Sabre Corp
Form 10-Q
July 31, 2018

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

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 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 incorporation or organization)	(I.R.S. Employer Identification No.)

3150 Sabre Drive
Southlake, TX 76092
(Address, including zip code, of principal executive offices)
(682) 605-1000
(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 (the “Exchange Act”) during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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	x	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨
		Emerging growth company	¨

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 x

As of July 26, 2018, 275,148,798 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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenue	$984,376	$900,663	$1,972,745	$1,816,016
Cost of revenue	721,759	643,067	1,414,616	1,250,653
Selling, general and administrative	123,784	146,856	253,895	291,297
Impairment and related charges	—	92,022	—	92,022
Operating income	138,833	18,718	304,234	182,044
Other income (expense):				
Interest expense, net	(39,409)	(38,097)	(77,518)	(77,658)
Loss on extinguishment of debt	—	—	(633)	—
Joint venture equity income	951	513	2,122	1,411
Other, net	(7,735)	(752)	(8,841)	(15,986)
Total other expense, net	(46,193)	(38,336)	(84,870)	(92,233)
Income (loss) from continuing operations before income taxes	92,640	(19,618)	219,364	89,811
Provision (benefit) for income taxes	75	(15,466)	36,350	16,241
Income (loss) from continuing operations	92,565	(4,152)	183,014	73,570
Income (loss) from discontinued operations, net of tax	760	(1,222)	(447)	(1,699)
Net income (loss)	93,325	(5,374)	182,567	71,871
Net income attributable to noncontrolling interests	1,079	1,113	2,441	2,419
Net income (loss) attributable to common stockholders	$92,246	$(6,487)	$180,126	$69,452
Basic net income (loss) per share attributable to common stockholders:				
Income (loss) from continuing operations	$0.33	$(0.02)	$0.66	$0.26
Loss from discontinued operations	—	—	—	(0.01)
Net income (loss) per common share	$0.33	$(0.02)	$0.66	$0.25
Diluted net income (loss) per share attributable to common stockholders:				
Income (loss) from continuing operations	$0.33	$(0.02)	$0.65	$0.25
Loss from discontinued operations	—	—	—	(0.01)
Net income (loss) per common share	$0.33	$(0.02)	$0.65	$0.25
Weighted-average common shares outstanding:				
Basic	275,715	278,441	275,220	277,900
Diluted	277,180	278,441	276,565	279,919
Dividends per common share	$0.14	$0.14	$0.28	$0.28

See Notes to Consolidated Financial Statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income (loss)	$93,325	$(5,374)	$182,567	$71,871
Other comprehensive income, net of tax:				
Foreign currency translation adjustments ("CTA"), net of tax				
Foreign CTA (losses) gains, net of tax	(6,298)	8,483	(3,324)	7,669
Net change in foreign CTA (losses) gains, net of tax	(6,298)	8,483	(3,324)	7,669
Retirement-related benefit plans:				
Amortization of prior service credits	(310)	(99)	(588)	(457)
Amortization of actuarial losses	1,397	520	2,794	2,395
Net change in retirement-related benefit plans, net of tax	1,087	421	2,206	1,938
Derivatives and securities:				
Unrealized (losses) gains, net of taxes of $1,112, $(804), $(909) and $(1,648)	(5,226)	2,345	2,186	7,000
Reclassification adjustment for realized gains (losses), net of taxes of $(132), $(683), $220 and $(1,598)	69	806	(1,679)	3,677
Net change in derivatives and securities, net of tax	(5,157)	3,151	507	10,677
Share of other comprehensive income of joint venture	139	118	269	50
Other comprehensive (loss) income	(10,229)	12,173	(342)	20,334
Comprehensive income	83,096	6,799	182,225	92,205
Less: Comprehensive income attributable to noncontrolling interests	(1,079)	(1,113)	(2,441)	(2,419)
Comprehensive income attributable to Sabre Corporation	$82,017	$5,686	$179,784	$89,786

See Notes to Consolidated Financial Statements.

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

	June 30, 2018	December 31, 2017
Assets		
Current assets		
Cash and cash equivalents	$370,003	$361,381
Accounts receivable, net	562,147	490,558
Prepaid expenses and other current assets	163,095	108,753
Total current assets	1,095,245	960,692
Property and equipment, net of accumulated depreciation of $1,379,864 and $1,236,523	787,583	799,194
Investments in joint ventures	28,936	27,527
Goodwill	2,553,002	2,554,987
Acquired customer relationships, net of accumulated amortization of $699,703 and $687,072	337,248	351,034
Other intangible assets, net of accumulated amortization of $616,590 and $594,015	309,595	332,171
Deferred income taxes	37,913	31,817
Other assets, net	633,761	591,942
Total assets	$5,783,283	$5,649,364
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	$164,868	$162,755
Accrued compensation and related benefits	85,493	112,343
Accrued subscriber incentives	316,486	271,200
Deferred revenues	81,002	110,532
Other accrued liabilities	204,747	198,353
Current portion of debt	57,168	57,138
Tax Receivable Agreement	93,439	59,826
Total current liabilities	1,003,203	972,147
Deferred income taxes	192,339	99,801
Other noncurrent liabilities	331,390	480,185
Long-term debt	3,374,826	3,398,731
Commitments and contingencies (Note 10)		
Stockholders' equity		
Common Stock: $0.01 par value; 450,000 authorized shares; 291,397 and 289,138 shares issued, 275,125 and 274,342 shares outstanding at June 30, 2018 and December 31, 2017, respectively	2,914	2,891
Additional paid-in capital	2,210,820	2,174,187
Treasury Stock, at cost, 16,272 and 14,796 shares at June 30, 2018 and December 31, 2017, respectively	(377,000)	(341,846)
Retained deficit	(848,948)	(1,053,446)
Accumulated other comprehensive loss	(111,125)	(88,484)
Noncontrolling interest	4,864	5,198
Total stockholders' equity	881,525	698,500

Total liabilities and stockholders’ equity	$5,783,283	$5,649,364

See Notes to Consolidated Financial Statements.

