

Sabre Corp
Form 10-Q
November 12, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2014

or

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

Commission File Number: 001-36422

Sabre Corporation

(Exact name of registrant as specified in its charter)

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

incorporation or organization) Identification No.)

3150 Sabre Drive

Southlake, TX 76092

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

(682) 605-1000

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

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

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

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

SABRE CORPORATION

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
SABRE CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(Unaudited)

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

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

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

(2) Includes stock-based compensation as follows:

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

See Notes to Consolidated Financial Statements.

SABRE CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands)

(Unaudited)

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

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

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

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

and 2013, respectively

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

See Notes to Consolidated Financial Statements.

SABRE CORPORATION

CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)

(Unaudited)

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

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

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

Stockholders' equity (deficit)

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

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

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

See Notes to Consolidated Financial Statements.

SABRE CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine Months Ended	
	September 30,	
	2014	2013
Operating Activities		
Net income (loss)	\$24,991	\$(125,119)
Adjustments to reconcile net income (loss) to cash provided by operating activities:		
Depreciation and amortization	230,461	230,277
Impairment	—	138,435
Restructuring charges	3,247	4,089
Amortization of upfront incentive consideration	33,177	28,736
Litigation related (gains) charges	(6,132)	6,117
Stock-based compensation expense	22,434	5,446
Allowance for doubtful accounts	6,371	7,583
Deferred income taxes	6,232	(19,357)
Joint venture equity income	(9,367)	(7,873)
Dividends received from joint venture investments	2,205	—
Amortization of debt issuance costs	4,779	5,323
Debt modification costs	3,290	14,003
Loss on extinguishment of debt	33,538	12,181
Other	3,658	(10,210)
Loss from discontinued operations	8,017	20,895
Changes in operating assets and liabilities:		
Accounts and other receivables	(58,435)	(46,394)
Prepaid expenses and other current assets	(10,612)	7,314
Capitalized implementation costs	(27,602)	(48,686)
Upfront incentive consideration	(31,633)	(26,634)