Sabre Corp
Form 10-Q
April 28, 2016

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 March 31, 2016
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File Number: 001-36422

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

Delaware	20-8647322
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act") during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	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 x

As of April 22, 2016, 277,103,658 shares of the registrant's common stock, par value $0.01 per share, were outstanding.

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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 March 31,	
	2016	2015
Revenue	$859,543	$710,348
Cost of revenue [(1)] [(2)]	554,265	468,998
Selling, general and administrative [(2)]	133,856	122,358
Operating income	171,422	118,992
Other income (expense):		
Interest expense, net	(41,202)	(46,453)
Joint venture equity income	763	8,519
Other, net	3,360	(4,445)
Total other expense, net	(37,079)	(42,379)
Income from continuing operations before income taxes	134,343	76,613
Provision for income taxes	41,424	27,283
Income from continuing operations	92,919	49,330
Income from discontinued operations, net of tax	13,350	158,911
Net income	106,269	208,241
Net income attributable to noncontrolling interests	1,102	747
Net income attributable to common stockholders	$105,167	$207,494
Basic net income per share attributable to common stockholders:		
Income from continuing operations	$0.33	$0.18
Income from discontinued operations	0.05	0.59
Net income per common share	$0.38	$0.77
Diluted net income per share attributable to common stockholders:		
Income from continuing operations	$0.33	$0.18
Income from discontinued operations	0.05	0.57
Net income per common share	$0.37	$0.75
Weighted-average common shares outstanding:		
Basic	275,568	269,184
Diluted	281,963	276,688
Dividends per common share	$0.13	$0.09
(1) Includes amortization of upfront incentive consideration	$12,337	$11,172
(2) Includes stock-based compensation as follows:		
Cost of revenue	$4,074	$3,533
Selling, general and administrative	6,215	5,261

See Notes to Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2016	2015
Net income	$106,269	$208,241
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments ("CTA"):		
Foreign CTA (losses) gains, net of tax	(370)	3,009
Reclassification adjustment for realized gains on foreign CTA, net of tax	(198)	—
Net change in foreign CTA (losses) gains, net of tax	(568)	3,009
Retirement-related benefit plans:		
Amortization of prior service credits, net of taxes of $129 and $129	(229)	(229)
Amortization of actuarial losses, net of taxes of $(515) and $(623)	910	1,102
Total retirement-related benefit plans	681	873
Derivatives and available-for-sale securities:		
Unrealized losses, net of taxes of $1,259 and $4,038	(492)	(8,676)
Reclassification adjustment for realized losses, net of taxes of $(285) and $(1,024)	919	3,470
Net change in unrealized gains (losses) on derivatives and available-for-sale securities, net of tax	427	(5,206)
Share of other comprehensive income of joint venture	—	965
Other comprehensive income (loss)	540	(359)
Comprehensive income	106,809	207,882
Less: Comprehensive income attributable to noncontrolling interests	(1,102)	(747)
Comprehensive income attributable to Sabre Corporation	$105,707	$207,135

See Notes to Consolidated Financial Statements.

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

	March 31, 2016	December 31, 2015
Assets		
Current assets		
Cash and cash equivalents	$111,702	$321,132
Accounts receivable, net	456,941	375,789
Prepaid expenses and other current assets	92,719	81,167
Total current assets	661,362	778,088
Property and equipment, net of accumulated depreciation of $882,944 and $850,587	652,721	627,529
Investments in joint ventures	24,479	24,348
Goodwill	2,535,585	2,440,431
Acquired customer relationships, net of accumulated amortization of $583,907 and $561,876	460,358	416,887
Other intangible assets, net of accumulated amortization of $492,049 and $480,037	433,856	419,666
Deferred income taxes	115,431	44,464
Other assets, net	675,331	642,214
Total assets	$5,559,123	$5,393,627
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	$156,398	$138,421
Accrued compensation and related benefits	68,144	99,382
Accrued subscriber incentives	220,020	185,270
Deferred revenues	196,119	165,124
Other accrued liabilities	210,949	221,976
Current portion of debt	204,824	190,315
Tax Receivable Agreement	111,161	—
Total current liabilities	1,167,615	1,000,488
Deferred income taxes	109,926	83,562
Other noncurrent liabilities	543,497	656,093
Long-term debt	3,085,492	3,169,344
Commitments and contingencies (Note 10)		
Stockholders' equity		
Common Stock: $0.01 par value; 450,000,000 authorized shares; 281,380,008 and 279,082,473 shares issued, 276,873,366 and 274,955,830 shares outstanding at March 31, 2016 and December 31, 2015, respectively	2,813	2,790
Additional paid-in capital	2,037,689	2,016,325
Treasury Stock, at cost, 4,506,642 and 4,126,643 shares at March 31, 2016 and December 31, 2015, respectively	(121,107)	(110,548)
Retained deficit	(1,172,747)	(1,328,730)
Accumulated other comprehensive loss	(96,595)	(97,135)
Noncontrolling interest	2,540	1,438
Total stockholders' equity	652,593	484,140
Total liabilities and stockholders' equity	$5,559,123	$5,393,627

