

MARRIOTT
VACATIONS
WORLDWIDE
SM



2018
ANNUAL REPORT

THE BUSINESS OF *fun* | A YEAR OF GROWTH



TO OUR VALUED SHAREHOLDERS

2018 marked one of the most transformative years in our company's 35-year history. In September, we began a new era following our acquisition of ILG, Inc., bringing together two of the most well-regarded global providers of premier vacation experiences.

Marriott Vacations Worldwide now encompasses a diverse portfolio of extraordinary vacation brands and businesses. As one combined company, we have over 100 properties serving 660,000 Owner families across seven iconic brands within our vacation ownership business. Additionally, we now service almost two million members in our exchange membership programs while managing another 180 resorts in our third party management business. Making this transaction happen was truly a team effort.

Throughout this time of exciting change, our passionate associates continued to execute with a focus on the job at hand. We completed our hurricane recovery efforts on the island of St. Thomas to welcome back Owners, Members and guests at Marriott's Frenchman's Cove and The Ritz-Carlton Club and in early 2019 also reopened the Westin Vacation Club in nearby St. John. Marriott's Crystal Shores in Marco Island, Florida is now completely built out with additional buildings and amenities. We are also adding to our city-centric Marriott Vacation Club Pulse brand extension with the addition of The Pier 2620 Hotel, which is perfectly located in the heart of the Fisherman's Wharf district of San Francisco. The opening of Marriott Vacation Club Pulse, San Francisco, is currently projected to be in the second quarter of 2019.

Our financial performance has been equally remarkable, with over \$2.968 billion in total revenues and \$419 million in adjusted EBITDA. Consolidated vacation ownership

contract sales were \$1.073 billion, an increase of \$247 million, or 30 percent, over last year. Other financial highlights included Marriott Vacation Club legacy North America volume per guest reaching \$3,666, a 3 percent increase over 2017.

We are naturally very excited about the future. This is only the beginning as we continue to work hard to explore shared opportunities and find efficiencies from our newly combined company. We look forward to continuing our growth by leveraging high-value marketing and sales channels, enhancing the benefits of our access to the combined new Marriott Bonvoy loyalty program, call transfer and hotel linkage locations. Additionally, our exchange and management businesses continue to generate recurring, high-margin revenue streams.

On behalf of the Board of Directors and all of our now approximately 23,000 associates around the globe, we truly thank you for your support and commitment to Marriott Vacations Worldwide.



BILL SHAW
Chairman of the Board



STEVE WEISZ
President & CEO

one COMPANY A WORLD OF *vacations*



OUR FAMILY OF BRANDS AND BUSINESSES

VACATION
OWNERSHIP



EXCHANGE &
THIRD-PARTY
MANAGEMENT





VACATION OWNERSHIP

7
ICONIC BRANDS

100+
RESORTS AROUND
THE WORLD

660,000
OWNER FAMILIES

EXCHANGE & THIRD-PARTY MANAGEMENT

OVER
180
PROPERTIES
MANAGED

MORE THAN
3,200
EXCHANGE RESORTS

SERVING NEARLY
2 MILLION
MEMBERS

THE POWER OF OUR PEOPLE

APPROXIMATELY
23,000
ASSOCIATES
IN MORE THAN
36
COUNTRIES

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2018

or

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

For the transition period from _____ to _____

Commission File No. 001-35219

Marriott Vacations Worldwide Corporation
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

6649 Westwood Blvd.
Orlando, FL

(Address of Principal Executive Offices)

45-2598330

(IRS Employer
Identification No.)

32821

(Zip Code)

Registrant's Telephone Number, Including Area Code (407) 206-6000

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, \$0.01 par value (45,209,962 shares outstanding as of February 22, 2019)	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See 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
Non-accelerated filer

Accelerated filer
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

The aggregate market value of shares of common stock held by non-affiliates at June 30, 2018, was \$2,644,786,667.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement prepared for the 2019 Annual Meeting of Shareholders are incorporated by reference into Part III of this report.

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Throughout this Annual Report on Form 10-K (this “Annual Report”), we refer to Marriott Vacations Worldwide Corporation, together with its consolidated subsidiaries, as “Marriott Vacations Worldwide,” “MVW,” “we,” “us,” or “the Company.”

In order to make this Annual Report easier to read, we refer throughout to (i) our Consolidated Financial Statements as our “Financial Statements,” (ii) our Consolidated Statements of Income as our “Income Statements,” (iii) our Consolidated Balance Sheets as our “Balance Sheets” and (iv) our Consolidated Statements of Cash Flows as our “Cash Flows.” References throughout to numbered “Footnotes” refer to the numbered Notes to our Financial Statements that we include in Part II, Item 8. “Financial Statements and Supplementary Data” of this Annual Report. When discussing our properties or markets, we refer to the United States, Mexico and the Caribbean as “North America.”

Additionally, throughout this Annual Report, we refer to brands that we own, as well as those brands that we license as our brands. All brand names, trademarks, service marks and trade names cited in this report are the property of their respective owners, including those of other companies and organizations. Solely for convenience, trademarks, trade names and service marks referred to in this Annual Report may appear without the ® or ™ symbols, however such references are not intended to indicate in any way that MVW or the owner, as applicable, will not assert, to the fullest extent under applicable law, all rights to such trademarks, trade names and service marks.

Brand names, trademarks, service marks and trade names that we own or license from Marriott International, Inc. (“Marriott International”) or its affiliates include Marriott Vacation Club®, Marriott Vacation Club Destinations™, Marriott Vacation Club PulseSM, Marriott Grand Residence Club®, Grand Residences by Marriott®, The Ritz-Carlton Destination Club®, Westin®, Sheraton®, (and to a limited extent) St. Regis® and The Luxury Collection®. We also refer to Marriott International’s Marriott Bonvoy® customer loyalty program, which replaces the Marriott Rewards®, Starwood Preferred Guest® or SPG®, and The Ritz-Carlton Rewards® customer loyalty programs. “Hyatt Vacation Ownership” business refers to our group of businesses using the Hyatt® brand in the vacation ownership business pursuant to an exclusive, global master license agreement with a subsidiary of Hyatt Hotels Corporation (“Hyatt”). We also refer to Hyatt’s World of Hyatt® customer loyalty program.

On September 1, 2018 (the “Acquisition Date”), we completed the previously announced acquisition of ILG, LLC, formerly known as ILG, Inc. (“ILG”), through a series of transactions (the “ILG Acquisition”), after which ILG became our indirect wholly-owned subsidiary. The Financial Statements in this report include ILG’s results of operations from the Acquisition Date through December 31, 2018 and reflect the financial position of our combined company at December 31, 2018. We refer to our business associated with brands that existed prior to the ILG Acquisition as “Legacy-MVW” and to ILG’s business and brands that we acquired as “Legacy-ILG.” See Footnote 3 “Acquisitions and Dispositions” to our Financial Statements for more information on the ILG Acquisition.

On January 1, 2018, the first day of our 2018 fiscal year, we adopted Accounting Standards Update 2014-09 “Revenue from Contracts with Customers (Topic 606)” (“ASU 2014-09”), which, as amended, created Accounting Standards Codification (“ASC”) Topic 606, “Revenue from Contracts with Customers” (“ASC 606”), and refer to it as the new “Revenue Standard” throughout this Annual Report. We restated our previously reported historical results to conform with the adoption of the new Revenue Standard. See Footnote 2 “Summary of Significant Accounting Policies” to our Financial Statements for additional information on ASU 2014-09, as amended, and Footnote 21 “Adoption Impact of New Revenue Standard” to our Financial Statements for further discussion of the adoption and the impact on our previously reported historical results.

By referring to our corporate website, www.marriottvacationsworldwide.com, or any other website, we do not incorporate any such website or its contents in this Annual Report.

Unless otherwise specified, each reference to a particular year means the fiscal year ended on the date shown in the table below, rather than the corresponding calendar year. Beginning with our 2017 fiscal year, we changed our financial reporting cycle to a calendar year-end and end-of-month quarterly reporting cycle. Accordingly, our 2017 fiscal year began on December 31, 2016 (the day after the end of the 2016 fiscal year) and ended on December 31, 2017. Our future fiscal years will begin on January 1 and end on December 31. Prior to our 2017 fiscal year, our fiscal year was a 52 or 53 week fiscal year that ended on the Friday nearest to December 31.

Fiscal Year	Fiscal Year-End Date	Number of Days
2018	December 31, 2018	365
2017	December 31, 2017	366
2016	December 30, 2016	364
2015	January 1, 2016	364
2014	January 2, 2015	364

SPECIAL NOTE ABOUT FORWARD-LOOKING STATEMENTS

We make forward-looking statements throughout this Annual Report, including in, among others, the sections entitled “Business,” “Risk Factors,” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” based on our management’s beliefs and assumptions and on information currently available to our management. Forward-looking statements include, among other things, the information concerning our possible or assumed future results of operations, business strategies, financing plans, competitive position, potential growth opportunities, potential operating performance improvements, and the effects of competition. Forward-looking statements include all statements that are not historical facts and can be identified by the use of forward-looking terminology such as the words “believe,” “expect,” “plan,” “intend,” “anticipate,” “estimate,” “predict,” “potential,” “continue,” “may,” “might,” “should,” “could” or the negative of these terms or similar expressions.

Forward-looking statements involve risks, uncertainties and assumptions. Actual results may differ materially from those expressed in these forward-looking statements. You should not put undue reliance on any forward-looking statements in this Annual Report. We do not have any intention or obligation to update forward-looking statements after the date of this Annual Report, except as required by law.

The risk factors discussed in “Risk Factors” in this Annual Report could cause our results to differ materially from those expressed in forward-looking statements. There may be other risks and uncertainties that we cannot predict at this time or that we currently do not expect will have a material adverse effect on our financial position, results of operations or cash flows. Any such risks could cause our results to differ materially from those we express in forward-looking statements.

PART I

Item 1. Business

Overview

We are a leading global vacation company that offers vacation ownership, exchange, rental and resort and property management, along with related businesses, products and services. Our business operates in two reportable segments: Vacation Ownership and Exchange & Third-Party Management.

As of December 31, 2018, our Vacation Ownership segment had more than 100 resorts and over 660,000 owners and members of a diverse portfolio that includes seven vacation ownership brands licensed under exclusive, long-term relationships with Marriott International and Hyatt. We are the exclusive worldwide developer, marketer, seller and manager of vacation ownership and related products under the Marriott Vacation Club, Grand Residences by Marriott, Sheraton, Westin, and Hyatt Residence Club brands, as well as under Marriott Vacation Club Pulse, an extension to the Marriott Vacation Club brand. We are also the exclusive worldwide developer, marketer and seller of vacation ownership and related products under The Ritz-Carlton Destination Club brand, we have the non-exclusive right to develop, market and sell whole ownership residential products under The Ritz-Carlton Residences brand, and we have a license to use the St. Regis brand for specified fractional ownership resorts.

Our Vacation Ownership segment generates most of its revenues from four primary sources: selling vacation ownership products; managing vacation ownership resorts, clubs and owners’ associations; financing consumer purchases of vacation ownership products; and renting vacation ownership inventory.

As of December 31, 2018, our Exchange & Third-Party Management segment includes exchange networks and membership programs comprised of more than 3,200 resorts in over 80 nations and nearly two million members, as well as management of more than 180 other resorts and lodging properties. We provide these services through a variety of brands including Interval International, Trading Places International, Vacation Resorts International, and Aqua-Aston. Exchange & Third-Party Management segment revenue generally is fee-based and derived from membership, exchange and rental transactions, property and owners’ association management, and other related products and services.

Our strategic goal is to further strengthen our leadership position in the vacation ownership industry through initiatives to drive profitable revenue growth, maximize cash flow and optimize our capital structure, including by selectively pursuing capital efficient vacation ownership deal structures, focus on the satisfaction of our owners and guests and the engagement of our associates, transform our business while integrating the recent acquisition of ILG, and selectively pursue compelling new business opportunities. We believe that we have significant competitive advantages, including our scale and global reach, the quality and strength of our brands, our system of high-quality resorts, our loyal and highly satisfied customer base, our capital efficient business model, our long-standing track record and our experienced management team and engaged associates.

The Vacation Ownership Industry

The vacation ownership industry (also known as the timeshare industry) enables customers to share ownership and use of fully-furnished vacation accommodations. Typically, a purchaser acquires an interest (known as a “vacation ownership interest” or a “VOI”) that is either a real estate ownership interest (known as a “timeshare estate”) or a contractual right-to-use interest (known as a “timeshare license”) in a single resort or a collection of resort properties. In the United States, most vacation ownership products are sold as timeshare estates, which can be structured in a variety of ways including, but not limited to, a deeded real estate interest in a specified accommodation unit, an undivided interest in a building or an entire resort, or a beneficial interest in a trust that owns one or more resort properties. By purchasing a vacation ownership interest, owners make a commitment to vacation. For many purchasers, vacation ownership provides an attractive alternative to traditional lodging accommodations (such as hotels, resorts and condominium rentals). In addition to avoiding the volatility in room rates to which traditional lodging customers are subject, vacation ownership purchasers also enjoy accommodations that are, on average, more than twice the size of traditional hotel rooms and typically have more features, such as kitchens and separate living areas. Purchasers who might otherwise buy a second home find vacation ownership a preferable alternative because it is more affordable and reduces maintenance and upkeep concerns.

Typically, developers sell vacation ownership interests for a fixed purchase price that is paid in full at closing or financed with a loan. Many vacation ownership companies provide financing or facilitate access to third-party bank financing for customers. Vacation ownership resorts are often operated by a nonprofit property owners’ association of which owners of vacation ownership interests are members. Most property owners’ associations are governed by a board of directors that includes owners and which may include representatives of the developer. Some vacation ownership resorts are held through a trust structure in which a trustee holds title and manages the property. The board of the property owners’ association, or trustee, as applicable, typically delegates much of the responsibility for managing the resort to a management company, which is often affiliated with the developer.

After the initial purchase, most vacation ownership programs require the owner of the vacation ownership interest to pay an annual maintenance fee. This fee represents the owner’s allocable share of the costs and expenses of operating and maintaining the vacation ownership property and providing program services. This fee typically covers expenses such as housekeeping, landscaping, taxes, insurance and resort labor, a property management fee payable to the management company for providing management services, and an assessment to fund a capital asset reserve account used to renovate, refurbish and replace furnishings, common areas and other assets (such as parking lots or roofs) as needed over time. Owners typically reserve their usage of vacation accommodations in advance through a reservation system (often provided by the management company or an affiliated entity), unless a vacation ownership interest specifies fixed usage dates and a particular unit every year.

The vacation ownership industry has grown through expansion of established vacation ownership developers as well as entrance into the market of well-known lodging and entertainment brands, including Marriott, Sheraton, Hilton, Hyatt, Westin and Disney. The industry’s growth can also be attributed to increased market acceptance of vacation ownership products, stronger consumer protection laws and the evolution of vacation ownership interests from a fixed- or floating-week product, which provides the right to use the same property every year, to membership in multi-resort vacation networks, which offer a more flexible vacation experience. These vacation networks often issue their members an annual allotment of points that can be redeemed for stays at affiliated vacation ownership resorts or for alternative vacation experiences available through the program.

To enhance the flexibility and appeal of their products, many vacation ownership developers affiliate their projects with vacation ownership exchange service providers so that owners may exchange their rights to use the developer’s resorts in which they have purchased an interest for accommodation at other resorts in the exchange service provider’s broader network of properties. The two leading exchange service providers are Interval International, our subsidiary, and RCI, LLC, a subsidiary of Wyndham Destinations, Inc. (“RCI”). Interval International’s network includes more than 3,200 resorts, and RCI’s network includes over 4,300 affiliated resorts, as identified on RCI’s website.

According to the American Resort Development Association (“ARDA”), a trade association representing the vacation ownership and resort development industries, as of December 31, 2017, the U.S. vacation ownership community was comprised of over 1,500 resorts, representing more than 200,000 units and an estimated 9.5 million vacation ownership week equivalents. According to ARDA, sales in the U.S. market were approximately \$9.6 billion in 2017. We believe there is considerable potential for further growth in the industry both in the U.S. and globally.

History

For more than 30 years, we have been providing memorable vacation experiences to millions of families. Prior to the incorporation of Marriott Vacations Worldwide Corporation in Delaware in June 2011, our operations were the vacation ownership division of Marriott International. Since our November 2011 spin-off from Marriott International (the “Marriott Spin-Off”), we have been an independent public company, with our common stock listed on the New York Stock Exchange under the symbol “VAC” and our corporate headquarters located in Orlando, Florida.

Since 1984, when Marriott International became the first major lodging company to enter the vacation ownership industry with its acquisition of American Resorts, a small vacation ownership company, we have been recognized as a leader and innovator in the vacation ownership industry. Marriott International leveraged its well-known “Marriott” brand to sell vacation ownership intervals, which were frequently located at resorts developed adjacent to Marriott International hotels. Over time, the company differentiated its offerings through its high-quality resorts that were purpose-built for vacation ownership, exchange opportunities available under its customer loyalty program, Marriott Bonvoy, that increased the flexibility of use of ownership, its dedication to excellent customer service and its commitment to ethical business practices. These qualities encouraged repeat business and word-of-mouth customer referrals.

In connection with the Marriott Spin-Off, we entered into a License, Services, and Development Agreement (the “Marriott License Agreement”) with Marriott International and a License, Services, and Development Agreement (the “Ritz-Carlton License Agreement”) with The Ritz-Carlton Hotel Company, L.L.C. (“The Ritz-Carlton Hotel Company”), a subsidiary of Marriott International. Under these license agreements, we are granted the exclusive right, for the terms of the license agreements, to use certain Marriott and Ritz-Carlton marks and intellectual property in our vacation ownership business, the exclusive right to use the Grand Residences by Marriott marks and intellectual property in our residential real estate business and the non-exclusive right to use certain Ritz-Carlton marks and intellectual property in our residential real estate business.

Under the Marriott Rewards Affiliation Agreement that we entered into with Marriott International (the “Marriott Rewards Agreement”), we participate in the customer loyalty program now known as Marriott Bonvoy; this participation includes the ability to purchase and use Marriott Bonvoy points in connection with our Marriott-branded vacation ownership business. The Marriott Rewards Agreement is coterminous with the Marriott License Agreement.

On September 1, 2018, we completed the previously announced acquisition of ILG, LLC (formerly known as ILG, Inc., “ILG”). ILG’s businesses included Aqua-Aston Hospitality, Hyatt Vacation Ownership (“HVO”), Interval International, Trading Places International, Vacation Resorts International, VRI Europe and Vistana Signature Experiences (“Vistana”), the exclusive licensee for the Sheraton and Westin brands in vacation ownership. Shareholders of ILG received 0.165 shares of our common stock, par value \$0.01 per share, and \$14.75 in cash, without interest, for each share of ILG common stock, par value \$0.01 per share, that they owned immediately before the transaction closed. We paid approximately \$4.6 billion in aggregate consideration.

ILG was incorporated in May 2008 in connection with the spin-off of IAC/InterActiveCorp, or IAC, into five separate publicly traded companies. The businesses operated by ILG’s subsidiaries have extensive operating histories. Our Interval International business was founded in 1976; the Aqua-Aston business traces its roots in lodging back 70 years; Trading Places International was founded in 1973 and Vacation Resorts International in 1981; the HVO business began in 1994 and Vistana was established in 1980.

Business Strategy

Our strategic goal is to further strengthen our leadership position in the vacation ownership industry. To achieve this goal, we are pursuing the following initiatives:

Drive profitable revenue growth

We intend to continue to generate growth in vacation ownership sales by leveraging our globally recognized brand names and targeting high-quality inventory that allows us to add desirable new destinations to our systems with new on-site sales locations. We expect to focus our efforts to generate growth through our integrated platform that provides exclusive access to the world-class loyalty programs of Marriott International and Hyatt. We will also continue to focus on our over 660,000 owners around the world. In 2018, approximately 65 percent of our vacation ownership contract sales were to our existing owners. We are concentrating on growing our tour flow cost effectively as we seek to grow first-time buyer tours through our strategy that emphasizes new sales locations and new marketing channels. As the vacation ownership business continues to grow sales and we add new resorts, our vacation ownership revenue streams from consumer financing, management fees, rentals and ancillary services are expected to grow.

We also plan to grow our recurring revenues which tend to be less capital intensive than sales of vacation ownership. Our recurring revenues include management of resorts and owners' associations as well as membership, club and other revenues in both our Vacation Ownership and Exchange & Third-Party Management segments. These revenues generally are more predictable due to the relatively fixed nature of resort operating expenses and, in the case of management and exchange revenues, contractual agreements that typically span many years and are often automatically renewable.

Maximize cash flow and optimize our capital structure, including by selectively pursuing capital efficient vacation ownership deal structures

Through the use of our points-based products, we are able to more closely match inventory investment with sales pace and reduce inventory levels, thereby generating strong cash flows over time. Limiting the amount of completed inventory on hand and pursuing capital efficient vacation ownership inventory arrangements enable us to reduce the maintenance fees that we pay on unsold inventory. In addition, we proactively buy back previously sold vacation ownership interests at lower costs than would be required to develop new inventory.

We expect to maintain an attractive leverage profile. We intend to meet our ongoing liquidity needs through cash on hand, operating cash flow, our \$600 million revolving credit facility (the "Revolving Corporate Credit Facility"), our \$250 million non-recourse warehouse credit facility (the "Warehouse Credit Facility"), and continued access to the asset-backed securities ("ABS") term financing market. We believe this will enable us to maintain a level of liquidity that ensures financial flexibility, giving us the ability to pursue strategic growth opportunities, withstand potential future economic downturns, optimize our cost of capital, and pursue strategies for returning excess capital to shareholders.

Focus on the satisfaction of our owners and guests as well as the engagement of our associates

We are in the business of providing high-quality vacation experiences to our owners and guests around the world and we believe that maintaining a high level of engagement across all of our customer groups is key to our success. We intend to maintain and improve their satisfaction with our products and services, which drives incremental sales as customers choose to spend more time at our resorts. Because our owners and guests are our most cost-effective vacation ownership sales channels, we intend to continue to leverage our strong customer satisfaction to drive higher margin sales volumes. We intend to provide innovative offerings in new destinations to meet the needs of current and future customers and intend to develop new offerings to attract the next generation of travelers looking for a greater variety of experiences with the high quality standards expected from brands they trust.

Engaging our associates in the success of our business continues to be one of our long-term core strategies. We understand the connection between the engagement of our associates and the satisfaction and engagement of our owners and guests. At the heart of our culture is the belief that if we take care of our associates, they will take care of our owners and guests and the owners and guests will return again and again.

Transform our business in connection with the integration of the ILG Acquisition

As we continue to integrate the businesses acquired in September 2018, we are simultaneously working to drive digitally-oriented solutions, develop new growth channels and streamline our business processes through technology. We are focused on integrating functions, leveraging strengths across our businesses, and pursuing transformational opportunities that can further differentiate us from our competitors. We intend to advance our company analytics to encourage greater points utilization, provide enhanced resort experiences, and create more relevant and high value targeted leads for tour offers and vacation options. This is a multi-year process that is designed to achieve cost savings synergies and increase revenue opportunities.

Selectively pursue compelling new business opportunities

We are positioned to explore new business opportunities, such as the continued enhancement of our exchange programs, new management affiliations and acquisitions of existing vacation ownership and related businesses. We intend to selectively pursue these types of opportunities, focusing on opportunities that drive recurring revenue and profit streams. Prior to entering into any new business opportunity, we will evaluate its strategic fit and assess whether it is complementary to our current business, has strong expected financial returns and complements our existing competencies.

Competitive Strengths

A leading global vacation ownership company

We are one of the world's largest vacation ownership companies, based on number of owners, members, number of resorts and revenues. We believe our scale and global reach, coupled with our renowned brands and development, marketing, sales, exchange and management expertise, help us achieve operational efficiencies and support future growth opportunities. Our size allows us to provide owners with the flexibility of a wide variety of experiences within our high-quality resort portfolio, coupled with the ease and certainty of working with a single trusted provider. We also believe our size helps us obtain better financing terms from lenders, achieve operational cost savings from our increased scale, and attract talented management and associates. Our Interval International network includes members and resorts from our Marriott, Westin, Sheraton and Hyatt clubs which can attract developers and homeowners associations to affiliate with the network and provide an opportunity for their owners to exchange into our branded resorts.

The breadth and depth of our operations enables us to offer a variety of products and to continue to adapt those products to the ever changing needs and preferences of our existing and future customers. For example, in addition to traditional resort experiences, our Marriott Vacation Club Pulse brand extension features unique properties that embrace the spirit and culture of their urban locations, creating an authentic sense of place while delivering easy access to local interests, attractions and transportation.

Premier global brands with access to expansive customer bases

We believe that our exclusive licenses with Marriott International and Hyatt for premier global brands in the vacation ownership business provide us with a meaningful competitive advantage. Marriott International is a leading lodging company with more than 6,900 hotels in 130 countries and territories as of December 31, 2018. In addition, Hyatt has over 800 affiliated hotels globally as of December 31, 2018. Through seven brands that we license from Marriott International for use in vacation ownership, we benefit from exclusive long-term access to the 120 million members in the Marriott Bonvoy loyalty program. We believe this exclusive access to guests with an affinity for our brands aids our marketing efforts and significantly enhances our ability to drive future sales, as we predominantly generate vacation ownership interest sales through brand loyalty-affiliated sales channels. We expect to leverage our exclusive call transfer arrangements, on-site marketing at Marriott branded hotels, and use of certain exclusive marketing rights to increase sales across all of our Marriott-affiliated vacation ownership properties.

Through our relationship with Hyatt, we also have the exclusive rights to develop, market and sell vacation ownership interests through the Hyatt Vacation Ownership programs, which provide access to members of the World of Hyatt loyalty program, which includes over 16 million members as of December 31, 2018.

Loyal, highly satisfied customers

We have a large, highly satisfied customer base. Owner satisfaction is evidenced both by positive survey responses and by the fact that our average resort occupancy for our Vacation Ownership segment was nearly 89 percent in 2018, significantly higher than the overall vacation ownership industry average of 81 percent in 2017, the most recent year for which average resort occupancy data was reported by ARDA. We believe that strong customer satisfaction and brand loyalty result in more frequent use of our products and encourage owners to purchase additional products and to recommend our products to friends and family, which in turn generates higher revenues.

Capital efficient business model providing strong free cash flow and financial flexibility.

We believe that our scale, recurring revenue fee streams and enhanced margin profile will enable us to maintain flexibility for continued organic growth, strategic acquisitions and debt repayment. Following the ILG Acquisition, a higher proportion of our total revenue excluding cost reimbursements derives from sources other than the sale of vacation ownership interests. The addition of our Exchange & Third-Party Management businesses creates ample opportunities to realize recurring higher-margin, fee-based revenue streams with modest required capital expenditures, enhancing our margins and free cash flow generation over time.

In addition, as of December 31, 2018, we had a finished vacation ownership inventory balance of \$843 million. Our points-based vacation ownership products allow us to utilize capital efficient structures and maintain long-term sales locations without the need to construct additional units at each location. We are able to better manage our inventory needs, while achieving top line growth without a need to significantly increase inventory investments. Our disciplined inventory approach and use of capital efficient vacation ownership deal structures, including working with third parties that develop new inventory or convert previously built units that are sold to us close to when such inventory is needed to support sales, is expected to support strong free cash flow generation.

Long-standing track record, experienced management and engaged associates

We have been a pioneer in the vacation ownership industry since 1984, when Marriott International became the first company to introduce a lodging-branded vacation ownership product. Our seasoned management team is led by Stephen P. Weisz, our President and Chief Executive Officer. Mr. Weisz has served as President of our company since 1996 and has over 45 years of combined experience at Marriott International and Marriott Vacations Worldwide. William J. Shaw, the Chairman of our Board of Directors, is the former Vice Chairman, President and Chief Operating Officer of Marriott International and spent nearly 37 years with Marriott International. Our eleven executive officers have an average of 28 years of total combined experience at Marriott Vacations Worldwide, our subsidiary companies and Marriott International. We believe our management team's extensive public company and vacation ownership industry experience has enabled us to achieve solid operating results and will enable us to continue to respond quickly and effectively to changing market conditions and consumer trends. Our management's experience in the highly regulated vacation ownership industry also provides us with a competitive advantage in expanding existing product forms and developing new ones.

Engaged associates delivering high levels of customer service driving repeat customers

We believe that our associates provide superior customer service and this dedication to serving the customer enhances our competitive position. Approximately 65 percent of our vacation ownership contract sales in 2018 were to existing owners, which enabled them to enjoy longer stays and have greater flexibility in their vacation choices. Sales to existing owners typically have significantly lower sales and marketing costs than sales to new owners. We leverage outstanding associate engagement and strong corporate culture to deliver positive customer experiences in sales, marketing, exchange, management and resort operations.

We survey our associates regularly through an external survey provider to understand their satisfaction and engagement, defined as how passionate employees are about the company's mission and their willingness to "go the extra mile" to see it succeed. We have historically ranked highly compared to other companies participating in such surveys.

VACATION OWNERSHIP SEGMENT

Our Vacation Ownership segment develops, markets, sells, rents and manages vacation ownership and related products under our licensed brands. The segment generates most of its revenues from four primary sources: selling vacation ownership products; managing vacation ownership resorts, clubs and owners' associations; financing consumer purchases of vacation ownership products; and renting vacation ownership inventory. The Vacation Ownership segment represented approximately 94 percent of our consolidated revenue for the fiscal year ended December 31, 2018, reflecting the September 2018 acquisition of ILG.

<i>(\$ in millions)</i>	2018	% of Consolidated
	Vacation Ownership	MVW Revenue Line
	Segment Revenues	
Sale of vacation ownership products	\$ 990	100%
Resort management and other services	359	72%
Rental	352	95%
Financing	182	99%
Cost reimbursements	920	99%
TOTAL REVENUES	\$ 2,803	94%

Brands

We primarily design, build, manage and maintain our properties at upper upscale and luxury levels under these brands in accordance with the applicable brand standards with which we must comply under our license agreements.

Our vacation ownership resorts typically combine many of the comforts of home, such as spacious accommodations with one, two and three bedroom options, living and dining areas, in-unit kitchens and laundry facilities, with resort amenities such as large feature swimming pools, restaurants and bars, convenience stores, fitness facilities and spas, as well as sports and recreation facilities appropriate for each resort's unique location.

The **Marriott Vacation Club** is a collection of upper upscale vacation ownership programs with a diverse portfolio of 60 resorts and more than 13,000 timeshare villas and other accommodations throughout the U.S., Caribbean, Europe, Asia, and Australia. Marriott Vacation Club provides owners and their families with the flexibility to enjoy a wide variety of vacation experiences that are characterized by the consistent high quality and warm hospitality for which the Marriott name has become known. Marriott Vacation Club Pulse, a brand extension of Marriott Vacation Club, offers properties in the heart of vibrant cities, including Boston, San Diego, New York City, South Beach and Washington, D.C. Because of their urban locations, Marriott Vacation Club Pulse properties typically offer limited on-site amenities and may include smaller guest rooms without separate living areas and kitchens.

Sheraton Vacation Club provides enriching and unexpected vacation experiences in fun family destinations like Florida, South Carolina and Colorado. This collection of 9 Sheraton-branded upper upscale vacation ownership resorts, with over 3,000 units, allows owners and guests to relax, play and experience what the world has to offer. Sheraton Vacation Club resorts are part of the Vistana Signature Network.

Westin Vacation Club is a collection of 12 Westin-branded upper upscale vacation ownership resorts, with over 2,000 units, located in some of the most sought-after destinations and designed with well-being in mind. From the world-renowned Heavenly Bed to an energizing WestinWORKOUT and revitalizing Heavenly Spa treatments, every element of a vacation stay is created to leave owners and guests feeling better than when they arrived. Westin Vacation Club resorts are part of the Vistana Signature Network.

Grand Residences by Marriott provides vacation ownership through fractional real estate and whole ownership offerings. Grand Residences by Marriott is dedicated to providing carefree property ownership. The accommodations for this brand are similar to those we offer under the Marriott Vacation Club brand, but the duration of the vacation ownership interest is longer, ranging between three and thirteen weeks.

The Ritz-Carlton Destination Club is a vacation ownership program that provides luxurious vacation experiences for members and their families commensurate with the legacy of The Ritz-Carlton brand. The Ritz-Carlton Destination Club resorts include luxury villas and resort amenities that offer inspirational vacation lifestyles tailored to every member's needs and expectations. The Ritz-Carlton Destination Club resorts typically feature two, three and four bedroom units that typically include marble foyers, walk-in closets, custom kitchen cabinetry and luxury resort amenities such as large feature swimming pools and access to full service restaurants and bars. On-site management and services, which usually include daily housekeeping service, valet, in-residence dining, and access to fitness facilities as well as spa and sports facilities as appropriate for each destination, are provided by The Ritz-Carlton Hotel Company.

The Ritz-Carlton Residences is a luxury tier whole ownership residence brand. The Ritz-Carlton Residences includes whole ownership luxury residential condominiums co-located with The Ritz-Carlton Destination Club resorts. Owners can typically purchase condominiums that vary in size from one-bedroom apartments to spacious penthouses. Owners of The Ritz-Carlton Residences can avail themselves of the services and facilities that are associated with the co-located The Ritz-Carlton Destination Club resort on an a la carte basis. On-site management and services are provided by The Ritz-Carlton Hotel Company.

St. Regis Residence Club offers luxury fractional real estate and distinctive privileges to members who embrace the art of living in unforgettable destinations. For connoisseurs who desire the finest in luxury living, magnificent residences exude the timeless grandeur and glamour synonymous with the illustrious past of the St. Regis brand.

Hyatt Residence Club is a vacation ownership program that provides flexible access to global travel experiences through a diverse portfolio of boutique upper upscale residential-style retreats. Set in unique destinations from Maui, Carmel and Aspen to Sedona, San Antonio and Key West, Hyatt Residence Club resorts deliver genuine Hyatt care. Our Hyatt Residence Club portfolio includes 16 resorts and over 1,000 units.

Products

Points-Based Vacation Ownership Products

We sell the majority of our products through points-based ownership programs, including Marriott Vacation Club, Sheraton Flex, Westin Flex, Westin Aventuras, and the Hyatt Residence Club Portfolio Program. While the structural characteristics of each of our points-based programs differ, in each program, owners receive an annual allotment of points representing owners' usage rights, and owners can use these points to access vacation ownership units across multiple destinations within their program's portfolio of resort locations. Each program permits shorter or longer stays than a traditional weeks-based vacation ownership product and provides for flexibility with respect to check-in days and size of accommodations. In addition to traditional resort stays, the programs enable our owners to exchange their points for a wide variety of innovative vacation experiences, which may include cruises, airline travel, guided tours, safaris and other unique vacation alternatives. Members of our points-based programs typically pay annual fees in exchange for the ability to participate in the program. In

addition to points-based ownership programs which allow owners to access multiple destinations within a single program, we offer points programs at certain resorts in St. John and Hawaii which allow owners to access that particular single site using points in a similar use fashion to the other points based products.

Our points programs allow owners to bank and borrow their annual point allotments, access other locations through the applicable internal exchange programs that we operate, and access Interval International's network of more than 3,200 affiliated resorts. Owners can also trade their vacation ownership usage rights for Marriott Bonvoy points or World of Hyatt points, as applicable, which can be used to access participating hotels or redeemed for airline miles or other merchandise offered through such customer loyalty program. Our points-based products offer usage in perpetuity or for a term of years, and may consist of real estate interests or a contractual right-to-use.

Weeks-Based Vacation Ownership Products

We continue to sell Marriott Vacation Club, Westin, Sheraton and Hyatt branded weeks-based vacation ownership products in select markets, including in countries where legal and tax constraints currently limit our ability to include those locations in one of our existing points-based programs. Our products include multi-week vacation ownership interests in specific Grand Residences by Marriott, St. Regis Residence Club, The Luxury Collection Residence Club, and The Ritz-Carlton Destination Club resorts. Our weeks-based vacation ownership products in the United States and select Caribbean locations are typically sold as fee simple deeded real estate interests at a specific resort representing an ownership interest in perpetuity, except where restricted by leasehold or other structural limitations. We sell vacation ownership interests as a right-to-use product subject to a finite term in Asia Pacific and Europe.

Global Exchange Opportunities

We offer our existing Marriott Vacation Club owners who hold weeks-based products the opportunity to participate, on a voluntary basis, in Marriott Vacation Club Destinations ("MVCD"), an exchange program through which many of MVCD's vacation experiences are offered. All existing owners, whether or not they elect to participate in the MVCD exchange program, retain their existing rights and privileges of vacation ownership. Owners who elect to participate in the exchange program receive the ability to trade their weeks-based interval usage for vacation club points usage each year, typically subject to payment of an initial enrollment fee and annual club dues. As of the end of 2018, approximately 182,000 weeks-based owners have enrolled nearly 290,000 weeks in MVCD's exchange program since its launch in 2010, with more than 222,000 total owners able to use points.

The Vistana Signature Network ("VSN") provides Westin Vacation Club and Sheraton Vacation Club owners access to its affiliated resorts as well as the opportunity to exchange through the new Marriott Bonvoy program (previously the Starwood Preferred Guest or SPG program) to Marriott resorts, through the Interval International network or for a cruise. Based on the point value of the home resort interest owned, customers can choose other VSN affiliated resorts, the type of villa, the date of travel and the length of stay. VSN members have a four-month period in which they have exclusive rights to occupancy at the related resort or points program without competition from other network members. During this home resort period, they can reserve occupancy based on the season and unit type purchased. As of December 31, 2018, VSN included more than 182,000 members.

Hyatt Residence Club provides its owners internal exchange among Hyatt Residence Club resorts as well as the opportunity to trade their club points for World of Hyatt points which may be redeemed at participating Hyatt branded properties and exchanged through the Interval International network. Owners will receive Hyatt Residence Club points if they have not reserved at their home resort or points program during their allotted preference period or if they elect to convert to points earlier. As of December 31, 2018, this points-based membership exchange system served more than 33,000 owners.

Sources of Revenue

We generate most of our revenues from four primary sources: selling vacation ownership products; managing vacation ownership resorts, clubs and owners' associations; financing consumer purchases of vacation ownership products; and renting vacation ownership inventory.

Sale of Vacation Ownership Products

Our principal source of revenue is the sale of vacation ownership interests. See "—Marketing and Sales Activities" below for information regarding our marketing and sales activities.

Resort Management and Other Services

We generate revenue from fees we earn for managing each of our resorts. See “—Management Activities” below for additional information on the terms of our management agreements. In addition, we earn revenue for providing ancillary offerings, including food and beverage, retail, and golf and spa offerings at our resorts. We also receive annual fees, club dues, settlement fees from the sale of vacation ownership products, and certain transaction-based fees from owners and other third parties, including external exchange service providers with which we are associated.

Financing

We earn interest income on loans that we provide to purchasers of our vacation ownership interests, as well as loan servicing and other fees. See “—Consumer Financing” below for further information regarding our consumer financing activities.

Rental

We generate revenue from rentals of inventory that we hold for sale as interests in our vacation ownership programs or as residences, or inventory that we control because our owners have elected alternative usage options permitted under our vacation ownership programs.

Marketing and Sales Activities

We sell our upper upscale tier vacation ownership products under our brands primarily through our worldwide network of resort-based sales centers and certain off-site sales locations. Our vacation ownership interests are currently marketed for sale throughout the United States and in over 25 countries around the world, targeting customers who vacation regularly with a focus on family, relaxation and recreational activities. In 2018, approximately 90 percent of our vacation ownership contract sales originated at sales centers that are co-located with one of our resorts. We maintain a range of different off-site sales centers, including our central telesales organization based in Orlando and our network of third-party brokers in Latin America and Europe. We have more than 80 global sales locations focused on the sale of vacation ownership interests. We utilize a number of marketing channels to attract qualified customers to our sales locations.

We solicit our owners primarily while they are staying in our resorts, but also offer our owners the opportunity to make additional purchases through direct phone sales, owner events and inquiries from our central customer service centers located in Salt Lake City, Utah, Orlando, Florida, and Palm Springs, California. In 2018, approximately 65 percent of our vacation ownership contract sales were to our existing owners. In addition, we are concentrating on growing our tour flow cost effectively as we seek to generate more first-time buyer tours through our strategy that emphasizes adding new sales locations and new marketing channels.

We also market to existing Marriott and Hyatt customer loyalty program members and travelers who are staying in locations where we have like-branded resorts. We market extensively to guests in Marriott International or Hyatt hotels that are located near one of our sales locations and have call transfer arrangements with Marriott International pursuant to which callers to certain of its reservation centers are asked if they would like to be transferred to one of our representatives that can tell them about our products. In addition, we operate other local marketing venues in various high-traffic areas. A significant part of our direct marketing activities are focused on prospects in the Marriott and Hyatt customer loyalty program databases and our in-house databases of qualified prospects. We offer guests who do not buy a vacation ownership interest during their initial tour the opportunity to purchase a return package for a future stay at our resorts. These return guests are nearly twice as likely to purchase as a first-time visitor.

We are also focused on expanding our use of social media and digital marketing channels through our brand and social optimization business unit. This team will focus on building stronger brand reputation associations within the vacation community via social channel audience growth, personalized community engagement, and data driven content marketing.