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

	Six Months Ended June 30,	
	2018	2017
Operating Activities		
Net income	$182,567	$71,871
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	204,819	198,687
Deferred income taxes	57,538	(16,121)
Amortization of upfront incentive consideration	39,117	32,293
Stock-based compensation expense	26,200	22,758
Allowance for doubtful accounts	3,152	5,356
Joint venture equity income	(2,122)	(1,411)
Amortization of debt issuance costs	1,995	3,640
Debt modification costs	1,558	11,730
Dividends received from joint venture investments	981	896
Loss on extinguishment of debt	633	—
Loss from discontinued operations	447	1,699
Impairment and related charges	—	92,022
Other	1,875	7,135
Changes in operating assets and liabilities:		
Accounts and other receivables	(83,162)	(125,913)
Prepaid expenses and other current assets	9,777	(1,434)
Capitalized implementation costs	(21,597)	(31,444)
Upfront incentive consideration	(43,463)	(37,260)
Other assets	(16,867)	(31,207)
Accrued compensation and related benefits	(30,683)	7,170
Accounts payable and other accrued liabilities	(8,597)	41,702
Deferred revenue including upfront solution fees	17,671	25,707
Cash provided by operating activities	341,839	277,876
Investing Activities		
Additions to property and equipment	(131,886)	(167,410)
Cash used in investing activities	(131,886)	(167,410)
Financing Activities		
Cash dividends paid to common stockholders	(77,053)	(77,934)
Payments on Tax Receivable Agreement	(58,908)	(99,241)
Repurchase of common stock	(26,281)	(22,213)
Payments on borrowings from lenders	(23,655)	(1,856,803)
Net receipts on the settlement of equity-based awards	1,637	9,383
Debt issuance and modification costs	(1,567)	(12,380)
Proceeds of borrowings from lenders	—	1,897,625
Other financing activities	(15,698)	(749)
Cash used in financing activities	(201,525)	(162,312)
Cash Flows from Discontinued Operations		

Cash used in operating activities	(3,064)	(2,780)
Cash used in discontinued operations	(3,064)	(2,780)
Effect of exchange rate changes on cash and cash equivalents	3,258	(2,792)
Increase (decrease) in cash and cash equivalents	8,622	(57,418)
Cash and cash equivalents at beginning of period	361,381	364,114
Cash and cash equivalents at end of period	$370,003	$306,696

See Notes to Consolidated Financial Statements.

SABRE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. General Information
Sabre Corporation is a Delaware corporation formed in December 2006. On March 30, 2007, Sabre Corporation acquired Sabre Holdings Corporation ("Sabre Holdings"). Sabre Holdings is the sole subsidiary of Sabre Corporation. Sabre GLBL Inc. ("Sabre GLBL") is the principal operating subsidiary and sole direct subsidiary of Sabre Holdings. Sabre GLBL or its direct or indirect subsidiaries conduct all of our businesses. In these consolidated financial statements, references to "Sabre," the "Company," "we," "our," "ours" and "us" refer to Sabre Corporation and its 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 six months ended June 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 six months ended June 30, 2018, we issued 2,258,615 shares of our common stock as a result of the exercise and settlement of employee equity-based awards. In addition, we had $2 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 $77 million and $78 million, during the six months ended June 30, 2018 and 2017, respectively.

During the six months ended June 30, 2018, certain of our stockholders sold an aggregate of 31,000,000 shares of our common stock through secondary public offerings. See section "—Share Repurchase Program" for information on shares we repurchased in connection with this 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. Approximately $365 million remains authorized for repurchases under the Share Repurchase Program as of June 30, 2018. For the six months ended June 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."

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 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 on its effective date of January 1, 2019 and expect to elect the package of practical expedients upon adoption. We are in the process of cataloging our existing lease contracts and implementing changes to our processes and systems. 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.

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):

	Six Months Ended June 30, 2018		
	As reported ASC 606	Adjustments	ASC 605
Revenue	$1,972,745	$ 16,915	$1,989,660
Cost of Revenue	1,414,616	2,447	1,417,063
Selling, general and administrative	253,895	(221)	253,674
Operating income	304,234	14,689	318,923
Income from continuing operations before income taxes	219,364	14,689	234,053
Provision for income taxes	36,350	3,133	39,483
Income from continuing operations	183,014	11,556	194,570
Net income	182,567	11,556	194,123
Net income attributable to common stockholders	180,126	11,556	191,682

	June 30, 2018		
	As reported ASC 606	Adjustments	ASC 605
Accounts receivable, net	$562,147	$ (30,589)	$531,558
Prepaid expenses and other current assets	163,095	(17,620)	145,475
Total current assets	1,095,245	(48,209)	1,047,036
Other assets, net	633,761	(6,865)	626,896
Total assets	5,783,283	(55,074)	5,728,209
Accrued subscriber incentives	316,486	4,746	321,232
Deferred revenues	81,002	51,710	132,712
Other accrued liabilities	204,747	(24,224)	180,523
Total current liabilities	1,003,203	32,232	1,035,435
Deferred income taxes	192,339	(19,966)	172,373
Other noncurrent liabilities	331,390	(253)	331,137
Retained deficit	(848,948)	(67,087)	(916,035)
Total stockholders' equity	881,525	(67,087)	814,438
Total liabilities and stockholders' equity	5,783,283	(55,074)	5,728,209