See Notes to Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2016	2015
Operating Activities		
Net income	$106,269	$208,241
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	96,283	90,061
Amortization of upfront incentive consideration	12,337	11,172
Litigation-related credits	(23,001)	(16,786)
Stock-based compensation expense	10,289	8,794
Allowance for doubtful accounts	3,972	3,355
Deferred income taxes	30,756	27,388
Joint venture equity income	(763)	(8,519)
Amortization of debt issuance costs	1,946	1,536
Other	(213)	4,952
Income from discontinued operations	(13,350)	(158,911)
Changes in operating assets and liabilities:		
Accounts and other receivables	(74,362)	(70,827)
Prepaid expenses and other current assets	(9,039)	(3,388)
Capitalized implementation costs	(19,957)	(14,327)
Upfront incentive consideration	(23,028)	(6,523)
Other assets	(7,615)	(7,189)
Accrued compensation and related benefits	(31,810)	(27,317)
Accounts payable and other accrued liabilities	55,835	60,172
Deferred revenue including upfront solution fees	25,616	29,889
Cash provided by operating activities	140,165	131,773
Investing Activities		
Additions to property and equipment	(75,472)	(61,912)
Acquisition, net of cash acquired	(158,668)	—
Other investing activities	—	148
Cash used in investing activities	(234,140)	(61,764)
Financing Activities		
Proceeds of borrowings from lenders	161,000	—
Payments on borrowings from lenders	(232,296)	(5,614)
Net (payments) proceeds on the settlement of equity-based awards	(2,003)	9,781
Cash dividends paid to common stockholders	(35,956)	(24,391)
Other financing activities	(1,647)	(2,057)
Cash used in financing activities	(110,902)	(22,281)
Cash Flows from Discontinued Operations		
Cash used in operating activities	(3,880)	(18,156)
Cash provided by investing activities	—	278,834
Cash (used in) provided by in discontinued operations	(3,880)	260,678
Effect of exchange rate changes on cash and cash equivalents	(673)	(5,528)
(Decrease) increase in cash and cash equivalents	(209,430)	302,878
Cash and cash equivalents at beginning of period	321,132	155,679

Cash and cash equivalents at end of period	$111,702	$458,557

See Notes to Consolidated Financial Statements.

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SABRE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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

We are a leading technology solutions provider to the global travel and tourism industry. We operate through two business segments: (i) Travel Network, our global travel marketplace for travel suppliers and travel buyers, and (ii) Airline and Hospitality Solutions, an extensive suite of travel industry leading software solutions primarily for airlines and hotel properties.

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 months ended March 31, 2016 are not necessarily indicative of results that may be expected for any other interim period or for the year ended December 31, 2016. 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 19, 2016.

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, estimation of loss contingencies, 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 19, 2016.

Stockholders' Equity—During the three months ended March 31, 2016, we issued 2,297,535 shares of our common stock as a result of the exercise and settlement of employee equity-based awards. In addition, we received $9 million in proceeds from the exercise of employee stock-option awards and paid $11 million of income tax withholdings associated with the settlement of employee restricted-stock awards.

We paid a quarterly cash dividend on our common stock of $0.13 per share, totaling $36 million, and $0.09 per share, totaling $24 million, during the three months ended March 31, 2016 and 2015, respectively.

During the three months ended March 31, 2016, certain of our stockholders sold an aggregate of 20,000,000 shares of our common stock through a secondary public offering. We did not offer any shares or receive any proceeds from this secondary public offering.

Adoption of New Accounting Standard—In the first quarter of 2016, we adopted Accounting Standards Update ("ASU") 2016-09, Improvements to Employee Share-Based Payment Accounting. This guidance was issued by the Financial Accounting Standards Board ("FASB") under their initiative to reduce complexity in financial reporting. The amendments of the updated standard include, among other things, the requirement to recognize excess tax benefits (or deficiencies) through earnings, the election of a policy to either estimate forfeitures when determining periodic expense or recognize actual forfeitures when they occur, and an increase in the allowable income tax withholding from the minimum to the maximum statutory rate.

In recent years, we have incurred significant excess tax benefits associated with settled equity-based awards that have not been recognized due to certain accounting policy elections we made under the previous accounting standard, combined with the significant amount of our net operating loss carryforwards. As a result of the adoption of ASU 2016-09, we recorded a cumulative-effect adjustment as of January 1, 2016 to increase retained earnings by $89 million with a corresponding increase to deferred tax assets in order to recognize excess tax benefits that can be used to reduce income taxes payable in the future. Effective January 1, 2016, excess tax benefits or deficiencies are recognized in our results of operations and are included in cash flows from operating activities in our statement of cash flows. We recognized $10 million of excess tax benefits in the three months ended March 31, 2016, which is included as a reduction to provision for income taxes in our consolidated results of operations.

In accordance with the updated standard, we elected to recognize actual forfeitures of equity-based awards as they occur. As we previously estimated forfeitures to determine stock-based compensation expense, this change resulted in a cumulative-effect adjustment as of January 1, 2016 to reduce retained earnings by $2 million, net of tax.

There were no other material impacts to our consolidated financial statements as a result of adopting this updated standard.

Reclassifications—We reclassified all of our $30 million litigation settlement liability as of December 31, 2015 to other accrued liabilities in our consolidated balance sheet to conform to our current period presentation. As of March 31, 2016, our litigation settlement liability included in other accrued liabilities totaled $8 million.