Our sales tours are designed to provide our guests with an overview of our company and our products, as well as a customized presentation to explain how our products and services can meet their vacationing needs. Our sales force is highly trained in a consultative sales approach designed to ensure that we meet customers’ needs on an individual basis. We hire our sales executives based on stringent selection criteria. After they are hired, they spend a minimum of four weeks in product and sales training before interacting with any customers. We manage our sales executives’ consistency of presentation and professionalism using a variety of sales tools and technology and through a post-presentation survey of our guests that measures many aspects of each guest’s interaction with us.

We believe consumers place a great deal of trust in the Marriott, Westin, Sheraton, Hyatt and Ritz-Carlton brands and the strength of these brands is important to our ability to attract qualified prospects in the marketplace. We maintain a prominent presence on the www.marriott.com, www.ritzcarlton.com and www.hyatt.com websites. Our proprietary sites include www.marriottvacationsworldwide.com, www.marriottvacationclub.com, www.ritzcarltonclub.com, www.vistana.com, www.hyattresidenceclub.com, and www.theresidenceclub.com.

Inventory and Development Activities

We secure inventory by building additional phases at our existing resorts, repurchasing previously sold inventory in the secondary market, repurchasing inventory as a result of owner loan or maintenance fee defaults, or developing or acquiring inventory at resorts in strategic markets. We proactively buy back previously sold vacation ownership interests under our repurchase programs at lower costs than would be required to develop new inventory. Efficient use of our capital is achieved through our points-based business model, which allows us to supply many sales locations with new inventory sourced from a small number of resort locations.

We intend to continue to selectively pursue growth opportunities primarily in North America and Asia Pacific by targeting high-quality inventory that allows us to add desirable new destinations to our system with new on-site sales locations in ways that optimize the timing of our capital investments. These capital efficient vacation ownership deal structures may include working with third parties to develop new inventory or to convert previously built units to be sold to us close to when we need such inventory.

Over a quarter of our vacation ownership resorts are co-located with same-branded hotel properties. Co-location of our resorts with same-branded hotels can provide several advantages from development, operations, customer experience and marketing perspectives, including sharing amenities, infrastructure and staff, integration of services, and other cost efficiencies. The larger campus of an integrated vacation ownership and hotel resort often can afford our owners more varied and elaborate amenities than those that would generally be available at a stand-alone resort. Shared infrastructure can also reduce our overall development costs for our resorts on a per unit basis. Integration of services and sharing staff and other expenses can lower overhead and operating costs for our resorts. Our on-site access to hotel customers, including customer loyalty program members, who are visiting co-located hotels also provides us with a cost-effective marketing channel for our vacation ownership products.

Co-located resorts require cooperation and coordination among all parties and are subject to cost sharing and integration agreements among us, the applicable property owners' association and managers and owners of the co-located hotel. Our license agreements with Marriott International, Hyatt and Ritz-Carlton allow for the development of co-located properties in the future, and we intend to opportunistically pursue co-located projects with them.

Owners generally can offer their vacation ownership interests for resale on the secondary market, which can create pricing pressure on the sale of developer inventory. However, owners who purchase vacation ownership interests on the secondary market typically do not receive all of the benefits that owners who purchase products directly from us receive. When an owner purchases a vacation ownership interest directly from us or a resale on the secondary market, the owner receives certain entitlements that are tied to the underlying vacation ownership interest, such as the right to reserve a resort unit that underlies their vacation ownership interest in order to occupy that unit or exchange its use for use of a unit at another resort through an external exchange service provider, as well as benefits that are incidental to the purchase of the vacation ownership interest. However the purchaser on the secondary market may not be entitled to receive certain incidental benefits. For example, owners who purchase our products on the secondary market may have restricted access to our internal exchange programs and may not be entitled to trade their usage rights for Marriott Bonvoy points. Therefore, those owners may only be entitled to use the inventory that underlies the vacation ownership interests they purchased. Additionally, many of our vacation ownership interests provide us with a right of first refusal on secondary market sales. We monitor sales that occur in the secondary market and exercise our right of first refusal when it is advantageous for us to do so, whether due to pricing, desire for the particular inventory, or other factors. All owners, whether they purchase directly from us or on the secondary market, are responsible for the annual maintenance fees, property taxes and any assessments that are levied by the relevant property owners' association, as well as any exchange service membership dues or service fees.

Management Activities

We enter into a management agreement with the property owners' association or other governing body at our resorts and, when a trust holds interests in resorts, with the trust's governing body. In exchange for a management fee, we typically provide owner account management (reservations and usage selection), housekeeping, check-in, maintenance and billing and collections services. The management fee is typically based on either a percentage of the budgeted costs to operate such resorts or a fixed fee arrangement. We earn these fees regardless of usage or occupancy. We also receive revenues that represent reimbursement for certain costs we incur under our management agreements, principally payroll-related costs at the locations where we employ the associates providing on-site services.

The terms of our management agreements generally range from three to ten years and are generally subject to periodic renewal for one to five year terms. Many of these agreements renew automatically unless either party provides advance notice of termination before the expiration of the term. When our management agreement for a branded resort is not renewed or is terminated, the resort loses the ability to use the brand and trademarks. The owners at such resorts also lose their ability to trade their vacation ownership usage rights for customer loyalty points and to access other resorts through one of our internal exchange systems.

The Ritz-Carlton Hotel Company manages the on-site operations for The Ritz-Carlton Destination Club and The Ritz-Carlton Residences properties in our portfolio under separate management agreements with us. We provide property owners' association governance and vacation ownership program management services for The Ritz-Carlton Destination Club and co-located The Ritz-Carlton Residences properties, including preparing association budgets, facilitating association meetings, billing and collecting maintenance fees, and supporting reservations, vacation experience planning and other off-site member services. We and The Ritz-Carlton Hotel Company typically split the management fees equally for these resorts. If a management agreement for a resort expires or is terminated, the resort loses the ability to use the Ritz-Carlton name and trademarks. The owners at such resorts also lose their ability to access other usage benefits, such as access to accommodations at other The Ritz-Carlton Destination Club resorts, preferential access to Ritz-Carlton hotels worldwide and access to our internal exchange and vacation travel options.

Each management agreement requires the property owners' association, trust association or other governing body to provide sufficient funds to pay for the vacation ownership program and operating costs. To satisfy this requirement, owners of vacation ownership interests pay an annual maintenance fee. This fee represents the owner's allocable share of the costs of operating and maintaining the resorts or interests in the timeshare plan in which they hold a vacation ownership interest, including management fees and expenses, taxes (in some locations), insurance, and other related costs, and the costs of providing program services (such as reservation services). This fee includes a management fee payable to us for providing management services as well as an assessment for funds to be deposited into a capital asset reserve fund and used to renovate, refurbish and replace furnishings, common areas and other resort assets (such as parking lots or roofs) as needed over time. As the owner of completed but unsold vacation ownership inventory, we also pay maintenance fees in accordance with the legal requirements of the jurisdictions applicable to such resorts and programs. In addition, in early phases of development at a resort, we sometimes enter into subsidy agreements with the property owners' associations under which we agree to pay costs that otherwise would be covered by annual maintenance fees associated with vacation ownership interests or units that have not yet been built. These subsidy arrangements help keep maintenance fees at a reasonable level for owners who purchase in the early stages of development.

In the event of a default by an owner in payment of maintenance fees or other assessments, the property owners' association typically has the right to foreclose on or revoke the defaulting owner's vacation ownership interest. We have entered into arrangements with several property owners' associations to assist in reselling foreclosed or revoked vacation ownership interests in exchange for a fee, or to reacquire such foreclosed or revoked vacation ownership interests from the property owners' associations.

Consumer Financing

We offer purchase money financing for purchasers of our vacation ownership products who meet our underwriting guidelines. By offering or eliminating financing incentives and modifying underwriting standards, we have been able to increase or decrease the volume of our financing activities depending on market conditions. We are not providing financing to buyers of our residential products.

In 2018, approximately 62 percent of our North America customers financed their vacation ownership purchase with us. The average loan for these vacation ownership products totaled approximately \$26,600, which represented 82 percent of the average purchase price. Our policy is to require a minimum down payment of 10 percent of the purchase price, although down payments and interest rates are typically higher for applicants with credit scores below certain levels and for purchasers who do not have credit scores, such as non-U.S. purchasers. The average interest rate for these originated loans in 2018 was 12.74 percent and the average term was 10.5 years. Interest rates are fixed and a loan fully amortizes over the life of the loan. The average monthly mortgage payment for an owner who received a loan in 2018 was \$405. We do not impose any prepayment penalties.

In 2018, approximately 93 percent of our loans were used to finance U.S.-based products. In our North America business, we perform a credit investigation or other review or inquiry to determine the purchaser’s credit history before originating a loan. The interest rates on the loans we provide are based primarily upon the purchaser’s credit score, the size of the purchase, and the term of the loan. We base our financing terms largely on a purchaser’s FICO score, which is a branded version of a consumer credit score widely used in the United States by banks and lending institutions. FICO scores range from 300 to 850 and are calculated based on information obtained from one or more of the three major U.S. credit reporting agencies that compile and report on a consumer’s credit history. In 2018, the average FICO score of our customers who were U.S. citizens or residents who financed a vacation ownership purchase was 738; 74 percent had a credit score of over 700, 90 percent had a credit score of over 650 and 98 percent had a credit score of over 600.

We use other information to determine minimum down payments and interest rates applicable to loans made to purchasers who do not have a credit score or who do not reside within the United States, such as regional historical default rates and currency fluctuation risk.

In the event of a default, we generally have the right to foreclose on or revoke the defaulting owner’s vacation ownership interest. We typically resell interests that we reacquire through foreclosure or revocation or place such interests into one of our points-based programs.

We securitize the majority of the consumer loans we originate in support of our vacation ownership business. Historically, we have sold these loans to institutional investors in the ABS market on a non-recourse basis, completing securitization transactions once or twice each year. These vacation ownership notes receivable securitizations provide funding for us at interest rates similar to those available to companies with investment grade credit ratings, and transfer the economic risks and substantially all the benefits of the consumer loans we originate to third parties. In a vacation ownership notes receivable securitization, various classes of debt securities issued by a special purpose entity are generally collateralized by a single tranche of transferred assets, which consist of vacation ownership notes receivable. During 2018, we completed one securitization transaction, which is discussed in detail in Footnote 13 “Securitized Debt” to our Financial Statements. On an ongoing basis, we have the ability to use our Warehouse Credit Facility to securitize eligible consumer loans derived from certain branded vacation ownership sales. Those loans may later be transferred to term securitization transactions in the ABS market, which we intend to continue to complete at least once per year. Since 2000, we have issued over \$5.5 billion of debt securities in securitization transactions in the ABS market, excluding amounts securitized through warehouse credit facilities or private bank transactions. We retain the servicing and collection responsibilities for the loans we securitize, for which we receive a servicing fee.

Our Resorts

As of December 31, 2018, our portfolio consisted of more than 100 properties with over 20,000 vacation ownership villas (“units”). The following tables describe our resorts as of December 31, 2018. “Units Built” represents units with a certificate of occupancy that have been constructed or converted under one of our brands and “Additional Potential Units” represents units that are being constructed or converted under one of our brands or that we may potentially construct or convert in the future.

Property	Location	Units Built	Additional Potential Units
<i>Vacation Ownership Resorts</i>			
Marriott’s Canyon Villas	Phoenix, AZ	213	39
Marriott’s Timber Lodge	Lake Tahoe, CA	264	—
Marriott’s Newport Coast Villas	Newport Beach, CA	699	—
Marriott’s Desert Springs Villas	Palm Desert, CA	236	—
Marriott’s Desert Springs Villas II	Palm Desert, CA	402	—
Marriott’s Shadow Ridge	Palm Desert, CA	569	430
Marriott’s Mountain Valley Lodge	Breckenridge, CO	78	—

Property	Location	Units Built	Additional Potential Units
Marriott's StreamSide	Vail, CO	96	—
Marriott's BeachPlace Towers	Fort Lauderdale, FL	206	—
Marriott's Crystal Shores	Marco Island, FL	219	—
Marriott's Villas at Doral	Miami, FL	141	—
Marriott's Cypress Harbour	Orlando, FL	510	—
Marriott's Grande Vista	Orlando, FL	900	—
Marriott's Harbour Lake	Orlando, FL	312	588
Marriott's Imperial Palms	Orlando, FL	46	—
Marriott's Lakeshore Reserve	Orlando, FL	85	254
Marriott's Royal Palms	Orlando, FL	123	—
Marriott's Sabal Palms	Orlando, FL	80	—
Marriott's Ocean Pointe	Palm Beach Shores, FL	341	—
Marriott's Legends Edge at Bay Point	Panama City Beach, FL	83	—
Marriott's Oceana Palms	Singer Island, FL	159	—
Marriott's Kauai Beach Club	Kauai, HI	232	—
Marriott's Kauai Lagoons - Kalanipu'u	Kauai, HI	75	—
Marriott's Waiohai Beach Club	Kauai, HI	230	—
Marriott's Maui Ocean Club	Maui, HI	458	—
Marriott's Ko Olina Beach Club	Oahu, HI	546	202
Marriott's Waikoloa Ocean Club	Waikoloa, HI	112	—
Marriott's Willow Ridge Lodge	Branson, MO	132	282
Marriott's Grand Chateau	Las Vegas, NV	656	224
Marriott's Fairway Villas	Absecon, NJ	180	90
Marriott's Barony Beach Club	Hilton Head, SC	255	—
Marriott's Grande Ocean	Hilton Head, SC	290	—
Marriott's Harbour Club	Hilton Head, SC	40	—
Marriott's Harbour Point	Hilton Head, SC	86	—
Marriott's Heritage Club	Hilton Head, SC	30	—
Marriott's Monarch	Hilton Head, SC	122	—
Marriott's Sunset Pointe	Hilton Head, SC	25	—
Marriott's SurfWatch	Hilton Head, SC	195	—
Marriott's OceanWatch Villas at Grande Dunes	Myrtle Beach, SC	361	—
Marriott's MountainSide	Park City, UT	182	—
Marriott's Summit Watch	Park City, UT	135	—
Marriott's Manor Club at Ford's Colony	Williamsburg, VA	200	—
Marriott's Aruba Ocean Club	Aruba	218	—
Marriott's Aruba Surf Club	Aruba	450	—
Marriott's Frenchman's Cove	St. Thomas, USVI	155	65
Marriott's St. Kitts Beach Club	West Indies	88	—
Marriott's Village d'Ile-de-France	Paris, France	185	—
Marriott's Playa Andaluza	Estepona, Spain	173	—
Marriott's Club Son Antem	Mallorca, Spain	224	—
Marriott's Marbella Beach Resort	Marbella, Spain	288	—
Marriott Vacation Club at Surfers Paradise	Surfers Paradise, Australia	88	—
Marriott's Bali Nusa Dua Gardens	Bali, Indonesia	51	—
Marriott Vacation Club at The Empire Place	Bangkok, Thailand	55	—
Marriott's Mai Khao Beach - Phuket	Phuket, Thailand	133	—

Property	Location	Units Built	Additional Potential Units
Marriott's Phuket Beach Club	Phuket, Thailand	144	—
Marriott Vacation Club Pulse, San Diego	San Diego, CA	264	—
Marriott Vacation Club Pulse at The Mayflower, Washington, D.C.	Washington, D.C.	71	—
Marriott Vacation Club Pulse, South Beach	Miami Beach, FL	47	—
Marriott Vacation Club Pulse at Custom House, Boston	Boston, MA	84	—
Marriott Vacation Club Pulse, New York City ⁽¹⁾	New York, NY	177	—
The Ritz-Carlton Club, Lake Tahoe	Lake Tahoe, CA	11	—
The Ritz-Carlton Club & Residences, San Francisco	San Francisco, CA	25	—
The Ritz-Carlton Club, Aspen Highlands	Aspen, CO	73	—
The Ritz-Carlton Club, Vail	Vail, CO	45	—
The Ritz-Carlton Club, St. Thomas	St. Thomas, USVI	105	—
Marriott Grand Residence Club, Lake Tahoe	Lake Tahoe, CA	199	—
47 Park Street - Grand Residences by Marriott	London, UK	49	—
Hyatt Residence Club Sedona, Pinon Pointe	Sedona, AZ	109	—
Hyatt Residence Club Carmel, Highlands Inn	Carmel, CA	94	—
Hyatt Residence Club Lake Tahoe, Northstar Lodge	Truckee, CA	2	—
Hyatt Residence Club Aspen	Aspen, CO	51	—
Hyatt Residence Club at Park Hyatt Beaver Creek	Avon, CO	15	—
Hyatt Residence Club Beaver Creek, Mountain Lodge	Avon, CO	50	—
Hyatt Residence Club Breckenridge, Main Street Station	Breckenridge, CO	51	—
Hyatt Residence Club Bonita Springs, Coconut Plantation	Bonita Springs, FL	96	243
Hyatt Residence Club Key West, Beach House	Key West, FL	74	—
Hyatt Residence Club Key West, Sunset Harbor	Key West, FL	40	—
Hyatt Residence Club, Windward Pointe	Key West, FL	93	—
Hyatt Residence Club Sarasota, Siesta Key Beach	Siesta Key, FL	11	—
Hyatt Residence Club Maui, Ka'anapali Beach ⁽²⁾	Maui, HI	131	—
Hyatt Residence Club Lake Tahoe, High Sierra Lodge	Incline Village, NV	60	—
Hyatt Residence Club Dorado, Hacienda Del Mar ⁽³⁾	Dorado, PR	81	—
Hyatt Residence Club San Antonio, Wild Oak Ranch	San Antonio, TX	120	168
The Westin Kierland Villas	Scottsdale, AZ	149	—
The Westin Desert Willow Villas, Palm Desert	Palm Desert, CA	220	80
The Westin Mission Hills Resort Villas	Rancho Mirage, CA	158	—
The Westin Riverfront Mountain Villas	Vail Valley, CO	34	—
The Westin Princeville Ocean Resort Villas	Kauai, HI	173	—
The Westin Ka'anapali Ocean Resort Villas	Maui, HI	280	—
The Westin Ka'anapali Ocean Resort Villas North	Maui, HI	258	—
The Westin Nanea Ocean Villas	Maui, HI	390	—
The Westin St. John Resort Villas	St. John, USVI	252	—
The Westin Lagunamar Ocean Resort Villas & Spa	Cancun, Mexico	290	—
The Westin Resort & Spa, Cancun ⁽⁴⁾	Cancun, Mexico	44	204
The Westin Los Cabos Resort Villas & Spa	Los Cabos, Mexico	179	—
Sheraton Desert Oasis Villas	Scottsdale, AZ	150	—
Sheraton Steamboat Resort	Steamboat Springs, CO	165	—
Sheraton Lakeside Terrace Villas at Mountain Vista	Vail Valley, CO	23	—
Sheraton Mountain Vista	Vail Valley, CO	78	—
Sheraton Vistana Resort	Orlando, FL	1,566	—
Sheraton Vistana Villages	Orlando, FL	892	734

Property	Location	Units Built	Additional Potential Units
Sheraton PGA Vacation Resort	Port St. Lucie, FL	30	—
Sheraton Kauai Resort ⁽⁵⁾	Kauai, HI	66	60
Sheraton Broadway Plantation	Myrtle Beach, SC	342	160
The St. Regis Residence Club, Aspen	Aspen, CO	25	—
The St. Regis Residence Club, New York	New York, NY	31	—
The Phoenician Residences, The Luxury Collection Residence Club	Scottsdale, AZ	6	—
Vistana's Beach Club	Jensen Beach, FL	76	—
Harborside Resort at Atlantis ⁽²⁾	Nassau, Bahamas	198	—
		20,859	3,823

Residential

The Ritz-Carlton Club & Residences, San Francisco	San Francisco, CA	57	—
Grand Residences by Marriott - Kauai Lagoons	Kauai, HI	3	—
		60	—

- (1) During 2016, we entered into a commitment to purchase an operating property located in New York, New York, and subsequently assumed management of this property. We expect to acquire the units in this property, in their current form, over time. See Footnote 11 "Contingencies and Commitments" to our Financial Statements for additional information regarding this transaction.
- (2) Unconsolidated joint venture.
- (3) Currently closed due to hurricane damage from September 2017.
- (4) Includes 204 additional potential vacation ownership units upon conversion of the 325 hotel rooms shown in the table below.
- (5) Includes 60 additional potential vacation ownership units upon conversion of 86 of the 312 hotel rooms shown in the table below.

Property	Location	Hotel Rooms
Hotels		
The Westin Resort & Spa, Cancun	Cancun, Mexico	325
The Westin Resort & Spa, Puerto Vallarta ⁽¹⁾	Puerto Vallarta, Mexico	280
Hyatt Highlands Inn	Carmel, CA	48
Sheraton Kauai Resort	Kauai, HI	312
Pier 2620 Hotel Fisherman's Wharf ⁽²⁾	San Francisco, CA	233
		1,198

- (1) May potentially be converted into 139 vacation ownership units.
- (2) Expected to be rebranded into Marriott Vacation Club Pulse, San Francisco and converted into 233 vacation ownership units.

EXCHANGE & THIRD-PARTY MANAGEMENT SEGMENT

Our Exchange & Third-Party Management segment includes exchange networks and membership programs comprised of more than 3,200 resorts in over 80 nations and nearly two million members, as well as management of over 180 other resorts and lodging properties. We provide these services through a variety of brands including Interval International, Trading Places International, Vacation Resorts International, Aqua-Aston and Great Destinations. The segment revenue generally is fee-based and derived from membership, exchange and rental transactions, property and owners' association management, and other related products and services. The Exchange & Third-Party Management segment represented approximately 5 percent of our consolidated revenues for the fiscal year ended December 31, 2018, reflecting the September 2018 acquisition of ILG.

(\$ in millions)	2018	
	Exchange & Third-Party Management Segment Revenues	% of Consolidated MVW Revenue Line
Management and exchange	\$ 109	22%
Rental	18	5%
Financing	1	1%
Cost reimbursements	33	4%
TOTAL REVENUES	\$ 161	5%

Exchange Networks and Membership Programs

Interval International

Our primary exchange offering is Interval International's network, a membership-based exchange program which also provides a comprehensive package of value-added products and services to members and developers. As of December 31, 2018, the Interval International network consisted of more than 3,200 resorts in over 80 nations and approximately 1.8 million members. Generally, individuals are enrolled by resort developers in connection with their purchase of vacation ownership interests from such resort developers, with initial membership fees being paid on behalf of members by the resort developers. Members may also enroll directly, for instance, when they purchase a vacation ownership interest through resale or owners' association affiliation at a resort that participates in the Interval International network. Interval International has established multi-year relationships with resort developers, including leading independent developers and our branded vacation ownership programs, under exclusive affiliation agreements, which typically provide for continued resort participation following the agreement's term.

After their initial membership period, certain Interval International network members have the option of renewing their memberships for terms ranging from one to five years and paying their own membership fees directly to us. We sometimes refer to these as traditional members. Alternatively, some resort developers incorporate the Interval International network membership fee into certain annual fees they charge to owners of vacation ownership interests at their resorts or vacation ownership clubs, which results in these owners having their membership in the Interval International network and, where applicable, the Interval Gold or Interval Platinum program (as described below), automatically renewed through the period of their resort's or club's participation in the Interval International network. We sometimes refer to these as corporate members.

Interval International recognizes certain of its eligible Interval International network resorts as either a "Select Resort," a "Select Boutique Resort," a "Premier Resort," a "Premier Boutique Resort," an "Elite Resort" or an "Elite Boutique Resort" based upon the satisfaction of qualifying criteria, inspection, member feedback, and other resort-specific factors. Over 40 percent of Interval International network resorts were recognized as a Select, Select Boutique, Premier, Premier Boutique, Elite or Elite Boutique Resort as of December 31, 2018.

Products and Services

Exchange

Members are offered the ability to exchange usage rights in their vacation ownership interest for accommodations which are generally of comparable trading value to those relinquished, based on factors including location, quality, seasonality, unit attributes and time of relinquishment prior to occupancy.

Getaways

We also offer additional vacation rental opportunities to members of the Interval International network and certain other membership programs at attractive rates through Getaways. Getaways allow members to rent resort accommodations for a fee, plus applicable taxes. Resort accommodations available as Getaways consist of seasonal oversupply of vacation ownership accommodations within the applicable exchange network, as well as resort accommodations we source specifically for use in Getaways.

Interval Gold and Interval Platinum

Interval International network members also may take advantage of one of our two enhanced membership tiers, Interval Gold, or Interval Platinum, each of which provides value-added benefits and services for an additional fee. These benefits and services vary by country of residence, but generally consist of discounts on Getaways, a concierge service, a hotel discount program and Interval Options, a service that allows members to relinquish annual occupancy rights in their vacation ownership interests towards the purchase of various travel products, including hotel, cruise, golf and spa vacations. Members are enrolled in these programs either by resort developers in connection with the initial purchase of their vacation ownership interests or by upgrading their membership directly. As of December 31, 2018, more than 40 percent of Interval International network members participate in an upgraded membership tier.

Club Interval

This product gives owners of fixed or floating week vacation ownership interests the opportunity to use their resort week as points within the Interval International network. Club Interval members also receive all of the benefits of Interval Gold and can upgrade to Interval Platinum.

Sales and Marketing Support for Interval International network resorts

Resort developers promote membership in our exchange programs and related value-added services as an important benefit of owning a vacation ownership interest. We offer developers a selection of sales and marketing materials. These materials, many of which are available in multiple languages, include brochures, publications, sales-office displays, resort directories and Interval HD, an online video channel featuring resort and destination overviews. In addition, we offer programs, including our Leisure Time Passport program that resort developers use as a trial membership program for potential purchasers of vacation ownership interests.

Operational Support for Interval International network resorts

Interval International also makes available a comprehensive array of back-office servicing solutions to resort developers and resorts. For example, for an additional fee, we provide reservation services and billing and collection of maintenance fees and other amounts due to developers or owners' associations. In addition, through consulting arrangements, we assist resort developers in the design of tailored vacation programs for owners of vacation ownership interests.

Trading Places International

Trading Places International provides exchange services to owners at certain of our managed timeshare properties as well as other direct-to-consumer exchanges that do not require a membership fee. For an annual fee, vacation owners may choose to join the upgraded Trading Places Prime program with additional benefits. Exchanges in these Trading Places programs are based on like value and upgrades are available upon payment of additional fees.

Revenue

Our exchange networks and membership programs revenue is fee-based and derived from membership, exchange and rental transactions, fees for ancillary products and services provided to members, and other products and services sold to developers.

Marketing

Our exchange businesses maintain corporate and consumer marketing departments that are responsible for implementing marketing strategies. We also develop printed and digital materials to promote membership participation, exchange opportunities and other value-added services to existing members as well as for the Interval International business to secure new relationships with resort developers, owners' associations and resorts to obtain and retain members.

Our consumer marketing efforts revolve around the deepening of new and existing customer relationships and increasing engagement and loyalty of members through a number of channels including direct mail, email, telemarketing, and online distribution as well as utilizing social media channels like Facebook and Instagram to inspire vacations, share stories and promote the vacation ownership lifestyle.

Interval International also markets products and services to resort developers and other parties in the vacation ownership industry through a series of business development initiatives. Our sales and services personnel proactively seek to establish strong relationships with developers and owners' associations, providing input on consumer preferences and industry trends based upon years of experience. We believe that we have established a strong reputation within the vacation ownership industry as being highly responsive to the needs of resort developers, owners' associations, management companies and owners of vacation ownership interests. In addition, we sponsor, participate in and attend numerous industry conferences around the world, to provide potential and existing industry participants opportunities to network and learn more about vacation ownership.

Third-Party Management

We provide resort management services for vacation ownership resorts and other third-party vacation property owners through Vacation Resorts International, Trading Places International and Aqua-Aston. Our services may include day-to-day operations of the resorts, maintenance of the resorts, preparation of reports, budgets, owners' association administration, risk management, quality assurance and employee training. As of December 31, 2018, we provided third-party management services to over 180 resorts.

Vacation Resorts International and Trading Places International provide management services to vacation ownership resorts pursuant to agreements with terms generally ranging from one to ten years many of which are automatically renewable. Generally, our management fees are paid by the owners' association and funded from the annual maintenance fees paid by the individual owners to the association. These maintenance fees represent each owner's allocable share of the costs of operating and maintaining the resorts, which generally includes personnel, property taxes, insurance, a capital asset reserve to fund refurbishment and other related costs. The management fees we earn are highly predictable due to the relatively fixed nature of resort operating expenses. We are reimbursed for the costs incurred to perform our services, principally related to personnel providing on-site services. We also offer vacation rental services to these owners' associations. These rentals are made online directly to consumers through our websites, www.vriresorts.com, and www.tradingplaces.com, through third-party online travel agencies and through Interval International's Getaways program.

Aqua-Aston provides management and rental services for condominium owners, hotel owners, and owners' associations. The condominium rental properties are generally investment properties, and, to a lesser extent, second homes, owned by individuals who contract with Aqua-Aston directly to manage, market and rent their properties, generally pursuant to short-term agreements. We also offer such owners a comprehensive package of marketing, management and rental services designed to enhance rental income and profitability. Generally, owners' association management services, including administrative, fiscal and quality assurance services, are provided pursuant to exclusive agreements with terms typically ranging from one to ten years or more, many of which are automatically renewable. Revenue is derived principally from fees for management of the hotel or condominium resort, and owners' association as well as related rental services. Management fees consist of a base management fee and, in some instances for hotels or condominium resorts, an incentive management fee which is generally a percentage of operating profits or improvement in operating profits. Service fee revenue is based on the services provided to owners including reservations, sales and marketing, property accounting and information technology services either internally or through third-party providers.

Important to the success and continued growth of the Aqua-Aston business is our ability to source vacationers interested in booking vacation properties made available through our rental services. Our sales and marketing team in Honolulu, Hawaii, utilizes a variety of sales, marketing, revenue management and digital marketing initiatives to attract consumers and additional properties to Aqua-Aston. The team in Hawaii utilizes many channels of distribution including traditional wholesale through tour operators and travel partners, online travel agencies and global distribution systems. In addition, Aqua-Aston focuses on driving direct business through brand websites and our central reservations office. The sales team covers several market segments from corporate and government/military to travel agents and groups. We offer a variety of leisure accommodations to visitors from around the world through consumer websites such as, www.astonhotels.com, www.aquaresorts.com, www.aquahospitality.com, and www.mauicondo.com.

CORPORATE AND OTHER

Corporate and Other consists of results not allocable to the Vacation Ownership or Exchange & Third-Party Management segments, including company-wide general and administrative costs, corporate interest expense, and consolidation of certain owners' associations under the voting interest model, which are not included in operating segment resource allocation decision-making.

Intellectual Property

We manage properties and sell vacation ownership interests under the Marriott Vacation Club, Sheraton, Westin, Grand Residences by Marriott, The Ritz-Carlton Destination Club, The Ritz-Carlton Residences and Hyatt Residence Club brands under license agreements with Marriott International, Hyatt and The Ritz-Carlton Hotel Company. Our Exchange & Third-Party Management segment includes the Interval International, Trading Place International, Vacation Resorts International and Aqua-Aston brands. We operate in a highly competitive industry and our brand names, trademarks, service marks, trade names and logos are very important to the marketing and sales of our products and services. We believe that our licensed brand names and other intellectual property have come to represent high standards of quality, caring, service and value to our customers and the traveling public. We register and protect our intellectual property where we deem appropriate and otherwise seek to protect against its unauthorized use.

Seasonality

Our revenue is influenced by the seasonal nature of travel. Within our Vacation Ownership segment, our sales and financing business experiences a modest impact from seasonality, with higher sales volumes during the traditional vacation periods. Our vacation ownership management businesses by and large do not experience significant seasonality, with the exception of our resort operations revenue, which tends to be higher in the first quarter.

Within our Exchange & Third-Party Management segment, we recognize exchange and Getaways revenue based on confirmation of the vacation; revenue is generally higher in the first quarter and lower in the fourth quarter. Remaining rental revenue is recognized based on occupancy.

Competition

Competition in the vacation ownership industry is driven primarily by the quality, number and location of vacation ownership resorts, the quality and capability of the related property management program, trust in the brand, pricing of product offerings and the availability of program benefits, such as exchange programs and access to affiliated hotel networks. We believe that our focus on offering distinctive vacation experiences, combined with our financial strength, well-established and diverse market presence, strong brands, expertise and well-managed and maintained properties, will enable us to remain competitive. Vacation ownership is a vacation option that is positioned and sold as an attractive alternative to vacation rentals (such as hotels, resorts and condominium rentals) and second home ownership. The various segments within the vacation ownership industry can be differentiated by the quality level of the accommodations, range of services and ancillary offerings, and price. Our brands operate in the upper upscale and luxury tiers of the vacation ownership segment of the industry and the upper upscale and luxury tiers of the whole ownership segment (also referred to as the residential segment) of the industry.

Our competitors in the vacation ownership industry range from small vacation ownership companies to large branded hospitality companies that operate or license vacation ownership businesses. In North America, we typically compete with companies that sell upper upscale tier vacation ownership products under a lodging or entertainment brand umbrella, such as Hilton Grand Vacations Club, and Disney Vacation Club, as well as numerous regional vacation ownership operators. Our luxury vacation ownership products compete with vacation ownership products offered by Four Seasons, Exclusive Resorts, Timbers Resorts and several other smaller independent companies. In addition, the vacation ownership industry competes generally with other vacation rental options (such as hotels, resorts and condominium rentals) offered by the lodging industry as well as alternative lodging marketplaces such as Airbnb and HomeAway, which offer rentals of homes and condominiums. Innovations that impact the industry may also lead to new products and services that could disrupt our business model and create new and stronger competitors.

Outside North America, we operate vacation ownership resorts in two primary regions, Asia Pacific and Europe. In both regions, we are one of the largest lodging-branded vacation ownership companies operating in the upper upscale tier, with regional operators dominating the competitive landscape. Where possible, our vacation ownership properties in these regions are co-located with Marriott International branded hotels. In Asia Pacific, our owner base is derived primarily from the Asia Pacific region and secondarily from the Europe and North America regions. In Europe, our owner base is derived primarily from the North America, Europe and Middle East regions.

Recent and potential future consolidation in the highly fragmented vacation ownership industry may increase competition. Consolidation may create competitors that enjoy significant advantages resulting from, among other things, a lower cost of, and greater access to, capital and enhanced operating efficiencies.

Competition in the vacation ownership industry may also increase as private competitors become publicly traded companies or existing publicly traded competitors spin-off their vacation ownership operations. For example, Wyndham Worldwide Corporation became Wyndham Destinations, Inc., a vacation ownership and exchange company, with the spin-off of its hotel operations in May 2018 and Hilton Worldwide Holdings Inc. completed the spin-off of its vacation ownership operations in January 2017. Wyndham Destinations, Inc. and Hilton Grand Vacations Inc. are now separate publicly traded companies. In November 2017, Bluegreen Vacations Corporation completed an initial public offering that resulted in approximately 10 percent of its stock being held by the public. Competitors that are publicly traded companies may benefit from a lower cost of, and greater access to, capital, as well as more focused management attention.

Our Interval International exchange business principally competes for developer and consumer market share with Wyndham Destinations, Inc.'s subsidiary, RCI. Our subsidiary, Trading Places International, and several third parties operate in this industry with a significantly more limited scope of available accommodations. This business also faces increasing competition from points-based vacation clubs and large resort developers, which operate their own internal exchange systems to facilitate exchanges for owners of vacation ownership interests at their resorts as they increase in size and scope. Increased consolidation in the industry enhances this competition. In addition, vacation clubs and resort developers may have direct exchange relationships with other developers.

We believe that developers and owners associations generally choose to affiliate with an exchange network based on the quality of resorts participating in the network; the level of service provided to members; the range and level of support services; the flexibility of the exchange program; the demographics of the membership base; the costs for annual membership and exchanges; and the continuity of management and its strategic relationships within the industry.

Regulation

Our business is heavily regulated. We are subject to a wide variety of complex international, national, federal, state and local laws, regulations and policies in jurisdictions around the world. We have proactively worked with ARDA to encourage the enactment of responsible consumer-protection legislation and state regulation that enhances the reputation and respectability of the overall vacation ownership industry. We believe that, over time, our vacation ownership products and services helped improve the public perception of the vacation ownership industry.

Some laws, regulations and policies may impact multiple areas of our business, such as securities, anti-discrimination, anti-fraud, data protection and security and anti-corruption and bribery laws and regulations or government economic sanctions, including applicable regulations of the Consumer Financial Protection Bureau, the U.S. Department of the Treasury's Office of Foreign Asset Control and the U.S. Foreign Corrupt Practices Act ("FCPA"). The FCPA and similar anti-corruption and bribery laws in other jurisdictions generally prohibit companies and their intermediaries from making improper payments to government officials for the purpose of obtaining or generating business. The collection, use and protection of personal data of our customers, as well as the sharing of our customer data with affiliates and third parties, are governed by privacy laws and regulations enacted in the United States and in other jurisdictions around the world, such as Europe's new General Data Protection Regulation (the "GDPR"), which became effective in May 2018. Other laws, regulations and policies primarily affect one of four areas of our business: real estate development activities; marketing and sales activities; lending activities; and resort management activities.

Real Estate Development Regulation

Our real estate development activities are regulated under a number of different timeshare, condominium and land sales disclosure statutes in many jurisdictions. We are generally subject to laws and regulations typically applicable to real estate development, subdivision, and construction activities, such as laws relating to zoning, land use restrictions, environmental regulation, accessibility, title transfers, title insurance and taxation. In the United States, these include, with respect to some of our products, the Fair Housing Act and the Americans with Disabilities Act. In addition, we are subject to laws in some jurisdictions that impose liability on property developers for construction defects discovered or repairs made by future owners of property developed by the developer.

Marketing and Sales Regulation

Our marketing and sales activities are closely regulated pursuant to laws and regulations enacted specifically for the vacation ownership and land sales industries, as well as a wide variety of laws and regulations that govern our marketing and sales activities in the jurisdictions in which we carry out such activities. These laws and regulations include the USA PATRIOT Act, Foreign Investment In Real Property Tax Act, the Federal Interstate Land Sales Full Disclosure Act and fair housing statutes, U.S. Federal Trade Commission (the "FTC") and state "Little FTC Acts" and other laws and regulations governing unfair, deceptive or abusive acts or practices including unfair or deceptive trade practices and unfair competition, state attorney general regulations, anti-fraud laws, prize, gift and sweepstakes laws, real estate, title agency or insurance, travel insurance and other licensing or registration laws and regulations, anti-money laundering, consumer information privacy and security, breach

notification, information sharing and telemarketing laws, home solicitation sales laws, tour operator laws, lodging certificate and seller of travel laws, securities laws, and other consumer protection laws.

Many jurisdictions, including many jurisdictions in the United States, Asia Pacific and Europe, require that we file detailed registration or offering statements with regulatory authorities disclosing certain information regarding the vacation ownership interests and other real estate interests we market and sell, such as information concerning the interests being offered, any projects, resorts or programs to which the interests relate, applicable condominium or vacation ownership plans, evidence of title, details regarding our business, the purchaser's rights and obligations with respect to such interests, and a description of the manner in which we intend to offer and advertise such interests. Regulation outside the United States includes jurisdictions in which our clubs and resorts operate, such as the European Union, Singapore and Mexico, among others. Among other things, the European and Singaporean regulations: (1) require delivery of specified disclosure (some of which must be provided in a specific format or language) to purchasers; (2) require a specified "cooling off" rescission period after a purchase contract is signed; and (3) prohibit any advance payments during the "cooling off" rescission period.

We must obtain the approval of numerous governmental authorities for our marketing and sales activities. Changes in circumstances or applicable law may necessitate the application for or modification of existing approvals. Currently, we are permitted to market and sell vacation ownership products in all 50 states and the District of Columbia in the United States and numerous countries in North and South America, the Caribbean, Europe, Asia and the Middle East. In Australia, our Marriott Vacation Club Destinations, Australia points-based program is subject to regulation as a "managed investment scheme" by the Australian Securities & Investments Commission. In some countries our vacation ownership products are marketed by third party brokers.

Laws in many jurisdictions in which we sell vacation ownership interests grant the purchaser of a vacation ownership interest the right to cancel a purchase contract during a specified rescission period following the later of the date the contract was signed or the date the purchaser received the last of the documents required to be provided by us.

In recent years, regulators in many jurisdictions have increased regulations and enforcement actions related to telemarketing operations, including requiring adherence to the federal Telephone Consumer Protection Act (the "TCPA") and similar "do not call" legislation. These measures have significantly increased the costs and reduced the efficiencies associated with telemarketing. While we continue to be subject to telemarketing risks and potential liability, we believe that our exposure to adverse effects from telemarketing legislation and enforcement is mitigated in some instances by the use of permission-based marketing, under which we obtain the permission of prospective purchasers to contact them in the future. We participate in various programs and follow certain procedures that we believe help reduce the possibility that we contact individuals who have requested to be placed on federal or state "do not call" lists, including subscribing to the federal and certain state "do not call" lists, and maintaining an internal "do not call" list.