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 contract assets or contract liabilities. Contract liabilities are included within deferred revenues and other noncurrent liabilities on the consolidated balance sheet. Contract liabilities totaled $158 million and $175 million as of January 1, 2018 and June 30, 2018, respectively. During the six months ended June 30, 2018, we recognized revenue of approximately $21 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	8,030
Deductions	(14,384)
Other	(31)
Contract assets as of June 30, 2018	$69,239

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 six months ended June 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 June 30, 2018 and January 1, 2018 was $556 million and $506 million, respectively. Our long-term trade unbilled receivables, net recorded in other assets, net on the consolidated balance sheet as of June 30, 2018 and January 1, 2018 was $54 million. 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 six months ended June 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 June 30, 2018	Six Months Ended June 30, 2018
Air	$587,386	$1,180,631
Lodging, Ground and Sea	91,914	176,031
Other	40,385	84,159
Total Travel Network	719,685	1,440,821
SabreSonic Passenger Reservation System	130,156	250,178
Commercial and Operations Solutions[1]	73,466	158,560
Other	1,200	2,687
Total Airline Solutions	204,822	411,425
SynXis Software and Services	59,945	120,215
Other	8,369	16,227
Total Hospitality Solutions	68,314	136,442
Eliminations	(8,445)	(15,943)
Total Sabre Revenue	$984,376	$1,972,745

(1) Includes $5 million and $9 million of license fee revenue recognized upon delivery to the customer for the three and six months ended June 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 capitalized implementation costs for recoverability, and our assessment did not result in an impairment for the six months ended June 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):

	June 30, 2018
Contract acquisition costs:	

Beginning balance (1/1/2018)	$19,353
Additions	3,758
Amortization	(3,129)
Other	425
Ending balance	$20,407

Capitalized implementation costs:	
Beginning balance (1/1/2018)	$194,501
Additions	21,597
Amortization	(20,413)
Other	(378)
Ending balance	$195,307

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.

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 six months ended June 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 June 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 three months ended June 30, 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 no later than the fourth quarter of 2018, in accordance with SEC Staff Accounting Bulletin No. 118 ("SAB 118"). Future adjustments made to the provisional effects will be reported as a component of income tax expense from continuing operations in the reporting period in which any such adjustments are determined.

Our effective tax rate for the six months ended June 30, 2018 was 17% due to the deferred tax benefit recognized in the second quarter of 2018 and an increase in full year forecasted earnings in lower tax jurisdictions. Our effective tax rate for the six months ended June 30, 2017 was 18% due to 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. The difference between our effective tax rates and the U.S. federal statutory income tax rate primarily results from our geographic mix of taxable income in various tax jurisdictions for both periods.

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 six months ended June 30, 2018, we recognized tax benefits of $1 million and $2 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 $70 million and $74 million as of June 30, 2018 and December 31, 2017, respectively.

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 June 30, 2018, the current portion of our TRA liability totaled $93 million, which includes approximately $1 million of accrued interest, and the remaining portion of $77 million is included in other noncurrent liabilities in our consolidated balance sheet as of June 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 June 30, 2018 and December 31, 2017, our outstanding debt included in our consolidated balance sheets totaled $3,432 million and $3,456 million, respectively, which are net of debt issuance costs of $20 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 June 30, 2018 and December 31, 2017 (in thousands):

	Rate	Maturity	June 30, 2018	December 31, 2017
Senior secured credit facilities:				
Term Loan A	L + 2.00%	July 2022	$541,500	$555,750
Term Loan B[(1)]	L + 2.00%	February 2024	1,871,642	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			17,597	21,235
Face value of total debt outstanding			3,460,739	3,488,033
Less current portion of debt outstanding			(57,168)	(57,138)
Face value of long-term debt outstanding			$3,403,571	$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 GLBL 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 GLBL 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 GLBL 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 GLBL 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 GLBL 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 GLBL entered into a Fifth Incremental Term Facility Amendment to our Amended and Restated Credit Agreement to refinance and modify the terms of the Term Loan B, resulting in a reduction of the applicable margins for the Term Loan B to 2.00% per annum for Eurocurrency rate loans and 1.00% per annum for

base rate loans. We incurred no additional indebtedness as a result of this transaction 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 six months ended June 30, 2018.
We had no balance outstanding under the Revolver as of June 30, 2018 and as of December 31, 2017. We had outstanding letters of credit totaling $17 million and $21 million as of June 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 June 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 six months ended June 30, 2018 and 2017. As of June 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 June 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 June 30, 2018

Buy Currency	Sell Currency	Foreign Amount	USD Amount	Average Contract Rate
Polish Zloty	US Dollar	216,000	60,630	0.2807
Singapore Dollar	US Dollar	54,900	41,243	0.7512
British Pound Sterling	US Dollar	21,500	29,584	1.3760
Indian Rupee	US Dollar	1,705,000	25,160	0.0148
Australian Dollar	US Dollar	26,400	20,178	0.7643
Swedish Krona	US Dollar	52,900	6,411	0.1212
Brazilian Real	US Dollar	19,250	5,568	0.2892

Outstanding Notional Amounts as of December 31, 2017

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

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

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

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

As a result of the 2017 Term Facility Amendment in the first quarter of 2017, we discontinued hedge accounting for our existing swap agreements as of February 22, 2017. Accumulated losses of $14 million in other comprehensive income as of the date hedge accounting was discontinued is amortized into interest expense through the maturity date of the respective swap agreements, and interest rate swap payments made are recorded in Other, net in the consolidated statement of operations. Losses reclassified from other comprehensive income to interest expense related to the derivatives that no longer qualified for hedge accounting were $2 million and $4 million for the three and six months ended June 30, 2018, respectively, and were immaterial for the three and six months ended June 30, 2017. We also entered into new interest rate swaps with offsetting terms that are not designated as hedging instruments. Adjustments to the fair value of interest rate swaps not designated as hedging instruments did not have a material impact to our consolidated results of operations for the three and six months ended June 30, 2018 and 2017.