2. Acquisitions

Trust Group

In January 2016, we completed the acquisition of the Trust Group, a central reservations, revenue management and hotel
marketing provider, expanding our presence in Europe, the Middle East, and Africa ("EMEA") and Asia Pacific ("APAC"). The net cash consideration for Trust Group was $159 million, which excludes the effect of net working capital adjustments. The acquisition was funded using proceeds from our 5.25% senior secured notes due in 2023 and cash on hand. The Trust Group is integrated and managed as part of our Airline and Hospitality Solutions segment.

Preliminary Purchase Price Allocation

The purchase price allocation presented below is preliminary and based on available information as of the filing date of this Quarterly Report on Form 10-Q. Accordingly, the purchase price allocation is subject to change when finalized. We expect to finalize the purchase price allocation during 2016. A summary of the acquisition price and estimated fair values of assets acquired and liabilities assumed as of the date of acquisition is as follows (in thousands):

Cash and cash equivalents	$3,889
Accounts receivable	10,247
Other current assets	639
Goodwill	94,737
Intangible assets:	
Customer relationships	65,502
Purchased technology	21,834
Trademarks and brand names	4,367
Property and equipment, net	3,105
Current liabilities	(10,326)
Noncurrent deferred income taxes	(31,437)
Total acquisition price	$162,557

The goodwill recognized reflects expected synergies from combined operations and also the acquired assembled workforce of the Trust Group in EMEA and APAC. The goodwill recognized is assigned to our Airline and Hospitality Solutions segment and is not deductible for tax purposes. The useful lives of the intangible assets acquired are 15 years for customer relationships, 5 years for purchased technology and 5 years for trademarks and brand names. The acquisition of the Trust Group did not have a material impact to our consolidated financial statements, and therefore pro forma information is not presented.

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Abacus

On July 1, 2015, we completed the acquisition of the remaining 65% interest in Abacus International Pte Ltd, a Singapore-based business-to-business travel e-commerce provider that serves the Asia-Pacific region, which is now named Sabre Asia Pacific Pte Ltd ("SAPPL"). Prior to the acquisition, SAPPL was 65% owned by a consortium of 11 airlines and the remaining 35% was owned by us. Separately, SAPPL has signed new long-term agreements with the consortium of 11 airlines to continue to utilize the Abacus GDS. In the third and fourth quarters of 2015, SAPPL completed the acquisition of the remaining interest in three national marketing companies, Abacus Distribution Systems (Hong Kong), Abacus Travel Systems (Singapore) and Abacus Distribution Systems Sdn Bhd (Malaysia) (the “NMCs” and, together with SAPPL, “Abacus”). SAPPL previously owned noncontrolling interests in the NMCs. The net cash consideration for Abacus was $442 million, which includes the effect of net working capital adjustments. The acquisition was funded with a combination of cash on hand and a $70 million draw on our revolving credit facility.

Preliminary Purchase Price Allocation

The purchase price allocation presented below is preliminary and based on available information as of the filing date of this Quarterly Report on Form 10-Q. Accordingly, the purchase price allocation is subject to change when finalized, which may result in an adjustment to the $78 million gain we recognized during the year ended December 31, 2015 as a result of the remeasurement of our previously-held 35% equity interest in Abacus. We expect to finalize the purchase price allocation in the second quarter of 2016. A summary of the acquisition price and estimated fair values of assets acquired and liabilities assumed as of the date of acquisition is as follows (in thousands):

Cash and cash equivalents	$65,641
Accounts receivable	49,099
Other current assets	12,522
Goodwill	292,109
Intangible assets:	
Customer relationships	319,000
Reacquired rights[1]	113,500
Purchased technology	14,000
Supplier agreements	13,000
Trademarks and brand names	4,000
Property and equipment, net	4,021
Other assets	65,796
Current liabilities	(120,649)
Noncurrent liabilities	(44,245)
Noncurrent deferred income taxes	(77,781)
	710,013
Fair value of Sabre Corporation's previously held equity investment in SAPPL	(200,000)
Fair value of SAPPL's previously held equity investment in national marketing companies	(1,880)
Total acquisition price	$508,133

(1) In connection with the acquisition of Abacus, we reacquired certain contractual rights that provided Abacus the exclusive right, within the Asia-Pacific region, to operate and profit from the Sabre GDS.

The goodwill recognized reflects expected synergies from combined operations and also the acquired assembled workforce of Abacus. The goodwill recognized is assigned to our Travel Network business and is not deductible for tax purposes. The useful lives of the intangible assets acquired are 20 years for customer relationships, 7 years for reacquired rights, 3 years for purchased technology, 7 years for supplier agreements and 2 years for trademarks and brand names.

The preliminary purchase price allocation includes estimates for contingent liabilities of $25 million related to tax uncertainties.

As part of the integration strategy for Abacus, management evaluated actions to optimize the investment’s potential, including the implementation of a restructuring plan to align the acquired business with Travel Network. This plan includes the elimination of redundant positions, centralization of key operations and termination of particular product offerings. As of December 31, 2015, our restructuring accrual associated with this plan was $8 million, of which less than $1 million was paid in the three months ended March 31, 2016. We did not recognize material restructuring charges in the three months ended March 31, 2016. The plan is expected to be substantially complete by the fourth quarter of 2016, and we currently do not expect to incur significant additional charges in connection with the plan.