Lending Regulation

Our lending activities are subject to a number of laws and regulations including those of applicable supervisory, regulatory and enforcement agencies such as, in the United States, the Consumer Financial Protection Bureau, the FTC, and the Financial Crimes Enforcement Network. These laws and regulations, some of which contain exceptions applicable to the timeshare industry or may not apply to some of our products, may include, among others, the Real Estate Settlement Procedures Act and Regulation X, the Truth In Lending Act and Regulation Z, the Federal Trade Commission Act, the Equal Credit Opportunity Act and Regulation B, the Fair Credit Reporting Act, the Fair Housing Act and implementing regulations, the Fair Debt Collection Practices Act, the Electronic Funds Transfer Act and Regulation E, unfair, deceptive or abusive acts or practices regulations and the Consumer Protection Act, the USA PATRIOT Act, the Right to Financial Privacy Act, the Gramm-Leach-Bliley Act, the Servicemembers Civil Relief Act and the Bank Secrecy Act. Our lending activities are also subject to the laws and regulations of other jurisdictions, including, among others, laws and regulations related to consumer loans, retail installment contracts, mortgage lending, usury, fair debt collection practices, consumer debt collection practices, mortgage disclosure, lender or mortgage loan originator licensing and registration and anti-money laundering.

Resort Management Regulation

Our resort management activities are subject to laws and regulations regarding community association management, public lodging, food and beverage services, labor, employment, health care, health and safety, accessibility, discrimination, immigration, gaming, and the environment (including climate change). In addition, many jurisdictions in which we manage our resorts have statutory provisions that limit the duration of the initial and renewal terms of our management agreements for property owners' associations and/or permit the property owners' association for a resort to terminate our management agreement under certain circumstances (for example, upon a super-majority vote of the owners), even if we are not in default under the agreement.

Environmental Compliance and Awareness

The properties we manage or develop are subject to national, state and local laws and regulations that govern the discharge of materials into the environment or otherwise relate to protecting the environment. These laws and regulations include requirements that address health and safety; the use, management and disposal of hazardous substances and wastes; and emission or discharge of wastes or other materials. We believe that our management and development of properties comply, in all material respects, with environmental laws and regulations. Our compliance with such provisions also has not had a material impact on our capital expenditures, earnings or competitive position, nor do we anticipate that such compliance will have a material impact in the future.

We take our commitment to protecting the environment seriously. We have collaborated with Audubon International to further the “greening” of our Marriott Vacation Club resorts in the U.S. through the Audubon Green Leaf Eco-Rating Program for Hotels. The Audubon partnership is just one of several programs incorporated into our green initiatives. We have more than 20 years of energy conservation experience that we have put to use in implementing our environmental strategy across all of our segments. This strategy includes further reducing energy and water consumption, expanding our portfolio of green resorts, including LEED (Leadership in Energy & Environmental Design) certification, educating and inspiring associates and guests to support the environment, and embracing innovation.

Employees

As of December 31, 2018, we had approximately 23,000 employees with an average length of service of nearly seven years. We believe our relations with our employees are very good.

Executive Officers

See Part III, Item 10. “Directors, Executive Officers and Corporate Governance” of this Annual Report for information about our executive officers.

Available Information

Our investor relations website address is www.marriottvacationsworldwide.com/investor-relations. Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, proxy statements and any and all amendments thereto are available free of charge through our investor relations website as soon as reasonably practicable after they are filed or furnished to the Securities and Exchange Commission (the “SEC”). These materials are also accessible on the SEC’s website at www.sec.gov.

Item 1A. Risk Factors

This section describes circumstances or events that could have a negative effect on our financial results or operations or that could change, for the worse, existing trends in our businesses. The occurrence of one or more of the circumstances or events described below could have a material adverse effect on our financial condition, results of operations and cash flows or on the trading prices of our common stock. The risks and uncertainties described in this Annual Report are not the only ones facing us. Additional risks and uncertainties that currently are not known to us or that we currently believe are immaterial also may adversely affect our businesses and operations.

Risks related to our business and industry

Contraction in the global economy or low levels of economic growth could impact our financial results and growth.

Our business and the vacation ownership industry are particularly affected by negative trends in the general economy, and the recovery period in our industry may lag behind overall economic improvement. Demand for vacation ownership industry products and services is linked to a number of factors relating to general global, national and regional economic conditions, including perceived and actual economic conditions, exchange rates, availability of credit and business and personal discretionary spending levels. Weakened consumer confidence and limited availability of consumer credit can cause demand for our vacation ownership products to decline, which may reduce our revenue and profitability. Because a significant portion of our expenses, including personnel costs, interest, property taxes and insurance, are relatively fixed, we may not be able to adjust spending quickly enough to offset revenue decreases. Adverse economic conditions may also cause purchaser defaults on our vacation ownership notes receivable to increase. In addition, adverse global and national economic and political events, as well as significant terrorist attacks, are likely to have a dampening effect on the economy in general, which could negatively affect our financial performance and our stock price.

The sale of vacation ownership interests in the secondary market by existing owners could cause our sales revenues and profits to decline.

Existing owners have offered, and are expected to continue to offer, their VOIs for sale on the secondary market. The prices at which these interests are sold are typically less than the prices at which we would sell the interests. As a result, these sales can create pricing pressure on our sale of vacation ownership products, which could cause our sales revenues and profits to decline. In addition, if the secondary market for VOIs becomes more organized and liquid than it currently is, the resulting availability of VOIs (particularly where the VOIs are available for sale at lower prices than the prices at which we would sell them) could adversely affect our sales and our sales revenues. Further, unlawful or deceptive third-party VOI resale schemes involving interests in our resorts could damage our reputation and brand value and adversely impact our sales revenues.

Development of a more robust secondary market may also cause the volume of VOI inventory that we are able to repurchase to decline, which could adversely impact our development margin, as we utilize this lower cost inventory source to supplement our inventory needs and reduce our cost of vacation ownership products.

Our ability to develop, acquire and repurchase vacation ownership inventory may be impaired if we or third parties with whom we do business, including vacation property developers, are unable to access capital when necessary.

The availability of funds for new investments, primarily developing, acquiring or repurchasing vacation ownership inventory, depends in part on liquidity factors and capital markets over which we can exert little, if any, control. We have historically securitized in the ABS market the majority of the U.S. dollar denominated consumer loans that we originate, completing transactions once each year for the past several years. Instability in the financial markets could impact the timing and volume of any securitizations we undertake, as well as the financial terms of such securitizations. Any future deterioration in the financial markets could preclude, delay or increase the cost to us of future note securitizations. Such deterioration could also impact our ability to renew our Warehouse Credit Facility, which we must do in order to access funds under that facility after March 2020, on terms favorable to us, or at all. Further, any indebtedness we incur, including indebtedness under the Revolving Corporate Credit Facility or the Warehouse Credit Facility, may adversely affect our ability to obtain additional financing. If we are unable to access these sources of funds on acceptable terms, our ability to acquire additional vacation ownership inventory, repurchase VOIs that our owners propose to sell to third parties, or make other investments in our business could be impaired. In addition, a slowdown in sales of VOIs decreases the sources of new members for our exchange networks, and developers may seek to extend or adjust payment terms with us.

Inability to obtain financing on acceptable terms, or at all, previously caused and may in the future cause insolvency of developers whose resorts are in our exchange networks. This in turn could reduce or stop the flow of new members from their resorts and also could adversely affect the operations and desirability of exchange with those resorts if the developer's insolvency impacts the management of the resorts. In some cases, a developer in bankruptcy could terminate its existing exchange relationship with us.

Our reliance on capital efficient transactions to satisfy a portion of our future needs for Vacation Ownership segment inventory and additional on-site sales locations may impact our ability to have inventory available for sale when needed.

We have entered into capital efficient transactions in which third parties are responsible for delivering completed units which we expect to purchase at pre-agreed prices in the future. As we continue to execute our strategy to deploy capital efficiently, we will seek to enter into additional transactions to source inventory using similar or new transaction structures. These structures may expose us to additional risk as we will not control development activities or timing of development completion. If third parties with whom we enter into capital efficient transactions do not fulfill their obligations to us, or if they exercise their right to sell inventory to a third party other than us, the inventory we expect to acquire may not be delivered on time or at all, or may not otherwise be within agreed upon specifications. If our capital efficient transaction counterparties do not perform as expected and we do not purchase the expected inventory or obtain inventory from alternative sources on a timely basis, we may not be able to achieve sales forecasts. In addition, we anticipate opening new on-site sales locations in connection with some or all of our new resort locations. If third parties with whom we enter into transactions do not deliver these sales locations as expected, our future sales growth could be negatively impacted.

In addition, as discussed above, we intend to continue to use capital efficient structures to optimize the timing of our capital investments. If developers or other third parties are not able to obtain or maintain financing necessary for their operations, we may not be able to enter into transactions using these capital efficient structures.

We may not be able to integrate Legacy-ILG's businesses successfully and we may not realize many of the anticipated benefits of the combination.

Achieving the anticipated benefits of the acquisition of ILG is subject to a number of uncertainties, including whether ILG's business can be integrated with ours in an efficient and effective manner. The integration process could take longer or be more costly than anticipated and could result in the loss of valuable employees, the disruption of ongoing businesses, processes and systems or inconsistencies in standards, controls, procedures, practices, policies and compensation arrangements, any of which could adversely affect our ability to achieve the anticipated benefits of the combination. We may have difficulty addressing possible differences in corporate cultures and management philosophies. Failure to achieve the anticipated benefits could result in increased costs or decreases in the amount of expected net income and could adversely affect our future business, financial condition, operating results and prospects.

Our future results will suffer if we do not effectively manage our expanded operations which include the external exchange business.

The size of our business increased significantly as a result of the ILG Acquisition. Our future success depends, in part, upon our ability to manage this expanded business, which poses substantial challenges for management, including challenges related to the management and monitoring of new operations and associated increased costs and complexity. We may not be successful or we may not realize the expected operating efficiencies, cost savings and other benefits currently anticipated from the ILG Acquisition.

As part of the ILG Acquisition, we acquired our external exchange business, which provides owners of VOIs with access to a broad array of alternate accommodations encompassing a variety of resorts. We have not previously operated an external exchange business. Our future success depends, in part, upon our ability to manage ILG's exchange business, which could pose substantial challenges for management, including challenges related to the management and monitoring of a new line of business. If we are unable to effectively manage the external exchange business, our business, financial position, results of operations and prospects may be materially adversely affected.

Consolidation of developers could adversely affect our business, financial condition and results of operations.

The vacation ownership industry has been in a period of consolidation, which is expected to continue. When developers that have affiliation agreements with the Interval International network are acquired, they may choose not to renew at the end of the current term or may only continue on terms less favorable to us than the existing agreements. If we are unable to obtain or retain business relationships with the resultant resort developers on as favorable terms, our results of operations may be materially adversely affected. Consolidation can also lead to larger competitors with greater resources that compete with our vacation ownership business for customers, projects and talent.

Insufficient availability of exchange inventory may adversely affect our profits.

Our exchange networks' transaction levels are influenced by the supply of inventory in the system and the demand for such available inventory. The availability of exchange inventory in the Interval International network is dependent on it being deposited into the system, directly by a member in support of a current or future exchange request, or by a developer on behalf of its owners to support their anticipated exchanges.

A number of factors may impact the supply and demand of inventory. For example, economic conditions may negatively impact our members' desire to travel, often resulting in an increase in the number of deposits made as a means of preserving the inventory's value for exchange at a later date when the member is ready to travel, while reducing the demand for inventory which is then available for exchange. Also, destination-specific factors such as regional health and safety concerns, the occurrence or threat of natural disasters and weather may decrease our members' desire to travel or exchange to a given destination, resulting in an increased supply of, but a decreased demand for, inventory from this destination. Also, inventory may not be as available because owners are choosing to travel to their home resort/vacation club system or otherwise not depositing with the Interval International network. In these instances, the demand for exchange and Getaway inventory may be greater than the inventory available. Where the supply and demand of inventory do not keep pace, transactions may decrease or we may elect to purchase additional inventory to fulfill the demand, which could negatively affect our profits and margin.

Purchaser defaults on the vacation ownership notes receivable our business generates could reduce our revenues, cash flows and profits.

In connection with our vacation ownership business, we provide loans to purchasers to finance their purchase of VOIs. Accordingly, we are subject to the risk that purchasers of our VOIs may default on the financing that we provide. The risk of purchaser defaults may increase due to man-made or natural disasters, which cause financial hardship for purchasers. The risk of purchaser defaults may also increase if we do not evaluate accurately the creditworthiness of the customers to whom we extend financing or due to the influence of timeshare relief firms. Purchaser defaults could cause us to foreclose on vacation ownership notes receivable and reclaim ownership of the financed interests, both for loans that we have not securitized and in our role as servicer for the vacation ownership notes receivable we have securitized through the ABS market or the Warehouse Credit Facility. If default rates for our borrowers increase, we may be required to increase our reserve on vacation ownership notes receivable.

If default rates increase beyond current projections and result in higher than expected foreclosure activity, our results of operations could be adversely affected. Purchaser defaults could impact our ability to secure ABS or warehouse credit facility financing on terms that are acceptable to us, or at all. In addition, the transactions in which we have securitized vacation ownership notes receivable contain certain portfolio performance requirements related to default and delinquency rates, which, if not met, would result in loss or disruption of cash flow until portfolio performance sufficiently improves to satisfy the requirements. In addition, we may not be able to resell foreclosed or revoked interests in a timely manner or for an attractive price which could result in an adverse impact on our results from operations. If the reclaimed interests have declined in value, we may incur impairment losses that reduce our profits. Also, if a purchaser of a VOI defaults on the related loan during the early part of the amortization period, we may not have recovered the marketing, selling and general and administrative costs associated with the sale of that VOI. If we are unable to recover any of the principal amount of the loan from a defaulting purchaser, or if the allowances for losses from such defaults are inadequate, the revenues and profits that we derive from the vacation ownership business could be reduced.

Our operations outside of the United States make us susceptible to the risks of doing business internationally, which could lower our revenues, increase our costs, reduce our profits or disrupt our business.

We conduct business globally, and our operations outside the United States represented approximately 13 percent of our revenues, excluding cost reimbursements, for the twelve months ended December 31, 2018. International properties and operations expose us to a number of additional challenges and risks, including the following, any of which could reduce our revenues or profits, increase our costs, or disrupt our business:

- complex and changing laws, regulations and policies of governments that may impact our operations, including foreign ownership restrictions, import and export controls, and trade restrictions;
- increases in anti-American sentiment and the identification of our brands as American brands;
- U.S. laws that affect the activities of U.S. companies abroad;
- the presence and acceptance of varying levels of business corruption in international markets and the effect of various anticorruption and other laws;
- tax impacts and legal restrictions associated with the repatriation of our non-U.S. earnings;
- the difficulties involved in managing an organization doing business in many different countries;
- uncertainties as to the enforceability of contract and intellectual property rights under local laws;
- changes in government policy, political or civil unrest, acts of terrorism or the threat of international boycotts or U.S. anti-boycott legislation;
- changes in foreign currency exchange rates or currency restructurings and hyperinflation or deflation in the countries in which we operate;
- forced nationalization of resort properties by local, state or national governments; and
- other exposure to local economic risks.

We also derive revenue from sales to customers from outside the United States that are transacted in United States dollars. As a result, factors such as changes in foreign currency exchange rates or weak economic conditions in the markets in which our customers reside could reduce our revenues or profits. While we have and may continue to enter into hedging transactions to mitigate currency exchange risks, such hedging may not be effective or could have a negative effect on our results of operations.

A failure to keep pace with developments in technology could impair our operations or competitive position.

Our business model and competitive conditions in the vacation ownership industry demand the use of sophisticated technology and systems, including those used for our sales, reservation, inventory management, exchange, and property management systems, and technologies we make available to our owners and members. We must refine, update and/or replace these technologies and systems with more advanced systems or upgrades on a regular basis. If we cannot do so as quickly as our competitors or within budgeted costs and time frames, our business could suffer. Projects to refine, update and/or replace these technologies and systems may be extremely complex and require significant internal and external resources. If these resources are not available, our business and operations may be adversely affected. We also may not achieve the benefits that we anticipate from any new technology or system, and a failure to do so could result in higher than anticipated costs or could harm our operating results.

Failure to maintain the integrity of internal or customer data, or to protect our systems from cyber-attacks and similar incidents, could result in faulty business decisions or operational inefficiencies, damage our reputation and/or subject us to costs, fines or lawsuits.

We collect and retain large volumes of internal and customer data, including social security numbers, credit card numbers and other personally identifiable information of our customers in various internal information systems and information systems of our service providers. We also maintain personally identifiable information about our employees. The integrity and protection of that customer, employee and company data is critical to us. We could make faulty decisions if that data is inaccurate or incomplete. Our customers and employees also have a high expectation that we and our service providers will adequately protect their personal information. The regulatory environment as well as the requirements imposed on us by the payment card industry surrounding information, security and privacy is also increasingly demanding, in both the United States and other jurisdictions in which we operate. Our systems may be unable to satisfy changing regulatory and payment card industry requirements and employee and customer expectations, or may require significant additional investments or time in order to do so.

Our information systems and records, including those we maintain with our service providers, may be subject to security breaches, cyber-attack or cyber-intrusion, system failures, viruses, operator error or inadvertent releases of data. Unauthorized parties may also attempt to gain access to our systems or facilities through fraud, trickery or other means of deceiving our associates, owners, customers or other users of our systems. Data breaches and intrusions have increased in recent years as the number, intensity and sophistication of attempted attacks and intrusions have increased. We must continuously monitor and enhance our information security controls to prevent, detect, and/or contain unauthorized activity, access, misuse and malicious software. Because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently and may be difficult to detect for long periods of time, we may be unable to anticipate these techniques or implement adequate preventive measures. Further, even if such measures are implemented and appropriate training is conducted in support of such measures, human errors compromising the efficacy of such measures may still occur. As a result, current or future security measures may not prevent any or all breaches, and we may be required to expend significant capital and other resources to protect against, detect and remedy any potential or existing breaches and their consequences.

Like other companies, we have experienced cyber security threats to our data and systems, our company sensitive information, and our information technology infrastructure, including malware and computer virus attacks, unauthorized access, systems failures and temporary disruptions. For example, in June 2018, we identified fraudulently induced electronic payment disbursements we made to third parties in an aggregate amount of \$10 million, resulting from unauthorized third-party access to our email system. While we have recovered \$6 million of these funds and believe additional amounts may be recoverable through insurance, we make no assurances that the remaining funds will be recovered or that any future loss would be recovered. In addition, our licensor, Marriott International, announced in November 2018 that it had experienced a data breach that included our customers' data. A significant cyber-attack or theft, loss, or fraudulent use of customer, employee or company data maintained by us or by a service provider or licensor could adversely impact our reputation and could result in remedial and other expenses, fines or litigation. A breach in the security of our information systems or those of our service providers or licensors could lead to an interruption in the operation of our systems, resulting in operational inefficiencies and a loss of profits.

Routinely, we partner with and use third-party service providers and products that host, manage, or control sensitive data. We have policies, contracts and other controls in place to cause contractors and subcontractors to maintain reasonable security to ensure that our data is protected from unauthorized use, alteration, access or disclosure. However, the failure by the various third-party vendors and service providers with which we do business, to comply with applicable privacy policies or federal, state or similar international laws and regulations or any compromise of security that results in the unauthorized release of personally identifiable information or other user data could damage the reputation of our businesses, discourage potential users from trying our products and services, breach certain agreements under which we have obligations with respect to

network security, and/or result in fines and/or proceedings by governmental agencies, service providers and/or consumers. Any one or all of the foregoing could materially adversely affect our business, financial condition and results of operations.

A failure to keep pace with developments in social media could impair our competitive position.

The proliferation and global reach of social media continues to expand rapidly and could cause us to suffer reputational harm. The continuing evolution of social media presents new challenges and requires us to keep pace with new developments, technology and trends. Negative posts or comments about us, the properties we manage or our brands on any social networking or user-generated review website, including travel and vacation property websites, could affect consumer opinions of us and our products, and we cannot guarantee that we will timely or adequately redress such instances.

Inadequate or failed technologies could lead to interruptions in our operations, which may materially adversely affect our business, financial position, results of operations or cash flows.

Our operations depend on our ability to maintain existing systems and implement new technologies, which includes allocating sufficient resources to periodically upgrade our information technology systems, and to protect our equipment and the information stored in our databases against both manmade and natural disasters, as well as power losses, computer and telecommunications failures, technological breakdowns, unauthorized intrusions, cyber-attacks, acts of war or terrorism and other events. System interruption, delays, loss of critical data and any lack of integration and redundancy in our information technology systems and infrastructure may adversely affect our ability to provide services, operate websites, process and fulfill transactions, respond to customer inquiries and generally maintain cost-efficient operations. While our businesses have backup systems for certain aspects of their operations, these systems are not fully redundant and disaster recovery planning is not sufficient for all eventualities. In addition, we may not have adequate insurance coverage to compensate for losses from a major interruption. If our information technology systems are disrupted, subject to a cyber-attack or other unauthorized intrusion, become obsolete or do not adequately support our strategic, operational or compliance needs, our business, financial position, results of operations or cash flows may be adversely affected. In addition to financial consequences, disruptions to our information technology systems may materially impact our disclosure controls and procedures and internal control over financial reporting in future periods.

Spanish court rulings invalidating timeshare contracts have increased our exposure to litigation and such litigation may materially adversely affect our business and financial condition.

A series of Spanish court rulings over the past several years invalidating timeshare contracts have increased our exposure to litigation and such litigation may materially adversely affect our business and financial condition. These rulings have invalidated timeshare contracts entered into after January 1999 related to certain resorts in Spain if the timeshare structure of those resorts did not meet requirements prescribed by Spanish timeshare laws enacted in 1998, even if the structure was lawful prior to 1998 and adapted to the 1998 laws pursuant to mechanisms specified in the 1998 laws. These rulings have led to an increase in lawsuits by owners seeking to invalidate timeshare contracts in Spain, including a number of such lawsuits filed by owners at two of our resorts in Spain that have been decided in favor of the owners. If additional owners at our resorts in Spain file similar lawsuits, this may: result in the invalidation of those owners' timeshare contracts entered into after January 1999; cause us to incur material litigation and other costs, including judgment or settlement payments; and materially adversely affect the results of operation of our Vacation Ownership segment, as well as our business and financial condition. The increased ability for owners of Spanish timeshares to void their contracts is negatively impacting other developers with resorts there which may lead to a significant decrease in the number of resorts located in Spain in the Interval International network and the loss of members that own VOIs at those resorts. Participants in the vacation ownership industry disagree with these rulings and are seeking to introduce legislation that will implement a more balanced approach. However, this new legislation may not be enacted. The timeshare laws, regulations and policies in Spain may continue to change or be subject to different interpretations in the future, including in ways that could negatively impact our business.

The industries in which our businesses operate are competitive, which may impact our ability to compete successfully.

Our businesses will be adversely impacted if they cannot compete effectively in their respective industries, each of which is highly competitive. A number of highly competitive companies participate in the vacation ownership industry, including several that are affiliated with branded hotel companies. We believe that competition in the vacation ownership industry is driven primarily by the quality, number and location of vacation ownership resorts, trust in the brand, pricing of product offerings and the availability of program benefits, such as exchange programs and access to affiliated hotel networks. Our brands compete with the vacation ownership brands of major hotel chains in national and international venues, as well as with the vacation rental options (such as hotels, resorts and condominium rentals) offered by the lodging industry. Competition in the vacation ownership industry may also increase as private competitors become publicly traded companies or existing publicly traded competitors spin-off their vacation ownership operations. For example, Hilton Grand Vacations Inc. and

Wyndham Destinations, Inc. have become stand-alone vacation ownership public companies within the past couple years. Competitors that are publicly traded companies may benefit from a lower cost of, and greater access to, capital, as well as more focused management attention.

Innovations that impact the industry may also lead to new products and services that could disrupt our business model and create new and stronger competitors. Under the license agreements with Marriott International and The Ritz-Carlton Hotel Company, if other international hotel operators offer new products and services as part of their respective hotel businesses that may directly compete with our vacation ownership products and services in the future, then Marriott International and The Ritz-Carlton Hotel Company may also offer such new products and services, and use their respective trademarks in connection with such offers. If Marriott International or The Ritz-Carlton Hotel Company offer new vacation ownership products and services under their trademarks, our vacation ownership products and services may compete directly with those of Marriott International or The Ritz-Carlton Hotel Company, and we may not be able to distinguish our vacation ownership products and services from those offered by Marriott International and The Ritz-Carlton Hotel Company. Our ability to remain competitive and to attract and retain owners depends on our success in distinguishing the quality and value of our products and services from those offered by others. If we cannot compete successfully in these areas, this could limit our operating margins, diminish our market share and reduce our earnings.

Our principal exchange network administered by Interval International included more than 3,200 resorts located in over 80 nations participated as of December 31, 2018. Interval International's primary competitor, RCI, is larger. Through the resources of its corporate affiliates, particularly, Wyndham Vacation Ownership, Inc., itself engaged in vacation ownership sales, RCI may have greater access to a significant segment of new vacation ownership purchasers and a broader platform for participating in industry consolidation. We believe that developers will continue to create, operate and expand internal exchange and vacation club systems, which decreases their reliance on external vacation ownership exchange programs, including those offered by us, and adversely impacts the supply of resort accommodations available through our external exchange networks. The effects on our business are more pronounced as the proportion of vacation club corporate members in the Interval International network increases.

Our businesses also compete for leisure travelers with other leisure lodging operators, including both independent and branded properties as well as with alternative lodging marketplaces such as Airbnb and HomeAway, which operate websites that market available furnished, privately-owned residential properties in locations throughout the world, including homes and condominiums, which can be rented on a nightly, weekly or monthly basis. Competitive pressures may cause us to reduce our fee structure or potentially modify our business models, which could adversely affect our business, financial condition and results of operations.

Our Vacation Ownership business is dependent on our ability to identify and effectively market the product to prospective purchasers.

The identification of prospective purchasers, and the marketing of our products to them, are essential to our success. We incur significant expenses associated with marketing programs in advance of closing sales of VOIs. If our marketing efforts are not successful and we are unable to convert prospects to a sufficient number of sales, we may be unable to recover the expense of our marketing programs and grow our business. This could adversely affect our financial position, results of operations and liquidity.

Our business will be materially harmed if our license agreements with Marriott International, The Ritz-Carlton Hotel Company, Starwood or Hyatt are terminated or if we are unable to maintain our ongoing relationship with these licensors.

Our success depends, in part, on the maintenance of ongoing relationships with Marriott International, The Ritz-Carlton Hotel Company, Starwood and Hyatt. Our relationships with each of these entities are governed by a number of agreements, including long-term license agreements that expire between 2090 and 2096, subject to renewal. However, if we breach our obligations under one of the license agreements, the applicable licensor may be entitled to terminate the license agreement and our rights to use their brands in connection with our businesses.

The termination of any of these license agreements would materially harm our business and results of operations and impair our ability to market and sell our products and maintain our competitive position, and could have a material adverse effect on our financial position, results of operations or cash flows. For example, we would not be able to rely on the strength of the Marriott, Ritz-Carlton, Hyatt, Sheraton and/or Westin brands to attract qualified prospects in the marketplace, which would cause our revenue and profits to decline and our marketing and sales expenses to increase. In addition, we would not be able to use the brand websites as channels through which to rent available inventory, which would cause our rental revenue to decline.

An important component of our direct marketing activities is focused on offering points to members of the loyalty programs associated with the Marriott, Ritz-Carlton, Sheraton, Westin and Hyatt brands. The agreements that we entered into with Marriott International, Starwood and Hyatt that allow us to offer these points would also terminate upon termination of the license agreements with the applicable licensor, and we would not be able to offer such points to owners and potential owners, which would impair our ability to sell our products and would reduce the flexibility and options available in connection with our products.

Our future results may suffer if Hyatt terminates or seeks to modify existing agreements with us.

We license from Hyatt the exclusive global use of the Hyatt brand in connection with the Hyatt Vacation Ownership business. Because Hyatt did not consent to the ILG Acquisition prior to the consummation thereof, Hyatt has certain specified remedies under the license agreement that it may exercise during the one-year period following the consummation of the ILG Acquisition, including, among others, the ability to (i) terminate the license agreement, which may result in us having to pay a termination fee of up to \$40 million or (ii) terminate our exclusivity under the license agreement, which may result in us having to pay certain costs and expenses in connection therewith. Hyatt may request modifications of the license agreement as a condition to consenting to the ILG Acquisition. The termination of the Hyatt license agreement, or the amendment of such agreement on terms less favorable to us, could harm our business and results of operations and impair our ability to market and sell our products and maintain our competitive position, and could have an adverse effect on our financial position, results of operations or cash flows.

If any of our licensors terminate our rights to use their trademarks at any properties that do not meet applicable brand standards, our reputation could be harmed and our ability to market and sell our products at those properties could be impaired.

Our licensors, including Marriott International, The Ritz-Carlton Hotel Company, Starwood and Hyatt, can terminate our rights under the applicable license agreement to use the licensor's trademarks at any properties that do not meet applicable brand standards. The termination of such rights could harm our reputation and impair our ability to market and sell our products at the subject properties, either of which could harm our business, and we could be subject to claims by the applicable licensor, property owners, third parties with whom we have contracted and others.

Our ability to expand our business and remain competitive could be harmed if the licensors who license their trademarks to us do not consent to the use of their trademarks at new resorts we acquire or develop in the future.

Under the terms of our license agreements with Marriott International, The Ritz-Carlton Hotel Company, Starwood and Hyatt, we must obtain the consent of the applicable licensor to use the applicable licensed trademarks in connection with resorts, residences or other accommodations that we acquire or develop in the future. If these licensors do not permit us to use their trademarks in connection with our development or acquisition plans, our ability to expand our business and remain competitive may be materially adversely affected. The requirement to obtain consent to expansion plans, or the need to identify and secure alternative expansion opportunities because we cannot obtain such consent, may delay implementation of our expansion plans and cause us to incur additional expense.

Our Vacation Ownership business depends on the quality and reputation of the brands associated with our portfolio, and any deterioration in the quality or reputation of these brands could adversely affect our market share, reputation, business, financial condition and results of operations.

We offer vacation ownership products and services under several brands. If the quality of any of these brands deteriorates, or the reputation of these brands declines, including as the result of actions by the applicable licensors of such brands, our market share, reputation, business, financial condition or results of operations could be materially adversely affected. Additionally, the positioning and offerings of any of these brands and/or the related customer loyalty programs, could change in a manner that adversely affects our business.

If a branded hotel property with which one of our resorts is co-located ceases to be operated by and/or affiliated with the same brand as our resort or a related brand, our business could be harmed.

Over a quarter of our Vacation Ownership segment resorts are co-located with same-branded hotel properties. If a branded hotel property with which one of our resorts is co-located ceases to be operated by or affiliated with the same brand as our resort, we could lose the benefits derived from co-location of our resorts, such as the sharing of amenities, infrastructure and staff, integration of services, and other cost efficiencies. Our owners could lose access to the more varied and elaborate amenities that are generally available at the larger campus of an integrated vacation ownership and hotel resort. We expect our overhead and operating costs for such resorts would increase. We would also lose our on-site access to hotel customers, including brand customer loyalty program members, at such resorts, which is a cost-effective marketing channel for our vacation ownership products, and our sales may decline.

Our Exchange & Third-Party Management business depends on relationships with developers, members and other vacation property owners and any adverse changes in these relationships could adversely affect our business, financial condition and results of operations.

Our Interval International business is dependent upon vacation ownership developers for new members and upon members and participants to renew their existing memberships and otherwise engage in transactions. Developers and members also supply resort accommodations for use in exchanges and Getaways. Our vacation rental business is dependent upon vacation property and hotel owners for vacation properties to rent to vacationers. The Interval International network has established relationships with numerous developers pursuant to exclusive multi-year affiliation agreements and we believe that relationships with these entities are generally strong, but these historical relationships may not continue in the future. During each year, the affiliation agreements for several of the Interval International's new member-producing developers are scheduled to renew. The non-renewal of an affiliation agreement will adversely affect our ability to secure new members for our programs from the non-renewing resort or developer, and will result in the loss of existing Interval International members (and their vacation interests) at the end of their current membership to the extent that we do not secure membership renewals directly from such members. For corporate member relationships, where the developer renews Interval International membership fees for all of its active owners, this has a greater effect.

In addition, we may be unable to negotiate new affiliation agreements with resort developers or secure renewals with existing members in our Interval International network, and our failure to do so would result in decreases in the number of new and/or existing members, the supply of resort accommodations available through our exchange networks and related revenue. The loss or renegotiation on less favorable terms of several of our largest affiliation agreements could materially impact our financial condition and results of operations.

Similarly, the failure of our third party management businesses to maintain existing or negotiate new management agreements with hotel and vacation property owners or owners associations, as a result of the sale of property to third parties, contract dispute or otherwise, or the failure of vacationers to book vacation rentals through these businesses would result in a decrease in related revenue, which would have an adverse effect on our business, financial condition and results of operations.

If we are not able to maintain relationships with third parties that support our marketing activities or our travel benefits, our business could be harmed.

Many of our marketing activities require us to maintain relationships with third parties. For example, we market to our licensors' existing customer loyalty program members and travelers who are staying in locations where we have resorts. We also market to guests in Marriott International hotels that are located near one of our sales locations and have marketing partnerships with North American Marriott International reservation centers. In addition, we operate other local marketing venues in various high-traffic areas. If we are not able to maintain these marketing arrangements with these third parties on terms that are favorable to us or at all, our sales may decline, which could adversely affect our financial conditions and result of operations.

In addition, we depend on third parties to make certain benefits available to members of the Interval International network and we may not be able to provide these benefits to members if these third-parties won't make these benefits available. The loss of such benefits could result in a decrease in the number of Interval International members, which could materially adversely effect on our business, financial condition and results of operations.

Our business may be adversely affected by factors that disrupt or deter travel.

The success of our business and our profitability depend, in substantial part, upon the health of the worldwide vacation ownership, vacation rental and travel industries, and may be adversely affected by a number of factors that can disrupt or deter travel. A substantial amount of our sales activity occurs at our resorts, and sales volume is impacted by the number of prospective owners who visit our resorts. Fear of exposure to contagious and other diseases, such as Ebola virus, H1N1 Flu, Avian Flu, the Zika virus and Severe Acute Respiratory Syndrome, or natural or man-made disasters, such as earthquakes, tsunamis, hurricanes, floods, fires, volcanic eruptions, sinkholes, radiation releases, gas leaks and oil spills, may deter travelers from scheduling sales tours at our resorts or cause them to cancel travel plans. Damage to infrastructure, whether caused by natural or man-made disasters or other causes, that impedes travel may cause travelers to delay or cancel plans to tour or visit our resorts. Actual or threatened war, civil unrest and terrorist activity, as well as heightened travel security measures instituted in response to the same, could also interrupt or deter travel plans. In addition, demand for vacation options such as our vacation ownership products may decrease if the cost of travel, including the cost of transportation and fuel, increases, airlift to vacation destinations decreases, or if general economic conditions decline. Changes in the desirability of the destinations where our branded, managed or exchange resorts are located and changes in vacation and travel patterns may adversely affect our cash flows, revenue and profits. For example, hurricanes in 2017 caused the Westin St. John Resort Villas; the Hyatt Residence Club Dorado, Hacienda del Mar and a number of other Interval International network resorts on affected islands to close for a prolonged period.

Third-party reservation channels may negatively affect our rental revenues.

Some of our rental customers book their stays at our resorts through third-party internet travel intermediaries, such as expedia.com, orbitz.com and booking.com, as well as lesser-known and newly emerging online travel service providers. If the percentage of bookings through these intermediaries increases, they may be able to obtain higher commissions, reduced room rates or other significant contract concessions from us. Moreover, some of these internet travel intermediaries are attempting to commoditize lodging by increasing the importance of price and general indicators of quality (such as “three-star property”) at the expense of brand identification. These intermediaries also generally employ aggressive marketing strategies, including expending significant resources for online and television advertising campaigns to drive consumers to their websites. Additionally, consumers can book stays at our resorts through other distribution channels, including travel agents, travel membership associations and meeting procurement firms. Over time, consumers may develop loyalties to these third-party reservation systems rather than to our booking channels. Although we expect to derive most of our business from traditional channels and our websites (and those of Marriott International, the Ritz-Carlton Hotel Company, Starwood and Hyatt), our business and profitability could be adversely affected if customer loyalties change significantly, diverting bookings away from our resorts.

Our business is subject to extensive regulation, and any failure to comply with applicable laws and regulations could have a material adverse effect on our business.

Our business is heavily regulated. We are subject to a wide variety of complex international, national, federal, state and local laws, regulations and policies in jurisdictions around the world, including those specific to the vacation ownership industry, as well as those applicable to businesses generally. For example, the vacation ownership industry is subject to extensive regulations in various jurisdictions in the United States and elsewhere, which generally require vacation ownership resort developers to follow certain procedures in connection with the development, sale and marketing of vacation interests, including the filing of offering statements with relevant governmental authorities for approval and the delivery to prospective purchasers of certain information relating to the terms of the purchase and use, including rescission rights. The preparation of VOI registrations requires time and cost, and in many jurisdictions the exact date of registration approval cannot be accurately predicted. Separately, some laws, regulations and policies impact multiple areas of our business, such as securities, anti-discrimination, anti-fraud, data protection and security and anti-corruption and bribery laws and regulations or government economic sanctions, including applicable regulations of the Consumer Financial Protection Bureau, the U.S. Department of the Treasury’s Office of Foreign Assets Control and the U.S. Foreign Corrupt Practices Act. Other laws, regulations and policies primarily affect our real estate development activities; marketing and sales activities; lending activities; or resort management activities. Additionally, our businesses are subject to laws and regulations associated with hotel and resort management, including relating to the preparation and sale of food and beverages, liquor service and health, safety and accessibility of managed premises.

We may not be successful in maintaining compliance with all laws, regulations and policies to which we are currently subject, and the cost of compliance with such laws, regulations and policies could be significant. While we believe that our operations and practices have been structured in a manner to materially comply with applicable laws, regulations and policies, the relevant regulatory authorities may take a contrary position. The laws, regulations and policies to which we are subject may change or be subject to different interpretation in the future, including in ways that could decrease demand for the services offered by our businesses, increase costs, subject us to additional liabilities and negatively impact our business, including by decreasing demand for the services offered by our businesses, increasing costs and/or subjecting us to additional liabilities. Failure to comply with current or future applicable laws, regulations and policies could have a material adverse effect on our business. For example, if we do not comply with applicable laws, governmental authorities in the jurisdictions where the violations occurred may revoke or refuse to renew licenses or registrations we must have in order to operate our business. In addition, Europe's 2016 General Data Protection Regulation ("GDPR"), which became effective on May 25, 2018, extends the jurisdictional scope of European data protection law and imposes additional data protection requirements; potential penalties for non-compliance with the GDPR include administrative fines of up to 4 percent of our annual worldwide revenue. Failure to comply with applicable laws could also render sales contracts for our products void or voidable, subject us to fines or other sanctions and increase our exposure to litigation, including claims against us by individuals alleging our failure to comply with laws, regulations or policies to which we are subject. Adverse action by governmental authorities alleging our failure to comply with laws, regulations or policies, or litigation by individuals alleging such failures, could adversely affect our business, financial condition and reputation.

Changes in tax regulations or their interpretation could reduce our profits or increase our costs.

Jurisdictions in which we do business may at any time review tax and other revenue raising laws, regulations and policies, and any resulting changes could impose new restrictions, costs or prohibitions on our current practices and reduce our profits. In particular, governments may revise tax laws, regulations or official interpretations in ways that could have a significant impact on us, including modifications that could reduce the profits that we can effectively realize from our non-U.S. operations, or that could require costly changes to those operations, or the way that we structure them. For example, the effective tax rates of most U.S. corporations reflect the fact that income earned and reinvested outside the United States is generally taxed at local rates, which are often much lower than U.S. tax rates. In addition, interpretation of tax regulations requires us to exercise our judgment and taxing authorities or our independent registered public accounting firm may reach conclusions about the application of such regulations that differ from our conclusions. If changes in tax laws, regulations or interpretations were to significantly increase the tax rates on non-U.S. income, our effective tax rate could increase, our profits could be reduced, and if such increases were a result of our status as a U.S. corporation, we could be placed at a disadvantage to our non-U.S. competitors if those competitors remain subject to lower local tax rates.

On December 22, 2017, President Trump signed into law H.R. 1, originally known as the "Tax Cuts and Jobs Act," which significantly reforms the Internal Revenue Code of 1986, as amended (the "Code"). The new legislation, among other things, includes changes to U.S. federal tax rates, imposes significant additional limitations on the deductibility of interest, allows for the expensing of capital expenditures, and shifts from a "worldwide" system of taxation in which U.S. companies are taxed on their global income to a territorial system in which U.S. companies are only taxed on income earned in the United States. During 2018, the Department of the Treasury issued certain guidance in the form of notices and proposed regulations with respect to several provisions of the new legislation. We expect that additional regulations or other guidance may be issued with respect to the Tax Cut and Jobs Act in 2019 and subsequent years. We continue to examine the impact this tax reform legislation may have on our business. The impact of certain provisions of this tax reform on our financial condition and results of operations could be adverse and such impact could be material. In addition, foreign governments and U.S. state and local jurisdictions may enact tax laws in response to the Tax Cuts and Jobs Act that could result in further changes to global taxation and materially affect our financial position and results of operations.