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

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

	Derivative Assets (Liabilities)		
		Fair Value as of	
Derivatives Designated as Hedging Instruments	Consolidated Balance Sheet Location	June 30, 2018	December 31, 2017
Foreign exchange contracts		$ —	$ 6,213

	Prepaid expenses and other current assets		
Foreign exchange contracts	Other accrued liabilities	(7,074)	—
Interest rate swaps	Prepaid expenses and other current assets	4,113	856
Interest rate swaps	Other assets, net	10,751	3,093
		$ 7,790	$ 10,162

	Derivative Assets (Liabilities)		
		Fair Value as of	
Derivatives Not Designated as Hedging Instruments	Consolidated Balance Sheet Location	June 30, 2018	December 31, 2017
Interest rate swaps	Other accrued liabilities	$(3,603)	$ (7,119)
		$(3,603)	$ (7,119)

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

	Amount of (Loss) Gain Recognized in OCI on Derivative, Effective Portion			
	Three Months Ended June 30,		Six Months Ended June 30,	
Derivatives in Cash Flow Hedging Relationships	2018	2017	2018	2017
Foreign exchange contracts	$(8,653)	$3,457	$(6,290)	$8,578
Interest rate swaps	3,427	(1,183)	8,976	(1,848)
Total	$(5,226)	$2,274	$2,686	$6,730

		Amount of Loss (Gain) Reclassified from Accumulated OCI into Income, Effective Portion			
		Three Months Ended June 30,		Six Months Ended June 30,	
Derivatives in Cash Flow Hedging Relationships	Income Statement Location	2018	2017	2018	2017
Foreign exchange contracts	Cost of revenue	$(1,042)	$(636)	$(4,353)	$884
Interest rate swaps	Interest expense, net	1,086	1,443	2,648	2,794
Total		$44	$807	$(1,705)	$3,678

7. Fair Value Measurements

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

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

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

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

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

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

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

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

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

	June 30, 2018	Fair Value at Reporting Date Using Level 1	Level 2	Level 3
Derivatives:				
Foreign currency forward contracts	$(7,074)	$—	$(7,074)	$ —
Interest rate swap contracts	11,261	—	11,261	—
Total	$4,187	$—	$4,187	$ —

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

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

Other Financial Instruments

The carrying value of our financial instruments including cash and cash equivalents, and accounts receivable approximates their fair values. The fair values of our senior secured notes due 2023 and term loans under our Amended and Restated Credit Agreement are determined based on quoted market prices for a similar liability when traded as an asset in an active market, a Level 2 input.

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

Financial Instrument	Fair Value at June 30, 2018	December 31, 2017	Carrying Value at [1] June 30, 2018	December 31, 2017
Term Loan A	$542,854	$ 559,223	$539,479	$ 553,444
Term Loan B	1,871,642	1,890,453	1,865,379	1,873,993
Revolver, $400 million	—	—	—	—
5.375% Senior secured notes due 2023	536,161	546,563	530,000	530,000
5.25% Senior secured notes due 2023	505,273	512,500	500,000	500,000

[1] Excludes net unamortized debt issuance costs.

8. Accumulated Other Comprehensive Income (Loss)

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

	June 30, 2018	December 31, 2017
Defined benefit pension and other post retirement benefit plans	$(122,708)	$ (102,623)
Unrealized foreign currency translation gain	8,432	11,488

Unrealized gain on foreign currency forward contracts and interest rate swaps	3,151	2,651
Total accumulated other comprehensive loss, net of tax	$(111,125)	$ (88,484)

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

9. Earnings Per Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Numerator:				
Income (loss) from continuing operations	$92,565	$(4,152)	$183,014	$73,570
Less: Net income attributable to noncontrolling interests	1,079	1,113	2,441	2,419
Net income (loss) from continuing operations available to common stockholders, basic and diluted	$91,486	$(5,265)	$180,573	$71,151
Denominator:				
Basic weighted-average common shares outstanding	275,715	278,441	275,220	277,900
Add: Dilutive effect of stock options and restricted stock awards	1,465	—	1,345	2,019
Diluted weighted-average common shares outstanding	277,180	278,441	276,565	279,919
Earning per share from continuing operations:				
Basic	$0.33	$(0.02)	$0.66	$0.26
Diluted	$0.33	$(0.02)	$0.65	$0.25

Basic earnings per share are based on the weighted-average number of common shares outstanding during each period. Diluted earnings per share are based on the weighted-average number of common shares outstanding plus the effect of all dilutive common stock equivalents during each period. The calculation of diluted weighted-average shares excludes the impact of 4 million of anti-dilutive common stock equivalents for the three and six months ended June 30, 2018. For the three months ended June 30, 2017, we had 6 million common stock equivalents associated with stock options and restricted stock awards. As we recognized a loss from continuing operations during the three months ended June 30, 2017, these common stock equivalents were excluded from the calculation of diluted earnings per share as their inclusion would have been anti-dilutive. As a result, basic and diluted earnings per share are equal for the three months ended June 30, 2017. The calculation of diluted weighted-average shares excludes the impact of 5 million of anti-dilutive common stock equivalents for the six months ended June 30, 2017.

10. Contingencies

Legal Proceedings

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

Antitrust Litigation and DOJ Investigation

US Airways Antitrust Litigation

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

Sabre filed summary judgment motions in April 2014. In January 2015, the court issued an order granting Sabre's summary judgment motions in part, eliminating a majority of US Airways' alleged damages and rejecting its request

for injunctive relief by which US Airways sought to bar Sabre from enforcing certain provisions in our contracts. In September 2015, the court also dismissed US Airways' claim for declaratory relief. In February 2017, US Airways sought reconsideration of the court's opinion dismissing the claim for declaratory relief, which the court denied in March 2017.