Unaudited Pro Forma Financial Information

The following unaudited pro forma results of operations information give effect to the acquisitions of Abacus as if it occurred on January 1, 2014. The unaudited pro forma results of operations information include adjustments to: (i) eliminate historical revenue and cost of revenue between us, SAPPL and the NMCs; (ii) remove historical amortization recognized by SAPPL associated with its upfront incentive consideration and software developed for internal use, which are replaced by acquired intangible assets; and (iii) add amortization expense associated with acquired intangible assets.

The following unaudited pro forma results of operations information is presented in thousands:

	Three Months Ended March 31, 2015
Revenue	$ 788,895
Income from continuing operations	57,766
Net income attributable to common stockholders	215,930

The unaudited pro forma financial information is for informational purposes only and is not necessarily indicative of what our financial performance would have been had the acquisition been completed on the date assumed nor is such unaudited pro forma combined financial information necessarily indicative of the results to be expected in any future period.

3. Discontinued Operations

In the first quarter of 2015, we completed the divestiture of our Travelocity business through the sale of Travelocity.com and lastminute.com. Our Travelocity segment has no remaining operations subsequent to these dispositions. The financial results of our Travelocity business are included in net income from discontinued operations in our consolidated statements of operations for all periods presented.

Travelocity.com—On January 23, 2015, we sold Travelocity.com to Expedia Inc. (“Expedia”), pursuant to the terms of an Asset Purchase Agreement (the “Travelocity Purchase Agreement”), dated January 23, 2015, by and among Sabre GLBL, Travelocity.com LP, and Expedia. The signing and closing of the Travelocity Purchase Agreement occurred contemporaneously. Expedia purchased Travelocity.com pursuant to the Travelocity Purchase Agreement for cash consideration of $280 million. The net assets of Travelocity.com disposed of primarily included a trade name with a carrying value of $55 million. We recognized a gain on sale of $143 million, net of tax, in the first quarter of 2015.

lastminute.com—On March 1, 2015, we sold lastminute.com to Bravofly Rumbo Group. The transaction was completed through the transfer of net liabilities as of the date of sale consisting primarily of a working capital deficit of $70 million, partially offset by assets sold including intangible assets of $27 million. We did not receive any cash proceeds or any other significant consideration in the transaction other than payments for specific services being provided to the acquirer under a transition services agreement, which concluded on March 31, 2016. Additionally, at the time of sale, the acquirer entered into a long-term agreement with us to continue to utilize our GDS for bookings, which generates incentive consideration paid by us to the acquirer. We recognized a gain on sale of $24 million, net of tax, in the first quarter of 2015.

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

	Three Months Ended March 31,	
	2016	2015
Revenue	$—	$21,142
Cost of revenue	—	12,288
Selling, general and administrative	4,926	19,241
Operating loss	(4,926)	(10,387)

Other income (expense):		
Gain on sale of businesses	305	263,567
Other, net	(1,317)	(475)
Total other (expense) income, net	(1,012)	263,092
(Loss) income from discontinuing operations before income taxes	(5,938)	252,705
(Benefit) provision for income taxes[1]	(19,288)	93,794
Net income from discontinued operations	$13,350	$158,911

(1) In the first quarter 2016, we recognized a $17 million tax benefit associated with the resolution of uncertain tax positions; see Note 4, Income Taxes.

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4. Income Taxes

Our effective tax rates for the three months ended March 31, 2016 and 2015 were 31% and 36%, respectively. The decrease in the effective tax rate for the three months ended March 31, 2016 as compared to the same period in 2015 was primarily driven by an increase in forecasted earnings in lower tax jurisdictions, excess tax benefits associated with employee equity-based awards (see Note 1, General Information, for additional information related to our adoption ASU 2016-09) and U.S. federal research tax credits, partially offset by an increase in foreign withholding taxes. The differences between our effective tax rates and the U.S. federal statutory income tax rate primarily result from our geographic mix of taxable income in various tax jurisdictions as well as the discrete tax items referenced above.

We recognize liabilities when we believe that an uncertain tax position may not be fully sustained upon examination by the tax authorities. This requires significant judgment, the use of estimates, and the interpretation and application of complex tax laws. When facts and circumstances change, we reassess these probabilities and record any changes in the consolidated financial statements as appropriate. In the first quarter of 2016, we recognized a tax benefit of $17 million associated with the effective settlement of uncertain tax positions in our discontinued Travelocity business. Our net unrecognized tax benefits, excluding interest and penalties, included in our consolidated balance sheets, were $56 million and $69 million as of March 31, 2016 and December 31, 2015, respectively.

Tax Receivable Agreement

Immediately prior to the closing of our initial public offering in April 2014, we entered into a tax receivable agreement (“TRA”) that provides 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 right to receive future payments from us. 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 federal net operating losses (“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 future payments under the TRA relating to the Pre-IPO Tax Assets to total $387 million. The estimate of future payments considers the impact of Section 382 of the Code, which imposes an annual limit on the ability of a corporation that undergoes an ownership change to use its net operating loss carryforwards 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 future payments under the TRA to be made over the next five years with no material payments occurring in 2016. We expect to make payments totaling $111 million in the first quarter of 2017, which are included in Tax Receivable Agreement under current liabilities in our consolidated balance sheet as of March 31, 2016. The remaining portion of $276 million is included in other noncurrent liabilities in our consolidated balance sheet as of March 31, 2016. Payments under the TRA are not conditioned upon the parties’ continuing ownership of the company.