In October 2015, the Organization for Economic Co-Operation and Development ("OECD") released a final package of suggested measures to be implemented by member nations in response to a 2013 action plan calling for a coordinated multi-jurisdictional approach to "base erosion and profit shifting" by multinational companies. Multiple member jurisdictions, including countries in which we operate, have begun implementing recommended changes such as country by country reporting. These standards require multinationals to disclose certain financial and economic indicators across geographies and are expected to result in increased global tax audit activity. Additional legislative changes are anticipated in upcoming years. Certain countries have adopted unilateral changes increasing the risk of double taxation. Any changes to U.S. or international tax laws or interpretation of current or existing law could impact the tax treatment of our earnings and adversely affect our profitability.

We are also subject to audit in various jurisdictions, and these jurisdictions may assess additional taxes against us. Developments in an audit, litigation, or the relevant laws, regulations, administrative practices, principles, and interpretations could have a material effect on our operating results or cash flows in the period or periods for which that development occurs, as well as for prior and subsequent periods. Although we believe our tax estimates are reasonable, the final outcome of tax audits, investigations, and any related litigation could be materially different from our historical tax provisions and accruals.

Changes in privacy laws could adversely affect our ability to market our products effectively.

We rely on a variety of direct marketing techniques, including telemarketing, email marketing and postal mailings. Adoption of new state or federal laws regulating marketing and solicitation, or international data protection laws that govern these activities, or changes to existing laws, such as the Telemarketing Sales Rule, the CANS-PAM Act and the GDPR, could adversely affect the continuing effectiveness of telemarketing, email and postal mailing techniques and could force us to make further changes in our marketing strategy. If this occurs, we may not be able to develop adequate alternative marketing strategies, which could impact the amount and timing of our sales of VOIs and other products. We also obtain access to potential customers from travel service providers or other companies with whom we have relationships and market to some individuals on these lists directly or by including our marketing message in the other companies' marketing materials. If access to these lists was prohibited or otherwise restricted, our ability to develop new customers and introduce our products to them could be impaired.

Our points-based product forms expose us to an increased risk of temporary inventory depletion.

Selling VOIs in a system of resorts under a points-based business model increases the risk of temporary inventory depletion. Currently, our VOI sales are made primarily through a limited number of trust entities that issue VOIs. This structure can lead to a temporary depletion of inventory available for sale caused by: (1) delayed delivery of inventory under construction by us or third parties; (2) delayed receipt of required governmental registrations of inventory for sale; and (3) significant unanticipated increases in sales pace. If the inventory available for sale for a particular trust were to be depleted before new inventory is added and available for sale, we would be required to temporarily suspend sales until inventory is replenished. While we seek to avoid the risk of temporary inventory depletion by maintaining a surplus supply of completed inventory based on our forecasted sales pace, as well as by employing other mitigation strategies such as accelerating completion of resorts under construction, acquiring VOIs on the secondary market, or reducing sales pace by adjusting prices or sales incentives, a decline in VOI inventory could decrease our financing revenues generated from purchasers of VOIs and fee revenues generated by providing club, management, exchange, sales and marketing services. In addition, any temporary suspension of sales due to lack of inventory could reduce our cash flow and have a negative impact on our results of operations.

Our development activities expose us to project cost and completion risks.

Our ongoing development of new vacation ownership properties and new phases of existing vacation ownership properties presents a number of risks. Our profits may be adversely affected if construction costs escalate faster than the pace at which we can increase the price of VOIs. Construction delays, zoning and other local approvals, cost overruns, lender financial defaults, or natural or manmade disasters, such as earthquakes, tsunamis, hurricanes, floods, fires, volcanic eruptions, radiation releases and oil spills, may increase overall project costs or result in project cancellations. In addition, any liability or alleged liability associated with latent defects in projects we have constructed or that we construct in the future may adversely affect our business, financial condition and reputation.

The maintenance and refurbishment of vacation ownership properties, and the continued financial viability of property owners' associations, depends on maintenance fees paid by the owners of VOIs.

The maintenance fees that are levied on owners of our VOIs by property owners' association boards are used to maintain and refurbish the vacation ownership properties. Property owners' association boards may not levy sufficient maintenance fees, or owners of VOIs may fail to pay their maintenance fees for reasons such as financial hardship or because of damage to their VOIs from natural disasters such as hurricanes. Many of the third-party properties that we manage do not receive subsidies or resale services for foreclosed inventory from the developer. Once a property owners' association begins to experience a high default rate, if it is unable to foreclose and resell units to paying owners, the situation worsens as the maintenance fees assessed to remaining owners continually increase to cover expenses. In these circumstances, not only could our management fee revenue be adversely affected, but the vacation ownership properties could fall into disrepair. If the property owners' associations that we manage are unable to levy and collect sufficient maintenance fees to cover the costs to operate and maintain the resort properties, such properties may be forced to close or file for bankruptcy, which may result in termination of our management agreements.

For branded resorts, the maintenance fees are used to keep the properties in compliance with applicable brand standards. If a resort fails to comply with applicable brand standards, the applicable licensor could terminate our rights under the applicable license agreement to use its trademarks at the non-compliant resort, which would result in the loss of management fees, decreased customer satisfaction and impairment of our ability to market and sell our products at the non-compliant locations.

If maintenance fees at our resorts are required to be increased, our products could become less attractive and our business could be harmed.

The maintenance fees that are levied on owners of our VOIs by property owners' association boards may increase as the costs to maintain and refurbish the vacation ownership properties and to keep the properties in compliance with brand standards increase. A similar situation may arise with respect to fees imposed on owners of VOIs with respect to new properties added to our portfolio. Increased maintenance fees could make our products less desirable, which could have a negative impact on sales of our products and could also cause an increase in defaults with respect to our vacation ownership notes receivable portfolio.

Disagreements with the owners of VOIs and property owners' associations may result in litigation and the loss of management contracts.

The nature of our relationships with our owners and our responsibilities in managing our vacation ownership properties will from time to time give rise to disagreements with the owners of VOIs and property owners' associations. Owners of our VOIs may also disagree with changes we make to our products or programs. We seek to expeditiously resolve any disagreements in order to develop and maintain positive relations with current and potential owners and property owners' associations, but cannot always do so. Failure to resolve such disagreements has resulted in litigation, and could do so again in the future. If any such litigation results in a significant adverse judgment, settlement or court order, we could suffer significant losses, our profits could be reduced, our reputation could be harmed and our future ability to operate our business could be constrained. Disagreements with property owners' associations have in the past and could in the future result in the loss of management contracts.

The expiration, termination or renegotiation of our management contracts could adversely affect our cash flows, revenues and profits.

We enter into a management agreement with the property owners' association or other governing body at each of the resorts we manage and, when a trust holds interests in resorts, with the trust's governing body. The management fee is typically based on either a percentage of the budgeted costs to operate such resorts or a fixed or variable fee arrangement. We also receive revenues that represent reimbursement for certain costs we incur under our management agreements, principally payroll-related costs at the locations where we employ the associates providing on-site services. The terms of our management agreements typically range from three to ten years and are generally subject to periodic renewal for one to five year terms. Many of these agreements renew automatically unless either party provides notice of termination before the expiration of the term. Any of these management contracts may expire at the end of its then-current term (following notice by a party of non-renewal) or be terminated, or the contract terms may be renegotiated in a manner adverse to us. Upon non-renewal or termination of our management agreement for a particular resort, we lose the management fee revenue associated with the resort. If a management agreement is terminated or not renewed on favorable terms, our cash flows, revenues and profits could be adversely affected.

Concentration of some of our resorts, sales centers and exchange destinations in particular geographic areas exposes our business to the effects of regional events and occurrences in these areas.

Some of our Vacation Ownership resorts and sales centers are concentrated in particular geographic areas, such as Florida, South Carolina, and Hawaii. Therefore, our business can be susceptible to the effects of natural or manmade disasters in these areas, including earthquakes, windstorms, tornadoes, hurricanes, typhoons, tsunamis, volcanic eruptions, floods, drought, fires, oil spills and nuclear incidents. Depending on the severity of these disasters, the resulting damage could require closure of all or substantially all of our properties in one or more of these markets for a period of time necessary to complete repairs and renovations. We cannot guarantee that the amount of insurance maintained for these properties would cover all damages caused by any such an event, including the loss of sales of VOIs at sales centers that are not fully operational.

Our business also can be susceptible to the effects of adverse economic developments in these areas, such as regional economic downturns, significant increases in the number of our competitors' products in these markets and potentially higher labor, real estate, tax or other costs in the geographic markets in which we are concentrated. As a result of this geographic concentration of properties, we face a greater risk of a negative effect on our revenues in the event these areas are affected by extreme weather, manmade disasters or adverse economic and competitive conditions. Similarly, the effects of climate change may cause these locations to become less appealing to vacationers as a result of temperature changes, more severe weather or changes to coastal areas which could adversely affect our business.

Our ongoing ability to successfully process exchange vacations for members, as well as our ability to find purchasers and vacationers for accommodations marketed or managed by us, is largely dependent on the continued desirability of the key vacation destinations in which these properties are concentrated. In addition, the same events that affect demand to one or more of these areas could significantly reduce the number of accommodations available for exchanges, Getaways or rental to vacationers, as well as the need for vacation rental and property management services generally. Any significant shift in travel demand for one or more of these key destinations or any adverse impact on transportation to them, including the factors described above, could have a material adverse effect on our business, financial condition and results of operations.

Damage to, or other potential losses involving, properties that we own or manage may not be covered by insurance.

Market forces beyond our control may limit the scope of the insurance coverage we can obtain or our ability to obtain coverage at reasonable rates. Certain types of losses, generally of a catastrophic nature, such as earthquakes, hurricanes and floods, or terrorist acts, may be uninsurable or the price of coverage for such losses may be too expensive to justify obtaining insurance. As a result, the cost of our insurance may increase and our coverage levels may decrease. In addition, in the event of a substantial loss, the insurance coverage we carry may not be sufficient to pay the full market value or replacement cost of our lost investment or that of owners of VOIs or in some cases may not provide a recovery for any part of a loss due to deductible limits, policy limits, coverage limits or other factors. As a result, we could lose some or all of the capital we have invested in a property, as well as the anticipated future revenue from the property, and we could remain obligated under guarantees or other financial obligations related to the property. In addition, we could lose the management contract for the property and, to the extent such property operates under a licensed brand, the property may lose operating rights under the associated brand.

Our pursuit of new business opportunities to grow our business may not be successful.

One of our strategic initiatives is to selectively pursue new business opportunities, such as the continued enhancement of our exchange programs, new management affiliations and acquisitions of existing vacation ownership and related businesses. In addition, in order to support our strategic objectives, we have introduced new products and services and we expect to continue to do so in the future. There are substantial risks and uncertainties associated with these efforts, particularly in connection with opportunities in locations where the markets for vacation ownership products are not fully developed. We may invest significant time and resources in developing and marketing new businesses, products or services. Initial timetables for the introduction and development of new businesses, products or services may not be achieved and price and profitability targets may not prove feasible. External factors, such as compliance with regulations, competitive alternatives and shifting market preferences, may also impact the successful implementation of new businesses and the market acceptance of new products and services. Furthermore, any new business could strain our system of internal controls and diminish its effectiveness. Failure to successfully manage these risks in the development and implementation of new businesses or new products and services could have a material adverse effect on our business, results of operations and financial condition. Additionally, our results of operations from new products and services that we may wish to introduce could have different revenue recognition under GAAP than our strategic objectives.

We are subject to certain requirements under applicable environmental laws and regulations and may be subject to potential liabilities.

The resorts that we manage and the assets at vacation ownership resorts that are owned by us are all subject to certain requirements and potential liabilities under foreign, national, state, and local laws and regulations that govern the discharge of materials into the environment or otherwise relate to protection of the environment or health and safety. The costs of complying with these requirements are generally covered by the property owners' associations that operate the affected resort property and are our responsibility for assets we own. To the extent that we hold interests in a particular resort, we would be responsible for their share of losses sustained by such resort as a result of a violation of any such environmental laws and regulations.

The growth of our business and the execution of our business strategies depend on the services of our senior management and our associates.

We believe that our future growth depends, in part, on the continued services of our senior management team, including our President and Chief Executive Officer, Stephen P. Weisz, and on our ability to successfully implement succession plans for members of our senior management team. The loss of any members of our senior management team, or the failure to identify successors for such positions, could adversely affect our strategic and customer relationships and impede our ability to execute our business strategies.

In addition, insufficient numbers of talented associates could constrain our ability to maintain and expand our business. We compete with other companies both within and outside of our industry for talented personnel. If we cannot recruit, train, develop or retain sufficient numbers of talented associates, we could experience increased associate turnover, decreased guest satisfaction, low morale, inefficiency or internal control failures. We may not be able to locate suitable replacements for any key employees who leave our company, or offer employment to potential replacements on reasonable terms.

Goodwill, acquired mortgages receivable and other intangible and long-lived assets associated with businesses we acquire and/or VOI inventory may become impaired which could adversely affect our business, financial condition and results of operations.

The performance of the businesses that we have acquired or will acquire may not meet the financial projections anticipated at acquisition or may be impacted by one or more unfavorable events or circumstances. This could negatively affect the value of goodwill, acquired mortgages receivable and other intangible assets, as well as long-lived assets, and may require us to test the applicable reporting unit and/or asset for impairment. If following the test, we determine that we should record an impairment charge, our business, financial condition and results of operations may be adversely affected. Additionally, we carry our acquired VOI inventory at estimated fair value, less costs to sell. If the estimates or assumptions used in our evaluation of impairment or fair value change, we may be required to record impairment losses on certain of those assets, which could adversely affect our results of operations.

Our use of different estimates and assumptions in the application of our accounting policies could result in material changes to our reported financial condition and results of operations, and changes in accounting standards or their interpretation could significantly impact our reported results of operations.

Our accounting policies are critical to the manner in which we present our results of operations and financial condition. Many of these policies, including policies relating to the recognition of revenue and determination of cost of sales, are highly complex and involve many assumptions, estimates and judgments. We are required to review these assumptions, estimates and judgments regularly and revise them when necessary. Our actual results of operations vary from period to period based on revisions to these estimates. In addition, the regulatory bodies that establish accounting and reporting standards, including the SEC and the Financial Accounting Standards Board, periodically revise or issue new financial accounting and reporting standards that govern the preparation of our consolidated financial statements. Changes to these standards or their interpretation could significantly impact our reported results in future periods. See Footnote 2 “Summary of Significant Accounting Policies” to our Financial Statements for more information regarding changes in accounting standards that we recently adopted or expect to adopt in the future.

Risks related to our indebtedness and ownership of our common stock

Our indebtedness could adversely affect our business, financial condition and results of operations, including by decreasing our business flexibility.

In connection with the completion of the ILG Acquisition, we significantly increased our level of indebtedness. As of December 31, 2018, we had approximately \$2,178 million of total corporate indebtedness outstanding, including (i) \$900 million of gross secured indebtedness under the Corporate Credit Facility, (ii) \$750 million of 6.500% Senior Notes due 2026, (iii) \$141 million 5.625% Senior Notes due 2023 issued by Interval Acquisition Corp., (iv) \$230 million of 1.50% Convertible Notes due 2022 (the “Convertible Notes”) and (v) \$89 million of 5.625% Senior Notes due 2023 issued by Marriott Ownership Resorts, Inc. An additional \$596 million was available for borrowing under the Revolving Corporate Credit Facility (excluding \$4 million of outstanding letters of credit) as of December 31, 2018.

The credit agreement that governs the Corporate Credit Facility and the indentures that govern the various senior notes impose significant operating and financial restrictions on us, which among other things limit our ability and the ability of certain of our subsidiaries to incur debt, pay dividends and make other restricted payments, make loans and investments, incur liens, sell assets, enter into affiliate transactions, enter into agreements restricting certain subsidiaries' ability to pay dividends and consolidate, merge or sell all or substantially all of their assets. Also, the indenture governing the senior notes issued by Interval Acquisition Corp. includes covenants and restrictions that limit how Interval Acquisition Corp. and its subsidiaries can interact with the rest of our company. All of these covenants and restrictions limit how we conduct our business. In addition, we are required to maintain a specified leverage ratio under the terms of the Corporate Credit Facility.

The terms of any future indebtedness we may incur could include more restrictive covenants. We may not be able to maintain compliance with applicable covenants and, if we fail to do so, we may not be able to obtain waivers from the lenders and/or amend the covenants. Our failure to comply with the restrictive covenants described above as well as others contained in our debt instruments from time to time could result in an event of default, which, if not cured or waived, could result in our being required to repay such indebtedness before its due date or to have to negotiate amendments to or waivers thereof, which may have unfavorable terms or result in the incurrence of additional fees and expenses.

Our level of indebtedness could restrict our future operations and impact our ability to meet our payment obligations.

Our ability to make scheduled cash payments on and to refinance our indebtedness as well as to fund planned capital expenditures will depend on our ability to generate significant operating cash flow in the future, which, to a significant extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. We may not be able to maintain a sufficient level of cash flow from operating activities to permit us to pay the principal, premium, if any, and interest on our indebtedness.

Our increased level of debt, together with the covenants included in the agreements governing such indebtedness, among other things:

- requires us to dedicate a portion of our cash flow from operations to servicing and repayment of debt;
- reduces funds available for strategic initiatives and opportunities, dividends, share repurchases, working capital and other general corporate needs;
- limits our ability to incur certain kinds or amounts of additional indebtedness, which could restrict our flexibility to react to changes in our businesses, industries and economic conditions and increase borrowing costs;
- creates competitive disadvantages relative to other companies with lower debt levels; and
- increases our vulnerability to the impact of adverse economic and industry conditions.

In addition, our credit ratings will impact the cost and availability of future borrowings and, accordingly, our cost of capital. Downgrades in our ratings could adversely affect our businesses, cash flows, financial condition, operating results and share and debt prices, as well as our obligations with respect to our capital efficient inventory acquisitions.

We may incur substantially more debt. This could exacerbate further the risks associated with our leverage.

We and our subsidiaries may incur substantial additional indebtedness in the future, including secured indebtedness. As of December 31, 2018, we had approximately \$3,884 million of total gross indebtedness outstanding. In the future, we could increase the amount available for borrowing under the Corporate Credit Facility by up to an amount equal to (i) the greater of \$750 million and 100% of our Consolidated EBITDA (as defined in the Corporate Credit Facility) plus (ii) voluntary prepayments of loans and voluntary permanent commitment reductions under the Corporate Credit Facility and certain other reductions of debt plus (iii) additional amounts as long as the incurrence of such additional amounts would not exceed certain leverage ratios, in each case subject to securing additional commitments and certain other conditions.

Although the indentures that govern our various senior notes and our credit agreement for the Corporate Credit Facility limit our ability and the ability of our present and future subsidiaries to incur additional indebtedness, the terms of such agreements and instruments permit us to incur significant additional indebtedness. In addition, the indentures governing the senior notes allow us to issue additional notes under certain circumstances, which will also be guaranteed by the guarantors. Furthermore, such agreements and instruments will not prohibit us from incurring obligations that do not constitute indebtedness as defined therein. To the extent that we and our subsidiaries incur additional indebtedness or such other obligations, the risks associated with our substantial indebtedness described above, including our potential inability to service our debt, will increase.

If the default rates or other credit metrics underlying our vacation ownership notes receivable deteriorate, our vacation ownership notes receivable securitization program and VOI financing program could be adversely affected.

Our vacation ownership notes receivable portfolio performance and securitization program could be adversely affected if a particular vacation ownership notes receivable pool fails to meet certain ratios, which could occur if the default rates or other credit metrics of the underlying vacation ownership notes receivable deteriorate. Default rates may deteriorate due to many different reasons, including those beyond our control, such as financial hardship of purchasers. In addition, if we offer loans to our customers with terms longer than those generally offered in the industry, our ability to securitize those loans may be adversely impacted. Our ability to sell securities backed by our vacation ownership notes receivable depends on the continued ability and willingness of capital market participants to invest in such securities. Volatility in the credit markets may impact the timing and volume of the vacation ownership notes receivable that we are able to securitize. ABS issued in our securitization programs could be downgraded by credit agencies in the future. If a downgrade occurs, our ability to complete other securitization transactions on acceptable terms or at all could be jeopardized, and we could be forced to rely on other potentially more expensive and less attractive funding sources, to the extent available. Similarly, if other operators of vacation ownership products experience significant financial difficulties, or if the vacation ownership industry, as a whole, contracts, we could experience difficulty in securing funding on acceptable terms. The occurrence of any of the foregoing would decrease our profitability and liquidity, which might require us to adjust our business operations, including by reducing or suspending our provision of financing to purchasers of VOIs. Sales of VOIs may decline if we reduce or suspend the provision of financing to purchasers, which may adversely affect our cash flows, revenues and profits.

The conditional conversion feature of the Convertible Notes, if triggered, may adversely affect our financial condition and operating results.

Although holders of the Convertible Notes are generally not permitted to convert the Convertible Notes until June 15, 2022, in the event the conditional conversion feature of the Convertible Notes is triggered due to the trading price of the Convertible Notes or our common stock, holders of the Convertible Notes will be entitled to convert the Convertible Notes at any time during specified periods at their option. See Footnote 14 “Debt,” to our Financial Statements for additional information. If one or more holders elect to convert their Convertible Notes, we may elect to settle all or a portion of our conversion obligation through the payment of cash, which could adversely affect our liquidity.

We may not have the ability to raise the funds necessary to settle conversions of the Convertible Notes or to repurchase the Senior Unsecured Notes, the Exchange Notes, the IAC Notes or the Convertible Notes upon a fundamental change.

Upon the occurrence of certain fundamental changes, holders of the Senior Unsecured Notes, the Exchange Notes, the IAC Notes and the Convertible Notes have the right to require us to repurchase their notes at a purchase price equal to a specified percentage of the principal amount of the notes to be repurchased, plus accrued and unpaid interest, if any, to, but not including, the repurchase date. In addition, unless we elect to deliver solely shares of our common stock upon conversion of the Convertible Notes, we will be required to make cash payments in respect of the notes being converted. However, we may not have enough available cash or be able to obtain financing at the time we are required to make purchases of notes surrendered therefor or Convertible Notes being converted. In addition, our ability to repurchase the Senior Unsecured Notes, the Exchange Notes, the IAC Notes and/or the Convertible Notes or to pay cash upon conversions of the Convertible Notes may be limited by the agreements governing our existing indebtedness (including the credit agreement governing the Corporate Credit Facility) and may also be limited by law, by regulatory authority or by agreements that will govern our future indebtedness. Our failure to repurchase the Senior Unsecured Notes, the Exchange Notes, the IAC Notes and/or the Convertible Notes at a time when the repurchase is required or to pay cash payable on future conversions of the Convertible Notes as required would constitute a default under the applicable notes. Such a default or the fundamental change itself could also lead to a default under agreements governing our existing or future indebtedness (including the Corporate Credit Facility). If the repayment of the related indebtedness were to be accelerated after any applicable notice or grace periods, we may not have sufficient funds to repay the indebtedness and repurchase the Senior Unsecured Notes, the Exchange Notes, the IAC Notes and the Convertible Notes or make cash payments upon conversions of the Convertible Notes.

The accounting method for convertible debt securities that may be settled in cash, such as the Convertible Notes, may have a material effect on our reported financial results.

Under Accounting Standards Codification (“ASC”) Topic 470-20, Debt with Conversion and Other Options (“ASC 470-20”), an entity must separately account for the liability and equity components of certain convertible debt instruments (such as the Convertible Notes) that may be settled entirely or partially in cash upon conversion in a manner that reflects the issuer’s economic interest cost. The effect of ASC 470-20 on the accounting for the Convertible Notes is that the equity component is required to be included in the additional paid-in capital section of stockholders’ equity on our consolidated balance sheet, and the value of the equity component has been treated as original issue discount for purposes of accounting for the debt component of the Convertible Notes. As a result, we will be required to record a greater amount of non-cash interest expense in current periods presented as a result of the amortization of the discounted carrying value of the Convertible Notes to their face amount over the term of the Convertible Notes. We will report lower net income (or greater net loss) in our financial results because ASC 470-20 requires interest to include both the current period’s amortization of the debt discount and the instrument’s coupon interest, which could adversely affect our reported or future financial results, the market price of our common stock and the trading price of the Convertible Notes.

In addition, under certain circumstances, convertible debt instruments (such as the Convertible Notes) that may be settled entirely or partly in cash may be accounted for utilizing the treasury stock method if we have the ability and intent to settle in cash, the effect of which is that the shares issuable upon conversion of the Convertible Notes are not included in the calculation of diluted earnings per share except to the extent that the conversion value of the Convertible Notes exceeds their principal amount. Under the treasury stock method, for diluted earnings per share purposes, the transaction is accounted for as if the number of shares of common stock that would be necessary to settle such excess, if we elected to settle such excess in shares, are issued. Although we currently account for the Convertible Notes under the treasury stock method, we cannot be sure that we will be able to continue to demonstrate the ability or intent to settle the Convertible Notes in cash or that the accounting standards in the future will continue to permit the use of the treasury stock method. If we are unable to use the treasury stock method in accounting for the shares issuable upon conversion of the Convertible Notes, then our diluted earnings per share would be adversely affected.

The Convertible Note Hedges and Warrants may affect the value of our common stock.

In connection with the Convertible Notes, we entered into privately negotiated convertible note hedges (the “Convertible Note Hedges”) with affiliates of two of the initial purchasers of the Convertible Notes. The Convertible Note Hedges cover, subject to customary anti-dilution adjustments substantially similar to those applicable to the Convertible Notes, the same number of shares of common stock that initially underlay the Convertible Notes. The Convertible Note Hedges are expected generally to reduce potential dilution to our common stock and/or offset cash payments we are required to make in excess of the principal amount, in each case, upon any conversion of Convertible Notes. Concurrently with our entry into the Convertible Note Hedges, we entered into warrant transactions (the “Warrants”) with the hedge counterparties relating to the same number of shares of common stock. The Warrants could separately have a dilutive effect on our shares of common stock to the extent that the market price per share exceeds the applicable strike price of the Warrants on one or more of the applicable expiration dates.

In connection with establishing their initial hedges of the Convertible Note Hedges and the Warrants, the hedge counterparties and/or their respective affiliates advised us that they expected to purchase shares of our common stock in secondary market transactions and/or enter into various derivative transactions with respect to our common stock concurrently with or shortly after the pricing of the Convertible Notes. The hedge counterparties and/or their respective affiliates may modify their hedge positions by entering into or unwinding various derivatives with respect to our common stock and/or purchasing or selling our common stock in the secondary market. The effect, if any, of these activities on the market price of our common stock or the Convertible Notes will depend in part on market conditions and cannot be ascertained at this time, but any of these activities could cause or prevent an increase or a decline in the market price of our common stock or the Convertible Notes.

We are subject to counterparty risk with respect to the Convertible Note Hedges.

The counterparties to the Convertible Note Hedges are financial institutions, and we are subject to the risk that one or more of the hedge counterparties may default under the Convertible Note Hedges. Our exposure to the credit risk of the hedge counterparties is not secured by any collateral. If any of the hedge counterparties become subject to insolvency proceedings, we will become an unsecured creditor in those proceedings with a claim equal to our exposure at that time under our transactions with such counterparties. Our exposure will depend on many factors but, generally, the increase in our exposure will be correlated to the increase in the market price and in the volatility of our common stock. In addition, upon a default by a hedge counterparty, we may suffer adverse tax consequences and more dilution than we currently anticipate with respect to our common stock. We can provide no assurances as to the financial stability or viability of the hedge counterparties.

Our share repurchase program may not enhance long-term stockholder value and could increase the volatility of the market price of our common stock and diminish our cash reserves.

The share repurchase program authorized by our Board of Directors does not obligate us to repurchase any specific dollar amount, or to acquire any specific number, of shares of our common stock. The timing and amount of repurchases, if any, will depend upon several factors, including market conditions, business conditions, statutory and contractual restrictions, the trading price of our common stock and the nature of other investment opportunities available to us. The repurchase program may be limited, suspended or discontinued at any time without prior notice. In addition, repurchases of our common stock pursuant to our share repurchase program could affect our stock price and increase its volatility. The existence of a share repurchase program could cause our stock price to be higher than it would be in the absence of such a program and could potentially reduce the market liquidity for our stock. Additionally, our share repurchase program could diminish our cash reserves, which may impact our ability to finance future growth, pursue possible future strategic opportunities and acquisitions, and discharge liabilities. Our share repurchases may not enhance stockholder value because the market price of our common stock may decline below the prices at which we repurchased shares of stock and short-term stock price fluctuations could reduce the program's effectiveness.

Our ability to pay dividends on our stock is limited.

We intend to pay a regular quarterly dividend to our stockholders. However, we may not declare or pay such dividends in the future at the prior rate or at all. All decisions regarding our payment of dividends will be made by our Board of Directors from time to time and will be subject to an evaluation of our financial condition, results of operations and capital requirements, as well as applicable law, regulatory constraints, industry practice, contractual restraints and other business considerations that our Board of Directors considers relevant. In addition, our Revolving Credit Facility and the indentures governing the Senior Unsecured Notes, Exchange Notes and IAC Notes contain restrictions on our ability and/ or the ability of our subsidiaries to pay dividends, and the terms of agreements governing debt that we may incur in the future may also limit or prohibit dividend payments. The payment of certain cash dividends may also result in an adjustment to the conversion rate of the Convertible Notes in a manner adverse to us. We may not have sufficient surplus under Delaware law to be able to pay any dividends, which may result from extraordinary cash expenses, actual expenses exceeding contemplated costs, funding of capital expenditures or increases in reserves.

Anti-takeover provisions in our organizational documents and Delaware law and in certain agreements to which we are party could delay or prevent a change in control.

Provisions of our Charter and Bylaws may delay or prevent a merger or acquisition that a shareholder may consider favorable. For example, our Charter and Bylaws provide for a classified board, require advance notice for shareholder proposals and nominations, place limitations on convening shareholder meetings and authorize our Board of Directors to issue one or more series of preferred stock. These provisions may also discourage acquisition proposals or delay or prevent a change in control, which could harm our stock price. Delaware law also imposes some restrictions on mergers and other business combinations between any holder of 15 percent or more of our outstanding common stock and us.

In addition, provisions in our agreements with Marriott International may delay or prevent a merger or acquisition that a shareholder may consider favorable. Further, our license agreements with Marriott International, The Ritz-Carlton Hotel Company and Starwood provide that a change in control may not occur without the consent of Marriott International, The Ritz-Carlton Hotel Company or Starwood, respectively. Our license agreement with Hyatt also includes terms that may delay or prevent a change in control.

Further, the terms of the Senior Unsecured Notes, the Exchange Notes, the IAC Notes and the Convertible Notes require us to repurchase such notes in the event of certain fundamental changes. A takeover of our company would trigger an option of the noteholders to require us to repurchase the applicable notes. This may have the effect of delaying or preventing a takeover of our company that would otherwise be beneficial to holders of our common stock and holders of the Senior Unsecured Notes, the Exchange Notes, the IAC Notes and the Convertible Notes.

Risks related to ILG Acquisition, Vistana Spin-Off and Marriott Spin-Off transactions

The ILG Acquisition could result in material liability if it causes the Vistana Spin-Off to be taxable.

In order to preserve the tax-free treatment of the spin-off of Vistana in 2016 to Starwood and its stockholders in connection with its acquisition by ILG (the “Vistana Spin-Off”), the Tax Matters Agreement entered into in connection with the Vistana Spin-Off (the “Tax Matters Agreement”) generally restricts ILG and Vistana from taking or failing to take any action that would cause the Vistana Spin-Off to become taxable. Failure to adhere to these restrictions, including in certain circumstances that may be outside of our control, could result in tax being imposed on Starwood or on Starwood shareholders for which we could bear responsibility and for which we could be obligated to indemnify Starwood. In addition, even if we are not responsible for tax liabilities of Starwood under the Tax Matters Agreement, Vistana nonetheless could be liable under applicable tax law for such liabilities if Starwood were to fail to pay such taxes. In particular, under the Tax Matters Agreement, for the two-year period following the Vistana Spin-Off, Vistana and ILG were prohibited from:

- entering into any transaction or series of transactions (or any agreement, understanding or arrangement to enter into a transaction or series of transactions) as a result of which one or more persons would (directly or indirectly) acquire, or have the right to acquire a number of shares of Vistana or ILG stock that would, when combined with any other direct or indirect changes in ownership of Vistana or ILG stock pertinent for purposes of Section 355(e) of the Code (including the Vistana acquisition), comprise 50% or more (by vote or value) of the stock of Vistana or ILG;
- selling, transferring or otherwise disposing of assets (or agreeing to sell, transfer or otherwise dispose of assets) that, in the aggregate, constitute more than 25% of the consolidated gross assets, valued as of the distribution date of the Vistana Spin-Off, of Vistana or collectively of Vistana and its subsidiaries that were its subsidiaries immediately after the effective time of the Vistana acquisition; and
- merging or consolidating, with any other person (other than pursuant to the Vistana acquisition).

These restrictions relate to the fact that even if the Vistana Spin-Off were otherwise to qualify as a tax free reorganization under Sections 368(a)(1)(D) and 355 of the Code, the Vistana Spin-Off would be taxable to Starwood (but not to Starwood stockholders) pursuant to Section 355(e) of the Code if there is a 50% or greater change in ownership of Vistana, directly or indirectly, as part of a plan or series of related transactions that includes the Vistana Spin-Off. For this purpose, any direct or indirect acquisitions of Vistana stock within the period beginning two years before the Vistana Spin-Off and ending two years after the Vistana Spin-Off are presumed to be part of such a plan, although Starwood may, depending on the facts and circumstances, be able to rebut that presumption. The Vistana acquisition was not expected to violate this rule because Starwood stockholders held more than 50% by vote and value of the stock of ILG (and, thus, indirectly, of Vistana) immediately following the Vistana acquisition. However, the ILG Acquisition resulted in further dilution of indirect ownership of Vistana by its former stockholders below 50%, and the IRS might assert that the ILG Acquisition is part of a plan or series of related transactions that includes the Vistana Spin-Off and the Vistana Acquisition. If such assertion were sustained, the Vistana Spin-Off would be subject to the application of Section 355(e) of the Code, and we would be liable to indemnify Starwood (or Marriott International) for any resulting tax liability pursuant to the Tax Matters Agreement.

In addition, if the Vistana Spin-Off is determined to be taxable, in certain circumstances both Starwood and its stockholders could incur significant tax liabilities, and we would be obligated to indemnify Starwood (or Marriott International) for any resulting tax liability.

The Tax Matters Agreement permits Vistana to take an otherwise prohibited action described above if Vistana provides Starwood with a tax opinion or Starwood receives a ruling from the IRS that, in each case, is reasonably satisfactory to Starwood to the effect that such action will not affect the tax-free status of the Vistana Spin-Off (or Starwood waives the requirement to obtain such an opinion or ruling). Prior to the signing of the merger agreement with ILG, Starwood agreed in writing to waive those provisions of the Tax Matters Agreement that relate to the signing of the merger agreement and in connection with the consummation of the ILG Acquisition. Such waiver will not relieve us of our obligation to indemnify Starwood (or Marriott International) if the ILG Acquisition causes the Vistana Spin-Off to be taxable.

We received an opinion from our tax advisor, KPMG LLP, to the effect that entering into the ILG Acquisition will not affect the tax-free status of the Vistana Spin-Off. Such opinion is not binding on the IRS or any court, and the IRS may assert that the ILG Acquisition caused the Vistana Spin-Off to violate Section 355(e) of the Code and such assertion may ultimately be sustained by any court.

The Marriott Spin-Off may expose us to potential liabilities arising out of our contractual arrangements with Marriott International.

Pursuant to a Separation and Distribution Agreement that we entered into with Marriott International in connection with the spin-off of our company in 2011 (the “Marriott Spin-Off”), from and after the Marriott Spin-Off, each of us and Marriott International is responsible for the debts, liabilities and other obligations related to the business or businesses it owns and operates following the consummation of the Marriott Spin-Off. Although we do not expect to be liable for any obligations that were not allocated to us under such agreement, a court could disregard the allocation agreed to between the parties, and require that we assume responsibility for obligations allocated to Marriott International (for example, tax and/or environmental liabilities), particularly if Marriott International were to refuse or were unable to pay or perform the allocated obligations.

Certain of our executive officers and directors may have actual or potential conflicts of interest because of their ownership of Marriott International equity or their former positions with Marriott International.

Certain of our executive officers and directors are former officers and employees of Marriott International and thus have professional relationships with Marriott International’s executive officers and directors. In addition, many of our executive officers and directors have financial interests in Marriott International that are substantial to them as a result of their ownership of Marriott International stock, options and other equity awards. These relationships and personal financial interests may create, or may create the appearance of, conflicts of interest when these directors and officers face decisions that could have different implications for Marriott International than for us.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of December 31, 2018, our vacation ownership portfolio consisted of over 100 properties in the United States and twelve other countries and territories. These properties are described in Part I, Item 1, “Business,” of this Annual Report. Except as indicated in Part I, Item 1, “Business,” we own all unsold inventory at these properties. We also own, manage or lease golf courses, fitness, spa and sports facilities, undeveloped and partially developed land and other common area assets at some of our resorts, including resort lobbies and food and beverage outlets.

In addition, we own or lease our regional offices and sales centers, both in the United States and internationally. Our corporate headquarters in Orlando, Florida consists of approximately 160,000 square feet of leased space in two buildings, under leases expiring in August 2021. We also own an office facility in Lakeland, Florida consisting of approximately 125,000 square feet.

Item 3. Legal Proceedings

Currently, and from time to time, we are subject to claims in legal proceedings arising in the normal course of business, including, among others, the legal actions discussed under “Loss Contingencies” in Footnote 11 “Contingencies and Commitments” to our Financial Statements. While management presently believes that the ultimate outcome of these proceedings, individually and in the aggregate, will not materially harm our financial position, cash flows, or overall trends in results of operations, legal proceedings are inherently uncertain, and unfavorable rulings could, individually or in aggregate, have a material adverse effect on our business, financial condition, or operating results.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information and Dividends

Our common stock currently is traded on the New York Stock Exchange, or the "NYSE," under the symbol "VAC." We currently expect to pay quarterly cash dividends in the future, but any future dividend payments will be subject to Board approval, which will depend on our financial condition, results of operations and capital requirements, as well as applicable law, regulatory constraints, industry practice and other business considerations that our Board of Directors considers relevant. In addition, our Corporate Credit Facility contains restrictions on our ability to pay dividends, and the terms of agreements governing debt that we may incur in the future may also limit or prohibit dividend payments. The payment of certain cash dividends may also result in an adjustment to the conversion rate of the Convertible Notes in a manner adverse to us. Accordingly, there can be no assurance that we will pay dividends in the future at the same rate or at all.

Holders of Record

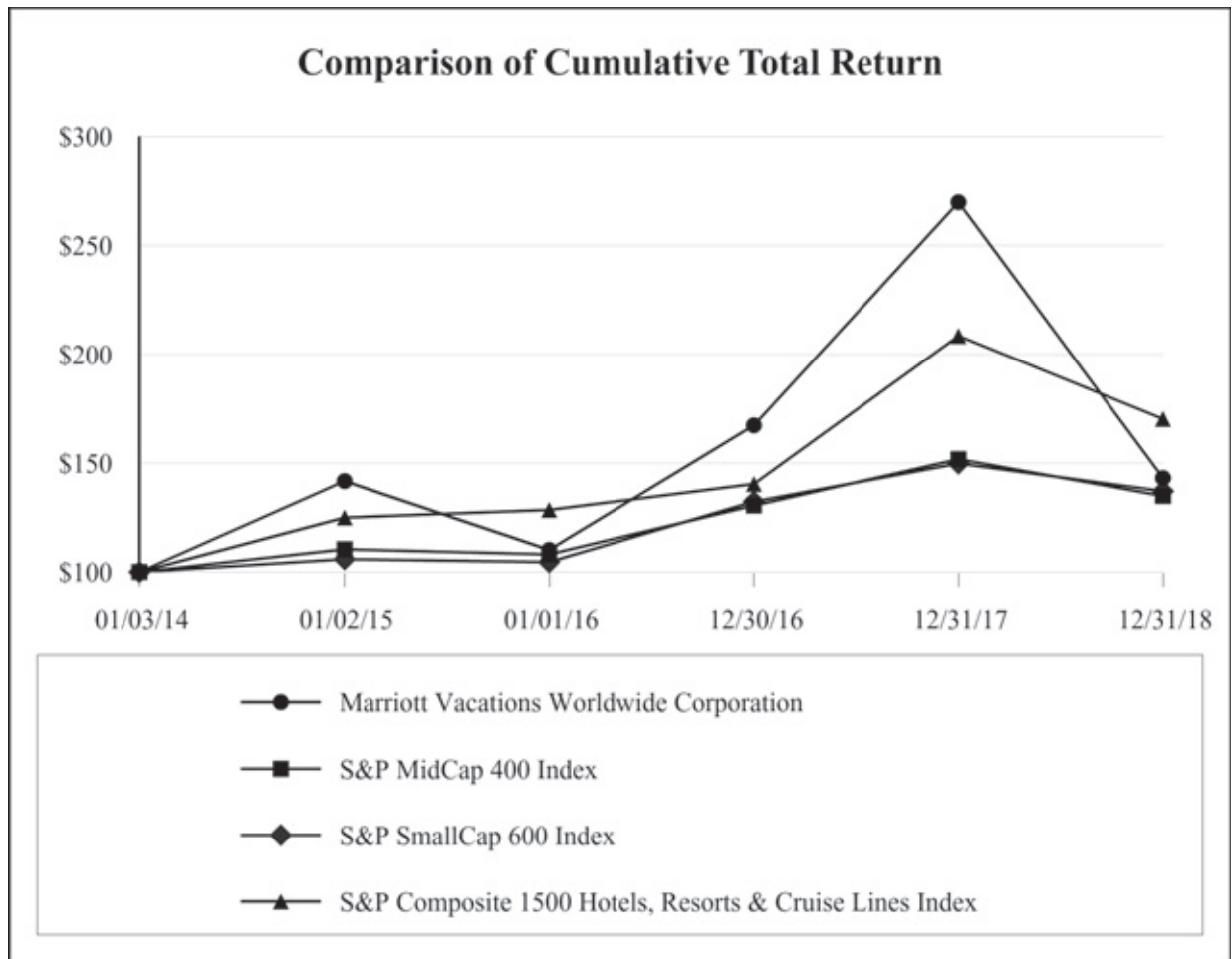
On February 22, 2019, there were 28,148 holders of record of our common stock. Because many of the shares of our common stock are held by brokers and other institutions on behalf of shareholders, we are unable to determine the total number of shareholders represented by these record holders; however, we believe that there were approximately 67,000 beneficial owners of our common stock as of February 22, 2019.

