117,689
Accrued subscriber incentives	168,019	142,767
Deferred revenues	176,990	136,380
Litigation settlement liability and related deferred revenue	75,409	38,920
Other accrued liabilities	210,196	267,867
Current portion of debt	22,418	86,117
Liabilities of discontinued operations	23,881	41,788
Total current liabilities	1,005,577	1,156,418
Deferred income taxes	8,601	10,253
Other noncurrent liabilities	523,728	263,182
Long-term debt	3,065,440	3,643,548
Commitments and contingencies (Note 14)		
Temporary equity		
Series A Redeemable Preferred Stock: \$0.01 par value; 225,000,000 authorized	—	634,843

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shares; no shares issued and outstanding at September 30, 2014; 87,229,703 shares

issued and 87,184,179 outstanding at December 31, 2013

Stockholders' equity (deficit)

Common Stock: \$0.01 par value; 450,000,000 authorized shares; 265,224,958

and 178,633,409 shares issued, 264,787,572 and 178,491,568 outstanding

at September 30, 2014 and December 31, 2013, respectively	2,652	1,786
Additional paid-in capital	1,911,172	880,619
Treasury Stock, at cost, 437,386 shares at September 30, 2014	(5,297 )	—
Retained deficit	(1,797,944)	(1,785,554)
Accumulated other comprehensive loss	(41,592 )	(49,895 )
Noncontrolling interest	57	508
Total stockholders' equity (deficit)	69,048	(952,536 )
Total liabilities, temporary equity and stockholders' equity (deficit)	\$4,672,394	\$4,755,708

See Notes to Consolidated Financial Statements.

## SABRE CORPORATION

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine Months Ended	
	September 30,	
	2014	2013
<b>Operating Activities</b>		
Net income (loss)	\$24,991	\$(125,119 )
Adjustments to reconcile net income (loss) to cash provided by operating activities:		
Depreciation and amortization	230,461	230,277
Impairment	—	138,435
Restructuring charges	3,247	4,089
Amortization of upfront incentive consideration	33,177	28,736
Litigation related (gains) charges	(6,132 )	6,117
Stock-based compensation expense	22,434	5,446
Allowance for doubtful accounts	6,371	7,583
Deferred income taxes	6,232	(19,357 )
Joint venture equity income	(9,367 )	(7,873 )
Dividends received from joint venture investments	2,205	—
Amortization of debt issuance costs	4,779	5,323
Debt modification costs	3,290	14,003
Loss on extinguishment of debt	33,538	12,181
Other	3,658	(10,210 )
Loss from discontinued operations	8,017	20,895
Changes in operating assets and liabilities:		
Accounts and other receivables	(58,435 )	(46,394 )
Prepaid expenses and other current assets	(10,612 )	7,314
Capitalized implementation costs	(27,602 )	(48,686 )
Upfront incentive consideration	(31,633 )	(26,634 )
Other assets	(58,120 )	(63,389 )
Accrued compensation and related benefits	(23,104 )	7,361
Accounts payable and other accrued liabilities	(31,516 )	109,778
Pension and other postretirement benefits	(4,200 )	2,186
Cash provided by operating activities	121,679	252,062
<b>Investing Activities</b>		
Additions to property and equipment	(160,385)	(168,744 )
Acquisition, net of cash acquired	(31,799 )	(30,476 )
Proceeds from sale of business	—	10,000
Other investing activities	235	—
Cash used in investing activities	(191,949)	(189,220 )
<b>Financing Activities</b>		

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Proceeds of borrowings from lenders	148,307	2,540,063
Payments on borrowings from lenders	(797,028)	(2,239,538)
Proceeds from issuance of common stock in initial public offering, net	672,137	—
Prepayment fee and debt modification and issuance costs	(30,490 )	(19,116 )
Acquisition-related contingent consideration paid	(27,000 )	—
Dividends paid to common shareholders	(23,831 )	—
Other financing activities	(1,384 )	(6,692 )
Cash (used in) provided by financing activities	(59,289 )	274,717
Cash Flows from Discontinued Operations		
Net cash (used in) provided by operating activities	(25,424 )	6,352
Net cash provided by investing activities	3,760	20,502
Net cash (used in) provided by discontinued operations	(21,664 )	26,854
Effect of exchange rate changes on cash and cash equivalents	734	480
(Decrease) increase in cash and cash equivalents	(150,489)	364,893
Cash and cash equivalents at beginning of period	308,236	126,695
Cash and cash equivalents at end of period	\$157,747	\$491,588

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. is the principal operating subsidiary and sole direct subsidiary of Sabre Holdings. Sabre GLOB Inc. or its direct or indirect subsidiaries conduct all of our businesses. In these consolidated financial statements, references to “Sabre”, the “Company”, “we”, “our”, “ours” and “us” refer to Sabre Corporation and its consolidated subsidiaries unless otherwise stated or the context otherwise requires.