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

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

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

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

We have accrued a loss of $32 million, which represents the court's final judgment of $15 million, plus our estimate of $17 million for US Airways' reasonable attorneys' fees, expenses and costs. We are unable to estimate the exact amount of the loss associated with the verdict, but we estimate that there is a range of outcomes between $32 million and $65 million, inclusive of the trebled damage award of approximately $15 million. No amount within the range is considered a better estimate than any other amount within the range and therefore, the minimum within the range was recorded in selling, general and administrative expense in the fourth quarter of 2016. As noted above, the amount of attorneys' fees and costs to be awarded is subject to conclusion of the appellate process and, if US Airways ultimately prevails on the appeal, final decision by the trial court, which may itself be appealed. The ultimate resolution of this matter may be greater or less than the amount recorded and, if greater, could adversely affect our results of operations. We have and will incur significant fees, costs and expenses for as long as the lawsuit, including any appeal, is ongoing. In addition, litigation by its nature is highly uncertain and fraught with risk, and it is therefore difficult to predict the outcome of any particular matter, including any appeal or changes to our business that may be required as a result of the litigation. Depending on the outcome of the litigation, any of these consequences could have a material adverse effect on our business, financial condition and results of operations.

Putative Class Action Lawsuit on Antitrust Claims

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

Department of Justice Investigation

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

Indian Income Tax Litigation

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

In addition, Sabre Asia Pacific Pte Ltd ("SAPPL") is currently a defendant in similar income tax litigation brought by the DIT. The dispute arose when the DIT asserted that SAPPL has a permanent establishment within the meaning of the Income Tax Treaty between Singapore and India and accordingly issued tax assessments for assessment years ending March 2000 through March 2005. SAPPL appealed the tax assessments, and the Indian Commissioner of Income Tax (Appeals) returned a mixed verdict. SAPPL filed further appeals with the ITAT. The ITAT ruled in SAPPL's favor, finding that no income would be chargeable to tax for assessment years ending March 2000 through March 2005. The DIT appealed those decisions to the Delhi High Court. No hearing date has been set. The DIT also assessed taxes on a similar basis for assessment years ending March 2006 through March 2014 and appeals for assessment years ending March 2006 through 2014 are pending before the ITAT.
If the DIT were to fully prevail on every claim against us, including SAPPL, we could be subject to taxes, interest and penalties of approximately $43 million as of June 30, 2018. We intend to continue to aggressively defend against each of the foregoing claims. Although we do not believe that the outcome of the proceedings will result in a material impact on our business or financial condition, litigation is by its nature uncertain. We do not believe this outcome is more likely than not and therefore have not made any provisions or recorded any liability for the potential resolution of any of these claims.
Indian Service Tax Litigation
SAPPL's Indian subsidiary is also subject to litigation by the India Director General (Service Tax) ("DGST"), which has assessed the subsidiary for multiple years related to its alleged failure to pay service tax on marketing fees and reimbursements of expenses. Indian courts have returned verdicts favorable to the Indian subsidiary. The DGST has appealed the verdict to the Indian Supreme Court. We do not believe that an adverse outcome is probable and therefore have not made any provisions or recorded any liability for the potential resolution of any of these claims.
Litigation Relating to Routine Proceedings
We are also engaged from time to time in other routine legal and tax proceedings incidental to our business. We do not believe that any of these routine proceedings will have a material impact on the business or our financial condition.
Other
Value Added Tax Receivable
We pay and collect Value Added Tax ("VAT") in most countries in which we operate related to the procurement of goods and services or the sale of services within the normal course of our business. We establish VAT receivables for the collection of refunds, which are subject to audit and collection risks in various countries. As of June 30, 2018, we have approximately $20 million in VAT receivables resulting from claims with the Greek government beginning in 2014, which we have paid and we believe we are entitled to recover as a refund. The Greek tax authorities are currently reviewing our refund claims for 2014 and 2015 totaling $8 million and have
challenged their recoverability. If our claims are rejected by the tax authorities, we intend to aggressively defend our positions. In the event of an adverse ruling, claims for years subsequent to 2015 may not be collectible and any prior refunds received may potentially be reversed to the extent the applicable statute of limitations has not expired. We do not believe that an adverse outcome is probable with respect to Greek tax authorities' claims regarding these receivables and therefore have not made any provisions or recorded any liability for the potential resolution of any of these claims.
Air Berlin
In November 2017, in connection with Air Berlin's insolvency proceedings, we requested that Air Berlin make an election under the German Insolvency Act on whether to perform or terminate its contract with us. In January 2018, Air Berlin notified us by letter that it was exercising its right under the German Insolvency Act to terminate its contract with us. In addition, Air Berlin's letter alleged various breaches by us of the contract and asserted that it had suffered a significant amount of damages associated with its claims. Air Berlin has not commenced any formal action with respect to its claims. We believe that losses associated with these claims are neither probable nor estimable and therefore have not accrued any losses as of June 30, 2018. We may incur significant fees, costs and expenses for as long as this matter is ongoing. We intend to vigorously defend against these claims.