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ⁽¹⁾	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs ⁽¹⁾
October 1, 2018 – October 31, 2018.	157,500	\$93.49	157,500	1,288,026
November 1, 2018 – November 30, 2018. .	560,800	\$78.63	560,800	727,226
December 1, 2018 – December 31, 2018. .	515,000	\$68.99	515,000	3,212,226
Total	<u>1,233,300</u>	\$76.51	<u>1,233,300</u>	3,212,226

⁽¹⁾ On December 6, 2018, our Board of Directors authorized the extension of the duration of our existing share repurchase program to March 31, 2019, as well as the repurchase of up to 3.0 million additional shares of our common stock through December 31, 2019. As of December 31, 2018, our Board of Directors had authorized the repurchase of an aggregate of up to 14.9 million shares of our common stock under the share repurchase program since the initiation of the program in October 2013.

Performance Graph



The above graph compares the relative performance of our common stock, the S&P MidCap 400 Index (which has included our common stock since the acquisition of ILG), the S&P SmallCap 600 Index (which included our common stock prior to the acquisition of ILG) and the S&P Composite 1500 Hotels, Resorts & Cruise Lines Index. The graph assumes that \$100 was invested in our common stock and each index on January 3, 2014. The stock price performance reflected above is not necessarily indicative of future stock price performance. The foregoing performance graph is being furnished as part of this Annual Report solely in accordance with the requirement under Rule 14a-3(b)(9) to furnish our stockholders with such information, and therefore, shall not be deemed to be filed or incorporated by reference into any filings by the Company under the Securities Act of 1933, as amended, or the Exchange Act.

Item 6. Selected Financial Data

The following table presents a summary of our selected historical consolidated financial data for the periods indicated below. Because this information is only a summary and does not provide all of the information contained in our Financial Statements, including the related notes, it should be read in conjunction with “Item 7—Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and our Financial Statements for each year for more detailed information.

For 2018, we included Legacy-ILG results from September 1, 2018 to year-end 2018. The information contained in the table below for fiscal years 2017, 2016 and 2015 has been adjusted to recast certain prior period financial information to reflect our retrospective adoption of ASC 606, effective January 1, 2018, the first day of our 2018 fiscal year. See Footnote 2 “Summary of Significant Accounting Policies” to our Financial Statements for additional information on ASC 606 and Footnote 21 “Adoption Impact of New Revenue Standard” to our Financial Statements for further discussion of the adoption and the impact on our previously reported historical results. The information for fiscal year 2014 has not been adjusted to reflect the impact of the adoption of ASC 606.

<i>(in millions, except per share amounts and members)</i>	Fiscal Years ⁽¹⁾				
	2018	2017 ⁽²⁾	2016 ⁽²⁾	2015 ⁽²⁾	2014 ⁽³⁾
Income Statement Data					
Revenues	\$ 2,968	\$ 2,183	\$ 2,000	\$ 2,067	\$ 1,716
Revenues net of total expenses	267	246	200	225	156
Net income attributable to common shareholders	55	235	122	127	81
Per Share Data					
Basic earnings per share attributable to common shareholders	\$ 1.64	\$ 8.70	\$ 4.37	\$ 4.04	\$ 2.40
Diluted earnings per share attributable to common shareholders	\$ 1.61	\$ 8.49	\$ 4.29	\$ 3.95	\$ 2.33
Cash dividends declared per share	\$ 1.65	\$ 1.45	\$ 1.25	\$ 1.05	\$ 0.25
Balance Sheet Data					
Total assets	\$ 9,018	\$ 2,845	\$ 2,320	\$ 2,351	\$ 2,531
Securitized debt, net	1,694	835	729	676	700
Debt, net	2,124	260	8	3	3
Mandatorily redeemable preferred stock of consolidated subsidiary, net	—	—	—	39	39
Total liabilities	5,552	1,804	1,425	1,372	1,451
MVW shareholders' equity	3,461	1,041	895	979	1,080
Noncontrolling interests	5	—	—	—	—
Operating Statistics					
Vacation Ownership					
Consolidated contract sales ⁽⁴⁾	\$ 1,073	\$ 826	\$ 741	\$ 719	\$ 699
Exchange & Third-Party Management					
Total active members at end of period (000's) ⁽⁵⁾	1,802	—	—	—	—

⁽¹⁾ In 2017, we changed our financial reporting cycle to a calendar year-end reporting cycle. All fiscal years presented before 2017 included 52 weeks.

⁽²⁾ Data presented herein has been reclassified to conform to our 2018 financial statement presentation. See Footnote 1 “Basis of Presentation” to our Financial Statements for further information on these reclassifications.

⁽³⁾ Amounts have not been restated for the retrospective adoption of ASC 606. As such, the selected financial data for 2014 is not comparable to the 2018, 2017, 2016 and 2015 information.

⁽⁴⁾ Contract sales consist of the total amount of vacation ownership product sales under contract signed during the period where we have received a down payment of at least ten percent of the contract price, reduced by actual rescissions during the period, inclusive of contracts associated with sales of vacation ownership products on behalf of third parties, which we refer to as “resales contract sales.” In circumstances where a customer applies any or all of their

existing ownership interests as part of the purchase price for additional interests, we include only the incremental value purchased as contract sales. Contract sales differ from revenues from the sale of vacation ownership products that we report in our Income Statements due to the requirements for revenue recognition described in Footnote 2 “Summary of Significant Accounting Policies” to our Financial Statements. We consider contract sales to be an important operating measure because it reflects the pace of sales in our business. Consolidated contract sales do not include contract sales from unconsolidated joint ventures.

- (5) Total active members represents the number of Interval International network active members at the end of the applicable period.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

You should read the following discussion of our results of operations and financial condition together with our audited historical consolidated financial statements and accompanying notes that we have included elsewhere in this Annual Report, as well as the discussion in the section of this Annual Report entitled “Business.” This discussion contains forward-looking statements that involve risks and uncertainties. The forward-looking statements are not historical facts, but rather are based on our current expectations, estimates, assumptions and projections about our industry, business and future financial results. Our actual results could differ materially from the results contemplated by these forward-looking statements due to a number of factors, including those we discuss in the sections of this Annual Report entitled “Risk Factors” and “Special Note About Forward-Looking Statements.”

Our consolidated financial statements, which we discuss below, reflect our historical financial condition, results of operations and cash flows. The financial information discussed below and included in this Annual Report may not, however, necessarily reflect what our financial condition, results of operations and cash flows may be in the future.

Explanatory Note

On January 1, 2018, the first day of our 2018 fiscal year, we adopted the new Revenue Standard and have restated our previously reported historical results to conform with this adoption. See Footnote 2 “Summary of Significant Accounting Policies” to our Financial Statements for additional information on ASU 2014-09, as amended, and Footnote 21 “Adoption Impact of New Revenue Standard” to our Financial Statements for further discussion of the adoption and the impact on our previously reported historical results.

Business Overview

We are a leading global vacation company that offers vacation ownership, exchange, rental, and resort and property management, along with related businesses, products and services. Our business operates in two reportable segments: Vacation Ownership and Exchange & Third-Party Management.

On September 1, 2018, we completed the previously announced ILG Acquisition for approximately \$4.2 billion in aggregate consideration. In connection with the ILG Acquisition, we entered into multiple financing arrangements, which include the issuance of senior notes and the replacement of our existing corporate credit facility with a new senior secured corporate credit agreement that provides for a term loan and revolving loans. See additional details on the ILG Acquisition and the related financing arrangements in Footnote 3 “Acquisitions and Dispositions” and Footnote 14 “Debt” to our Financial Statements.

As part of the ILG Acquisition, we acquired a 75.5 percent interest in VRI Europe (“VRI Europe”), a joint venture comprised of a European vacation ownership resort management business, which we subsequently disposed of on December 21, 2018. See Footnote 3 “Acquisitions and Dispositions” to our Financial Statements for further information related to this transaction.

As of December 31, 2018, our Vacation Ownership segment had more than 100 resorts and over 660,000 owners and members of a diverse portfolio that includes seven vacation ownership brands licensed under exclusive, long-term relationships with Marriott International and Hyatt Hotels Corporation. We are the exclusive worldwide developer, marketer, seller and manager of vacation ownership and related products under the Marriott Vacation Club, Grand Residences by Marriott, Sheraton, Westin, and Hyatt Residence Club brands, as well as under Marriott Vacation Club Pulse, an extension to the Marriott Vacation Club brand. We are also the exclusive worldwide developer, marketer and seller of vacation ownership and related products under The Ritz-Carlton Destination Club brand, we have the non-exclusive right to develop, market and sell whole ownership residential products under The Ritz-Carlton Residences brand, and we have a license to use the St. Regis brand for specified fractional ownership resorts.

Our Vacation Ownership segment generates most of its revenues from four primary sources: selling vacation ownership products; managing vacation ownership resorts, clubs and associations; financing consumer purchases of vacation ownership products; and renting vacation ownership inventory.

As of December 31, 2018, our Exchange & Third-Party Management segment includes exchange networks and membership programs comprised of more than 3,200 resorts in over 80 nations and nearly two million members, as well as management of over 180 other resorts and lodging properties. We provide these services through a variety of brands including Interval International, Trading Places International, Vacation Resorts International, and Aqua-Aston. Exchange & Third-Party Management revenue generally is fee-based and derived from membership, exchange and rental transactions, property and association management, and other related products and services.

Corporate and other represents that portion of our results that are not allocable to our segments, including those relating to property owners' associations consolidated under the voting interest model ("Consolidated Property Owners' Associations").

Hurricane Activity

During the third quarter of 2017, over 20 Legacy-MVW properties were negatively impacted by one or both of Hurricane Irma and Hurricane Maria (collectively, the "2017 Hurricanes"). As a result of the mandatory evacuations, shutdowns and cancellations of reservations and scheduled tours resulting from the 2017 Hurricanes, the sales operations at several of our locations, primarily those located on St. Thomas (USVI) and on Marco Island and Singer Island in Florida, were adversely impacted, along with the rental and ancillary operations at those locations. In addition, two Legacy-ILG properties remained closed at the end of 2018 because of the impact of the 2017 Hurricanes in St. John and Puerto Rico.

While many of the properties and sales centers impacted by the 2017 Hurricanes were fully or partially open by the end of September 2017, one resort and a modified sales gallery in St. Thomas opened in February 2018 and the remaining resort in St. Thomas opened in October 2018. The Legacy-ILG resort in St. John partially reopened in the 2019 first quarter and the Legacy-ILG resort in Puerto Rico is expected to open in 2020.

As of the end of 2018, we have received \$29 million of net insurance proceeds related to the settlement of Legacy-MVW business interruption insurance claims arising from the 2017 Hurricanes. We have submitted most of the insurance claims for our Legacy-ILG business interruption losses as well as Legacy-MVW and Legacy-ILG property damage experienced by both us and associated property owners' associations from these 2017 Hurricanes, and we received an initial \$25 million advance of insurance proceeds related to the Legacy-ILG business interruption losses. However, we cannot quantify the extent of any additional payments under such claims at this time.

During the third quarter of 2018, our properties in Hawaii and South Carolina were negatively impacted by Hurricane Lane and Hurricane Florence, respectively (collectively, the "2018 Hurricanes"). As a result of the mandatory evacuations, shutdowns and cancellations of reservations and scheduled tours resulting from the 2018 Hurricanes, the sales operations at several of our locations were adversely impacted, along with rental and ancillary operations at those locations. The Hawaii sales locations and the sales gallery in Hilton Head, South Carolina were closed for up to one week. The Myrtle Beach, South Carolina properties were closed for up to two weeks and partially reopened in October, and the remaining units were reopened in the 2018 fourth quarter.

Significant Accounting Policies Used in Describing Results of Operations

Sale of Vacation Ownership Products

We recognize revenues from the sale of VOIs when control of the vacation ownership product is transferred to the customer and the transaction price is deemed collectible. Based upon the different terms of the contracts with the customer and business practices, control of the vacation ownership product is transferred to the customer at closing for Legacy-MVW transactions and upon expiration of the statutory rescission period for Legacy-ILG transactions. Sales of vacation ownership products may be made for cash or we may provide financing. In addition, we recognize settlement fees associated with the transfer of vacation ownership products and commission revenues from sales of vacation ownership products on behalf of third parties, which we refer to as "resales revenue."

We also provide sales incentives to certain purchasers. These sales incentives typically include Marriott Bonvoy points, World of Hyatt points or an alternative sales incentive that we refer to as "plus points." These plus points are redeemable for stays at our resorts or for use in other third-party offerings, generally up to two years from the date of issuance. Typically, sales incentives are only awarded if the sale is closed.

As a result of the revenue recognition requirements included in ASC 606, there may be timing differences between the date of the contract with the customer and when revenue is recognized. When comparing results year-over-year, this timing difference may generate significant variances, which we refer to as the impact of revenue reportability.

Finally, as more fully described in “*Financing*” below, we record the difference between the vacation ownership note receivable and the consideration to which we expect to be entitled (also known as a vacation ownership notes receivable reserve or a sales reserve) as a reduction of revenues from the sale of vacation ownership products at the time we recognize revenues from a sale.

We report, on a supplemental basis, contract sales for our Vacation Ownership segment. Contract sales consist of the total amount of vacation ownership product sales under contract signed during the period where we have received a down payment of at least ten percent of the contract price, reduced by actual rescissions during the period, inclusive of contracts associated with sales of vacation ownership products on behalf of third-parties, which we refer to as “resales contract sales.” In circumstances where a customer applies any or all of their existing ownership interests as part of the purchase price for additional interests, we include only the incremental value purchased as contract sales. Contract sales differ from revenues from the sale of vacation ownership products that we report on our Income Statements due to the requirements for revenue recognition described above. We consider contract sales to be an important operating measure because it reflects the pace of sales in our business.

Cost of vacation ownership products includes costs to develop and construct our projects (also known as real estate inventory costs), other non-capitalizable costs associated with the overall project development process and settlement expenses associated with the closing process. For each project, we expense real estate inventory costs in the same proportion as the revenue recognized. Consistent with the applicable accounting guidance, to the extent there is a change in the estimated sales revenues or inventory costs for the project in a period, a non-cash adjustment is recorded on our Income Statements to true-up costs in that period to those that would have been recorded historically if the revised estimates had been used. These true-ups, which we refer to as product cost true-up activity, can have a positive or negative impact on our Income Statements.

We refer to revenues from the sale of vacation ownership products less the cost of vacation ownership products and marketing and sales costs as development margin. Development margin percentage is calculated by dividing development margin by revenues from the sale of vacation ownership products.

Management and Exchange

Our management and exchange revenues include revenues generated from fees we earn for managing each of our vacation ownership resorts, providing property management, property owners’ association management and related services to third-party vacation ownership resorts and fees we earn for providing rental services and related hotel, condominium resort, and property owners’ association management services to vacation property owners.

In addition, we earn revenue from ancillary offerings, including food and beverage outlets, golf courses and other retail and service outlets located at our Vacation Ownership resorts. We also receive annual membership fees, club dues and certain transaction-based fees from members, owners and other third parties.

Management and exchange expenses include costs to operate the food and beverage outlets and other ancillary operations and to provide overall customer support services, including reservations, and certain transaction-based expenses relating to external exchange service providers.

In our Vacation Ownership segment and Consolidated Property Owners’ Associations, we refer to these activities as “Resort Management and Other Services.”

Financing

We offer financing to qualified customers for the purchase of most types of our vacation ownership products. The average FICO score of customers who were U.S. citizens or residents who financed a vacation ownership purchase was as follows:

	Fiscal Years		
	2018	2017	2016
Average FICO score	738	743	741

The typical financing agreement provides for monthly payments of principal and interest with the principal balance of the loan fully amortizing over the term of the related vacation ownership note receivable, which is generally ten years. Included within our vacation ownership notes receivable are originated vacation ownership notes receivable and vacation ownership notes receivable acquired in connection with the ILG Acquisition.

Acquired vacation ownership notes receivable are accounted for using the expected cash flow method of recognizing discount accretion based on the expected cash flows. At acquisition, we recorded these vacation ownership notes receivable at a preliminary estimate of fair value, including a credit discount which is accreted as an adjustment to yield over the estimated life of the vacation ownership notes receivable. Our acquired vacation ownership notes receivable are remeasured at each reporting date based on expected future cash flows which takes into consideration an estimated measure of anticipated defaults and early repayments. See Footnote 6 “Vacation Ownership Notes Receivable” to our Financial Statements for further information regarding the accounting for acquired vacation ownership notes receivable.

The interest income earned from the originated vacation ownership financing arrangements is earned on an accrual basis on the principal balance outstanding over the contractual life of the arrangement and is recorded as Financing revenues on our Income Statements. Financing revenues also include fees earned from servicing the existing vacation ownership notes receivable portfolio. Financing expenses include costs in support of the financing, servicing and securitization processes. The amount of interest income earned in a period depends on the amount of outstanding vacation ownership notes receivable, which, for originated vacation ownership notes receivable, is impacted positively by the origination of new vacation ownership notes receivable and negatively by principal collections. We calculate financing propensity as contract sales volume of financed contracts closed in the period divided by contract sales volume of all contracts closed in the period. We do not include resales contract sales in the financing propensity calculation. Financing propensity was 64 percent in the 2017 fiscal year and 62 percent in the 2018 fiscal year. We expect to continue to offer financing incentive programs in 2019 and that interest income will continue to increase as new originations of vacation ownership notes receivable outpace the decline in principal of existing vacation ownership notes receivable.

In the event of a default, we generally have the right to foreclose on or revoke the underlying VOI. We return VOIs that we reacquire through foreclosure or revocation back to inventory. As discussed above, for originated vacation ownership notes receivable, we record a reserve at the time of sale and classify the reserve as a reduction to revenues from the sale of vacation ownership products on our Income Statements. Historical default rates, which represent defaults as a percentage of each year’s beginning gross vacation ownership notes receivable balance, were as follows:

	Fiscal Years		
	2018	2017	2016
Historical default rates	3.8%	3.6%	3.8%

Consumer financing interest expense represents interest expense associated with the Warehouse Credit Facility and from the securitization of our vacation ownership notes receivable. We distinguish consumer financing interest expense from all other interest expense because the debt associated with the consumer financing interest expense is secured by vacation ownership notes receivable that have been sold to bankruptcy remote special purpose entities and is generally non-recourse to us.

Rental

In our Vacation Ownership segment, we operate a rental business to provide owner flexibility and to help mitigate carrying costs associated with our inventory. We generate revenue from rentals of inventory that we hold for sale as interests in our vacation ownership programs, inventory that we control because our owners have elected alternative usage options permitted under our vacation ownership programs and rentals of owned-hotel properties. We also recognize rental revenue from the utilization of plus points under the MVCD program when the points are redeemed for rental stays at one of our resorts or in the Explorer Collection. We obtain rental inventory from unsold inventory and inventory we control because owners have elected alternative usage options offered through our vacation ownership programs. For rental revenues associated with vacation ownership products which we own and which are registered and held for sale, to the extent that the revenues from rental are less than costs, revenues are reported net in accordance with ASC Topic 978, “Real Estate - Time-Sharing Activities” (“ASC 978”). The rental activity associated with discounted vacation packages requiring a tour (“preview stays”) is not included in rental metrics, and because the majority of these preview stays are sourced directly or indirectly from unsold inventory, the associated revenues and expenses are reported net in Marketing and sales expense.

In our Exchange & Third-Party Management segment, we offer vacation rental opportunities to members of the Interval International network and certain other membership programs. The offering of Getaways allows us to monetize excess availability of resort accommodations within the applicable exchange network. Resort accommodations available as Getaways typically result from seasonal oversupply or underutilized space, as well as resort accommodations we source specifically for Getaways.

Rental expenses include:

- Maintenance fees on unsold inventory;
- Costs to provide alternative usage options, including Marriott Bonvoy points and offerings available as part of the Explorer Collection, for owners who elect to exchange their inventory;
- Marketing costs and direct operating and related expenses in connection with the rental business (such as housekeeping, credit card expenses and reservation services); and
- Costs to secure resort accommodations for use in Getaways.

Rental metrics, including the average daily transient rate or the number of transient keys rented, may not be comparable between periods given fluctuation in available occupancy by location, unit size (such as two bedroom, one bedroom or studio unit), owner use and exchange behavior. In addition, rental metrics may not correlate with rental revenues due to the requirement to report certain rental revenues net of rental expenses in accordance with ASC 978 (as discussed above). Further, as our ability to rent certain luxury and other inventory is often limited on a site-by-site basis, rental operations may not generate adequate rental revenues to cover associated costs. Our Vacation Ownership segment units are either “full villas” or “lock-off” villas. Lock-off villas are units that can be separated into a master unit and a guest room. Full villas are “non-lock-off” villas because they cannot be separated. A “key” is the lowest increment for reporting occupancy statistics based upon the mix of non-lock-off and lock-off villas. Lock-off villas represent two keys and non-lock-off villas represent one key. The “transient keys” metric represents the blended mix of inventory available for rent and includes all of the combined inventory configurations available in our resort system.

Cost Reimbursements

Cost reimbursements include direct and indirect costs that are reimbursed to us by customers under management contracts. All costs, with the exception of taxes assessed by a governmental authority, reimbursed to us by customers are reported on a gross basis. We recognize cost reimbursements when we incur the related reimbursable costs. Cost reimbursements consist of actual expenses with no added margin.

Interest Expense

Interest expense consists of all interest expense other than consumer financing interest expense.

Other Items

We measure operating performance using the following key metrics:

- Contract sales from the sale of vacation ownership products;
 - Total contract sales include contract sales from the sale of vacation ownership products including joint ventures
 - Consolidated contract sales exclude contracts sales from the sale of vacation ownership products for joint ventures
- Development margin percentage;
- Volume per guest (“VPG”), which we calculate by dividing consolidated vacation ownership contract sales, excluding fractional sales, telesales, resales, joint venture sales and other sales that are not attributed to a tour at a sales location, by the number of tours at sales locations in a given period (which we refer to as “tour flow”). We believe that this operating metric is valuable in evaluating the effectiveness of the sales process as it combines the impact of average contract price with the number of touring guests who make a purchase;
- Average revenue per member, which we calculate by dividing membership fee revenue, transaction revenue and other member revenue for the Interval International network by the monthly weighted average number of Interval International network active members during the applicable period; and
- Total active members, which is the number of Interval International network active members at the end of the applicable period.

CONSOLIDATED RESULTS

(\$ in millions)	Fiscal Years		
	2018	2017	2016
REVENUES			
Sale of vacation ownership products	\$ 990	\$ 757	\$ 623
Management and exchange	499	279	278
Rental	371	262	252
Financing	183	135	127
Cost reimbursements	925	750	720
TOTAL REVENUES	2,968	2,183	2,000
EXPENSES			
Cost of vacation ownership products	260	194	163
Marketing and sales	527	388	334
Management and exchange	259	147	149
Rental	281	221	210
Financing	65	43	43
General and administrative	198	106	100
Depreciation and amortization	62	21	21
Litigation settlement	46	4	(1)
Royalty fee	78	63	61
Cost reimbursements	925	750	720
TOTAL EXPENSES	2,701	1,937	1,800
Gains and other income, net	21	6	11
Interest expense	(54)	(10)	(9)
ILG acquisition-related costs	(127)	(1)	—
Other	(4)	(1)	(4)
INCOME BEFORE INCOME TAXES AND NONCONTROLLING INTERESTS	103	240	198
Provision for income taxes	(51)	(5)	(76)
NET INCOME	52	235	122
Net loss attributable to noncontrolling interests	3	—	—
NET INCOME ATTRIBUTABLE TO COMMON SHAREHOLDERS	\$ 55	\$ 235	\$ 122

Operating Statistics

2018 Compared to 2017

(\$ in millions)	Fiscal Years			Change	Change due to Legacy-ILG	Change Excluding Legacy-ILG Impact
	2018	2017				
Vacation Ownership						
Total contract sales	\$ 1,089	\$ 826	\$ 263	\$ 187	\$ 76	9%
Consolidated contract sales	\$ 1,073	\$ 826	\$ 247	\$ 171	\$ 76	9%
Legacy-MVW North America						
Consolidated contract sales	\$ 814	\$ 750	\$ 64		\$ 64	9%
VPG	\$ 3,666	\$ 3,565	\$ 101		\$ 101	3%
Tour flow	204,208	192,656	11,552		11,552	6%
Exchange & Third-Party Management						
Total active members at end of period (000's)	1,802	—				

2017 Compared to 2016

(Contract sales \$ in millions)	Fiscal Years		Change	% Change
	2017	2016		
Vacation Ownership				
Total contract sales	\$ 826	\$ 741	\$ 85	11%
Consolidated contract sales	\$ 826	\$ 741	\$ 85	11%
Legacy-MVW North America				
Consolidated contract sales	\$ 750	\$ 663	\$ 87	13%
VPG	\$ 3,565	\$ 3,462	\$ 103	3%
Tour flow	192,656	171,601	21,055	12%

Revenues

2018 Compared to 2017

The following table presents our revenues for the 2018 fiscal year compared to the 2017 fiscal year and, as a result of the ILG Acquisition on September 1, 2018, includes results for Legacy-ILG only for the months of September through December 2018.

(\$ in millions)	Fiscal Years		Change	Change due to Legacy-ILG	Change Excluding Legacy-ILG Impact	
	2018	2017				
Vacation Ownership	\$ 2,803	\$ 2,183	\$ 620	\$ 403	\$ 217	10%
Exchange & Third-Party Management	161	—	161	161	—	—%
Total Segment Revenues	2,964	2,183	781	564	217	
Consolidated Property Owners' Associations	4	—	4	4	—	—%
Total Revenues	\$ 2,968	\$ 2,183	\$ 785	\$ 568	\$ 217	10%

2017 Compared to 2016

The following table presents our revenues for the 2017 fiscal year compared to the 2016 fiscal year.

(\$ in millions)	Fiscal Years		Change	% Change
	2017	2016		
Vacation Ownership	\$ 2,183	\$ 2,000	\$ 183	9%
Total Revenues	\$ 2,183	\$ 2,000	\$ 183	9%

Earnings Before Interest Expense, Taxes, Depreciation and Amortization (“EBITDA”) and Adjusted EBITDA

EBITDA, a financial measure that is not prescribed by GAAP, is defined as earnings, or net income attributable to common shareholders, before interest expense (excluding consumer financing interest expense), income taxes, depreciation and amortization. For purposes of our EBITDA and Adjusted EBITDA calculations, we do not adjust for consumer financing interest expense because we consider it to be an operating expense of our business. We consider EBITDA and Adjusted EBITDA to be indicators of operating performance, which we use to measure our ability to service debt, fund capital expenditures and expand our business. We also use EBITDA and Adjusted EBITDA, as do analysts, lenders, investors and others, because these measures exclude certain items that can vary widely across different industries or among companies within the same industry. For example, interest expense can be dependent on a company’s capital structure, debt levels and credit ratings. Accordingly, the impact of interest expense on earnings can vary significantly among companies. The tax positions of companies can also vary because of their differing abilities to take advantage of tax benefits and because of the tax policies of the jurisdictions in which they operate. As a result, effective tax rates and provision for income taxes can vary considerably among companies. EBITDA and Adjusted EBITDA also exclude depreciation and amortization because companies utilize productive assets of different ages and use different methods of both acquiring and depreciating productive assets. These differences can result in considerable variability in the relative costs of productive assets and the depreciation and amortization expense among companies. Adjusted EBITDA reflects additional adjustments for certain items described below, and excludes share-based compensation expense to address considerable variability among companies in recording compensation expense because companies use share-based payment awards differently, both in the type and quantity of awards granted. We evaluate Adjusted EBITDA as an indicator of operating performance because it allows for period-over-period comparisons of our on-going core operations before the impact of the excluded items. Together, EBITDA and Adjusted

EBITDA facilitate our comparison of results from our on-going core operations before the impact of these items with results from other vacation companies.

EBITDA and Adjusted EBITDA have limitations and should not be considered in isolation or as a substitute for performance measures calculated in accordance with GAAP. In addition, other companies in our industry may calculate EBITDA and Adjusted EBITDA differently than we do or may not calculate them at all, limiting their usefulness as comparative measures. The table below shows our EBITDA and Adjusted EBITDA calculation and reconciles these measures with Net income attributable to common shareholders, which is the most directly comparable GAAP financial measure.

2018 Compared to 2017

(\$ in millions)	Fiscal Years		Change	Change due to Legacy-ILG	Change Excluding Legacy-ILG Impact
	2018	2017			
Net income attributable to common shareholders . . .	\$ 55	\$ 235	\$ (180)	(2)	\$ (178)
Interest expense	54	10	44	2	42
Tax provision	51	5	46	6	40
Depreciation and amortization	62	21	41	38	3
EBITDA	222	271	(49)	44	(93)
Share-based compensation expense	35	16	19	14	5
Certain items	162	7	155	41	114
Adjusted EBITDA	<u>\$ 419</u>	<u>\$ 294</u>	<u>\$ 125</u>	<u>\$ 99</u>	<u>\$ 26</u>

2017 Compared to 2016

(\$ in millions)	Fiscal Years		Change
	2017	2016	
Net income attributable to common shareholders . . .	\$ 235	\$ 122	\$ 113
Interest expense	10	9	1
Tax provision	5	76	(71)
Depreciation and amortization	21	21	—
EBITDA	271	228	43
Share-based compensation expense	16	14	2
Certain items	7	(5)	12
Adjusted EBITDA	<u>\$ 294</u>	<u>\$ 237</u>	<u>\$ 57</u>

Certain items for the 2018 fiscal year consisted of \$127 million of ILG acquisition-related costs, \$46 million of litigation settlement charges, \$8 million of losses and other expense, \$6 million of unfavorable purchase accounting adjustments and \$4 million of costs associated with the anticipated capital efficient acquisitions of operating properties in San Francisco, California and New York, partially offset by \$29 million of net insurance proceeds related to the settlement of Legacy-MVW business interruption insurance claims arising from Hurricanes Irma and Maria. These exclusions increased EBITDA by \$162 million.

Certain items for the 2017 fiscal year consisted of \$9 million in net insurance proceeds related to the settlement of Legacy-MVW business interruption insurance claims arising from Hurricane Matthew in 2016, \$7 million of variable compensation expense related to the Legacy-MVW impact of the 2017 Hurricanes, \$4 million of litigation settlement expenses, \$2 million of acquisition costs, a charge of \$1 million associated with the estimated property damage insurance deductibles and impairment of property and equipment at several of our Legacy-MVW resorts, primarily in Florida and the Caribbean, that were impacted by the 2017 Hurricanes, \$1 million of variable compensation expense related to the impact of Hurricane Matthew and less than \$1 million of miscellaneous losses and other expense. These exclusions increased EBITDA by \$7 million.

Certain items for the 2016 fiscal year consisted of \$11 million of gains and other income not associated with our on-going core operations, \$5 million of acquisition costs, \$1 million of hurricane related expenses, less than \$1 million of profit from the operations of the portion of the property we acquired in Surfers Paradise, Australia in 2015 that we sold in the second quarter of 2016, and a less than \$1 million reversal of litigation settlement expense. In the aggregate, these exclusions decreased EBITDA by \$5 million.

Segment Adjusted EBITDA

2018 Compared to 2017

(\$ in millions)	Fiscal Years		Change	Change due to Legacy-ILG	Change Excluding Legacy-ILG Impact
	2018	2017			
Vacation Ownership	\$ 511	\$ 383	\$ 128	86	42
Exchange & Third-Party Management	77	—	77	77	—
Segment adjusted EBITDA	588	383	205	163	42
General and administrative	(171)	(89)	(82)	(66)	(16)
Consolidated property owners' associations	2	—	2	2	—
Adjusted EBITDA	<u>\$ 419</u>	<u>\$ 294</u>	<u>\$ 125</u>	<u>\$ 99</u>	<u>\$ 26</u>

2017 Compared to 2016

(\$ in millions)	Fiscal Years		Change
	2017	2016	
Vacation Ownership	\$ 383	\$ 326	\$ 57
Segment adjusted EBITDA	383	326	57
General and administrative	(89)	(89)	—
Adjusted EBITDA	<u>\$ 294</u>	<u>\$ 237</u>	<u>\$ 57</u>

The following tables present Adjusted EBITDA for our reportable segments reconciled to segment financial results.

Vacation Ownership

2018 Compared to 2017

(\$ in millions)	Fiscal Years		Change	Change due to Legacy-ILG	Change Excluding Legacy-ILG Impact
	2018	2017			
Segment adjusted EBITDA	\$ 511	\$ 383	\$ 128	\$ 86	\$ 42
Depreciation and amortization	(37)	(17)	(20)	(17)	(3)
Share-based compensation expense	(7)	(3)	(4)	(2)	(2)
Certain items	(24)	(2)	(22)	(4)	(18)
Segment financial results	<u>\$ 443</u>	<u>\$ 361</u>	<u>\$ 82</u>	<u>\$ 63</u>	<u>\$ 19</u>

2017 Compared to 2016

(\$ in millions)	Fiscal Years		Change
	2017	2016	
Segment adjusted EBITDA	\$ 383	\$ 326	\$ 57
Depreciation and amortization	(17)	(16)	(1)
Share-based compensation expense	(3)	(3)	—
Certain items	(2)	5	(7)
Segment financial results	<u>\$ 361</u>	<u>\$ 312</u>	<u>\$ 49</u>

Certain items in the Vacation Ownership segment for the 2018 fiscal year consisted of \$46 million of litigation settlement charges, \$4 million of costs associated with the anticipated capital efficient vacation ownership acquisitions of operating properties in San Francisco, California and New York, \$2 million of unfavorable purchase accounting adjustments and \$1 million of miscellaneous losses and other expense, partially offset by \$29 million of net insurance proceeds related to the settlement of Legacy-MVW business interruption insurance claims arising from Hurricanes Irma and Maria. These items decreased segment financial results by \$24 million.

Certain items in the Vacation Ownership segment for the 2017 fiscal year consisted of \$4 million of litigation settlement expenses, \$3 million of variable compensation expense related to the impact of the 2017 Hurricanes, and \$1 million of acquisition costs, partially offset by \$6 million of gains and other income. The \$6 million of gains and other income included \$9 million of net insurance proceeds related to the settlement of Legacy-MVW business interruption insurance claims arising from Hurricane Matthew in 2016, a charge of \$2 million associated with the estimated property damage insurance deductibles at several of our Legacy-MVW properties, primarily in Florida and the Caribbean, that were impacted by the 2017 Hurricanes, and less than \$1 million of miscellaneous losses and other expense. These items decreased segment financial results by \$2 million.

Certain items in the Vacation Ownership segment for the 2016 fiscal year consisted of \$11 million of gains and other income not associated with our on-going core operations, \$5 million of acquisition costs, \$1 million of hurricane related expenses, less than \$1 million of profit from the operations of the portion of the property we acquired in Surfers Paradise, Australia in 2015 that we sold in the second quarter of 2016, and a less than \$1 million reversal of litigation settlement expense. These items increased segment financial results by \$5 million.

Exchange & Third-Party Management

2018 Compared to 2017

<i>(\$ in millions)</i>	Fiscal Years		Change
	2018	2017	
Segment adjusted EBITDA	\$ 77	\$ —	\$ 77
Depreciation and amortization	(16)	—	(16)
Share-based compensation expense	(1)	—	(1)
Certain items	(3)	—	(3)
Segment financial results	<u>\$ 57</u>	<u>\$ —</u>	<u>\$ 57</u>

Certain items in the Exchange & Third-Party Management segment for the 2018 fiscal year consisted of \$4 million of unfavorable purchase accounting adjustments, partially offset by \$1 million of miscellaneous gains and other income. These items decreased segment financial results by \$3 million.

BUSINESS SEGMENTS

Our business is grouped into two reportable business segments: Vacation Ownership and Exchange & Third-Party Management. See Footnote 18 “Business Segments” to our Financial Statements for further information on our segments.

VACATION OWNERSHIP

(\$ in millions)	Fiscal Years		
	2018	2017	2016
REVENUES			
Sale of vacation ownership products	\$ 990	\$ 757	\$ 623
Resort management and other services	359	279	278
Rental	352	262	252
Financing	182	135	127
Cost reimbursements	920	750	720
TOTAL REVENUES	2,803	2,183	2,000
EXPENSES			
Cost of vacation ownership products	260	194	163
Marketing and sales	513	388	334
Resort management and other services	190	147	149
Rental	277	221	210
Financing	64	43	43
Depreciation and amortization	37	17	16
Litigation settlement	46	4	(1)
Royalty fee	78	63	61
Cost reimbursements	920	750	720
TOTAL EXPENSES	2,385	1,827	1,695
Gains and other income, net	28	6	11
Other	(4)	(1)	(4)
SEGMENT RESULTS BEFORE NONCONTROLLING INTERESTS	442	361	312
Net loss attributable to noncontrolling interests	1	—	—
SEGMENT FINANCIAL RESULTS ATTRIBUTABLE TO COMMON SHAREHOLDERS	\$ 443	\$ 361	\$ 312

Contract Sales

2018 Compared to 2017

(\$ in millions)	Fiscal Years		Change	Change due to Legacy-ILG	Change Excluding Legacy-ILG Impact	
	2018	2017				
Legacy-MVW North America consolidated contract sales	\$ 814	\$ 750	\$ 64	\$ —	\$ 64	9%
Other consolidated contract sales	259	76	183	171	12	17%
Total consolidated contract sales	1,073	826	247	171	76	9%
Joint venture contract sales	16	—	16	16	—	—%
Total contract sales	\$ 1,089	\$ 826	\$ 263	\$ 187	\$ 76	9%

Total contract sales increased \$263 million, driven in part by the inclusion of four months of results from the ILG Acquisition during the 2018 third quarter. Excluding the impact of the ILG Acquisition, total contract sales increased \$76 million or 9 percent. We estimate the ongoing impact of the 2017 Hurricanes and the impact of the 2018 Hurricanes negatively affected Legacy-MVW contract sales by \$17 million in the 2018 fiscal year. Excluding the impact of these hurricanes, we estimate that Legacy-MVW total contract sales would have increased 11 percent over the prior year period.

The \$64 million increase in Legacy-MVW North America contract sales reflected a 6 percent increase in the number of tours and a 3 percent increase in VPG to \$3,666 in the 2018 fiscal year from \$3,565 in the 2017 fiscal year. The 6 percent increase in the number of North America tours was due to increases in both owner tours and first time buyer tours. In addition, the increase in the number of total tours reflected the continued ramp up of new sales locations as well as an increase in tours from existing sales locations. The increase in VPG resulted from a 0.5 percentage point increase in closing efficiency and higher pricing. The \$12 million increase in Legacy-MVW other consolidated contract sales was driven by an increase in tours at our Asia Pacific sales location, which included increases at existing sales locations as well as the continued ramp-up of new sales locations in Australia and Bali, Indonesia.

2017 Compared to 2016

(\$ in millions)	Fiscal Years		Change	% Change
	2017	2016		
Legacy-MVW North America consolidated contract sales	\$ 750	\$ 663	\$ 87	13%
Other consolidated contract sales	76	78	(2)	(4%)
Total consolidated contract sales	826	741	85	11%
Joint venture contract sales	—	—	—	—%
Total contract sales	\$ 826	\$ 741	\$ 85	11%

The \$85 million increase in Legacy-MVW contract sales reflected a 12 percent increase in North America tours and a 3 percent increase in North America VPG to \$3,565 in the 2017 fiscal year from \$3,462 in the 2016 fiscal year. The increase in the number of North America tours was due to increases in both owner tours and first time buyer tours, and was driven by programs that were implemented in 2015 or later to generate additional tours. The 12 percent increase in North America tours included an increase of 8 percent from new sales locations and an increase of 4 percent from existing sales locations.