5. Debt

As of March 31, 2016 and December 31, 2015, our outstanding debt included in our consolidated balance sheets totaled $3,290 million and $3,360 million, respectively, net of debt issuance costs of $29 million and $30 million, respectively, and unamortized discounts of $5 million and $6 million, respectively. The following table sets forth the face values of our outstanding debt as of March 31, 2016 and December 31, 2015 (in thousands):

	Rate	Maturity	March 31, 2016	December 31, 2015
Senior secured credit facilities:				
Term B facility	L + 3.00%	February 2019	$ 1,717,313	$ 1,721,750
Incremental term loan facility	L + 3.00%	February 2019	341,250	342,125
Term C facility	L + 2.50%	December 2017	49,313	49,313
Extended Revolver, $370 million	L + 2.75%	February 2019	91,358	—
Unextended Revolver, $35 million	L + 3.25%	February 2018	8,642	—
Senior unsecured notes due 2016	8.35%	March 2016	—	165,000
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
Mortgage facility	5.80%	April 2017	80,673	80,984
Capital lease obligations			5,831	6,502
Face value of total debt outstanding			3,324,380	3,395,674
Less current portion of debt outstanding			(204,824)	(190,687)
Face value of long-term debt outstanding			$ 3,119,556	$ 3,204,987

Senior Secured Credit Facilities

We have a revolving credit facility totaling $405 million, of which $370 million expires in February 2019 ("Extended Revolver") and $35 million expires in February 2018 ("Unextended Revolver," collectively, the "Revolver"). We have $100 million outstanding under the Revolver as of March 31, 2016, all of which is classified as current portion of debt in our consolidated balance sheet. No balance was outstanding under the Revolver as of December 31, 2015. We had outstanding letters of credit totaling $28 million and $25 million as of March 31, 2016 and December 31, 2015, respectively, which reduce our overall credit capacity under the Revolver.

Senior Unsecured Notes Due 2016

In March 2016, the remaining principal balance of $165 million of our senior unsecured notes matured. We repaid this remaining balance on the senior unsecured notes with a draw on our Revolver and cash on hand.

6. Derivatives

Hedging Objectives—We are exposed to certain risks relating to ongoing business operations. The primary risks managed by using derivative instruments are foreign currency exchange rate risk and interest rate risk. Forward contracts on various foreign currencies are entered into to manage the foreign currency exchange rate risk on operational exposure denominated in foreign currencies. Interest rate swaps are entered into to manage interest rate risk associated with our floating-rate borrowings. In accordance with authoritative guidance on accounting for derivatives and hedging, we designate foreign currency forward contracts as cash flow hedges on operational exposure and interest rate swaps as cash flow hedges of floating-rate borrowings.

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

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

For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income (loss) and reclassified into earnings in the same line item associated with the forecasted transaction and in the same period or periods during which the hedged transaction affects earnings. The remaining gain or loss on the derivative instrument in excess of the cumulative change in the present value of future cash flows of the hedged item, if any (ineffective portion), and hedge components excluded from the assessment of effectiveness, are recognized in the consolidated statements of operations during the current period.

Forward Contracts—In order to hedge our operational exposure to foreign currency movements, we are a party to certain foreign currency forward contracts that extend until March 2017. We have designated these instruments as cash flow hedges. No hedging ineffectiveness was recorded in earnings relating to the forward contracts during the three months ended March 31, 2016 and 2015. As of March 31, 2016, we estimate that $3 million in gains will be reclassified from other comprehensive income (loss) to earnings over the next 12 months.

As of March 31, 2016 and December 31, 2015, 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 March 31, 2016

Buy Currency	Sell Currency	Foreign Amount	USD Amount	Average Contract Rate
US Dollar	Indian Rupee	89,000	1,326	0.0149
Australian Dollar	US Dollar	23,350	16,731	0.7165
Euro	US Dollar	1,950	2,189	1.1226
British Pound Sterling	US Dollar	17,175	25,681	1.4953
Indian Rupee	US Dollar	1,449,500	21,059	0.0145
Polish Zloty	US Dollar	213,250	55,924	0.2622
Singapore Dollar	US Dollar	45,850	32,781	0.7150

Outstanding Notional Amounts as of December 31, 2015

Buy Currency	Sell Currency	Foreign Amount	USD Amount	Average Contract Rate
US Dollar	Australian Dollar	2,080	1,570	0.7548
US Dollar	Euro	2,870	3,169	1.1042
Australian Dollar	US Dollar	1,260	939	0.7452
Euro	US Dollar	2,870	3,122	1.0878
British Pound Sterling	US Dollar	18,075	27,415	1.5167
Indian Rupee	US Dollar	1,880,500	27,736	0.0147
Polish Zloty	US Dollar	226,500	59,120	0.2610

Interest Rate Swap Contracts—Interest rate swaps outstanding during the three months ended March 31, 2016 and 2015 are as follows:

Notional Amount	Interest Rate Received	Interest Rate Paid	Effective Date	Maturity Date
$750 million	1 month LIBOR(1)	1.48%	December 31, 2015	December 30, 2016
$750 million	1 month LIBOR(1)	2.19%	December 30, 2016	December 29, 2017
$750 million	1 month LIBOR(1)	2.61%	December 29, 2017	December 31, 2018

(1) Subject to a 1% floor.