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SynXis Central Reservation System

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

11. Segment Information

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

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

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

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

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

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

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

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenue				
Travel Network	$719,685	$635,615	$1,440,821	$1,299,092
Airline Solutions	204,822	209,874	411,425	403,487
Hospitality Solutions	68,314	61,906	136,442	126,269
Eliminations	(8,445)	(6,732)	(15,943)	(12,832)
Total revenue	$984,376	$900,663	$1,972,745	$1,816,016
Adjusted Gross Profit[(a)]				
Travel Network	$275,740	$260,392	$573,756	$567,459
Airline Solutions	84,260	92,166	174,023	166,696
Hospitality Solutions	18,653	21,783	38,896	40,598
Corporate	(4,975)	(5,763)	(8,418)	(5,398)
Total	$373,678	$368,578	$778,257	$769,355
Adjusted Operating Income[(b)]				
Travel Network	$196,003	$183,292	407,847	412,322
Airline Solutions	22,813	35,240	53,525	54,959
Hospitality Solutions	1,964	2,193	4,101	1,871
Corporate	(48,794)	(48,227)	(95,891)	(85,714)
Total	$171,986	$172,498	369,582	383,438
Adjusted EBITDA[(c)]				
Travel Network	$244,099	$225,976	$505,686	$497,490
Airline Solutions	69,116	73,134	143,535	129,968
Hospitality Solutions	10,954	9,823	22,713	16,845
Total segments	324,169	308,933	671,934	644,303
Corporate	(47,167)	(47,516)	(93,594)	(85,325)
Total	$277,002	$261,417	$578,340	$558,978
Depreciation and amortization				
Travel Network	$28,435	$26,523	$58,722	$52,875
Airline Solutions	46,303	37,894	90,010	75,009
Hospitality Solutions	8,990	7,630	18,612	14,974
Total segments	83,728	72,047	167,344	142,858
Corporate	19,215	20,970	37,475	55,829
Total	$102,943	$93,017	$204,819	$198,687
Capital Expenditures				
Travel Network	$13,744	$22,983	$28,039	$49,256
Airline Solutions	22,825	29,027	47,170	65,918
Hospitality Solutions	8,164	12,851	18,338	21,026
Total segments	44,733	64,861	93,547	136,200
Corporate	22,454	14,231	38,339	31,210
Total	$67,187	$79,092	$131,886	$167,410

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Adjusted Gross Profit	$373,678	$368,578	$778,257	$769,355
Less adjustments:				
Selling, general and administrative	123,784	146,856	253,895	291,297
Impairment and related charges(6)	—	92,022	—	92,022
Cost of revenue adjustments:				
Depreciation and amortization(1)	85,013	76,015	168,939	149,712
Amortization of upfront incentive consideration(2)	19,661	16,161	39,117	32,293
Restructuring and other costs(4)	—	12,976	—	12,976
Stock-based compensation	6,387	5,830	12,072	9,011
Operating income	$138,833	$18,718	$304,234	$182,044

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Adjusted Operating Income	$171,986	$172,498	$369,582	$383,438
Less adjustments:				
Joint venture equity income	951	513	2,122	1,411
Impairment and related charges(6)	—	92,022	—	92,022
Acquisition-related amortization(1c)	17,588	20,259	35,178	55,440
Restructuring and other costs(4)	—	25,304	—	25,304
Litigation costs(5)	1,020	958	1,848	4,459
Stock-based compensation	13,594	14,724	26,200	22,758
Operating income	$138,833	$18,718	$304,234	$182,044

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Adjusted EBITDA	$277,002	$261,417	$578,340	$558,978
Less adjustments:				
Depreciation and amortization of property and equipment(1a)	74,960	63,810	149,423	125,110
Amortization of capitalized implementation costs(1b)	10,395	8,948	20,218	18,137
Acquisition-related amortization(1c)	17,588	20,259	35,178	55,440
Amortization of upfront incentive consideration(2)	19,661	16,161	39,117	32,293
Impairment and related charges(6)	—	92,022	—	92,022
Interest expense, net	39,409	38,097	77,518	77,658
Loss on extinguishment of debt	—	—	633	—
Other, net(3)	7,735	752	8,841	15,986
Restructuring and other costs(4)	—	25,304	—	25,304
Litigation costs(5)	1,020	958	1,848	4,459
Stock-based compensation	13,594	14,724	26,200	22,758
Provision (benefit) for income taxes	75	(15,466)	36,350	16,241
Income (loss) from continuing operations	$92,565	$(4,152)	$183,014	$73,570

(1) Depreciation and amortization expenses:

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

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

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

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

(3) In the first quarter of 2017, we recognized a $12 million loss in other, net related to debt modification costs associated with our debt refinancing. In addition, other, net includes foreign exchange gains and losses related to the remeasurement of foreign currency denominated balances included in our consolidated balance sheets into the relevant functional currency.

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

(5) Litigation costs, net represent charges associated with antitrust litigation. See Note 10. Contingencies.

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

12. Subsequent Events

On July 24, 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. We are currently evaluating the impact of this decision.

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

Forward-Looking Statements

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

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

Overview

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

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

Recent Developments Affecting our Results of Operations

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

In the first quarter of 2018, we adopted the comprehensive update to revenue recognition guidance, ASC 606, which replaced the previous standard ASC 605, using the modified retrospective approach. Under the updated standard, revenue is recognized when a company transfers the promised goods or services to customers in an amount that reflects the consideration that is expected to be received for those goods and services. The adoption of the updated standard may result in a reduction to our future revenue for the Airline Solutions' business of approximately $15 million to $25 million in 2018 before the impact of new sales. See Note 2. Revenue from Contracts with Customers, to our consolidated financial statements for more information on impacts of ASC 606 to our various streams of revenue recognition.