We estimate that the 2017 Hurricanes negatively impacted Legacy-MVW North America contract sales by \$20 million in 2017 and Hurricane Matthew negatively impacted Legacy-MVW North America contract sales by \$8 million in 2016. Additionally, adjusting for the estimated impact of hurricane activity in 2016 and 2017, Legacy-MVW total contract sales would have increased by 13 percent for the full year.

Sale of Vacation Ownership Products

2018 Compared to 2017

(\$ in millions)	Fiscal Years		Change	Change due to Legacy-ILG	Change Excluding Legacy-ILG Impact	
	2018	2017				
Total contract sales	\$ 1,089	\$ 826	\$ 263	\$ 187	\$ 76	9%
Less resales contract sales	(30)	(23)	(7)	—	(7)	
Less joint venture contract sales	(16)	—	(16)	(16)	—	
Consolidated contract sales, net of resales	1,043	803	240	171	69	
Plus:						
Settlement revenue ⁽¹⁾	26	15	11	9	2	
Resales revenue ⁽¹⁾	12	8	4	—	4	
Revenue recognition adjustments:						
Reportability	11	20	(9)	(3)	(6)	
Sales reserve	(64)	(52)	(12)	(12)	—	
Other ⁽²⁾	(38)	(37)	(1)	(6)	5	
Sale of vacation ownership products	\$ 990	\$ 757	\$ 233	\$ 159	\$ 74	10%

⁽¹⁾ Previously included in Resort management and other services revenue prior to the adoption of the new Revenue Standard.

⁽²⁾ Adjustment for sales incentives that will not be recognized as Sale of vacation ownership products revenue and other adjustments to Sale of vacation ownership products revenue.

Excluding the impact of the ILG Acquisition, sale of vacation ownership products revenue increased \$74 million, driven by the increase in contract sales and lower other adjustments in the 2018 fiscal year, partially offset by an unfavorable year over year change in revenue reportability due to a larger increase in closed contracts during the 2017 fiscal year than during the 2018 fiscal year.

Legacy-MVW sales reserve was unchanged from 2017 to 2018, and reflected a lower required reserve in the 2018 fiscal year due to lower default and delinquency activity, offset by a higher reserve required due to the increase in contract closings.

The decrease in Legacy-MVW other adjustments was driven by a decrease in the utilization of sales incentives in the 2018 fiscal year, partially offset by the increase in contract closings.

2017 Compared to 2016

(\$ in millions)	Fiscal Years		Change	% Change
	2017	2016		
Total contract sales	\$ 826	\$ 741	\$ 85	11%
Less resales contract sales	(23)	(17)	(6)	
Consolidated contract sales, net of resales	803	724	79	
Plus:				
Settlement revenue ⁽¹⁾	15	12	3	
Resales revenue ⁽¹⁾	8	7	1	
Revenue recognition adjustments:				
Reportability	20	(40)	60	
Sales reserve	(52)	(44)	(8)	
Other ⁽²⁾	(37)	(36)	(1)	
Sale of vacation ownership products	\$ 757	\$ 623	\$ 134	22%

⁽¹⁾ Previously included in Resort management and other services revenue prior to the adoption of the new Revenue Standard.

⁽²⁾ Adjustment for sales incentives that will not be recognized as Sale of vacation ownership products revenue and other adjustments to Sale of vacation ownership products revenue.

Revenue reportability had a positive impact in 2017 due to a decrease in unclosed contracts during 2017. Revenue reportability had a negative impact in 2016 due to an increase in unclosed contracts during 2016.

The higher sales reserve reflected the higher vacation ownership contract sales volume.

The increase in other adjustments for sales incentives was driven by the increase in contract sales, partially offset by a decrease in the utilization of plus points as a sales incentive in our Vacation Ownership segment in 2017. These revenues are deferred and recognized as rental revenue when those points are redeemed or expire.

Development Margin

2018 Compared to 2017

(\$ in millions)	Fiscal Years			Change due to Legacy-ILG	Change Excluding Legacy-ILG Impact	
	2018	2017	Change			
Sale of vacation ownership products	\$ 990	\$ 757	\$ 233	\$ 159	\$ 74	10%
Cost of vacation ownership products	(260)	(194)	(66)	(44)	(22)	(11%)
Marketing and sales	(513)	(388)	(125)	(82)	(43)	(11%)
Development margin	\$ 217	\$ 175	\$ 42	\$ 33	\$ 9	5%
Development margin percentage	21.9%	23.1%	(1.2 pts)			

Excluding the impact of the ILG Acquisition, development margin increased \$9 million or 5 percent. The increase in Legacy-MVW development margin reflected \$22 million from higher vacation ownership contract sales volume net of the sales reserve and direct variable expenses (i.e., cost of vacation ownership products and marketing and sales), partially offset by a \$9

million decline due to unfavorable mix of higher cost real estate inventory being sold and a \$4 million decline due to unfavorable revenue reportability compared to the 2017 fiscal year.

The 1.2 percentage point decline in the development margin percentage reflected a 1.0 percentage point decline due to an unfavorable mix of higher cost vacation ownership real estate inventory being sold, a 0.4 percentage point decline due to the unfavorable revenue reportability year-over-year and a positive 0.2 percentage point impact from the inclusion of Legacy-ILG results from September 2018 to December 2018. Legacy-MVW development margin percentage was 22.2 percent in the 2018 fiscal year. The 2018 fiscal year Legacy-MVW marketing and sales cost percentage was in line with the 2017 fiscal year.

2017 Compared to 2016

(\$ in millions)	Fiscal Years		Change	% Change
	2017	2016		
Sale of vacation ownership products	\$ 757	\$ 623	\$ 134	22%
Cost of vacation ownership products	(194)	(163)	(31)	(20%)
Marketing and sales	(388)	(334)	(54)	(16%)
Development margin	\$ 175	\$ 126	\$ 49	39%
Development margin percentage	23.1%	20.2%	2.9 pts	

Development margin increased \$49 million or 39 percent. The increase reflected a \$43 million increase due to favorable revenue reportability compared to the 2016 fiscal year, \$18 million from higher vacation ownership contract sales volume net of the sales reserve and direct variable expenses (i.e., cost of vacation ownership products and marketing and sales) and \$11 million from a favorable mix of lower cost real estate inventory being sold. These increases are partially offset by \$15 million of unfavorable changes in product cost true-up activity (no true-up activity in 2017 compared to \$15 million of favorable true-up activity in 2016), \$5 million of incremental marketing and sales costs to the ramp-up of new sales locations and \$3 million of non-recurring variable compensation expense related to the impact of the 2017 Hurricanes.

The 2.9 percentage point increase in the development margin percentage reflected a 4.3 percentage point increase due to the favorable revenue reportability year-over-year and a 1.5 percentage point increase due to a favorable mix of lower cost vacation ownership real estate inventory being sold. These increases were partially offset by a 1.9 percentage point decrease due to the unfavorable change in product cost true-up activity year-over-year and a 1.0 percentage point decline due to higher marketing and sales costs (of which 0.6 percentage points was due to the higher ramp-up expenses in 2017 associated with six new sales locations and 0.4 percentage points was due to variable compensation expense related to the impact of the 2017 Hurricanes).

Resort Management and Other Services Revenues, Expenses and Margin

2018 Compared to 2017

(\$ in millions)	Fiscal Years		Change	Change due to Legacy-ILG	Change Excluding Legacy-ILG Impact	
	2018	2017				
Management fee revenues	\$ 114	\$ 89	\$ 25	\$ 15	\$ 10	11%
Ancillary revenues	160	118	42	33	9	8%
Other management and exchange revenues	85	72	13	11	2	3%
Resort management and other services revenues	359	279	80	59	21	8%
Resort management and other services expenses	(190)	(147)	(43)	(37)	(6)	(4%)
Resort management and other services margin	\$ 169	\$ 132	\$ 37	\$ 22	\$ 15	12%
Resort management and other services margin percentage	47.1%	47.4%	(0.3 pts)			

Excluding the impact of the ILG Acquisition, resort management and other services revenues reflected \$10 million of higher management fees resulting from the cumulative increase in the number of vacation ownership products sold and higher operating costs across the system, \$9 million of higher ancillary revenues from food and beverage and golf offerings at our resorts and \$5 million of higher annual club dues and other revenues earned in connection with the MVCD program due to the cumulative increase in owners enrolled in the program as well as an increase in the average club dues charged to enrolled owners, partially offset by \$3 million of lower refurbishment and other revenues due to a decrease in the number of refurbishment projects completed in the 2018 fiscal year.

Excluding the impact of the ILG Acquisition, the increase in the resort management and other services margin reflected the increases in revenue, partially offset by \$6 million of higher ancillary and other expenses primarily from food and beverage and golf offerings at our resorts in support of the higher revenues mentioned above.

2017 Compared to 2016

(\$ in millions)	Fiscal Years		Change	% Change
	2017	2016		
Management fee revenues	\$ 89	\$ 84	\$ 5	5%
Ancillary revenues	118	\$ 124	(6)	(5%)
Other management and exchange revenues	72	70	2	4%
Resort management and other services revenues	279	278	1	—%
Resort management and other services expenses	(147)	(149)	2	2%
Resort management and other services margin	\$ 132	\$ 129	\$ 3	3%
Resort management and other services margin percentage	47.4%	46.3%	1.1 pts	

The increase in resort management and other services revenues reflected \$5 million of higher management fees resulting from the cumulative increase in the number of vacation ownership products sold and higher operating costs across the system, \$1 million of additional annual club dues and other revenues earned in connection with the MVCD program due to the cumulative increase in owners enrolled in the program, and \$1 million of higher refurbishment revenue due to an increase in the number of refurbishment projects completed in 2017. These increases were partially offset by \$6 million of lower ancillary revenues. The decline in ancillary revenues included \$7 million of lower revenues due to new outsourcing arrangements at multiple vacation ownership resorts in North America and \$6 million of lower ancillary revenues from the operating property in Surfers Paradise, Australia (a portion of which was disposed of in the 2016 second quarter), partially offset by \$7 million of higher revenues from food and beverage and golf offerings that we continue to operate at our resorts.

The improvement in the resort management and other services margin reflected the increases in revenue as well as \$2 million of lower expenses. The lower expenses included \$6 million of lower ancillary expenses due to new outsourcing arrangements at multiple vacation ownership resorts in North America and \$6 million of lower ancillary expenses from the operating property in Surfers Paradise, Australia, partially offset by \$6 million of higher ancillary expenses from food and beverage and golf offerings that we continue to operate at our resorts, \$3 million of higher customer service expenses and expenses associated with the MVCD program and \$1 million of higher refurbishment expenses due to an increase in the number of projects being refurbished in 2017.

The ancillary revenue producing portions of the operating property in Surfers Paradise, Australia were included in the portion of the operating property sold in the second quarter of 2016. Therefore, we do not anticipate future ancillary revenues or expenses at this property. See Footnote 3 “Acquisitions and Dispositions” to our Financial Statements for further information related to this transaction.

Rental Revenues, Expenses and Margin

2018 Compared to 2017

(\$ in millions)	Fiscal Years		Change	Change due to Legacy-ILG	Change Excluding Legacy-ILG Impact	
	2018	2017				
Rental revenues	\$ 352	\$ 262	\$ 90	\$ 68	\$ 22	8%
Rental expenses	(277)	(221)	(56)	(48)	(8)	(4%)
Rental margin	\$ 75	\$ 41	\$ 34	\$ 20	\$ 14	34%
Rental margin percentage	21.5%	15.4%	6.1 pts			

	Fiscal Years		Change	Change due to Legacy-ILG	Change Excluding Legacy-ILG Impact	
	2018	2017				
Transient keys rented ⁽¹⁾	1,598,994	1,278,490	320,504	307,589	12,915	1%
Average transient key rate	\$ 222.10	\$ 216.29	\$ 5.81	\$ 0.57	\$ 5.24	2%
Resort occupancy	88.5%	88.7%	(0.2 pts)	(2.3 pts)	2.1 pts	

⁽¹⁾ Transient keys rented exclude those obtained through the use of plus points and preview stays.

Excluding the impact of the ILG Acquisition, rental revenue increased \$22 million due to 2 percent higher average transient rate (\$7 million), higher other revenues (\$6 million), higher plus points revenue (\$6 million) and a 1 percent increase in transient keys rented (\$3 million).

Excluding the impact of the ILG Acquisition, the increase in rental margin reflected the higher rental revenues net of direct variable expenses (such as housekeeping) and the \$6 million increase in plus points revenue, partially offset by higher expenses incurred due to owners choosing alternative usage options and higher unsold maintenance fees.

2017 Compared to 2016

(\$ in millions)	Fiscal Years		Change	% Change
	2017	2016		
Rental revenues	\$ 262	\$ 252	\$ 10	4%
Rental expenses	(221)	(210)	(11)	(6%)
Rental margin	\$ 41	\$ 42	\$ (1)	(5%)
Rental margin percentage	15.4%	16.9%	(1.5 pts)	

	Fiscal Years		Change	% Change
	2017	2016		
Transient keys rented ⁽¹⁾	1,278,490	1,206,118	72,372	6%
Average transient key rate	\$ 216.29	\$ 216.57	\$ (0.28)	—%
Resort occupancy	88.7%	89.1%	(0.4 pts)	

⁽¹⁾ Transient keys rented exclude those obtained through the use of plus points, preview stays and those associated with our operating properties in San Diego, California and Surfers Paradise, Australia prior to their respective conversions to vacation ownership inventory.

The increase in rental revenues was due to a 6 percent increase in transient keys rented (\$16 million) driven by a 6 percent increase in available keys and \$3 million of higher plus points revenue (which is recognized when the points are redeemed or expire), partially offset by \$6 million of revenue in 2016 from the operating property in Surfers Paradise, Australia prior to the conversion of the property to vacation ownership inventory (a portion of which was disposed of in the second quarter of 2016) and \$3 million of revenue in 2016 at our operating property in San Diego, California prior to the conversion of the property to vacation ownership inventory.

The decrease in rental margin reflected higher expenses incurred due to owners choosing alternative usage options and higher unsold maintenance fees, partially offset by the higher rental revenues net of direct variable expenses (such as housekeeping) and the \$3 million increase in plus points revenue.

Financing Revenues, Expenses and Margin

2018 Compared to 2017

(\$ in millions)	Fiscal Years		Change	Change due to Legacy-ILG	Change Excluding Legacy-ILG Impact	
	2018	2017				
Interest income	\$ 175	\$ 128	\$ 47	\$ 34	\$ 13	10%
Other financing revenues	7	7	—	—	—	—%
Financing revenues	182	135	47	34	13	10%
Financing expenses	(24)	(18)	(6)	(5)	(1)	(9%)
Consumer financing interest expense	(40)	(25)	(15)	(9)	(6)	(26%)
Financing margin	\$ 118	\$ 92	\$ 26	\$ 20	\$ 6	5%
Financing propensity	62.0%	64.0%				

Excluding the impact of the ILG Acquisition, financing revenues increased 13 million due to a \$154 million increase in the average gross vacation ownership notes receivable balance (\$18 million), partially offset by higher financing program incentive costs (\$5 million).

Excluding the impact of the ILG Acquisition, the increase in financing margin reflected the higher financing revenues, partially offset by higher consumer financing interest expense and higher other expenses. The higher consumer financing interest expense was due to a higher average outstanding debt balance (\$5 million) and a higher average interest rate on outstanding debt balances (\$1 million) due to the higher interest rate applicable to our most recently completed securitization of vacation ownership notes receivable. The higher other expenses were due to an increase in variable expenses associated with the increase in the average gross vacation ownership notes receivable balance.

2017 Compared to 2016

(\$ in millions)	Fiscal Years		Change	% Change
	2017	2016		
Interest income	\$ 128	\$ 120	\$ 8	7%
Other financing revenues	7	7	—	—%
Financing revenues	135	127	8	6%
Financing expenses	(18)	(19)	1	4%
Consumer financing interest expense	(25)	(24)	(1)	(6%)
Financing margin	\$ 92	\$ 84	\$ 8	8%
Financing propensity	64.0%	60.1%		

The increase in financing revenues was due to a \$119 million increase in the average gross vacation ownership notes receivable balance (\$17 million), partially offset by higher financing program incentive costs (\$6 million) and a slight decrease in the weighted average coupon rate of our vacation ownership notes receivable (\$3 million).

The increase in financing margin reflected the higher financing revenues and lower other expenses, partially offset by higher consumer financing interest expense. The higher consumer financing interest expense was due to a higher average outstanding debt balance in 2017.

Depreciation and Amortization

2018 Compared to 2017

(\$ in millions)	Fiscal Years		Change	Change due to Legacy-ILG	Change Excluding Legacy-ILG Impact	
	2018	2017				
Depreciation and amortization	\$ 37	\$ 17	\$ 20	\$ 17	\$ 3	11%

Excluding the impact of the ILG Acquisition, depreciation and amortization increased by \$3 million over the 2017 fiscal year, reflecting additional depreciation of completed vacation ownership units classified as a component of Property and equipment until the time at which they are legally registered for sale as vacation ownership products.

2017 Compared to 2016

(\$ in millions)	Fiscal Years		Change	% Change
	2017	2016		
Depreciation and amortization	\$ 17	\$ 16	\$ 1	6%

Litigation Settlement

2018 Compared to 2017

(\$ in millions)	Fiscal Years		Change	Change due to Legacy-ILG	Change Excluding Legacy-ILG Impact	
	2018	2017				
Litigation settlement	\$ 46	\$ 4	\$ 42	\$ —	\$ 42	NM

2017 Compared to 2016

(\$ in millions)	Fiscal Years		Change	% Change
	2017	2016		
Litigation settlement	\$ 4	\$ (1)	\$ 5	NM

In 2018, we incurred \$46 million of litigation settlement charges, including \$28 million related to a previously managed project in Hawaii, \$11 million related to a project in San Francisco, \$5 million related to a project in Lake Tahoe, \$1 million related to an Asia Pacific tax matter and \$1 million related to projects in Europe.

In 2017, we incurred \$4 million of litigation settlement charges, including \$2 million related to the repurchase of two previously sold residential units at one of our resorts in North America, a \$1 million charge related to the settlement of a construction related dispute at one of our resorts in North America and \$1 million of various other charges.

In 2016, we reversed the remaining accrual of less than \$1 million related to a 2014 agreement in principle regarding The Ritz-Carlton Club and Residences, San Francisco (the “RCC San Francisco”) because actual costs incurred were lower than expected.

Royalty Fee

2018 Compared to 2017

(\$ in millions)	Fiscal Years		Change	Change due to Legacy-ILG	Change Excluding Legacy-ILG Impact	
	2018	2017				
Royalty fee	\$ 78	\$ 63	\$ 15	\$ 14	\$ 1	2%

Excluding the impact of the ILG Acquisition, royalty fee expense increased \$1 million in the 2018 fiscal year compared to the 2017 fiscal year due to a decrease in the mix of sales of pre-owned inventory (\$2 million), which carry a lower royalty fee as compared to initial sales of our inventory (one percent versus two percent), and an increase in the dollar volume of closings (\$1 million), partially offset by a contractual decrease in the fixed portion of the royalty fee owed to Marriott International (\$2 million) as a result of amendments to our licensing agreements with Marriott International entered into during the first quarter of 2018. This decrease in the fixed portion of the royalty fee was terminated upon completion of the ILG Acquisition.

2017 Compared to 2016

(\$ in millions)	Fiscal Years		Change	% Change
	2017	2016		
Royalty fee	\$ 63	\$ 61	\$ 2	3%

Royalty fee expense increased \$2 million in 2017 due to an increase in the dollar volume of closings (\$2 million) and a contractual increase late in 2016 in the fixed portion of the royalty fee owed to Marriott International (\$2 million), partially offset by \$2 million of lower costs due to an increase in sales of pre-owned inventory, which carry a lower royalty fee as compared to initial sales of our inventory (one percent versus two percent).

Cost Reimbursements

2018 Compared to 2017

(\$ in millions)	Fiscal Years		Change	Change due to Legacy-ILG	Change Excluding Legacy-ILG Impact	
	2018	2017				
Cost reimbursements	\$ 920	\$ 750	\$ 170	\$ 83	\$ 87	12%

Excluding the impact of the ILG Acquisition, cost reimbursements increased \$87 million, or 12 percent, over the 2017 fiscal year, reflecting \$72 million due to higher costs, \$13 million due to additional managed unit weeks in the 2018 fiscal year and a \$2 million impact from foreign exchange rates at our Legacy-MVW Vacation Ownership resorts in Europe. The higher costs included more refurbishment activity in the 2018 fiscal year, inflationary wage and operating cost increases and non-recurring lower costs in the 2017 fiscal year due to the 2017 Hurricane related resort closures.

2017 Compared to 2016

(\$ in millions)	Fiscal Years		Change	% Change
	2017	2016		
Cost reimbursements	\$ 750	\$ 720	\$ 30	4%

Cost reimbursements increased \$30 million, or 4 percent, over 2016, reflecting \$23 million due to higher costs and \$7 million due to additional managed unit weeks in 2017.

Other

2018 Compared to 2017

(\$ in millions)	Fiscal Years		Change	Change due to Legacy-ILG	Change Excluding Legacy-ILG Impact	
	2018	2017				
Other	\$ (4)	\$ (1)	\$ (3)	\$ —	\$ (3)	NM

2017 Compared to 2016

(\$ in millions)	Fiscal Years		Change	% Change
	2017	2016		
Other	\$ (1)	\$ (4)	\$ 3	NM

In 2018, we incurred \$3 million of acquisition costs associated with the anticipated capital efficient acquisition of an operating property in San Francisco, California and \$1 million of acquisition costs associated with the operating property in New York that we manage.

In 2017, we incurred \$1 million of acquisition costs associated with the then anticipated future acquisition of the operating property in New York that we manage.

In 2016, we incurred \$4 million of other expenses, including \$5 million of acquisition costs associated with the acquisition of an operating property in the South Beach area of Miami Beach, the then anticipated future acquisition of the operating property in New York that we manage, the then anticipated future acquisition of vacation ownership units located on the Big Island of Hawaii and the sale of the portion of the operating property located in Surfers Paradise, Australia that we did not intend to convert to vacation ownership inventory, partially offset by less than \$1 million of other miscellaneous income.

See Footnote 3 “Acquisitions and Dispositions” and Footnote 11 “Contingencies and Commitments” to our Financial Statements for further information related to these transactions.

Gains and Other Income, Net

2018 Compared to 2017

(\$ in millions)	Fiscal Years		Change	Change due to Legacy-ILG	Change Excluding Legacy-ILG Impact	
	2018	2017				
Gains and other income, net	\$ 28	\$ 6	\$ 22	\$ (2)	\$ 24	NM

2017 Compared to 2016

(\$ in millions)	Fiscal Years			
	2017	2016	Change	% Change
Gains and other income, net	\$ 6	\$ 11	\$ (5)	(49%)

In 2018 we recorded \$28 million of gains and other income, including \$29 million of net insurance proceeds related to the settlement of Legacy-MVW business interruption insurance claims arising from Hurricanes Irma and Maria and a \$1 million favorable true up of previously recorded Legacy-MVW costs associated with the 2017 Hurricanes, partially offset by \$2 million of Legacy-ILG non-operating foreign exchange losses.

In 2017 we recorded \$6 million of gains and other income, including \$9 million in net insurance proceeds related to the settlement of business interruption insurance claims arising from Hurricane Matthew, partially offset by a charge of \$1 million associated with the estimated property damage insurance deductibles and impairment of property and equipment at several of our vacation ownership resorts, primarily in Florida and the Caribbean, that were impacted by Hurricane Irma and/or Hurricane Maria, \$1 million of variable compensation expense related to the impact of Hurricane Matthew and less than \$1 million of miscellaneous losses and other expense.

In 2016 we recorded \$11 million of gains and other income, including a \$10 million gain on the disposition of excess inventory at the RCC San Francisco, and the reversal of the remaining \$2 million accrual associated with the disposition of a golf course and related assets in Kauai, Hawaii because we no longer expected to incur additional costs in connection with this sale partially offset by a \$1 million loss on the sale of the portion of the operating property in Surfers Paradise, Australia that we did not intend to convert to vacation ownership inventory.

EXCHANGE & THIRD-PARTY MANAGEMENT

Our Exchange & Third-Party Management segment offers access to vacation accommodations and other travel-related transactions and services to leisure travelers by providing vacation exchange and management services, including vacation rentals and other services. We provide these services through a variety of brands including Interval International, Trading Places International, Vacation Resorts International, Aqua-Aston and Great Destinations. These brands were acquired as part of our acquisition of ILG on September 1, 2018 and, consequently, are only included in our results for the months of September through December 2018. As part of the ILG Acquisition, we acquired a 75.5 percent interest in VRI Europe, which we subsequently disposed of on December 21, 2018. See Footnote 3 “Acquisitions and Dispositions” to our Financial Statements for further information related to this transaction.

(\$ in millions)	Fiscal Years		
	2018	2017	2016
REVENUES			
Management and exchange	\$ 109	\$ —	\$ —
Rental	18	—	—
Financing	1	—	—
Cost reimbursements	33	—	—
TOTAL REVENUES	161	—	—
EXPENSES			
Marketing and sales	14	—	—
Management and exchange	31	—	—
Rental	9	—	—
Financing	1	—	—
Depreciation and amortization	16	—	—
Cost reimbursements	33	—	—
TOTAL EXPENSES	104	—	—
Gains and other income, net	1	—	—
SEGMENT RESULTS BEFORE NONCONTROLLING INTERESTS	58	—	—
Net income attributable to noncontrolling interests	(1)	—	—
SEGMENT FINANCIAL RESULTS ATTRIBUTABLE TO COMMON SHAREHOLDERS	\$ 57	\$ —	\$ —

CORPORATE AND OTHER

Corporate and Other consists of results that are not allocable to our segments, including company-wide general and administrative costs, corporate interest expense, ILG acquisition-related costs, and provision for income taxes. In addition, Corporate and Other includes the Consolidated Property Owners' Associations revenues and expenses.

(\$ in millions)	Fiscal Years		
	2018	2017	2016
REVENUES			
Resort management and other services	\$ 31	\$ —	\$ —
Rental	1	—	—
Cost reimbursements	(28)	—	—
TOTAL REVENUES	4	—	—
EXPENSES			
Resort management and other services	38	—	—
Rental	(5)	—	—
General and administrative	198	106	100
Depreciation and amortization	9	4	5
Cost reimbursements	(28)	—	—
TOTAL EXPENSES	212	110	105
Losses and other expense, net	(8)	—	—
Interest expense	(54)	(10)	(9)
ILG acquisition-related costs	(127)	(1)	—
FINANCIAL RESULTS BEFORE INCOME TAXES AND NONCONTROLLING INTERESTS	(397)	(121)	(114)
Provision for income taxes	(51)	(5)	(76)
Net loss attributable to noncontrolling interests	3	—	—
FINANCIAL RESULTS ATTRIBUTABLE TO COMMON SHAREHOLDERS	\$ (445)	\$ (126)	\$ (190)

Consolidated Property Owners' Associations

The following table illustrates the impact of the Consolidated Property Owners' Associations of the acquired Legacy-ILG vacation ownership properties under the voting interest model, which represents the portion related to individual or third-party VOI owners. Given the timing of the ILG Acquisition, the table below only reflects activity for the months of September through December 2018.

(\$ in millions)	Fiscal Years		
	2018	2017	2016
REVENUES			
Resort management and other services	\$ 31	\$ —	\$ —
Rental	1	—	—
Cost reimbursements	(28)	—	—
TOTAL REVENUES	4	—	—
EXPENSES			
Resort management and other services	38	—	—
Rental	(5)	—	—
Cost reimbursements	(28)	—	—
TOTAL EXPENSES	5	—	—
Net loss attributable to noncontrolling interests	3	—	—
FINANCIAL RESULTS ATTRIBUTABLE TO COMMON SHAREHOLDERS	\$ 2	\$ —	\$ —

General and Administrative

2018 Compared to 2017

(\$ in millions)	Fiscal Years		Change	Change due to Legacy-ILG	Change Excluding Legacy-ILG Impact	
	2018	2017				
General and administrative.	\$ 198	\$ 106	\$ 92	\$ 77	\$ 15	14%

Excluding the impact of the ILG Acquisition, general and administrative expenses increased \$15 million due to higher legal and technology costs as well as higher personnel related and other expenses. The higher personnel related and other expenses included annual merit, bonus and inflationary cost increases.

2017 Compared to 2016

(\$ in millions)	Fiscal Years		Change	% Change
	2017	2016		
General and administrative.	\$ 106	\$ 100	\$ 6	6%

General and administrative expenses increased \$6 million due to higher personnel related and other expenses including annual merit, bonus and inflationary cost increases.

Depreciation and Amortization

2018 Compared to 2017

(\$ in millions)	Fiscal Years		Change	Change due to Legacy-ILG	Change Excluding Legacy-ILG Impact	
	2018	2017				
Depreciation and amortization.	\$ 9	\$ 4	\$ 5	\$ 5	\$ —	—%

2017 Compared to 2016

(\$ in millions)	Fiscal Years		Change	% Change
	2017	2016		
Depreciation and amortization.	\$ 4	\$ 5	\$ (1)	(13%)

Losses and Other Expense, net

2018 Compared to 2017

(\$ in millions)	Fiscal Years		Change	Change due to Legacy-ILG	Change Excluding Legacy-ILG Impact	
	2018	2017				
Losses and other expense, net	\$ (8)	\$ —	\$ (8)	\$ (2)	\$ (6)	NM

In 2018, we recorded \$4 million of losses and other expenses primarily resulting from fraudulently induced electronic payment disbursements made to third parties, \$2 million of other expenses primarily associated with such fraudulently induced electronic payment disbursements and \$2 million of Legacy-ILG miscellaneous losses and other expense. See Footnote 11 “Contingencies and Commitments” to our Financial Statements for additional information regarding the fraudulently induced electronic payment disbursements made to third parties in 2018.

We had no activity in 2017 or 2016.

Interest Expense

2018 Compared to 2017

(\$ in millions)	Fiscal Years		Change	Change due to Legacy-ILG	Change Excluding Legacy-ILG Impact	
	2018	2017				
Interest expense	\$ (54)	\$ (10)	\$ (44)	\$ (2)	\$ (42)	NM

Interest expense increased \$44 million due to \$35 million of interest expense associated with the new financing arrangements entered into during the third quarter of 2018 in connection with the ILG Acquisition, \$7 million of interest expense associated with the Convertible Notes that were issued during the 2017 third quarter and \$2 million of interest expense associated with assumed Legacy-ILG debt for the period from September 2018 to December 2018.

2017 Compared to 2016

(\$ in millions)	Fiscal Years		Change	% Change
	2017	2016		
Interest expense	\$ (10)	\$ (9)	\$ (1)	(7%)

Interest expense increased \$1 million due to \$3 million of interest expense associated with our \$230 million Convertible Notes due 2022, \$2 million of imputed interest on a non-interest bearing note payable associated with the acquisition of vacation ownership units located on the Big Island of Hawaii and \$1 million of higher other expenses, partially offset by \$5 million of expense incurred in 2016 associated with the redemption of the mandatorily redeemable preferred stock of a consolidated subsidiary. Due to the redemption of this mandatorily redeemable preferred stock, we will not incur further interest expense associated with this liability in the future.

ILG Acquisition-Related Costs

ILG acquisition-related costs include transaction costs, employee termination costs and integration costs. Transaction costs represent costs related to the planning and execution of the ILG Acquisition, primarily for financial advisory, legal, and other professional service fees. Employee termination costs represent charges for employee severance, retention, and other termination related benefits. Acquisition and integration costs primarily represent integration employee salaries and share-based compensation, fees paid to change management consultants, and technology-related costs.

2018 Compared to 2017

(\$ in millions)	Fiscal Years			Change due to Legacy-ILG	Change Excluding Legacy-ILG Impact
	2018	2017	Change		
ILG acquisition-related costs	\$ (127)	\$ (1)	\$ (126)	\$ (32)	\$ (94) NM

2017 Compared to 2016

(\$ in millions)	Fiscal Years		Change	% Change
	2017	2016		
ILG acquisition-related costs	\$ (1)	\$ —	\$ (1)	NM

Income Tax

2018 Compared to 2017

(\$ in millions)	Fiscal Years		Change
	2018	2017	
Provision for income taxes	\$ (51)	\$ (5)	\$ (46)

The provision for income taxes increased \$46 million from the 2017 fiscal year. The increase was primarily due to the prior year including a \$65 million benefit for the reduction of the U.S. corporate maximum tax rate from 35 percent to 21 percent as mentioned below. The current year provision reflects an increase in deferred expense due to the activity of the combined company as well as ILG acquisition-related non-deductible items.

2017 Compared to 2016

(\$ in millions)	Fiscal Years		Change
	2017	2016	
Provision for income taxes	\$ (5)	\$ (76)	\$ 71

Our provision for income taxes decreased \$71 million (from \$76 million to \$5 million). The decrease was primarily due to revaluation of our deferred tax liability resulting in a \$65 million benefit from the Tax Cuts and Jobs Act discussed below and decrease of \$5 million in foreign tax rates.

On December 22, 2017, the Tax Cuts and Jobs Act was signed into law. The new U.S. tax legislation is subject to a number of complex provisions, which we are currently evaluating, however we expect future earnings to be positively impacted largely due to the reduction of the U.S. federal corporate income tax rate from 35 percent to 21 percent. This rate reduction had a significant impact on our provision for income taxes for 2017, including an estimated \$65 million benefit for the one-time impact resulting from the revaluation of our deferred tax liability to reflect the new lower rate.

Liquidity and Capital Resources

Our capital needs are supported by cash on hand (\$231 million at the end of 2018), cash generated from operations, our ability to raise capital through securitizations in the ABS market and, to the extent necessary, funds available under the Warehouse Credit Facility and the Revolving Corporate Credit Facility. We believe these sources of capital will be adequate to meet our short-term and long-term liquidity requirements, finance our long-term growth plans, satisfy debt service requirements, fulfill other cash requirements and return capital to shareholders. At the end of 2018, we had \$3.9 billion of total gross debt outstanding, which included \$1.7 billion of non-recourse debt associated with vacation ownership notes receivable securitizations, Senior Notes of \$1.0 billion, a Term Loan of \$900 million, Convertible Notes of \$230 million and a \$31 million non-interest bearing note payable issued in connection with the acquisition of completed vacation ownership units on the Big Island of Hawaii.

At the end of 2018, we had \$852 million of real estate inventory on hand, comprised of \$843 million of finished goods and \$9 million of work-in-progress. In addition, we had \$51 million of completed vacation ownership units that have been classified as a component of Property and equipment until the time at which they are legally registered for sale as vacation ownership products.

Our vacation ownership product offerings allow us to utilize our real estate inventory efficiently. The majority of our sales are of points-based products, which permits us to sell vacation ownership products at most of our sales locations, including those where little or no weeks-based inventory remains available for sale. Because we no longer need specific resort-based inventory at each sales location, we need to have only a few resorts under development at any given time and can leverage successful sales locations at completed resorts. This allows us to maintain long-term sales locations and reduces the need to develop and staff on-site sales locations at smaller projects in the future. We believe our points-based programs enable us to align our real estate inventory acquisitions with the pace of sales of vacation ownership products. We expect to standardize our sales inventory acquisition policies across our portfolio of vacation ownership brands acquired as part of the ILG Acquisition.

We are selectively pursuing growth opportunities in North America and Asia Pacific by targeting high-quality inventory that allows us to add desirable new destinations to our system with new on-site sales locations through transactions that limit our up-front capital investment and allow us to purchase finished inventory closer to the time it is needed for sale. These capital efficient vacation ownership deal structures may consist of the development of new inventory, or the conversion of previously built units by third parties, just prior to sale.

Our Exchange & Third-Party Management segment includes exchange networks, membership programs and third-party property management services that were acquired as part of the ILG Acquisition. These networks, programs and services generate revenue that is generally fee-based and derived from membership, exchange and rental transactions, property and association management, and other related products and services. This segment is expected to be less capital intensive than our Vacation Ownership segment and will be funded with cash generated from segment operations.

The following table summarizes the changes in cash, cash equivalents and restricted cash:

(\$ in millions)	Fiscal Years		
	2018	2017	2016
Cash, cash equivalents and restricted cash provided by (used in):			
Operating activities	\$ 97	\$ 142	\$ 141
Investing activities	(1,407)	(38)	34
Financing activities	1,433	171	(206)
Effect of change in exchange rates on cash, cash equivalents and restricted cash . . .	—	3	(5)
Net change in cash, cash equivalents and restricted cash	<u>\$ 123</u>	<u>\$ 278</u>	<u>\$ (36)</u>

Cash from Operating Activities

Our primary sources of funds from operations are (1) cash sales and down payments on financed sales, (2) cash from our financing operations, including principal and interest payments received on outstanding vacation ownership notes receivable, (3) cash from fee-based membership, exchange and rental transactions and (4) net cash generated from our rental and resort management and other services operations. Outflows include spending for the development of new phases of existing resorts, the acquisition of additional inventory, enhancement of our inventory exchange network and funding our working capital needs.

We minimize our working capital needs through cash management, strict credit-granting policies and disciplined collection efforts. Our working capital needs fluctuate throughout the year given the timing of annual maintenance fees on unsold inventory we pay to property owners' associations and certain annual compensation-related outflows. In addition, our cash from operations varies due to the timing of our owners' repayment of vacation ownership notes receivable, the closing or recording of sales contracts for vacation ownership products, financing propensity and cash outlays for real estate inventory acquisition and development.

In 2018, we generated \$97 million of cash flows from operating activities compared to \$142 million in 2017. Excluding the impact of changes in net income and adjustments for non-cash items, the change in cash flows from operations reflected higher originations driven by higher contract sales and higher real estate inventory spending, partially offset by higher collections due to an increasing portfolio of outstanding vacation ownership notes receivable. The impact of changes in operating cash flows in 2018 also included \$127 million of ILG acquisition-related costs, partially offset by business interruption insurance proceeds of \$32 million for Legacy-MVW and \$25 million for Legacy-ILG.

In 2017, we generated \$142 million of cash flows from operating activities, compared to \$141 million in 2016. Excluding the impact of changes in net income and adjustments for non-cash items, the change in cash flows from operations reflected higher originations driven by higher contract sales and higher financing propensity due to the continued success of the financing incentive programs, timing of payments related to unsold inventory and higher real estate inventory spending, partially offset by higher closings on vacation ownership contract sales, higher collections due to an increasing portfolio of outstanding vacation ownership notes receivable, timing of payments related to operating payables and lower payments related to employee benefits programs.

In 2016, we generated \$141 million of cash flows from operating activities, compared to \$119 million in 2015. Excluding the impact of changes in net income and adjustments for non-cash items, the increase in cash flows was attributable to the pay down of our liability for the Marriott customer loyalty program in 2015 and favorable timing of real estate inventory spending in 2016. This favorable impact was partially offset by a higher financing propensity due to the continued success of the financing programs implemented in the first half of 2015, lower collections due to the reduction in the portfolio of outstanding vacation ownership notes receivable and the timing of revenue reportability associated with our vacation ownership contract sales.

In addition to net income and adjustments for non-cash items, the following operating activities are key drivers of our cash flow from operating activities:

Inventory Spending Less Than / in Excess of Cost of Sales

(\$ in millions)	Fiscal Years		
	2018	2017	2016
Inventory spending	\$ (212)	\$ (121)	\$ (139)
Purchase of vacation ownership units for future transfer to inventory	—	(34)	—
Inventory costs	221	167	137
Inventory spending less than (in excess of) cost of sales	<u>\$ 9</u>	<u>\$ 12</u>	<u>\$ (2)</u>

We measure our real estate inventory capital efficiency by comparing the cash outflow for real estate inventory spending (a cash item) to the amount of real estate inventory costs charged to expense on our Income Statements related to sale of vacation ownership products (a non-cash item).

Given the significant level of completed real estate inventory on hand, as well as the capital efficiency resulting from the MVCD program and capital efficient transactions, our spending for real estate inventory remained below the amount of real estate inventory costs in 2018 and 2017 and only marginally higher in 2016.

Our inventory spending was less than our inventory costs in 2018, including payments to satisfy our remaining commitments to purchase vacation ownership units located at our resort in Marco Island, Florida. During 2018, we acquired 92 completed vacation ownership units for \$83 million and 20 completed vacation ownership units for \$24 million in two separate transactions. Both transactions were accounted for as asset acquisitions with all of the purchase price allocated to Inventory.

Our inventory spending remained below inventory costs in 2017, even including payments to satisfy a portion of our commitments to purchase vacation ownership units. Inventory spending included the acquisition of 112 completed vacation ownership units located on the Big Island of Hawaii for \$27 million, as well as 51 completed vacation ownership units located in Bali, Indonesia for \$12 million. In connection with the acquisition on the Big Island of Hawaii, we also settled a note receivable from the seller of less than \$1 million on a non-cash basis, and issued a non-interest bearing note payable for \$64 million. Purchase of vacation ownership units for future transfer to inventory included the acquisition of 36 completed vacation ownership units located at our resort in Marco Island, Florida, for \$34 million. We entered into each of these commitments in prior periods as part of our capital efficiency strategy to limit our up-front capital investment and purchase finished inventory closer to the time it is needed for sale. See Footnote 3 “Acquisitions and Dispositions” and Footnote 11 “Contingencies and Commitments” to our Financial Statements for additional information regarding these transactions.