In December 2014, we entered into eight forward starting interest rate swaps to hedge interest payments associated with $750 million of floating-rate liabilities on the notional amounts of a portion of our senior secured debt. We have designated these interest rate swaps as cash flow hedges. The total notional amount outstanding is $750 million in each of 2015, 2016 and 2017. There was no material hedge ineffectiveness for the three months ended March 31, 2016. The effective portion of changes in the fair value of the interest rate swaps is reported as a component of other comprehensive income (loss) and reclassified into earnings in the same line item associated with the forecasted transaction and in the same period or periods during which the hedged transaction affects earnings. As of March 31, 2016, we estimate that $5 million in losses will be reclassified from other comprehensive income (loss) to earnings over the next 12 months.

The estimated fair values of our derivatives designated as hedging instruments as of March 31, 2016 and December 31, 2015 are as follows (in thousands):

	Derivative Assets (Liabilities)		
		Fair Value as of	
Derivatives Designated as Hedging Instruments	Consolidated Balance Sheet Location	March 31, 2016	December 31, 2015
Foreign exchange contracts	Prepaid Expenses	$3,834	$ —
Foreign exchange contracts	Other accrued liabilities	(696)	(1,759)
Interest rate swaps	Other accrued liabilities	(4,797)	(3,912)
Interest rate swaps	Other noncurrent liabilities	(14,181)	(9,822)
		$(15,840)	$ (15,493)

The effects of derivative instruments, net of taxes, on OCI for the three months ended March 31, 2016 and 2015 are as follows (in thousands):

	Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion) Three Months Ended March 31,	
Derivatives in Cash Flow Hedging Relationships	2016	2015
Foreign exchange contracts	$3,041	$(4,337)
Interest rate swaps	(3,371)	(4,339)
Total	$(330)	$(8,676)

		Amount of Loss Reclassified from Accumulated OCI into Income (Effective Portion) Three Months Ended March 31,	
Derivatives in Cash Flow Hedging Relationships	Income Statement Location	2016	2015
Foreign exchange contracts	Cost of revenue	$919	$3,470

7. Fair Value Measurements

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

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

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

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

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

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

Available-for-sale Securities—Our available-for-sale securities include securities of a publicly-traded non-U.S. entity. The fair value of these securities is obtained from market quotes as of the last day of the period. Our available-for-sale securities are included in other assets in our consolidated balance sheets.

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

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

The following tables present our assets (liabilities) that are required to be measured at fair value on a recurring basis as of March 31, 2016 and December 31, 2015 (in thousands):

		Fair Value at Reporting Date Using		
	March 31, 2016	Level 1	Level 2	Level 3
Available-for-sale securities	$36,564	$36,564	$—	$ —
Derivatives				
Foreign currency forward contracts	3,138	—	3,138	—
Interest rate swap contracts	(18,978)	—	(18,978)	—
Total	$20,724	$36,564	$(15,840)	$ —

		Fair Value at Reporting Date Using		
	December 31, 2015	Level 1	Level 2	Level 3
Available-for-sale securities	$ 36,711	$36,711	$—	$ —
Derivatives				
Foreign currency forward contracts	(1,759)	—	(1,759)	—
Interest rate swap contracts	(13,734)	—	(13,734)	—
Total	$ 21,218	$36,711	$(15,493)	$ —

There were no transfers between Levels 1 and 2 within the fair value hierarchy for the three months ended March 31, 2016.

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 unsecured notes due 2016, senior secured notes due 2023 and term loans under our Amended and Restated Credit Agreement are determined based on quoted market prices for the similar liability when traded as an asset in an active market, a Level 2 input. The outstanding principal balance of our mortgage facility approximated its fair value as of March 31, 2016 and December 31, 2015. The fair values of the mortgage facility were determined based on estimates of current interest rates for similar debt, 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 March 31, 2016 and December 31, 2015 (in thousands):

	Fair Value at		Carrying Value at	
Financial Instrument	March 31, 2016	December 31, 2015	March 31, 2016	December 31, 2015
Term B facility	$1,720,532	$ 1,705,609	$1,712,042	$ 1,716,048
Incremental term loan facility	339,544	339,559	341,250	342,125
Term C facility	49,405	49,251	49,176	49,157
Extended Revolver, $370 million	91,358	—	91,358	—
Unextended Revolver, $35 million	8,642	—	8,642	—
5.375% Senior secured notes due 2023	545,569	528,013	530,000	530,000
5.25% Senior secured notes due 2023	510,313	494,375	500,000	500,000
Senior unsecured notes due 2016	—	165,804	—	164,628

8. Accumulated Other Comprehensive Income (Loss)

As of March 31, 2016 and December 31, 2015, the components of accumulated other comprehensive income (loss), net of related deferred income taxes, are as follows (in thousands):

	March 31, 2016	December 31, 2015

Defined benefit pension and other post retirement benefit plans	$(89,966)	$ (90,647)
Unrealized loss on foreign currency forward contracts, interest rate swaps, and available-for-sale securities	(5,963)	(6,391)
Unrealized foreign currency translation gain	(666)	(97)
Total accumulated other comprehensive loss, net of tax	$(96,595)	$ (97,135)

The amortization of actuarial losses and periodic service credits associated with our retirement-related benefit plans is included in selling, general and administrative expenses. See Note 6, Derivatives, for information on the income statement line items affected as the result of reclassification adjustments associated with derivatives.