On December 22, 2017, the TCJA was signed into law. The TCJA contains significant changes to the U.S. corporate income tax system, including a reduction of the federal corporate income tax rate from 35% to 21%, a limitation of the tax deduction for interest expense to 30% of adjusted taxable income (as defined in the TCJA), BEAT, FDII and GILTI, the transition tax, elimination of U.S. tax on foreign earnings (subject to certain important exceptions), and modifying or repealing many business deductions and credits. We recorded provisional amounts in the fourth quarter of 2017 for our one-time transition tax liability and a reduction to our TRA liability. In the three months ended June 30, 2018, we remeasured certain deferred tax assets based on a change in the estimate of the tax rate at which they are expected to be reversed. This change resulted from our decision during the quarter to elect to utilize our NOLs against 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 no later than the fourth quarter of 2018, in accordance with SAB 118. Future adjustments made to the provisional effects will be reported as a component of income tax expense from continuing operations in the reporting period in which any such adjustments are determined. See Note 7. Income Taxes, to our consolidated financial statements in our Annual Report on Form 10-K filed with the SEC on February 16, 2018, as updated by our Current Report on Form 8-K/A filed with the SEC on May 3, 2018, for more information.

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

Factors Affecting our Results

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

Components of Revenues and Expenses

Revenues

Travel Network primarily generates revenues from Direct Billable Bookings processed on our GDS as well as the sale of aggregated bookings data to carriers. Airline Solutions and Hospitality Solutions primarily generate revenue through upfront solution fees and recurring usage-based fees for the use of our hosted software solutions or deployed through our SaaS and through other professional service fees including Digital Experience ("DX"). Certain professional service fees are discrete sales opportunities that may have a high degree of variability from period to period, and we cannot guarantee that we will have such fees in the future consistent with prior periods. Airline Solutions also generates revenue through software licensing and maintenance fees.

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

Cost of Revenue

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

Corporate cost of revenue includes expenses associated with our technology organization such as corporate systems and risk and security. Corporate cost of revenue also includes certain expenses such as impairment and related charges, stock-based compensation, restructuring charges, legal reserves and other items not identifiable with one of our segments.
Depreciation and amortization included in cost of revenue is associated with property and equipment, amortization of contract implementation costs which relates to Airline Solutions and Hospitality Solutions, intangible assets for technology purchased through acquisitions or established with our take-private transaction, and software developed for internal use that supports our revenue, businesses and systems. Cost of revenue also includes amortization of upfront incentive consideration representing upfront payments or other consideration provided to travel agencies for reservations made on our GDS which are capitalized and amortized over the expected life of the contract.

Selling, General and Administrative Expenses

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

Intersegment Transactions

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

Key Metrics

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	2017	% Change	2018	2017	% Change
Travel Network						
Direct Billable Bookings - Air	122,864	114,855	7.0%	257,515	242,219	6.3%
Direct Billable Bookings - LGS	17,953	16,056	11.8%	34,134	31,394	8.7%
Total Direct Billable Bookings	140,817	130,911	7.6%	291,649	273,613	6.6%
Airline Solutions Passengers Boarded	195,699	215,867	(9.3)%	370,342	412,210	(10.2)%

Non-GAAP Financial Measures

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

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

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

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

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

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

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

These non-GAAP financial measures are key metrics used by management and our board of directors to monitor our ongoing core operations because historical results have been significantly impacted by events that are unrelated to our

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

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

- these non-GAAP financial measures exclude certain recurring, non-cash charges such as stock-based compensation expense and amortization of acquired intangible assets;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and Adjusted Gross Profit and Adjusted EBITDA do not reflect cash requirements for such replacements;
- Adjusted Operating Income (Loss), Adjusted Net Income and Adjusted EBITDA do not reflect changes in, or cash requirements for, our working capital needs;
- Adjusted EBITDA does not reflect the interest expense or the cash requirements necessary to service interest or principal payments on our indebtedness;
- Adjusted EBITDA does not reflect tax payments that may represent a reduction in cash available to us;
- Free Cash Flow removes the impact of accrual-basis accounting on asset accounts and non-debt liability accounts, and does not reflect the cash requirements necessary to service the principal payments on our indebtedness; and
- other companies, including companies in our industry, may calculate Adjusted Gross Profit, Adjusted Operating Income (Loss), Adjusted Net Income, Adjusted EBITDA or Free Cash Flow differently, which reduces their usefulness as comparative measures.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income (loss) attributable to common stockholders	$92,246	$(6,487)	$180,126	$69,452
(Income) loss from discontinued operations, net of tax	(760)	1,222	447	1,699
Net income attributable to noncontrolling interests(1)	1,079	1,113	2,441	2,419
Income (loss) from continuing operations	92,565	(4,152)	183,014	73,570
Adjustments:				
Acquisition-related amortization(2a)	17,588	20,259	35,178	55,440
Impairment and related charges(6)	—	92,022	—	92,022
Loss on extinguishment of debt	—	—	633	—
Other, net(4)	7,735	752	8,841	15,986
Restructuring and other costs(7)	—	25,304	—	25,304
Litigation costs(5)	1,020	958	1,848	4,459
Stock-based compensation	13,594	14,724	26,200	22,758
Tax impact of net income adjustments	(30,159)	(52,735)	(32,161)	(74,303)
Adjusted Net Income from continuing operations	$102,343	$97,132	$223,553	$215,236
Adjusted Net Income from continuing operations per share	$0.37	$0.35	$0.81	$0.77
Diluted weighted-average common shares outstanding(8)	277,180	279,833	276,565	279,919
Adjusted Net Income from continuing operations	$102,343	$97,132	$223,553	$215,236
Adjustments:				
Depreciation and amortization of property and equipment(2b)	74,960	63,810	149,423	125,110
Amortization of capitalized implementation costs(2c)	10,395	8,948	20,218	18,137
Amortization of upfront incentive consideration(3)	19,661	16,161	39,117	32,293
Interest expense, net	39,409	38,097	77,518	77,658
Remaining provision for income taxes	30,234	37,269	68,511	90,544
Adjusted EBITDA	$277,002	$261,417	$578,340	$558,978
Less:				
Depreciation and amortization(2)	102,943	93,017	204,819	198,687
Amortization of upfront incentive consideration(3)	19,661	16,161	39,117	32,293
Acquisition-related amortization(2a)	(17,588)	(20,259)	(35,178)	(55,440)
Adjusted Operating Income	$171,986	$172,498	$369,582	$383,438