We are a leading technology solutions provider to the global travel and tourism industry. We operate through three business segments: (i) Travel Network, our global travel marketplace for travel suppliers and travel buyers, (ii) Airline and Hospitality Solutions, an extensive suite of travel industry leading software solutions primarily for airlines and hotel properties, and (iii) Travelocity, our portfolio of online consumer travel e-commerce businesses through which we provide travel content and booking functionality primarily for leisure travelers.

Initial Public Offering and Share-based Compensation—On April 23, 2014, we closed our initial public offering of our common stock in which we sold 39,200,000 shares, and on April 25, 2014, the underwriters exercised in full their overallotment option which resulted in the sale of an additional 5,880,000 shares of our common stock. Our shares of common stock were sold at an initial public offering price of \$16.00 per share, which generated \$672 million of net proceeds from the offering after deducting underwriting discounts and commissions and offering expenses. Upon closing of our initial public offering, we redeemed all of our outstanding shares of Series A Cumulative Preferred Stock in exchange for 40,343,529 shares of our common stock.

We used the net proceeds from this offering to repay (i) \$296 million aggregate principal amount of our term loans and (ii) \$320 million aggregate principal amount of our senior secured notes due in 2019 at a redemption price of 108.5% of the principal amount, which represents the maximum amount of the contingent call option exercisable in the event of an equity offering (see Note 8, Debt). The term loan prepayment occurred in two installments: the first prepayment of \$207 million occurred on April 24, 2014 and the second prepayment of \$90 million occurred on April 29, 2014. The redemption of \$320 million of our senior secured notes due in 2019 occurred on May 7, 2014. We also used the net proceeds from our offering to pay the \$27 million redemption premium and \$13 million in accrued but unpaid interest on the senior secured notes due in 2019. We used the remaining portion of the net proceeds from our offering to pay a \$21 million fee, in the aggregate, to TPG Global, LLC (“TPG”) and Silver Lake Management Company (“Silver Lake”) pursuant to a management services agreement (the “MSA”), which was thereafter terminated.

On March 20, 2014, our board of directors adopted the Sabre Corporation 2014 Omnibus Incentive Compensation Plan (the “2014 Omnibus Plan”), which permits the grant of cash and equity and equity-based incentive awards. Our employees and the non-employee members of our board of directors and those of our subsidiaries are eligible to receive awards under the 2014 Omnibus Plan. On the effective date of our initial public offering, under the 2014 Omnibus Plan, we granted time-based options to purchase 1,541,627 shares of common stock at an exercise price of \$16.68 per share and a total of 2,298,478 shares of performance-based and time-based restricted stock units.

In April 2014, we cancelled all outstanding stock-based awards issued under the Travelocity.com LLC Stock Option Grant Agreements, the Travelocity Equity 2012 Plan and the Sovereign Holdings, Inc. Amended and Restated Stock Incentive Plan for Travelocity's CEO—Stock Settled SARs with Respect to Travelocity Equity, terminated all related plans and award agreements, and recorded stock compensation expense of \$7 million, representing the remaining unrecognized compensation expense of the awards at the cancellation date.

**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, 2014 are not necessarily indicative of results that may be expected for any other interim period or for the year ended December 31, 2014. The accompanying interim financial statements should be read in conjunction with our annual audited financial statements and related notes thereto for the year ended December 31, 2013 included in our prospectus filed with the SEC pursuant to Rule 424(b) under the Securities Act on April 17, 2014.

We consolidate all of our majority-owned subsidiaries and companies over which we exercise control through majority voting rights. No entities are currently 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 accounting policies, which include significant estimates and assumptions, include, among other things, estimation of the collectability of accounts receivable, amounts for future cancellations of bookings processed through the Sabre global distribution system (“GDS”), revenue recognition for software development, 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, assumptions made in the calculation of restructuring liabilities and the evaluation of uncertainties surrounding the calculation of our tax assets and liabilities. These policies are discussed in our annual audited consolidated financial statements and related notes thereto for the year ended December 31, 2013 included in our prospectus filed with the SEC pursuant to Rule 424(b) under the Securities Act on April 17, 2014.