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

	Three Months Ended March 31,	
	2016	2015
Numerator:		
Income from continuing operations	$92,919	$49,330
Less: Net income attributable to noncontrolling interests	1,102	747
Net income from continuing operations available to common stockholders, basic and diluted	$91,817	$48,583
Denominator:		
Basic weighted-average common shares outstanding	275,568	269,184
Add: Dilutive effect of stock options and restricted stock awards	6,395	7,504
Diluted weighted-average common shares outstanding	281,963	276,688
Earning per share from continuing operations:		
Basic	$0.33	$0.18
Diluted	$0.33	$0.18

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 1 million common stock equivalents for each of the three months ended March 31, 2016 and 2015, respectively.
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 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.
Document, fact and expert witness discovery is complete. 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. US Airways may appeal the court's rulings upon a final judgment. Based on the summary judgment ruling, the potential remaining range of damages has been significantly reduced. With respect to the remaining claims, US Airways seeks damages (before trebling) of either $45 million or $73 million. We believe their damage calculations are based on faulty assumptions and analysis and, therefore, are highly

overstated.
In June 2015, US Airways filed a Second Amended Complaint that limited its request for relief for the remaining claims to an amount not to exceed twenty dollars (post-trebling), plus reasonable costs, attorneys' fees and pre- and post-judgment interest, as well as declaratory relief with respect to those claims, including claims that we acted anticompetitively. In September 2015, the court dismissed US Airways' request for declaratory judgment. US Airways subsequently moved to amend its complaint to reinstate its claim for damages (before trebling) of either $45 million or $73 million. In February 2016, the court ruled that US Airways may file a Third Amended Complaint to reinstate its claim for damages, provided that it reimbursed us for our costs and fees associated

with certain legal proceedings during 2015. US Airways reimbursed us $6 million for fees and costs and filed the Third Amended Complaint in March 2016. We filed our answer to the Third Amended Complaint in March 2016. We believe that our business practices and contract terms are lawful, and we will continue to vigorously defend against the remaining claims. The trial on the remaining claims is scheduled to commence in October 2016.

We believe that the claims associated with this case are not probable and therefore have not accrued any losses as of March 31, 2016. We have and will incur significant fees, costs and expenses for as long as the litigation is ongoing. In addition, litigation by its nature is highly uncertain and fraught with risk, and it is therefore difficult to predict the outcome of any particular matter, including changes to our business that may be required as a result of the litigation. If favorable resolution of the matter is not reached, any monetary damages are subject to trebling under the antitrust laws and US Airways would be eligible to be reimbursed by us for its reasonable costs and attorneys' fees. Depending on the amount of any such judgment, if we do not have sufficient cash on hand, we may be required to seek private or public financing. 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

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. In January 2016, we filed a motion to dismiss all of the plaintiffs' claims, which is pending before the court. 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. Although the amount of damages allegedly incurred by the plaintiffs has not been asserted to date, the plaintiffs are also seeking declaratory and injunctive relief. We may incur significant fees, costs and expenses for as long as this litigation is ongoing. We intend to vigorously defend against these claims.

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.

Insurance Carriers

We have disputes against some of our insurance carriers for failing to reimburse defense costs incurred in the American Airlines antitrust litigation, which we settled in October 2012. Both carriers admitted there is coverage, but reserved their rights not to pay should we be found liable for certain of American Airlines' allegations. Despite their admission of coverage, the insurers have only reimbursed us for a small portion of our significant defense costs. We filed suit against the entities in New York state court alleging breach of contract and a statutory cause of action for failure to promptly pay claims. If we prevail, we may recover some or all amounts already tendered to the insurance companies for payment within the limits of the policies and may be entitled to 18% interest on such amounts, all of which will be recorded in the period cash is received. To date, settlement discussions have been unsuccessful. Discovery is closed, and the parties' summary judgment briefing was completed in February 2016. A hearing on the summary judgment motions is scheduled for June 2016.

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 and no trial date has been set. During the quarter, we appealed the tax assessment for the assessment year ended March 2013 with the ITAT and no trial date has been set.

In addition,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 2011, which 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 $41 million as of March 31, 2016. We and SAPPL intend to continue to aggressively defend against each of the foregoing claims. Although we do not believe that the outcome of the proceedings will result in a material impact on our business or financial condition, litigation is by its nature uncertain. We do not believe this outcome is probable and therefore have not made any provisions or recorded any liability for the potential resolution of any of these claims.

Indian Service Tax Litigation

SAPPL is also subject to litigation by the India Director General (Service Tax) ("DGST"), which has assessed the subsidiary for multiple years related to its alleged failure to pay service tax on marketing fees and reimbursements of expenses. Indian courts have returned verdicts favorable to the Indian subsidiary. The DGST has appealed the verdict to the Indian Supreme Court. No provision has been recorded for this matter as we believe we will ultimately prevail.