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

	Three Months Ended June 30, 2018				
	Travel Network	Airline Solutions	Hospitality Solutions	Corporate	Total
Operating income (loss)	$195,052	22,813	$ 1,964	$(80,996)	$138,833
Add back:					
Selling, general and administrative	35,467	18,568	8,043	61,706	123,784
Cost of revenue adjustments:					
Depreciation and amortization(2)	25,560	42,879	8,646	7,928	85,013
Amortization of upfront incentive consideration(3)	19,661	—	—	—	19,661
Stock-based compensation	—	—	—	6,387	6,387
Adjusted Gross Profit	275,740	84,260	18,653	(4,975)	373,678
Selling, general and administrative	(35,467)	(18,568)	(8,043)	(61,706)	(123,784)
Joint venture equity income	951	—	—	—	951
Selling, general and administrative adjustments:					
Depreciation and amortization(2)	2,875	3,424	344	11,287	17,930
Litigation costs(5)	—	—	—	1,020	1,020
Stock-based compensation	—	—	—	7,207	7,207
Adjusted EBITDA	244,099	69,116	10,954	(47,167)	277,002
Less:					
Depreciation and amortization(2)	28,435	46,303	8,990	19,215	102,943
Amortization of upfront incentive consideration(3)	19,661	—	—	—	19,661
Acquisition-related amortization(2a)	—	—	—	(17,588)	(17,588)
Adjusted Operating Income (Loss)	$196,003	$22,813	$ 1,964	$(48,794)	$171,986

	Three Months Ended June 30, 2017				
	Travel Network	Airline Solutions	Hospitality Solutions	Corporate	Total
Operating income (loss)	$182,779	35,240	$ 2,193	$(201,494)	$18,718
Add back:					
Selling, general and administrative	38,126	21,227	12,348	75,155	146,856
Impairment and related charges(6)	—	—	—	92,022	92,022
Cost of revenue adjustments:					
Depreciation and amortization(2)	23,326	35,699	7,242	9,748	76,015
Amortization of upfront incentive consideration(3)	16,161	—	—	—	16,161
Restructuring and other costs(7)	—	—	—	12,976	12,976
Stock-based compensation	—	—	—	5,830	5,830
Adjusted Gross Profit	260,392	92,166	21,783	(5,763)	368,578
Selling, general and administrative	(38,126)	(21,227)	(12,348)	(75,155)	(146,856)
Joint venture equity income	513	—	—	—	513
Selling, general and administrative adjustments:					
Depreciation and amortization(2)	3,197	2,195	388	11,222	17,002
Restructuring and other costs(7)	—	—	—	12,328	12,328
Litigation costs(5)	—	—	—	958	958
Stock-based compensation	—	—	—	8,894	8,894
Adjusted EBITDA	225,976	73,134	9,823	(47,516)	261,417
Less:					
Depreciation and amortization(2)	26,523	37,894	7,630	20,970	93,017
Amortization of upfront incentive consideration(3)	16,161	—	—	—	16,161

Acquisition-related amortization[2a]	—	—	—	(20,259)	(20,259)
Adjusted Operating Income (Loss)	$183,292	$35,240	$2,193	$(48,227)	$172,498

	Six Months Ended June 30, 2018				
	Travel Network	Airline Solutions	Hospitality Solutions	Corporate	Total
Operating income (loss)	$405,725	53,525	$ 4,101	$(159,117)	$304,234
Add back:					
Selling, general and administrative	75,972	36,784	17,459	123,680	253,895
Cost of revenue adjustments:					
Depreciation and amortization(2)	52,942	83,714	17,336	14,947	168,939
Amortization of upfront incentive consideration(3)	39,117	—	—	—	39,117
Stock-based compensation	—	—	—	12,072	12,072
Adjusted Gross Profit	573,756	174,023	38,896	(8,418)	778,257
Selling, general and administrative	(75,972)	(36,784)	(17,459)	(123,680)	(253,895)
Joint venture equity income	2,122	—	—	—	2,122
Selling, general and administrative adjustments:					
Depreciation and amortization(2)	5,780	6,296	1,276	22,528	35,880
Litigation costs(5)	—	—	—	1,848	1,848
Stock-based compensation	—	—	—	14,128	14,128
Adjusted EBITDA	505,686	143,535	22,713	(93,594)	578,340
Less:					
Depreciation and amortization(2)	58,722	90,010	18,612	37,475	204,819
Amortization of upfront incentive consideration(3)	39,117	—	—	—	39,117
Acquisition-related amortization(2a)	—	—	—	(35,178)	(35,178)
Adjusted Operating Income (Loss)	$407,847	$53,525	$ 4,101	$(95,891)	$369,582

	Six Months Ended June 30, 2017				
	Travel Network	Airline Solutions	Hospitality Solutions	Corporate	Total
Operating income (loss)	$410,911	54,959	$ 1,871	$(285,697)	$182,044
Add back:					
Selling, general and administrative	77,836	41,115	24,408	147,938	291,297
Impairment and related charges(6)	—	—	—	92,022	92,022
Cost of revenue adjustments:					
Depreciation and amortization(2)	46,419	70,622	14,319	18,352	149,712
Amortization of upfront incentive consideration(3)	32,293	—	—	—	32,293
Restructuring and other costs(7)	—	—	—	12,976	12,976
Stock-based compensation	—	—	—	9,011	9,011
Adjusted Gross Profit	567,459	166,696	40,598	(5,398)	769,355
Selling, general and administrative	(77,836)	(41,115)	(24,408)	(147,938)	(291,297)
Joint venture equity income	1,411				