## 2. Acquisitions

On September 11, 2014, we acquired certain assets and liabilities of Genares Worldwide Reservation Services, Ltd. (“Genares”), a provider of central reservation systems, revenue management and marketing solutions to more than 2,300 independent and chain hotel properties worldwide. Under the transaction, we acquired the assets of Genares for cash consideration of \$32 million. The operating results of Genares have been included in our consolidated statement of operations and results of operations of our Airline and Hospitality Solutions segment from the date of the acquisition. The assets acquired and liabilities assumed have been recorded in our consolidated balance sheet based on preliminary fair value estimates. The final allocation of the purchase price will be based on a complete evaluation of the assets acquired and liabilities assumed. Accordingly, the information presented in our consolidated balance sheet and elsewhere in this report may differ from the final purchase price allocation. The preliminary allocation of the purchase price includes \$14 million to goodwill, which is deductible for tax purposes, \$17 million to other intangible assets and \$1 million to net assets acquired. The other intangible assets consist primarily of \$14 million of acquired customer relationships with a useful life of ten years and \$2 million of non-compete agreements with a useful life of five years.

## 3. Discontinued Operations and Dispositions

We have disposed of or discontinued certain businesses or operations in order to further align Travelocity with its core strategies of focusing on product and customer experiences in profitable locations, and displaying and promoting highly relevant content. We believe these decisions will allow us to reduce our technological complexity by reducing the number of supported business platforms and operations.

### Discontinued Operations

The results for the following Travelocity operations are presented in (loss) income from discontinued operations in our consolidated statements of operations:

Holiday Autos—On June 25, 2013, we sold certain assets of our Holiday Autos operations to a third party and, in November 2013, completed the closing of the remainder of the Holiday Autos operations such that it represented a discontinued operation. Holiday Autos was a leisure car hire broker that offered pre-paid, low-cost car rentals in various markets, largely in Europe. In the second quarter of 2013, we recognized an \$11 million loss, net of tax, on the sale of Holiday Autos. The loss includes the write-off of \$39 million of goodwill and intangible assets attributed to Holiday Autos, with the goodwill portion determined based on Holiday Autos’ relative fair value to the Travelocity

Europe reporting unit. The sale provides for us to receive two earn-out payments measured during the 12 month periods ending September 30, 2014 and 2015, totaling up to \$12 million, based upon the purchaser exceeding certain booking thresholds as defined in the sale agreement. We recognized \$6 million relative to these earn-out provisions and the resulting receivable is reviewed for recovery on a periodic basis. Any earn-out payments received in excess of the \$6 million recognized will be recorded as a gain in the period received.

Zuji—In December 2012, we entered into an agreement to sell our shares of Zuji Properties A.V.V. and Zuji Pte Ltd along with its operating subsidiaries (collectively “Zuji”), a Travelocity Asia Pacific-based Online Travel Agency (“OTA”). At that time, the assets were recorded at the lower of the carrying amount or fair value less cost to sell. We recorded an estimated loss on the sale of approximately \$14 million, net of tax during 2012. We sold Zuji on March 21, 2013 and recorded an additional \$11 million loss on sale, net of tax during the three months ended March 31, 2013. We have continuing cash flows from Zuji due to reciprocal agreements between us and Zuji to provide hotel reservations services over a three year period. The agreements include commissions to be paid to the respective party based on qualifying bookings. The continuing cash flows associated with Zuji were not material to our results of operations for the nine months ended September 30, 2014.



Results of Discontinued Operations—We have reported the results of operations of Holiday Autos and Zuji as discontinued operations. As part of the Zuji sale agreement, we had retained the rights to receive refunds of certain disputed income taxes outstanding as of the sale date. During the third quarter of 2014, we received a \$2 million tax refund associated with the operations of Zuji prior to its disposal which is included in (benefit) provision for income taxes of discontinued operations. The following table summarizes the results of our discontinued operations (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Revenue	\$—	\$12,806	\$—	\$48,549
Cost of revenue	146	2,882	1,257	14,668
Selling, general and administrative	680	469		