Litigation and Administrative Audit Proceedings Relating to Hotel Occupancy Taxes

On January 23, 2015, we sold Travelocity.com to Expedia. Pursuant to the Travelocity Purchase Agreement, we will continue to be liable for pre-closing liabilities of Travelocity, including fees, charges, costs and settlements relating to litigation arising from hotels booked on the Travelocity platform prior to our previous long-term strategic marketing agreement with Expedia (the “Expedia SMA”). Fees, charges, costs and settlements relating to litigation from hotels booked on Travelocity.com subsequent to the Expedia SMA and prior to the date of the sale of Travelocity.com will be shared with Expedia in accordance with the terms that were in the Expedia SMA. We are jointly and severally liable for certain indemnification obligations under the Travelocity Purchase Agreement for liabilities that may arise out of these litigation matters, which could adversely affect our cash flow.

Beginning in 2004, various state and local governments in the United States have filed more than 80 lawsuits against us and other OTAs pertaining primarily to whether our discontinued Travelocity segment and other online travel agencies ("OTAs") owe sales or occupancy taxes on the revenues they earned from facilitating hotel reservations, where the customer paid us an amount at the time of booking that included (i) service fees, which we collected and retained, and (ii) the price of the hotel room and amounts for occupancy or other local taxes, which we passed along to the hotel supplier. The complaints generally allege, among other things, that the defendants failed to pay to the relevant taxing authority hotel occupancy taxes on the service fees. Several lawsuits also allege that the OTAs owe state or local taxes on their fees for facilitating car rental reservations. Courts have dismissed more than 30 of these lawsuits, some for failure to exhaust administrative remedies and some on the basis that we are not subject to sales or occupancy tax. The remaining lawsuits are in various stages of litigation. We have also settled some cases individually, most for amounts not material to our results of operations, and with respect to these settlements, have generally reserved our rights to challenge any effort by the applicable tax authority to impose occupancy taxes in the future.

Although we have prevailed in the majority of these lawsuits and proceedings, there have been several adverse judgments or decisions on the merits, some of which are subject to appeal. As of March 31, 2016 and December 31, 2015, our reserve was not material for the potential resolution of issues identified related to litigation involving hotel and car sales, occupancy or excise taxes. We did not record material charges associated with these cases during the three months ended March 31, 2016 and 2015. Our estimated liability is based on our current best estimate but the ultimate resolution of these issues may be greater or less than the amount recorded and, if greater, could adversely affect our results of operations.

In addition to the actions by the tax authorities, two consumer class action lawsuits have been filed against us in which the plaintiffs allege that we made misrepresentations concerning the description of the fees received in relation to facilitating hotel reservations. Generally, the consumer claims relate to whether Travelocity provided adequate notice to consumers regarding the nature of our fees and the amount of taxes charged or collected. One of these lawsuits is pending in Texas state court, where the court is currently considering the plaintiffs' motion to certify a class action; and the other is pending in federal court, but has been stayed pending the outcome of the Texas state court action. We believe the notice we provided was appropriate and therefore have not accrued any losses related to these cases. Furthermore, a number of state and local governments have initiated inquiries, audits and other administrative proceedings that could result in an assessment of sales or occupancy taxes on fees. If we do not prevail at the administrative level, those cases could lead to formal litigation proceedings.

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.

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.

Our business has two reportable segments: (i) Travel Network and (ii) Airline and Hospitality Solutions, which aggregates the Airline Solutions and Hospitality Solutions operating segments as these operating segments have similar economic characteristics, generate revenues on transaction-based fees, incur the same types of expenses and use our software-as-a-service (“SaaS”) based and hosted applications and platforms to market to the travel industry. In January 2016, we completed the acquisition of the Trust Group, which is integrated and managed as part of our Airline and Hospitality Solutions segment.

Our CODM utilizes Adjusted Gross Margin 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 shared expenses such as accounting, human resources, legal, corporate systems, and other shared technology costs, as well as all amortization of intangible assets and any related impairments that originate from purchase accounting, 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 and Hospitality Solutions for airline trips booked through our GDS.

Our CODM does not review total assets by segment as operating evaluations and resource allocation decisions are not made on the basis of total assets by segment. Our CODM uses Adjusted Capital Expenditures in making product investment decisions and determining development resource requirements.

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

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

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

Segment information for the three months ended March 31, 2016 and 2015 is as follows (in thousands):

	Three Months Ended March 31,	
	2016	2015
Revenue		
Travel Network	$625,476	$507,930
Airline and Hospitality Solutions	238,380	204,900
Eliminations	(4,313)	(2,482)
Total revenue	$859,543	$710,348
Adjusted Gross Margin [(a)]		
Travel Network	$304,914	$244,119
Airline and Hospitality Solutions	100,876	89,199
Corporate	(17,594)	(12,596)
Total	$388,196	$320,722
Adjusted EBITDA [(b)]		
Travel Network	$273,174	$232,087
Airline and Hospitality Solutions	82,938	71,488
Total segments	356,112	303,575
Corporate	(68,632)	(59,989)
Total	$287,480	$243,586
Depreciation and amortization		
Travel Network	$18,530	$14,344
Airline and Hospitality Solutions	35,793	42,997
Total segments	54,323	57,341
Corporate	41,960	32,720
Total	$96,283	$90,061
Adjusted Capital Expenditures [(c)]		
Travel Network	$22,970	$13,085
Airline and Hospitality Solutions	60,420	54,437
Total segments	83,390	67,522
Corporate	12,039	8,717
Total	$95,429	$76,239

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

	Three Months Ended March 31,	
	2016	2015
Adjusted Gross Margin	$388,196	$320,722
Less adjustments:		
Selling, general and administrative	133,856	