Our inventory spending was less than our inventory costs in 2016 and included \$24 million for the acquisition of an operating property located in the South Beach area of Miami Beach, Florida. We rebranded this property as Marriott Vacation Club Pulse, South Beach and converted it, in its entirety, into vacation ownership interests for use in our MVCD program. See Footnote 3 “Acquisitions and Dispositions” to our Financial Statements for additional information regarding this transaction.

We also completed the acquisition of an operating property located in Surfers Paradise, Australia during 2015. At the time of the acquisition, we determined that we would convert a portion of this operating property into vacation ownership interests for future use in our Vacation Ownership segment. During 2016, we completed the conversion of this portion of the operating property, a portion of which was contributed to our points-based programs in our Vacation Ownership segment. See Footnote 3 “Acquisitions and Dispositions” to our Financial Statements for additional information regarding this transaction.

Through our existing vacation ownership interest repurchase program, we proactively buy back previously sold vacation ownership interests at lower costs than would be required to develop new inventory. By repurchasing inventory in desirable locations, we expect to be able to stabilize the future cost of vacation ownership products.

Vacation Ownership Notes Receivable Collections Less Than Originations

<i>(\$ in millions)</i>	Fiscal Years		
	2018	2017	2016
Vacation ownership notes receivable collections — non-securitized	\$ 115	\$ 76	\$ 74
Vacation ownership notes receivable collections — securitized.	271	194	180
Vacation ownership notes receivable originations	(630)	(466)	(357)
Vacation ownership notes receivable collections less than originations	<u>\$ (244)</u>	<u>\$ (196)</u>	<u>\$ (103)</u>

Vacation ownership notes receivable collections include principal from non-securitized and securitized vacation ownership notes receivable. Vacation ownership notes receivable collections increased in 2018 compared to 2017 due to an increase in the portfolio of outstanding vacation ownership notes receivable. Vacation ownership notes receivable originations in 2018 increased due to higher vacation ownership contract sales, partially offset by a slight decrease in financing propensity to 62 percent compared to 64 percent for 2017. Vacation ownership notes receivable originations increased in 2017 compared to 2016 due to higher vacation ownership contract sales volume and an increase in financing propensity to 64 percent in 2017 from 60 percent in 2016, due to the continued success of the financing incentive programs that we offered in our Vacation Ownership segment.

Cash from Investing Activities

<i>(\$ in millions)</i>	Fiscal Years		
	2018	2017	2016
Acquisition of a business, net of cash and restricted cash acquired	\$ (1,393)	\$ —	\$ —
Disposition of subsidiary shares to noncontrolling interest holder.	40	—	—
Capital expenditures for property and equipment (excluding inventory).	(40)	(26)	(35)
Purchase of company owned life insurance	(14)	(12)	—
Dispositions, net	—	—	69
Net cash, cash equivalents and restricted cash (used in) provided by investing activities	<u>\$ (1,407)</u>	<u>\$ (38)</u>	<u>\$ 34</u>

Acquisition of a Business, Net of Cash and Restricted Cash Acquired

Cash outflows of \$1.4 billion in 2018 were due to the ILG Acquisition. See Footnote 3 “Acquisitions and Dispositions” to our Financial Statements for more information.

Capital Expenditures for Property and Equipment

Capital expenditures for property and equipment relate to spending for technology development, buildings and equipment used at sales locations and ancillary offerings, such as food and beverage offerings, at locations where such offerings are provided. Additionally, it includes spending related to maintenance of buildings and equipment used in common areas at some of our resorts.

In 2018, capital expenditures for property and equipment of \$40 million included \$29 million to support business operations (including \$19 million for ancillary and other operations assets and \$10 million for sales locations) and \$11 million for technology spending.

In 2017, capital expenditures for property and equipment of \$26 million included \$22 million to support business operations (including \$12 million for ancillary and other operations assets and \$10 million for sales locations) and \$4 million for technology spending.

In 2016, capital expenditures for property and equipment of \$35 million included \$27 million to support business operations (including \$21 million for sales locations and \$6 million for ancillary and other operations assets) and \$8 million for technology spending.

Purchase of Company Owned Life Insurance

To support our ability to meet a portion of our obligations under the Marriott Vacations Worldwide Corporation Deferred Compensation Plan (the “Deferred Compensation Plan”), we acquired company owned insurance policies on the lives of certain participants in the Deferred Compensation Plan, the proceeds of which are intended to be aligned with the investment alternatives elected by plan participants as discussed in Footnote 2 “Summary of Significant Accounting Policies” to our Financial Statements. During 2018 and 2017, we paid \$14 million and \$12 million, respectively, to acquire these policies.

Disposition of Subsidiary Shares to Noncontrolling Interest

As part of the ILG Acquisition, we acquired a 75.5 percent interest in VRI Europe Limited (“VRI Europe”), a joint venture comprised of a European vacation ownership resort management business, which was consolidated by MVW under the voting interest model. During the fourth quarter of 2018, we sold our interest in VRI Europe to an affiliate of the noncontrolling interest holder for our book value of \$63 million, of which \$40 million in cash proceeds was received in 2018. In addition, we recorded a receivable of \$6 million due in 2019 and note receivable of \$17 million due in 2020 relating to this transaction.

Dispositions, net

We did not have any significant dispositions of property and assets in 2018 or 2017.

Dispositions of property and assets generated cash proceeds of \$69 million in 2016 related to the sale of the remaining downsized portion of the operating property in Surfers Paradise, Australia for \$49 million, the sale of excess inventory at the RCC San Francisco for \$19 million and the sale of several lots in St. Thomas, U.S. Virgin Islands for \$1 million.

Cash from Financing Activities

(\$ in millions)	Fiscal Years		
	2018	2017	2016
Borrowings from securitization transactions	\$ 539	\$ 400	\$ 377
Repayment of debt related to securitization transactions	(382)	(293)	(323)
Proceeds from debt	1,690	318	85
Repayments of debt	(215)	(88)	(85)
Purchase of convertible note hedges	—	(33)	—
Proceeds from issuance of warrants	—	20	—
Payment of debt issuance costs	(34)	(15)	(4)
Repurchase of common stock	(96)	(88)	(178)
Redemption of mandatorily redeemable preferred stock of consolidated subsidiary	—	—	(40)
Payment of dividends to common shareholders	(51)	(38)	(34)
Payment of withholding taxes on vesting of restricted stock units	(18)	(11)	(4)
Other, net	—	(1)	—
Net cash, cash equivalents and restricted cash provided by (used in) financing activities	\$ 1,433	\$ 171	\$ (206)

Borrowings from / Repayment of Debt Related to Securitization Transactions

We reflect proceeds from securitizations of vacation ownership notes receivable, including draw downs on the Warehouse Credit Facility, as “Borrowings from securitization transactions.” We reflect repayments of bonds associated with vacation ownership notes receivable securitizations and repayments on the Warehouse Credit Facility (including vacation ownership notes receivable repurchases) as “Repayment of debt related to securitization transactions.”

We account for our securitizations of vacation ownership notes receivable as secured borrowings and therefore do not recognize a gain or loss as a result of the transaction. The results of operations for the securitization entities are consolidated within our results of operations as these entities are variable interest entities for which we are the primary beneficiary.

During the second quarter of 2018, we completed the securitization of a pool of \$436 million of vacation ownership notes receivable. In connection with the securitization, investors purchased in a private placement \$423 million in vacation ownership loan backed notes from the MVW Owner Trust 2018-1 (the “2018-1 Trust”). Three classes of vacation ownership loan backed notes were issued by the 2018-1 Trust: \$316 million of Class A Notes, \$65 million of Class B Notes and \$42 million of Class C Notes. The Class A Notes have an interest rate of 3.5 percent, the Class B Notes have an interest rate of 3.6 percent and Class C Notes have an interest rate of 3.9 percent, for an overall weighted average interest rate of 3.5 percent.

In August 2018, prior to the ILG Acquisition, Legacy-ILG completed a securitization of a pool of \$293 million of vacation ownership notes receivable. Approximately \$221 million of vacation ownership notes receivable were purchased prior to the ILG Acquisition by VSE 2018-A VOI Mortgage LLC (the “2018-A Trust”). During the fourth quarter of 2018, the 2018-A Trust purchased \$59 million of the remaining vacation ownership notes receivable and \$58 million was released from restricted cash. As of December 31, 2018, the 2018-A Trust held \$13 million of the proceeds, all of which was released when the remaining vacation ownership notes receivable were purchased in January 2019.

During the fourth quarter of 2018, we securitized vacation ownership notes receivable under our Warehouse Credit Facility. The carrying amount of the vacation ownership notes receivable securitized was \$137 million. The advance rate was 85 percent, which resulted in gross proceeds of \$116 million. Net proceeds were \$115 million due to the funding of reserve accounts in the amount of \$1 million. At December 31, 2018, \$116 million was outstanding under our Warehouse Credit Facility and we had \$51 million of gross vacation ownership notes receivable that were eligible for securitization under this facility.

Subsequent to the end of 2018, we securitized vacation ownership notes receivable under our Warehouse Credit Facility. The carrying amount of the vacation ownership notes receivable securitized was \$85 million. The advance rate was 85 percent, which resulted in gross proceeds of \$73 million. Net proceeds were \$72 million due to the funding of reserve accounts of less than \$1 million.

During the third quarter of 2017, we completed the securitization of a pool of \$361 million of vacation ownership notes receivable generating gross cash proceeds of \$350 million. In connection with the securitization, investors purchased in a private placement \$350 million in vacation ownership loan backed notes from the MVW Owner Trust 2017-1 (the “2017-1 Trust”). Three classes of vacation ownership loan backed notes were issued by the 2017-1 Trust: \$276 million of Class A Notes,

\$47 million of Class B Notes and \$27 million of Class C Notes. The Class A Notes have an interest rate of 2.42 percent, the Class B Notes have an interest rate of 2.75 percent and the Class C Notes have an interest rate of 2.99 percent, for an overall weighted average interest rate of 2.51 percent.

During the second quarter of 2017, we securitized vacation ownership notes receivable under our Warehouse Credit Facility. The carrying amount of the vacation ownership notes receivable securitized was \$59 million. The advance rate was 85 percent, which resulted in gross proceeds of \$50 million. Net proceeds were \$50 million due to the funding of reserve accounts in the amount of less than \$1 million. There were no amounts outstanding under this facility as of December 31, 2017.

During the third quarter of 2016, we completed the securitization of a pool of \$259 million of vacation ownership notes receivable generating gross cash proceeds of \$250 million. In connection with the securitization, investors purchased in a private placement \$250 million in vacation ownership loan backed notes from the MVW Owner Trust 2016-1 (the “2016-1 Trust”). Two classes of vacation ownership loan backed notes were issued by the 2016-1 Trust: \$231 million of Class A Notes and \$19 million of Class B Notes. The Class A Notes have an interest rate of 2.25 percent and the Class B Notes have an interest rate of 2.64 percent, for an overall weighted average interest rate of 2.28 percent.

Also, during the third quarter 2016, we securitized vacation ownership notes receivable under our Warehouse Credit Facility. The total carrying amount of the vacation ownership notes receivable securitized was \$150 million. The advance rate was 85 percent, which resulted in total gross proceeds of \$127 million. The total net proceeds were \$126 million due to the funding of reserve accounts in the amount of \$1 million. There were no amounts outstanding under this facility as of December 30, 2016.

Proceeds from / Repayments of Debt

Borrowings from / Repayment of Revolving Corporate Credit Facility

There were no amounts outstanding under our Revolving Corporate Credit Facility as of December 31, 2018. See Footnote 14 “Debt” to our Financial Statements for additional information regarding our Revolving Corporate Credit Facility.

During 2018, we borrowed \$40 million under our new \$600 million Revolving Corporate Credit Facility to facilitate the funding of our short-term working capital needs, all of which was repaid as of December 31, 2018.

In January 2019, subsequent to the end of 2018, we borrowed \$85 million under our Revolving Corporate Credit Facility to facilitate the funding of our short-term working capital needs, of which \$50 million was repaid in February 2019.

During 2017, we borrowed \$88 million under our previous \$200 million revolving credit facility to facilitate the funding of our short-term working capital needs, all of which was repaid as of December 31, 2017.

During 2016, we borrowed \$85 million under our previous \$200 million revolving credit facility to facilitate the funding of our short-term working capital needs, all of which was repaid as of December 31, 2016.

Proceeds from Senior Unsecured Debt and Term Loan

In connection with the ILG Acquisition, we issued \$750 million of Senior Unsecured Notes and borrowed \$900 million under a Term Loan, which was included as part of our Corporate Credit Facility. See Footnote 14 “Debt” to our Financial Statements for additional information.

Proceeds from Issuance of Convertible Notes

During the 2017 third quarter, we issued \$230 million of Convertible Notes, which included the exercise in full of the \$30 million over-allotment option we granted to the initial purchasers of the Convertible Notes. We received net proceeds from the offering of approximately \$224 million after adjusting for debt issuance costs, including the discount to the initial purchasers. We used \$40 million of the net proceeds to repurchase shares of our common stock from purchasers of the Convertible Notes in privately negotiated repurchase transactions, which is included as a Financing Activity in Repurchase of Common Stock as discussed below, and approximately \$13 million of the net proceeds to pay the cost of the Convertible Note Hedges, after such cost was partially offset by the proceeds from the issuance of the Warrants, as discussed below. See Footnote 14 “Debt” to our Financial Statements for additional information on our Convertible Notes transaction.

Repayments of Non-interest Bearing Note Payable

In 2018, we paid \$33 million on the non-interest bearing note payable related to the acquisition of 112 completed vacation ownership units located on the Big Island of Hawaii in 2017. See Footnote 3 “Acquisitions and Dispositions” and Footnote 14 “Debt” to our Financial Statements for additional information regarding this transaction.

Purchase of Convertible Note Hedges / Proceeds from Issuance of Warrants

In connection with the offering of the Convertible Notes, we entered into Convertible Note Hedges with respect to our common stock, covering approximately 1.55 million shares of our common stock at a cost of \$33 million. Concurrently, we sold Warrants to acquire approximately 1.55 million shares of our common stock at an initial strike price of \$176.68 per share and received aggregate proceeds of \$20 million. Taken together, the Convertible Note Hedges and the Warrants are generally expected to reduce the potential dilution to our common stock (or, in the event the conversion of the Convertible Notes is settled in cash, to reduce our cash payment obligation) in the event that at the time of conversion our stock price exceeds the conversion price under the Convertible Notes and to effectively increase the overall conversion price from \$148.19 (or a conversion premium of 30 percent) to \$176.68 per share (or a conversion premium of 55 percent). See Footnote 14 “Debt” to our Financial Statements for additional information on our Convertible Notes transaction.

Debt Issuance Costs

In 2018, we paid \$34 million of debt issuance costs, which included \$13 million associated with the Term Loan, \$9 million associated with the issuance of Senior Unsecured Notes, \$6 million associated with the 2018 vacation ownership notes receivable securitization, \$4 million related to the new \$600 million Revolving Corporate Credit Facility, \$1 million associated with the amendment and extension of the Warehouse Credit Facility and \$1 million associated with the issuance of the Exchange Notes.

In 2017, we incurred \$15 million of debt issuance costs, which included \$7 million associated with the initial purchaser discounts related to the Convertible Notes, \$5 million associated with the 2017 vacation ownership notes receivable securitization, \$2 million related to the amendment of the previous \$250 million revolving corporate credit facility and \$1 million associated with the amendment and extension of the Warehouse Credit Facility.

In 2016, we incurred \$4 million of debt issuance costs, which included \$4 million associated with the 2016 vacation ownership notes receivable securitization and less than \$1 million related to the amendment of the previous \$200 million revolving credit facility.

Repurchase of Common Stock

The following table summarizes share repurchase activity under our current share repurchase program:

<i>(\$ in millions, except per share amounts)</i>	Number of Shares Repurchased	Cost of Shares Repurchased	Average Price Paid per Share
As of December 31, 2017	10,440,505	\$ 697	\$ 66.73
For the year ended December 31, 2018	1,247,269	96	77.16
As of December 31, 2018	11,687,774	\$ 793	\$ 67.85

See Footnote 15 “Shareholders’ Equity” to our Financial Statements for further information related to our share repurchase program.

Redemption of Mandatorily Redeemable Preferred Stock of Consolidated Subsidiary

During 2016, we elected to exercise our option to redeem \$40 million of gross mandatorily redeemable preferred stock of a consolidated subsidiary that we were not required to redeem until October 2021. We redeemed the preferred stock on October 26, 2016 at par, plus accrued and unpaid dividends, using cash on hand.

Payment of Dividends to Common Shareholders

We distributed cash dividends to holders of common stock for the year ended December 31, 2018 as follows:

Declaration Date	Shareholder Record Date	Distribution Date	Dividend per Share
December 7, 2017	December 21, 2017	January 4, 2018	\$0.40
February 16, 2018	March 1, 2018	March 15, 2018	\$0.40
May 14, 2018	May 28, 2018	June 11, 2018	\$0.40
September 6, 2018	September 20, 2018	October 4, 2018	\$0.40

On December 6, 2018, our Board of Directors declared a quarterly dividend of \$0.45 per share that was paid on January 3, 2019 to shareholders of record as of December 20, 2018.

On February 15, 2019, subsequent to the end of 2018, our Board of Directors declared a quarterly dividend of \$0.45 per share to be paid on March 14, 2019 to shareholders of record as of February 28, 2019.

We currently expect to pay quarterly cash dividends in the future, but any future dividend payments will be subject to Board approval, which will depend on our financial condition, results of operations and capital requirements, as well as applicable law, regulatory constraints, industry practice and other business considerations that our Board of Directors considers relevant. In addition, our Corporate Credit Facility and the indentures governing our senior notes contain restrictions on our ability to pay dividends, and the terms of agreements governing debt that we may incur in the future may also limit or prohibit dividend payments. The payment of certain cash dividends may also result in an adjustment to the conversion rate of the Convertible Notes in a manner adverse to us. Accordingly, there can be no assurance that we will pay dividends in the future at the same rate or at all.

Contractual Obligations and Off-Balance Sheet Arrangements

The following table summarizes our contractual obligations as of December 31, 2018:

(\$ in millions)	Total	Payments Due by Period			
		Less Than 1 Year	1 - 3 Years	3 - 5 Years	More Than 5 Years
Contractual Obligations					
Debt ⁽¹⁾	\$ 4,866	\$ 463	\$ 831	\$ 1,077	\$ 2,495
Operating leases	222	38	56	33	95
Purchase obligations ⁽²⁾	449	253	188	7	1
Capital lease obligations ⁽³⁾	17	—	17	—	—
Other long-term obligations ⁽⁴⁾	47	22	20	5	—
Total contractual obligations	\$ 5,601	\$ 776	\$ 1,112	\$ 1,122	\$ 2,591

(1) Includes principal as well as interest payments and excludes unamortized debt discount and issuance costs.

(2) Arrangements are considered purchase obligations if a contract specifies all significant terms, including fixed or minimum quantities to be purchased, a pricing structure, and approximate timing of the transaction. Amounts reflected herein represent expected funding under such contracts. Amounts reflected on the consolidated balance sheet as accounts payable and accrued liabilities are excluded from the table above.

(3) Includes interest.

(4) Primarily relates to future guaranteed purchases of rental inventory, operational support services, marketing related benefits, membership fulfillment benefits and other commitments.

In the normal course of our resort management business, we enter into purchase commitments on behalf of property owners' associations to manage the daily operating needs of our resorts. Since we are reimbursed for these commitments from the cash flows of the resorts, these obligations have minimal impact on our net income and cash flow.

Recent Accounting Pronouncements

See Footnote No. 2, "Summary of Significant Accounting Policies," to our Financial Statements for information regarding accounting standards adopted in 2018 and other new accounting standards that were issued but not effective as of December 31, 2018.

Critical Accounting Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect reported amounts and related disclosures. Management considers an accounting estimate to be critical if: (1) it requires assumptions to be made that are uncertain at the time the estimate is made; and (2) changes in the estimate, or different estimates that could have been selected, could have a material effect on our results of operations or financial condition.

While we believe that our estimates, assumptions, and judgments are reasonable, they are based on information presently available. Actual results may differ significantly. Additionally, changes in our assumptions, estimates or assessments as a result of unforeseen events or otherwise could have a material impact on our consolidated financial position or results of operations.

See Footnote 2 “Summary of Significant Accounting Policies,” to our Financial Statements for further information on accounting policies that we believe to be critical, including our policies on:

Revenue recognition, including our adoption of Accounting Standards Update 2014-09, “*Revenue from Contracts with Customers*,” as amended, which is also discussed in Footnote 4 “Revenue” to our Financial Statements;

Purchase price allocations of business combinations, which is also discussed in Footnote 3 “Acquisitions and Dispositions” to our Financial Statements;

Inventories and cost of vacation ownership products, which requires estimation of future revenues, including incremental revenues from future price increases or from the sale of reacquired inventory resulting from defaulted vacation ownership notes receivable, and development costs to apply a relative sales value method specific to the vacation ownership industry and how we evaluate the fair value of our vacation ownership inventory;

Valuation of property and equipment, including when we record impairment losses;

Valuation of goodwill and intangible assets, including when we record impairment losses;

Accounting for acquired vacation ownership notes receivable, which is also discussed in Footnote 6 “Vacation Ownership Notes Receivable” to our Financial Statements

Loss contingencies, including information on how we account for loss contingencies; and

Income taxes, including information on how we determine our current year amounts payable or refundable, as well as our estimate of deferred tax assets and liabilities.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Quantitative and Qualitative Disclosures About Market Risk.

We are exposed to market risk from changes in interest rates, currency exchange rates, and debt prices. We manage our exposure to these risks by monitoring available financing alternatives, through pricing policies that may take into account currency exchange rates, and by entering into derivative arrangements.

We are exposed to interest rate risk through borrowings on our Warehouse Credit Facility and our Corporate Credit Facility, which includes a Revolving Corporate Credit Facility and a \$900 million Term Loan, as these facilities bear interest at variable rates. All other interest bearing debt, including securitized debt, incurs interest at fixed rates. Changes in interest rates also impact the fair value of our fixed-rate notes receivable and our fixed-rate debt.

The following table sets forth the scheduled maturities and the total fair value as of year-end 2018 for our financial instruments that are impacted by market risks:

(\$ in millions)	Average Interest Rate	Maturities by Period						Total Carrying Value	Total Fair Value
		2019	2020	2021	2022	2023	Thereafter		
Assets – Maturities represent expected principal receipts; fair values represent assets									
Originated vacation ownership notes receivable — non-securitized	11.8%	\$ 52	\$ 38	\$ 32	\$ 28	\$ 25	\$ 143	\$ 318	\$ 320
Originated vacation ownership notes receivable — securitized	12.5%	\$ 104	\$ 108	\$ 112	\$ 115	\$ 116	\$ 515	\$ 1,070	\$ 1,093
Acquired vacation ownership notes receivable — non-securitized	13.4%	\$ 9	\$ 8	\$ 9	\$ 9	\$ 9	\$ 50	\$ 94	\$ 94
Acquired vacation ownership notes receivable — securitized	13.4%	\$ 57	\$ 59	\$ 61	\$ 61	\$ 60	\$ 259	\$ 557	\$ 557
Liabilities – Maturities represent expected principal payments; fair values represent liabilities									
Securitized debt	2.9%	\$ (259)	\$ (219)	\$ (290)	\$ (172)	\$ (161)	\$ (605)	\$ (1,706)	\$ (1,698)
Exchange notes	5.6%	\$ —	\$ —	\$ —	\$ —	\$ (89)	\$ —	\$ (89)	\$ (87)
Senior unsecured notes	6.5%	\$ —	\$ —	\$ —	\$ —	\$ —	\$ (750)	\$ (750)	\$ (726)
IAC notes	5.6%	\$ —	\$ —	\$ —	\$ —	\$ (141)	\$ —	\$ (141)	\$ (140)
Term loan	4.5%	\$ (9)	\$ (9)	\$ (9)	\$ (9)	\$ (8)	\$ (856)	\$ (900)	\$ (887)
Convertible notes	4.7%	\$ —	\$ —	\$ —	\$ (230)	\$ —	\$ —	\$ (230)	\$ (198)

We are exposed to currency exchange rate risk through investments in foreign subsidiaries that transact business in a currency other than the U.S. dollar and through the revaluation of assets and liabilities denominated in a currency other than the functional currency.

We use derivative instruments as part of our overall strategy to manage our exposure to market risks associated with fluctuations in interest rates and currency exchange rates. As a matter of policy, we only enter into transactions that we believe will be highly effective at offsetting the underlying risk and we do not use derivatives for trading or speculative purposes. However, we cannot assure you that these transactions will be as effective as we anticipate.

Item 8. Financial Statements and Supplementary Data

The following financial information is included on the pages indicated.

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MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of Marriott Vacations Worldwide Corporation (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting and for the assessment of the effectiveness of internal control over financial reporting. The Company's internal control over financial reporting is designed to provide reasonable assurance on the reliability of financial reporting and the preparation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles.

The Company's internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the Company's transactions and dispositions of the Company's assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of the Company's management and directors; and (3) provide reasonable assurance on prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In connection with the preparation of the Company's annual consolidated financial statements, management has undertaken an assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the "COSO criteria").

Based on this assessment, management has concluded that, applying the COSO criteria, as of December 31, 2018, the Company's internal control over financial reporting was effective to provide reasonable assurance of the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

In the third quarter of 2018, the Company completed its acquisition of ILG, LLC ("ILG"). The Company is in the process of evaluating the existing controls and procedures of ILG and integrating ILG into its internal control over financial reporting. In accordance with SEC Staff guidance permitting a company to exclude an acquired business from management's assessment of the effectiveness of internal control over financial reporting for the year in which the acquisition is completed, the Company has excluded the business acquired, ILG, from its assessment of the effectiveness of internal control over financial reporting as of December 31, 2018. The business that the Company acquired, ILG, represented 69 percent of the Company's total assets as of December 31, 2018, 19 percent of the Company's revenues and 1 percent of the Company's income before income taxes and noncontrolling interests for the year ended December 31, 2018.

Ernst & Young LLP, the independent registered public accounting firm that audited the Company's consolidated financial statements included in this report, has issued a report on the effectiveness of the Company's internal control over financial reporting, a copy of which appears on the next page of this Annual Report on Form 10-K.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of Marriott Vacations Worldwide Corporation

Opinion on Internal Control over Financial Reporting

We have audited Marriott Vacations Worldwide Corporation's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Marriott Vacations Worldwide Corporation (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on the COSO criteria.

As indicated in the accompanying Management's Report on Internal Control Over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of ILG, LLC (ILG), which is included in the 2018 consolidated financial statements of the Company and constituted 69 percent of total assets as of December 31, 2018 and 19 percent and 1 percent of revenues and income before income taxes and noncontrolling interests, respectively, for the year then ended. Our audit of internal control over financial reporting of the Company also did not include an evaluation of internal control over financial reporting of ILG.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the accompanying consolidated balance sheets of the Company as of December 31, 2018 and December 31, 2017, the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three fiscal years in the period ended December 31, 2018, and the related notes and our report dated March 1, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

Orlando, Florida
March 1, 2019

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of Marriott Vacations Worldwide Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Marriott Vacations Worldwide Corporation (the Company) as of December 31, 2018 and December 31, 2017, the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three fiscal years in the period ended December 31, 2018 and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2018 and December 31, 2017, and the results of its operations and its cash flows for each of the three fiscal years in the period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 1, 2019 expressed an unqualified opinion thereon.

Adoption of New Accounting Standard

As discussed in Footnote 1 "Basis of Presentation" to the consolidated financial statements, the Company changed its method for accounting for revenue as a result of the retrospective adoption of Accounting Standards Update No. 2014-09 – "Revenue from Contracts with Customers (Topic 606)," as amended.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2011.

Orlando, Florida
March 1, 2019

MARRIOTT VACATIONS WORLDWIDE CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
Fiscal Years 2018, 2017 and 2016
(In millions, except per share amounts)

	<u>2018</u>	<u>2017</u>	<u>2016</u>
REVENUES			
Sale of vacation ownership products	\$ 990	\$ 757	\$ 623
Management and exchange	499	279	278
Rental	371	262	252
Financing	183	135	127
Cost reimbursements	925	750	720
TOTAL REVENUES	<u>2,968</u>	<u>2,183</u>	<u>2,000</u>
EXPENSES			
Cost of vacation ownership products	260	194	163
Marketing and sales	527	388	334
Management and exchange	259	147	149
Rental	281	221	210
Financing	65	43	43
General and administrative	198	106	100
Depreciation and amortization	62	21	21
Litigation settlement	46	4	(1)
Royalty fee	78	63	61
Cost reimbursements	925	750	720
TOTAL EXPENSES	<u>2,701</u>	<u>1,937</u>	<u>1,800</u>
Gains and other income, net	21	6	11
Interest expense	(54)	(10)	(9)
ILG acquisition-related costs	(127)	(1)	—
Other	(4)	(1)	(4)
INCOME BEFORE INCOME TAXES AND NONCONTROLLING INTERESTS	103	240	198
Provision for income taxes	(51)	(5)	(76)
NET INCOME	<u>52</u>	<u>235</u>	<u>122</u>
Net loss attributable to noncontrolling interests	3	—	—
NET INCOME ATTRIBUTABLE TO COMMON SHAREHOLDERS	<u>\$ 55</u>	<u>\$ 235</u>	<u>\$ 122</u>
EARNINGS PER SHARE ATTRIBUTABLE TO COMMON SHAREHOLDERS			
Basic	\$ 1.64	\$ 8.70	\$ 4.37
Diluted	\$ 1.61	\$ 8.49	\$ 4.29
CASH DIVIDENDS DECLARED PER SHARE	\$ 1.65	\$ 1.45	\$ 1.25

See Notes to Consolidated Financial Statements

MARRIOTT VACATIONS WORLDWIDE CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Fiscal Years 2018, 2017 and 2016
(In millions)

	2018	2017	2016
Net income	\$ 52	\$ 235	\$ 122
Other comprehensive (loss) income:			
Foreign currency translation adjustments	(5)	12	(6)
Derivative instrument adjustment, net of tax	(6)	—	—
TOTAL OTHER COMPREHENSIVE (LOSS) INCOME, NET OF TAX ..	(11)	12	(6)
Net loss attributable to noncontrolling interests	3	—	—
Other comprehensive income attributable to noncontrolling interests	—	—	—
Total comprehensive loss attributable to noncontrolling interests	3	—	—
COMPREHENSIVE INCOME ATTRIBUTABLE TO COMMON SHAREHOLDERS	\$ 44	\$ 247	\$ 116

See Notes to Consolidated Financial Statements

MARRIOTT VACATIONS WORLDWIDE CORPORATION
CONSOLIDATED BALANCE SHEETS
Fiscal Year-End 2018 and 2017
(In millions, except share and per share data)

	2018	2017
ASSETS		
Cash and cash equivalents	\$ 231	\$ 409
Restricted cash (including \$69 and \$32 from VIEs, respectively)	383	82
Accounts receivable, net (including \$11 and \$6 from VIEs, respectively)	324	92
Vacation ownership notes receivable, net (including \$1,627 and \$814 from VIEs, respectively)	2,039	1,115
Inventory	863	398
Property and equipment	951	583
Goodwill	2,828	—
Intangibles, net	1,107	—
Other (including \$26 and \$14 from VIEs, respectively)	292	166
TOTAL ASSETS	\$ 9,018	\$ 2,845
LIABILITIES AND EQUITY		
Accounts payable	\$ 245	\$ 145
Advance deposits	113	84
Accrued liabilities (including \$2 and \$1 from VIEs, respectively)	423	120
Deferred revenue	319	69
Payroll and benefits liability	211	112
Deferred compensation liability	93	75
Securitized debt, net (including \$1,706 and \$845 from VIEs, respectively)	1,694	835
Debt, net	2,124	260
Other	12	14
Deferred taxes	318	90
TOTAL LIABILITIES	5,552	1,804
Contingencies and Commitments (Note 11)		
Preferred stock — \$.01 par value; 2,000,000 shares authorized; none issued or outstanding	—	—
Common stock — \$.01 par value; 100,000,000 shares authorized; 57,626,462 and 36,861,843 shares issued, respectively	1	—
Treasury stock — at cost; 11,633,731 and 10,400,547 shares, respectively	(790)	(694)
Additional paid-in capital	3,721	1,189
Accumulated other comprehensive income	6	17
Retained earnings	523	529
TOTAL MVW SHAREHOLDERS' EQUITY	3,461	1,041
Noncontrolling interest	5	—
TOTAL EQUITY	3,466	1,041
TOTAL LIABILITIES AND EQUITY	\$ 9,018	\$ 2,845

The abbreviation VIEs above means Variable Interest Entities.

See Notes to Consolidated Financial Statements

MARRIOTT VACATIONS WORLDWIDE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
Fiscal Years 2018, 2017 and 2016
(In millions)

	<u>2018</u>	<u>2017</u>	<u>2016</u>
OPERATING ACTIVITIES			
Net income.	\$ 52	\$ 235	\$ 122
Adjustments to reconcile net income to net cash, cash equivalents and restricted cash provided by operating activities:			
Depreciation and amortization of intangibles.	62	21	21
Amortization of debt discount and issuance costs	16	10	6
Vacation ownership notes receivable reserve.	68	52	45
Share-based compensation	29	16	14
Loss (gain) on disposal of property and equipment, net.	1	2	(11)
Deferred income taxes	54	(61)	30
Net change in assets and liabilities, net of the effects of acquisition:			
Accounts receivable.	(38)	(9)	—
Vacation ownership notes receivable originations.	(630)	(466)	(357)
Vacation ownership notes receivable collections.	386	270	254
Inventory	9	45	(1)
Purchase of vacation ownership units for future transfer to inventory	—	(34)	—
Other assets	21	(21)	12
Accounts payable, advance deposits and accrued liabilities	26	39	(14)
Deferred revenue	35	9	15
Payroll and benefit liabilities.	(8)	16	(7)
Deferred compensation liability.	10	12	12
Other liabilities.	—	—	1
Other, net	4	6	(1)
Net cash, cash equivalents and restricted cash provided by operating activities	<u>97</u>	<u>142</u>	<u>141</u>
INVESTING ACTIVITIES			
Acquisition of a business, net of cash and restricted cash acquired	(1,393)	—	—
Disposition of subsidiary shares to noncontrolling interest holder	40	—	—
Capital expenditures for property and equipment (excluding inventory).	(40)	(26)	(35)
Purchase of company owned life insurance	(14)	(12)	—
Dispositions, net	—	—	69
Net cash, cash equivalents and restricted cash (used in) provided by investing activities.	<u>(1,407)</u>	<u>(38)</u>	<u>34</u>

Continued

See Notes to Consolidated Financial Statements

MARRIOTT VACATIONS WORLDWIDE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
Fiscal Years 2018, 2017 and 2016
(In millions)

	<u>2018</u>	<u>2017</u>	<u>2016</u>
FINANCING ACTIVITIES			
Borrowings from securitization transactions	539	400	377
Repayment of debt related to securitization transactions	(382)	(293)	(323)
Proceeds from debt	1,690	318	85
Repayments of debt	(215)	(88)	(85)
Purchase of convertible note hedges	—	(33)	—
Proceeds from issuance of warrants	—	20	—
Payment of debt issuance costs	(34)	(15)	(4)
Repurchase of common stock	(96)	(88)	(178)
Redemption of mandatorily redeemable preferred stock of consolidated subsidiary	—	—	(40)
Payment of dividends to common shareholders	(51)	(38)	(34)
Payment of withholding taxes on vesting of restricted stock units	(18)	(11)	(4)
Other, net	—	(1)	—
Net cash, cash equivalents and restricted cash provided by (used in) financing activities	<u>1,433</u>	<u>171</u>	<u>(206)</u>
Effect of changes in exchange rates on cash, cash equivalents and restricted cash	—	3	(5)
Increase (decrease) in cash, cash equivalents and restricted cash	123	278	(36)
Cash, cash equivalents and restricted cash, beginning of period	491	213	249
Cash, cash equivalents and restricted cash, end of period	<u>\$ 614</u>	<u>\$ 491</u>	<u>\$ 213</u>

SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES

Dividends payable	\$ 21	\$ 11	\$ 9
Non-cash issuance of debt in connection with acquisition of vacation ownership units	—	64	—
Non-cash issuance of note receivable in connection with disposition to noncontrolling interest	23	—	—
Non-cash issuance of stock in connection with ILG Acquisition	2,505	—	—
Non-cash transfer from Inventory to Property and equipment	—	—	10
Non-cash transfer of debt	—	—	3
Property acquired via capital lease	9	—	7

SUPPLEMENTAL DISCLOSURES

Interest paid, net of amounts capitalized	55	22	23
Income taxes paid, net of refunds	41	49	48

See Notes to Consolidated Financial Statements

MARriott VACATIONS WORLDWIDE CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
Fiscal Years 2018, 2017 and 2016
(In millions)

Common Stock Issued	Common Stock	Treasury Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total MVW Shareholders' Equity	Noncontrolling Interests	Total Equity
36.4	\$ —	\$ (430)	\$ 1,151	\$ 11	\$ 246	\$ 978	\$ —	\$ 978
—	—	—	—	—	122	122	—	122
—	—	—	—	(6)	—	(6)	—	(6)
0.2	—	—	12	—	—	12	—	12
—	—	(178)	—	—	—	(178)	—	(178)
—	—	—	—	—	(34)	(34)	—	(34)
—	—	1	—	—	—	1	—	1
36.6	BALANCE AT YEAR-END 2015	(607)	1,163	5	334	895	—	895
—	—	—	—	—	235	235	—	235
—	—	—	—	12	—	12	—	12
0.3	—	—	5	—	—	5	—	5
—	—	(88)	—	—	—	(88)	—	(88)
—	—	—	—	—	(40)	(40)	—	(40)
—	—	—	—	—	—	—	—	—
—	—	—	33	—	—	33	—	33
—	—	—	(33)	—	—	(33)	—	(33)
—	—	—	20	—	—	20	—	20
—	—	1	1	—	—	2	—	2
36.9	BALANCE AT YEAR-END 2017	(694)	1,189	17	529	1,041	—	1,041
—	—	—	—	—	55	55	(3)	52
20.5	ILG Acquisition	—	2,408	—	—	2,409	29	2,438
—	Disposition of subsidiary shares to noncontrolling interest holder	—	72	—	—	72	(21)	51
—	Foreign currency translation adjustments	—	—	(5)	—	(5)	—	(5)
—	Derivative instrument adjustment	—	—	(6)	—	(6)	—	(6)
0.2	Amounts related to share-based compensation	—	52	—	—	52	—	52
—	Repurchase of common stock	(96)	—	—	—	(96)	—	(96)
—	Dividends	—	—	—	(61)	(61)	—	(61)
57.6	BALANCE AT YEAR-END 2018	(790)	\$ 3,721	\$ 6	\$ 523	\$ 3,461	\$ 5	\$ 3,466

See Notes to Consolidated Financial Statements

MARRIOTT VACATIONS WORLDWIDE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The consolidated financial statements present the results of operations, financial position and cash flows of Marriott Vacations Worldwide Corporation (referred to in this report as “we,” “us,” “Marriott Vacations Worldwide,” “MVW” or “the Company,” which includes our consolidated subsidiaries except where the context of the reference is to a single corporate entity). In order to make this report easier to read, we refer throughout to (i) our Consolidated Financial Statements as our “Financial Statements,” (ii) our Consolidated Statements of Income as our “Income Statements,” (iii) our Consolidated Balance Sheets as our “Balance Sheets,” and (iv) our Consolidated Statements of Cash Flows as our “Cash Flows.” In addition, references throughout to numbered “Footnotes” refer to the numbered Notes in these Notes to Consolidated Financial Statements, unless otherwise noted. We also refer to Marriott International, Inc. as “Marriott International” and Marriott International’s Marriott Bonvoy customer loyalty program, which replaced the Marriott Rewards, Starwood Preferred Guest (“SPG”) and The Ritz-Carlton Rewards customer loyalty programs, as “Marriott Bonvoy.” We use certain other terms that are defined within these Financial Statements.

The Financial Statements presented herein and discussed below include 100 percent of the assets, liabilities, revenues, expenses and cash flows of Marriott Vacations Worldwide, all entities in which Marriott Vacations Worldwide has a controlling voting interest (“subsidiaries”), and those variable interest entities for which Marriott Vacations Worldwide is the primary beneficiary in accordance with consolidation accounting guidance. References in these Financial Statements to net income attributable to common shareholders and MVW shareholders’ equity do not include noncontrolling interests, which represent the outside ownership of our consolidated non-wholly owned entities and are reported separately. Intercompany accounts and transactions between consolidated companies have been eliminated in consolidation.

These Financial Statements reflect our financial position, results of operations and cash flows as prepared in conformity with United States Generally Accepted Accounting Principles (“GAAP”). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Such estimates include, but are not limited to, revenue recognition, allocations of the purchase price paid in business combinations, cost of vacation ownership products, inventory valuation, goodwill and intangibles valuation, property and equipment valuation, accounting for acquired vacation ownership notes receivable, vacation ownership notes receivable reserves, income taxes and loss contingencies. Accordingly, actual amounts may differ from these estimated amounts.

We adopted Accounting Standards Update (“ASU”) 2014-09 “*Revenue from Contracts with Customers (Topic 606)*,” as amended (“ASU 2014-09”), effective January 1, 2018, the first day of our 2018 fiscal year, and refer to it as the new “Revenue Standard” throughout these Financial Statements. We have restated our previously reported historical results within these Financial Statements to conform with the adoption of the new Revenue Standard. See “*New Accounting Standards*” in Footnote 2 “Summary of Significant Accounting Policies” for additional information on ASU 2014-09 and Footnote 21 “Adoption Impact of New Revenue Standard” for further discussion of the adoption and the impact on our previously reported historical results.

Unless otherwise specified, each reference to a particular year in these Financial Statements means the fiscal year ended on the date shown in the following table, rather than the corresponding calendar year. Beginning with our 2017 fiscal year, we changed our financial reporting cycle to a calendar year-end and end-of-month quarterly reporting cycle.

Fiscal Year	Fiscal Year-End Date	Number of Days
2018	December 31, 2018	365
2017	December 31, 2017	366
2016	December 30, 2016	364

Acquisition of ILG

On September 1, 2018 (the “Acquisition Date”), we completed the previously announced acquisition of ILG, LLC, formerly known as ILG, Inc. (“ILG”) through a series of transactions (the “ILG Acquisition”), after which ILG became our indirect wholly-owned subsidiary. The Financial Statements in this report include ILG’s results of operations from the Acquisition Date through year-end 2018 and reflect the financial position of our combined company at December 31, 2018. We refer to our business associated with brands that existed prior to the ILG Acquisition as “Legacy-MVW” and to ILG’s business and brands that we acquired as “Legacy-ILG.” See Footnote 3 “Acquisitions and Dispositions” for more information on the ILG Acquisition.

Reclassifications

We have reclassified the following prior year amounts to conform to the current year presentation:

- Reclassified Resort management and other services revenue to Management and exchange revenue;
- Reclassified Resort management and other services expense to Management and exchange expense;
- Consolidated Consumer financing interest expense into Financing expense;
- Reclassified depreciation expense from Marketing and sales expense, Management and exchange expense, Rental expense, and General and administrative expense to Depreciation and amortization expense;
- Reclassified costs related to the ILG Acquisition from Other expense to ILG acquisition-related costs;
- Reclassified \$330 million of land and infrastructure from Inventory to Property and equipment at December 31, 2017; and
- Reclassified \$835 million of debt associated with vacation ownership notes receivable securitization, net of unamortized debt issuance costs from Debt, net to Securitized debt, net at December 31, 2017.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition

We account for revenue in accordance with Accounting Standards Codification (“ASC”) Topic 606, “*Revenue from Contracts with Customers*” (“ASC 606”), which we adopted on January 1, 2018, using the retrospective method. See “*New Accounting Standards*” below for additional information and Footnote 21 “Adoption Impact of New Revenue Standard” for further discussion of the adoption and the impact on our previously reported historical results.

Sale of Vacation Ownership Products

We market and sell vacation ownership products in our Vacation Ownership segment. Vacation ownership products include deeded vacation ownership products, deeded beneficial interests, rights to use real estate and other interests in trusts that solely hold real estate (collectively “vacation ownership products” or “VOIs”). Vacation ownership products may be sold for cash or we may provide financing.

In connection with the sale of vacation ownership products, we provide sales incentives to certain purchasers and, in certain cases, membership in a brand affiliated club. Non-cash incentives typically include Marriott Bonvoy, Hyatt’s customer loyalty program points (“World of Hyatt” points) or an alternative sales incentive that we refer to as “plus points.” Plus points are redeemable for stays at our resorts or for use in an exclusive selection of travel packages provided by affiliate tour operators (the “Explorer Collection”), generally up to two years from the date of issuance. Typically, sales incentives are only awarded if the sale is closed.

Upon execution of a legal sales agreement, we typically receive an upfront deposit from our customer with the remainder of the purchase price for the vacation ownership product to either be collected at closing (“cash contract”) or financed by the customer through our financing programs (“financed contract”). Refer to “*Financing Revenues*” below for further information regarding financing terms. Customer deposits received for contracts are recorded as Advance deposits on our Balance Sheets until the point in time at which control of the vacation ownership product has transferred to the customer.

Our assessment of collectibility of the transaction price for sales of vacation ownership products is aligned with our credit granting policies for financed contracts. In determining the consideration to which we expect to be entitled for financed contracts, we include estimated variable consideration in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. Our estimates of variable consideration and determination of whether to include estimated amounts in the transaction price are based largely on the customer class and the results of our static pool analyses, which rely on historical payment data by customer class as described in “*Loan Loss Reserves*” below. Variable consideration which has not been included within the transaction price is presented as a reserve on vacation ownership notes receivable. Revisions to estimates of variable consideration from the sale of vacation ownership products impact the reserve on vacation ownership notes receivable and can increase or decrease revenue. Revenues were reduced during 2018 by \$4 million due to changes in our estimate of variable consideration for performance obligations that were satisfied in prior periods. In addition, we account for cash incentives provided to customers as a reduction of the transaction price. Refer to “*Arrangements with Multiple Performance Obligations*” below for a description of our methods of allocating transaction price to each performance obligation.

We evaluated our business practices, and the underlying risks and rewards associated with vacation ownership products and the respective timing that such risks and rewards are transferred to the customer in determining the point in time at which control of the vacation ownership product is transferred to the customer. Based upon the different terms of the contracts with the customer and business practices, we transfer control of the vacation ownership product at different times for Legacy-MVW and Legacy-ILG. We recognize revenue on the sale of Legacy-MVW vacation ownership products at closing. We recognize revenue on the sale of Legacy-ILG vacation ownership products upon expiration of the rescission period and completion of construction.

Revenue for non-cash incentives, such as plus points, is recorded as Deferred revenue on our Balance Sheets at closing and is recognized as rental revenue upon transfer of control to the customer, which typically occurs upon delivery of the incentive, or at the point in time when the incentive is redeemed. For non-cash incentives provided by third parties (i.e. Marriott Bonvoy points, World of Hyatt points or third-party Explorer Collection offerings), we evaluated whether we control the underlying good or service prior to delivery to the customer. We concluded that we are an agent for those non-cash incentives which we do not control prior to delivery and as such record the related revenue net of the related cost upon recognition.

Management and Exchange Revenues and Cost Reimbursements Revenues

Ancillary Revenues

Ancillary revenues consist of goods and services that are sold or provided by us at food and beverage outlets, golf courses and other retail and service outlets located at our resorts. Payments for such goods and services are generally received at the point of sale in the form of cash or credit card charges. For goods and services sold, we evaluate whether we control the underlying goods or services prior to delivery to the customer. For transactions where we do not control the goods or services prior to delivery, the related revenue is recorded net of the related cost upon recognition. We recognize ancillary revenue at the point in time when goods have been provided and/or services have been rendered.

Management Fee Revenues and Cost Reimbursements Revenues

We provide day-to-day-management services, including housekeeping services, operation of reservation systems, maintenance and certain accounting and administrative services for property owners' associations, condominium owners and hotels.

We generate revenue from fees we earn for managing vacation ownership resorts, clubs, owners' associations, condominiums and hotels. In our Vacation Ownership segment, these fees are earned regardless of usage or occupancy and are typically based on either a percentage of the budgeted costs to operate the resorts or a fixed fee arrangement ("VO management fee revenues"). In our Exchange & Third-Party Management segment, we earn base management fees which are typically either (i) fixed amounts, (ii) amounts based on a percentage of adjusted gross lodging revenue, or (iii) various revenue sharing agreements based on stated formulas ("Base management fee revenues") and incentive management fees, which are generally a percentage of either operating profits or improvement in operating profits ("Incentive management fees"). In addition, we receive reimbursement of costs incurred on behalf of our customers, which consist of actual expenses with no added margin ("cost reimbursements"). Vacation Ownership segment cost reimbursements revenues exclude amounts that we have paid to the property owners' associations related to maintenance fees for unsold vacation ownership products, as we have concluded that such payments are consideration payable to a customer.

Management fees are collected over time or upfront depending upon the specific management contract. Cost reimbursements are received over time and considered variable consideration. We have determined that a significant financing component does not exist as a substantial amount of the consideration promised by the customer is paid when the associated variable consideration is determined.

We evaluated the nature of the management services provided and concluded that the management services constitute a series of distinct services to be accounted for as a single performance obligation transferred over time. We use an input method, the number of days that management services are provided, to recognize VO management fee revenues and Base management fee revenues, which is consistent with the pattern of transfer to the customers who receive and consume the benefits as services are provided each day. We recognize incentive management fees as earned throughout the incentive period based on actual results, which is subject to estimation of the transaction price.

Any consideration we receive in advance of services being rendered is recorded as Deferred revenue on our Balance Sheets and is recognized ratably across the service period to which it relates. We recognize variable consideration for Cost reimbursements revenues when the reimbursable costs are incurred.

Other Services Revenues

Other services revenues includes revenues from membership fees, club dues and additional fees for services we provide to customers. Membership fees and club dues are received in advance of providing access to the exchange services, are recorded as Deferred revenue on our Balance Sheets and are earned regardless of whether exchange services are provided. Generally, Interval International memberships are cancelable and refundable on a pro-rata basis, with the exception of the Interval International network's Platinum tier which is non-refundable. Transaction-based fees are typically collected at a point in time.

We have determined that exchange services constitute a stand-ready obligation for us to provide unlimited access to exchange services over a defined period of time, when and if a customer (or customer of a customer) requests. We have determined that customers benefit from the stand-ready obligation evenly throughout the period in which the customer has access to exchange services and as such, recognize membership fees and club dues on a straight-line basis over the related period of time.

Transaction-based fees are recognized as revenue at the point in time at which the relevant goods or services are transferred to the customer. For transaction-based fees, we evaluate whether we control the underlying goods or services prior to delivery to the customer. Transaction-based fees from exchanges and other transactions in our Exchange & Third-Party Management segment are generally recognized when confirmation of the transaction is provided and services have been rendered. For transactions where we do not control the goods or services prior to delivery, the related revenue is recorded net of the related cost upon recognition.

Financing Revenues

We offer consumer financing as an option to qualifying customers purchasing vacation ownership products, which is collateralized by the underlying vacation ownership products. We recognize interest income on an accrual basis. The contractual terms of the financing agreements require that the contractual level of annual principal payments be sufficient to amortize the loan over a customary period for the vacation ownership product being financed, which is generally ten years. Generally, payments commence under the financing contracts 30 to 60 days after closing. We record the difference between the vacation ownership note receivable and the variable consideration included in the transaction price for the sale of the related vacation ownership product as a reserve on our vacation ownership notes receivable. We earn interest income from the financing arrangements on the principal balance outstanding over the life of the arrangement and record that interest income in Financing revenues on our Income Statements.

In addition, we recognize interest income related to our acquired vacation ownership notes receivable using the level yield method. See Footnote 6 "Vacation Ownership Notes Receivable" for additional information related to the accounting for our acquired vacation ownership notes receivable.

Financing revenues include transaction-based fees we charge to owners and other third parties for services. We recognize fee revenues when services have been rendered.

Rental Revenues

In our Vacation Ownership segment, we generate revenue from rentals of inventory that we hold for sale as interests in our vacation ownership programs, inventory that we control because our owners have elected alternative usage options permitted under our vacation ownership programs and rentals of owned-hotel properties. In our Exchange & Third-Party Management segment, we offer vacation rental opportunities for managed properties and to members of the Interval International network and certain other membership programs from seasonal oversupply or underutilized space, as well as sourced resort accommodations.

We receive payments for rentals primarily through credit card charges. We recognize rental revenues when occupancy has occurred, which is consistent with the period in which the customer benefits from such service. We recognize rental revenue from the utilization of plus points issued in connection with the sale of vacation ownership products as described in "Sale of Vacation Ownership Products" above.

We also generate revenues from vacation packages sold to our customers. The packages have an expiration period of six to twenty-four months, and payments for such packages are non-refundable and generally paid by the customer in advance. Payments received in advance are recorded as Advance deposits on our Balance Sheets, until the revenue is recognized, when occupancy has occurred. For rental revenues associated with vacation ownership products which we own and which are registered and held for sale, to the extent that the proceeds are less than costs, revenues are reported net in accordance with ASC Topic 978, "Real Estate – Time-Sharing Activities."

Arrangements with Multiple Performance Obligations

Our contracts with customers may include multiple performance obligations. For such arrangements, we allocate revenue to each performance obligation based on its relative standalone selling price. In cases where the standalone selling price is not readily available, we generally determine the standalone selling prices utilizing the adjusted market approach, using prices from similar contracts, our historical pricing on similar contracts, our internal marketing and selling data and other internal and external inputs we deem to be appropriate. Significant judgment is required in determining the standalone selling price under the adjusted market approach.

Receivables, Contract Assets & Contract Liabilities

As discussed above, the payment terms and conditions in our customer contracts vary. In some cases, customers prepay for their goods and services; in other cases, after appropriate credit evaluations, payment is due in arrears. When the timing of our delivery of goods and services is different from the timing of the payments made by customers, we recognize either a contract asset (performance precedes contractual due date) or a contract liability (customer payment precedes performance or when we have a right to consideration that is unconditional before the transfer of goods or services to a customer). Receivables are recorded when the right to consideration becomes unconditional. Contract liabilities are recognized as revenue as (or when) we perform under the contract. See Footnote 4 “Revenue” for additional information related to our receivables, contract assets and contract liabilities.

Costs Incurred to Sell Vacation Ownership Products

We charge marketing and sales costs we incur to sell vacation ownership products to expense when incurred.

Earnings Per Share Attributable to Common Shareholders

Basic earnings per share attributable to common shareholders is calculated by dividing the earnings available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share attributable to common shareholders is calculated to give effect to all potentially dilutive common shares that were outstanding during the reporting period. The dilutive effect of outstanding equity-based compensation awards is reflected in diluted earnings per share attributable to common shareholders by application of the treasury stock method.

Business Combinations

We allocate the purchase price of an acquisition to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values at the acquisition date. We recognize as goodwill the amount by which the purchase price of an acquired entity exceeds the net of the fair values assigned to the assets acquired and liabilities assumed. In determining the fair values of assets acquired and liabilities assumed, we use various recognized valuation methods including the income, cost and market approaches. Further, we make assumptions within certain valuation techniques, including discount rates, royalty rates, and the amount and timing of future cash flows. We record the net assets and results of operations of an acquired entity in our Financial Statements from the acquisition date. We initially perform these valuations based upon preliminary estimates and assumptions by management or independent valuation specialists under our supervision, where appropriate, and make revisions as estimates and assumptions are finalized. We expense acquisition-related costs as we incur them. See Footnote 3 “Acquisitions and Dispositions” for additional information.

As part of our accounting for business combinations we are required to determine the useful lives of identifiable intangible assets recognized separately from goodwill. The useful life of an intangible asset is the period over which the asset is expected to contribute directly or indirectly to the future cash flows of the acquired business. An intangible asset with a finite useful life shall be amortized; an intangible asset with an indefinite useful life shall not be amortized. We base the estimate of the useful life of an intangible asset on an analysis of all pertinent factors, in particular, all of the following factors with no one factor being more presumptive than the other:

- The expected use of the asset.
- The expected useful life of another asset or a group of assets to which the useful life of the intangible asset may relate.
- Any legal, regulatory, or contractual provisions that may limit the useful life.
- Our own historical experience in renewing or extending similar arrangements, consistent with our intended use of the asset, regardless of whether those arrangements have explicit renewal or extension provisions.
- The effects of obsolescence, demand, competition, and other economic factors.
- The level of maintenance expenditures required to obtain the expected future cash flows from the asset.

If no legal, regulatory, contractual, competitive, economic, or other factors limit the useful life of an intangible asset to the reporting entity, the useful life of the asset shall be considered to be indefinite. The term indefinite does not mean the same as infinite or indeterminate. The useful life of an intangible asset is indefinite if that life extends beyond the foreseeable horizon; that is, there is no foreseeable limit on the period of time over which it is expected to contribute to the cash flows of the acquired business.

Although we believe the assumptions and estimates we have made have been reasonable and appropriate, they are based in part on historical experience and information obtained from the management of the acquired entity and are inherently uncertain. Examples of critical estimates in accounting for acquisitions include but are not limited to future expected cash flows from sales of products and services and related contracts and agreements and discount and long-term growth rates.

Unanticipated events and circumstances may occur which could affect the accuracy or validity of our assumptions, estimates or actual results.

Additionally, when acquiring a company who has recorded deferred revenue in its historical, pre-acquisition financial statements, we are required as part of purchase accounting to re-measure the deferred revenue as of the acquisition date. Deferred revenue is re-measured to represent solely the cost that relates to the associated legal performance obligation which we assumed as part of the acquisition, plus a normal profit margin representing the level of effort or risk assumed. Legal performance obligations that simply relate to the passage of time would not result in recognized deferred revenue as there is little to no associated cost. This purchase accounting treatment typically results in lower amounts of revenue recognized in a reporting period following the acquisition than would have otherwise been recognized on a historical basis.

Capitalization of Costs

We capitalize costs clearly associated with the acquisition of real estate when a transaction is accounted for as an asset acquisition under ASC Topic 805, “*Business Combinations*” (“ASC 805”). Alternatively, when acquired real estate constitutes a business under ASC 805, transaction costs are expensed as incurred. We capitalize interest and certain salaries and related costs incurred in connection with the following: (1) development and construction of sales centers; (2) internally developed software; and (3) development and construction projects for our real estate inventory. We capitalize costs clearly associated with the development and construction of a real estate project when it is probable that we will acquire a property. We capitalize salary and related costs only to the extent they directly relate to the project. We capitalize interest expense, taxes and insurance costs when activities that are necessary to get the property ready for its intended use are underway. We cease capitalization of costs during prolonged gaps in development when substantially all activities are suspended or when projects are considered substantially complete. Capitalized salaries and related costs totaled \$6 million in each of 2018, 2017 and 2016.

Variable Interest Entities

We consolidate entities under our control, including variable interest entities (“VIEs”) where we are deemed to be the primary beneficiary. In accordance with the applicable accounting guidance for the consolidation of VIEs, we analyze our variable interests, including loans, guarantees and equity investments, to determine if an entity in which we have a variable interest is a variable interest entity. Our analysis includes both quantitative and qualitative reviews. We base our quantitative analysis on the forecasted cash flows of the entity, and our qualitative analysis on our review of the design of the entity, its organizational structure including decision-making ability, and relevant financial agreements. We also use our qualitative analyses to determine if we must consolidate a variable interest entity because we are its primary beneficiary.

Fair Value Measurements

We have few financial instruments that we must measure at fair value on a recurring basis. See Footnote 7 “Financial Instruments” for further information. We also apply the provisions of fair value measurement to various non-recurring measurements for our financial and non-financial assets and liabilities.

The applicable accounting standards define fair value as the price that would be received upon selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). We measure fair value of our assets and liabilities using inputs from the following three levels of the fair value hierarchy:

- Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities that we have the ability to access at the measurement date.
- Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (i.e., interest rates, yield curves, etc.), and inputs that are derived principally from or corroborated by observable market data by correlation or other means (market corroborated inputs).

- Level 3 includes unobservable inputs that reflect our assumptions about what factors market participants would use in pricing the asset or liability. We develop these inputs based on the best information available, including our own data.

Cash and Cash Equivalents

We consider all highly liquid investments with an initial purchase maturity of three months or less at the date of purchase to be cash equivalents.

Restricted Cash

Restricted cash primarily consists of cash restricted for use by consolidated property owners' associations which is designated for resort operations and other specific uses, such as reserves, cash held in a reserve account related to vacation ownership notes receivable securitizations, cash collected for maintenance fees to be remitted to property owners' associations, and deposits received and held in escrow, primarily associated with the sale of vacation ownership products.

Accounts Receivable

Accounts receivable are stated at amounts due from customers, principally resort developers, members and managed properties, net of an allowance for doubtful accounts. Accounts receivable outstanding longer than the contractual payment terms are considered past due. We determine our allowance for accounts receivables by considering a number of factors, including the length of time accounts receivable are past due, previous loss history, our judgment as to the specific customer's current ability to pay its obligation and the condition of the general economy. Our policy for determining our allowance for doubtful accounts consists of both general and specific reserves. The general reserve methodology is distinct for each business based on its historical collection experience and past practice. Predominantly, receivables greater than 120 days past due are applied a general reserve factor, while receivables 180 days or more past due are fully reserved. The determination of when to apply a specific reserve requires judgment and is directly related to the particular customer collection issue identified, such as known liquidity constraints, insolvency concerns or litigation. We write off accounts receivable when they become uncollectible once we have exhausted all means of collection.

Loan Loss Reserves

We record the difference between the vacation ownership note receivable and the variable consideration included in the transaction price for the sale of the related vacation ownership product as a reserve on our vacation ownership notes receivable. See "Financing Revenues" above for further information.

Legacy-MVW Vacation Ownership Notes Receivable

Although we consider loans to owners to be past due if we do not receive payment within 30 days of the due date, we suspend accrual of interest only on those loans that are over 90 days past due. We consider loans over 150 days past due to be in default and fully reserve such amounts. We apply payments we receive for vacation ownership notes receivable on non-accrual status first to interest, then to principal and any remainder to fees. We resume accruing interest when vacation ownership notes receivable are less than 90 days past due. We do not accept payments for vacation ownership notes receivable during the foreclosure process unless the amount is sufficient to pay all past due principal, interest, fees and penalties owed and fully reinstate the note. We write off vacation ownership notes receivable against the reserve once we receive title to the vacation ownership products through the foreclosure or deed-in-lieu process or, in Asia Pacific or Europe, when revocation is complete. For both Legacy-MVW non-securitized and securitized vacation ownership notes receivable, we estimated average remaining default rates of 7.01 percent and 7.16 percent as of December 31, 2018 and December 31, 2017, respectively. A 0.5 percentage point increase in the estimated default rate would have resulted in an increase in the related vacation ownership notes receivable reserve of \$7 million and \$6 million as of December 31, 2018 and December 31, 2017, respectively.

For additional information on our Legacy-MVW vacation ownership notes receivable, including information on the related reserves, see Footnote No. 6 "Vacation Ownership Notes Receivable."

Legacy-ILG Vacation Ownership Notes Receivable

On an ongoing basis, we monitor the credit quality of our Legacy-ILG vacation ownership notes receivable portfolio based on payment activity as follows:

- Current — The vacation ownership note receivable is in good standing as payments and reporting are current per the terms contractually stipulated in the agreement.
- Delinquent — We consider a vacation ownership note receivable to be delinquent based on the contractual terms of each individual financing agreement.

- Non-performing — Our vacation ownership notes receivable are generally considered non-performing if interest or principal is more than 30 days past due. All non-performing vacation ownership notes receivable are placed on non-accrual status and we do not resume interest accrual until the vacation ownership notes receivable becomes contractually current. We apply payments we receive for vacation ownership notes receivable on non-performing status first to interest, then to principal, and any remainder to fees.

We consider vacation ownership notes receivable to be in default upon reaching 120 days outstanding. We use the origination of the vacation ownership notes receivable by brand (Hyatt, Sheraton, Westin) and the FICO scores of the customer as the primary credit quality indicators for our Legacy-ILG vacation ownership notes receivable, as historical performance indicates that there is a relationship between the default behavior of borrowers and the brand associated with the vacation ownership property they have acquired, supplemented by the FICO scores of the customers.

At December 31, 2018, the weighted average FICO score within our consolidated Legacy-ILG vacation ownership notes receivable pools was 710 based upon the outstanding vacation ownership notes receivable balance at time of origination. The average estimated rate for all future defaults for our Legacy-ILG consolidated outstanding pool of vacation ownership notes receivable as of December 31, 2018 was 12.37 percent. A 0.5 percentage point increase in the estimated default rate on the Legacy-ILG originated vacation ownership notes receivable would have resulted in an increase in the related vacation ownership notes receivable reserve of \$1 million as of December 31, 2018.

For additional information on our Legacy-ILG vacation ownership notes receivable, including information on the related reserves, see Footnote No. 6 “Vacation Ownership Notes Receivable.”

Inventory

Our inventory consists primarily of completed vacation ownership products and vacation ownership products under construction. We carry our inventory at the lower of (1) cost, including costs of improvements and amenities incurred subsequent to acquisition, capitalized interest and real estate taxes plus other costs incurred during construction, or (2) estimated fair value, less costs to sell, which can result in impairment charges and/or recoveries of previous impairments.

We account for vacation ownership inventory and cost of vacation ownership products in accordance with the authoritative guidance for accounting for real estate time-sharing transactions, which defines a specific application of the relative sales value method for reducing vacation ownership inventory and recording cost of sales as described in our policy for revenue recognition for vacation ownership products. Also, pursuant to the guidance for accounting for real estate time-sharing transactions, we do not reduce inventory for cost of vacation ownership products related to variable consideration which has not been included within the transaction price (accordingly, no adjustment is made when inventory is reacquired upon default of the related receivable). These standards provide for changes in estimates within the relative sales value calculations to be accounted for as real estate inventory true-ups, which we refer to as product cost true-up activity, and are recorded in Cost of vacation ownership product expenses on the Income Statements to retrospectively adjust the margin previously recorded subject to those estimates. For 2018, 2017 and 2016, product cost true-up activity relating to vacation ownership products increased carrying values of inventory by \$6 million, less than \$1 million and \$15 million, respectively.

Property and Equipment

Property and equipment includes our sales centers, golf courses, information technology, including internally developed capitalized software, and other assets used in the normal course of business, as well as land held for future vacation ownership product development and undeveloped, and partially developed, land parcels that are not part of an approved development plan and do not meet the criteria to be classified as held for sale. In addition, fully developed vacation ownership interests are classified as property and equipment until they are registered for sale. We record property and equipment at cost, including interest and real estate taxes incurred during active development. We capitalize the cost of improvements that extend the useful life of property and equipment when incurred. These capitalized costs may include structural costs, equipment, fixtures, floor and decorative items and signage. We expense all repair and maintenance costs as incurred. We compute depreciation using the straight-line method over the estimated useful lives of the assets (three to forty years), and we amortize leasehold improvements over the shorter of the asset life or lease term.

We also capitalize certain qualified costs incurred in connection with the development of internal use software. Capitalization of internal use software costs begins when the preliminary project stage is completed, management with the relevant authority authorizes and commits to the funding of the software project, and it is probable that the project will be completed and the software will be used to perform the function intended.

Valuation of Property and Equipment

We test long-lived asset groups for recoverability when changes in circumstances indicate the carrying value may not be recoverable, for example, when there are material adverse changes in projected revenues or expenses, significant underperformance relative to historical or projected operating results, or significant negative industry or economic trends. We evaluate recoverability of an asset group by comparing its carrying value to the future net undiscounted cash flows that we expect will be generated by the asset group. If the comparison indicates that the carrying value of an asset group is not recoverable, we recognize an impairment loss for the excess of carrying value over the estimated fair value. When we recognize an impairment loss for assets to be held and used, we depreciate the adjusted carrying amount of those assets over their remaining useful life.

Goodwill

We test goodwill for potential impairment at least annually, or more frequently if an event or other circumstance indicates that we may not be able to recover the carrying amount of the net assets of the reporting unit. In evaluating goodwill for impairment, we may assess qualitative factors to determine whether it is more likely than not (that is, a likelihood of more than 50 percent) that the fair value of a reporting unit is less than its carrying amount. If we bypass the qualitative assessment, or if we conclude that it is more likely than not that the fair value of a reporting unit is less than its carrying value, then we perform a quantitative impairment test by comparing the fair value of a reporting unit with its carrying amount.

Goodwill acquired in business combinations is assigned to the reporting unit(s) expected to benefit from the combination as of the acquisition date. In accordance with ASC Topic 350, *“Intangibles - Goodwill and Other”* (“ASC 350”), we review the carrying value of goodwill and other intangible assets of each of our reporting units on an annual basis as of October 1, or more frequently upon the occurrence of certain events or substantive changes in circumstances, based on either a qualitative assessment or a two-step impairment test.

In evaluating goodwill for impairment, we may first assess qualitative factors to determine whether it is more likely than not (that is, a likelihood of more than 50 percent) that the fair value of a reporting unit is less than its carrying amount. Qualitative factors that we consider include, for example, macroeconomic and industry conditions, overall financial performance, and other relevant entity-specific events. If we bypass the qualitative assessment, or if we conclude that it is more likely than not that the fair value of a reporting unit is less than its carrying value, then we perform a two-step goodwill impairment test to identify potential goodwill impairment and measure the amount of goodwill impairment we will recognize, if any.

In the first step of the two-step goodwill impairment test, we compare the estimated fair value of the reporting unit with its carrying value. If the estimated fair value of the reporting unit exceeds its carrying amount, no further analysis is needed. If, however, the estimated fair value of the reporting unit is less than its carrying amount, we proceed to the second step and calculate the implied fair value of the reporting unit goodwill to determine whether any impairment is required.

We calculate the implied fair value of the reporting unit goodwill by allocating the estimated fair value of the reporting unit to all of the unit’s assets and liabilities as if the unit had been acquired in a business combination. If the carrying value of the reporting unit’s goodwill exceeds the implied fair value of the goodwill, we recognize an impairment loss in the amount of that excess. In allocating the estimated fair value of the reporting unit to all of the assets and liabilities of the reporting unit, we use industry and market data, as well as knowledge of the industry and our past experience.

We calculate the estimated fair value of a reporting unit using a weighting of the income and market approaches. For the income approach, we use internally developed discounted cash flow models that include the following assumptions, among others: projections of revenues, expenses, and related cash flows based on assumed long-term growth rates and demand trends; expected future investments to grow new units; and estimated discount rates. For the market approach, we use internal analyses based primarily on market comparables. We base these assumptions on our historical data and experience, third-party appraisals, industry projections, micro and macro general economic condition projections, and our expectations.

We have had no goodwill impairment charges in the year ended December 31, 2018.

Convertible Senior Notes

In accounting for the 1.50% Convertible Senior Notes due 2022 (the “Convertible Notes”), we separated them into liability and equity components. The carrying amount of the liability component was calculated by measuring the fair value of a similar liability that does not have an associated convertible feature. The carrying amount of the equity component representing the conversion option was determined by deducting the fair value of the liability component from the par value of the Convertible Notes. The excess of the principal amount of the liability over its carrying amount is amortized to interest expense over the term of the Convertible Notes using the effective interest method. The equity component is not remeasured as long as it continues to meet the conditions for equity classification. In accounting for the issuance costs related to the Convertible Notes, we allocated the total amount incurred to the liability and equity components based on their relative values. Issuance costs attributable to the liability component are amortized to interest expense over the term of the Convertible Notes, and issuance costs attributable to the equity component are included along with the equity component in additional paid-in capital within stockholders’ equity. See Footnote 13 “Debt” for more information.

Loss Contingencies

We are subject to various legal proceedings and claims in the normal course of business, the outcomes of which are subject to significant uncertainty. We record an accrual for loss contingencies when we determine that it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. In making such determinations we evaluate, among other things, the degree of probability of an unfavorable outcome and, when it is probable that a liability has been incurred, our ability to make a reasonable estimate of the loss. We review these accruals each reporting period and make revisions based on changes in facts and circumstances.

Defined Contribution Plan

We administer and maintain a defined contribution plan for the benefit of all employees meeting certain eligibility requirements who elect to participate in the plan. Contributions are determined based on a specified percentage of salary deferrals by participating employees. We recognized compensation expense (net of cost reimbursements from property owners’ associations) for our participating employees totaling \$11 million in 2018, \$10 million in 2017 and \$8 million in 2016.

Deferred Compensation Plan

Prior to the spin-off of MVW from Marriott International (the “Marriott Spin-Off”), certain members of our senior management had the opportunity to participate in the Marriott International, Inc. Executive Deferred Compensation Plan (the “Marriott International EDC”), which Marriott International maintains and administers. Under the Marriott International EDC, participating employees were able to defer payment and income taxation of a portion of their salary and bonus. Participants also had the opportunity for long-term capital appreciation by crediting their accounts with notional earnings (at a fixed annual rate of return of 3.9 percent for 2018 and 4.0 percent for 2017). Although additional discretionary contributions to the participants’ accounts under the Marriott International EDC may be made, no additional discretionary contributions were made for our employees in 2018, 2017 and 2016. Subsequent to the Marriott Spin-Off, we remain liable to reimburse Marriott International for distributions for participants that were employees of Marriott Vacations Worldwide at the time of the Marriott Spin-Off including earnings thereon.

Since 2014, certain members of our senior management have had the opportunity to participate in the Marriott Vacations Worldwide Deferred Compensation Plan (the “Deferred Compensation Plan”), which we maintain and administer. Under the Deferred Compensation Plan, participating employees may defer payment and income taxation of a portion of their salary and bonus. It also gives participants the opportunity for long-term capital appreciation by crediting their accounts with notional earnings.

Since the beginning of our 2017 fiscal year, participants in the Deferred Compensation Plan have been able to select a rate of return based on various market-based investment alternatives for a portion of their contributions, as well as any future Company contributions, to the Deferred Compensation Plan, and may also select such a rate for a portion of their existing account balances. To support our ability to meet a portion of our obligations under the Deferred Compensation Plan, we acquired company owned insurance policies (the “COLI policies”) on the lives of certain participants in the Deferred Compensation Plan, the proceeds of which are intended to be aligned with the investment alternatives elected by plan participants and are payable to a rabbi trust with the Company as grantor. For 2017, at least 25 percent of a participant’s contributions to the Deferred Compensation Plan was required to be subject to a fixed rate of return, which was 3.5 percent for 2017. For 2018, participants were able to select a rate of return based on market-based investment alternatives for up to 100 percent of their contributions and existing balances, with one of those options being a fixed rate of return of 3.5 percent.

We consolidate the liabilities of the Deferred Compensation Plan and the related assets, which consist of the COLI policies held in the rabbi trust. The rabbi trust is considered a VIE. We are considered the primary beneficiary of the rabbi trust because we direct the activities of the trust and are the beneficiary of the trust. At December 31, 2018, the value of the assets held in the rabbi trust was \$26 million, which is included in the Other line within assets on our Balance Sheets.

Also, see Footnote 16 “Share-Based Compensation” for information on the Legacy-ILG Deferred Compensation Plan.

Share-Based Compensation Costs

We established the Marriott Vacations Worldwide Corporation Stock and Cash Incentive Plan (the “MVW Stock Plan”) in order to compensate our employees and directors by granting them equity awards such as restricted stock units (“RSUs”), stock appreciation rights (“SARs”) and stock options.

We follow the provisions of ASC Topic 718, “*Compensation—Stock Compensation*,” which requires that a company measure the expense of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. Generally, share-based awards granted to our employees, other than RSUs with performance vesting conditions, vest ratably over a four-year period. For share-based awards with service-only vesting conditions, we record compensation expense on a straight-line basis over the requisite service period. For RSUs with performance vesting conditions, the number of RSUs earned, if any, is determined following the end of a three-year performance period based upon the cumulative achievement over that period of specific quantitative operating financial measures and we recognize compensation expense once it is probable that the corresponding performance condition will be achieved.

SARs awarded under the Stock Plan are granted at exercise prices or strike prices equal to the market price of our common stock on the date of grant (this price is referred to as the “base value”). SARs generally expire ten years after the date of grant and both vest and become exercisable in cumulative installments of one quarter of the grant at the end of each of the first four years following the date of grant. Upon exercise of SARs, our employees and non-employee directors receive a number of shares of our common stock equal to the number of SARs being exercised, multiplied by the quotient of (a) the market price of the common stock on the date of exercise (this price is referred to as the “final value”) minus the base value, divided by (b) the final value.

We recognize the expense associated with these awards on our Income Statements based on the fair value of the awards as of the date that the share-based awards are granted and adjust that expense to the estimated number of awards that we expect will vest or be earned. The fair value of RSUs represents the number of awards granted multiplied by the average of the high and low market price of our common stock on the date the awards are granted reduced by the present value of the dividends expected to be paid on the shares during the vesting period, discounted at a risk-free interest rate. We generally determine the fair value of SARs using the Black-Scholes option valuation model which incorporates assumptions about expected volatility, risk free interest rate, dividend yield and expected term. We will issue shares from authorized shares upon the exercise of SARs or stock options held by our employees and directors.

For share-based awards granted to non-employee directors, we recognize compensation expense on the grant date based on the fair value of the awards as of that date. See Footnote 15 “Share-Based Compensation” for more information, including information on the Legacy-ILG stock and incentive plan that was assumed as part of the ILG Acquisition.

Also, see Footnote 16 “Share-Based Compensation” for information on the ILG share-based awards converted into MVW share-based awards as part of the ILG Acquisition, which are accounted for in the same manner as awards issued under the MVW Stock Plan as discussed above.

Non-U.S. Operations

The U.S. dollar is the functional currency of our consolidated entities operating in the United States. The functional currency for our consolidated entities operating outside of the United States is generally the currency of the economic environment in which the entity primarily generates and expends cash. For consolidated entities whose functional currency is not the U.S. dollar, we translate their financial statements into U.S. dollars. We translate assets and liabilities at the exchange rate in effect as of the financial statement date and translate Income Statement accounts using the weighted average exchange rate for the period. We include translation adjustments from currency exchange and the effect of exchange rate changes on intercompany transactions of a long-term investment nature as a separate component of equity. We report gains and losses from currency exchange rate changes related to intercompany receivables and payables that are not of a long-term investment nature, as well as gains and losses from non-U.S. currency transactions, currently in operating costs and expenses.

Income Taxes

We file income tax returns, including with respect to our subsidiaries, in various jurisdictions around the world. We account for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

Changes in existing tax laws and rates, their related interpretations, and the uncertainty generated by the current economic environment may affect the amounts of deferred tax liabilities or the valuations of deferred tax assets over time. Our accounting for deferred tax consequences represents management's best estimate of future events that can be appropriately reflected in the accounting estimates.

We record net deferred tax assets to the extent we believe these assets will more likely than not be realized. In making such a determination, we consider all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations. In the event we determine that we would be able to realize our deferred income tax assets in the future in excess of their net recorded amount, we would make an adjustment to the deferred tax asset valuation allowance, which impacts the provision for income taxes.

For tax positions we have taken, or expect to take, in a tax return we apply a more likely than not threshold, under which we must conclude a tax position is more likely than not to be sustained, assuming that the position will be examined by the appropriate taxing authority that has full knowledge of all relevant information, in order to continue to recognize the benefit. In determining our provision for income taxes, we use judgment, reflecting our estimates and assumptions, in applying the more likely than not threshold.

We do not have any significant unrecognized tax benefits as of December 31, 2018, December 31, 2017 or December 30, 2016, that, if recognized, would impact our effective tax rate for 2018, 2017 or 2016, respectively. We do not expect that our unrecognized tax benefits as of December 31, 2018 will change significantly within the next twelve months. Additionally, we recognize accrued interest and penalties related to our unrecognized tax benefits as a component of tax expense.

For information about income taxes and deferred tax assets and liabilities, see Footnote 5 "Income Taxes."

New Accounting Standards

Accounting Standards Update 2018-05 – *"Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118"* ("ASU 2018-05")

In March 2018, the Financial Accounting Standards Board ("FASB") issued ASU 2018-05, which updates the income tax accounting in GAAP to reflect the interpretive guidance in Staff Accounting Bulletin ("SAB") 118 ("SAB 118"), that was issued by the staff of the Securities and Exchange Commission in December 2017 in order to address the application of GAAP in situations where a registrant does not have all the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Cuts and Jobs Act ("the Tax Act"). SAB 118 provides for a provisional one year measurement period for registrants to finalize their accounting for certain income tax effects related to the Tax Act. ASU 2018-05 was effective upon issuance. We finalized our provisional amounts related to the Tax Act in the fourth quarter of 2018. See Footnote 5 "Income Taxes" for additional information.

Accounting Standards Update 2018-15 – *"Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract"* ("ASU 2018-15")

In August 2018, the FASB issued ASU 2018-15, which provides guidance for determining if a cloud computing arrangement is within the scope of the internal-use software guidance in ASU 350-40 *"Intangibles – Goodwill and Other – Internal Use Software"* and would require capitalization of certain implementation costs. For public business entities, this guidance is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted, including adoption in any interim period. The adoption of ASU 2018-15 in the fourth quarter of 2018 did not have a material impact on our financial statements or disclosures.

Accounting Standards Update 2016-01 – *"Financial Instruments – Overall (Subtopic 825-10)"* ("ASU 2016-01")

In January 2016, the FASB issued ASU 2016-01, which updates certain aspects of recognition, measurement, presentation and disclosure of financial instruments. For public business entities, the amendments in ASU 2016-01 will be effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The adoption of ASU 2016-01 in the first quarter of 2018 did not have a material impact on our financial statements or disclosures.

Accounting Standards Update 2016-16 – *“Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory”* (“ASU 2016-16”)

In October 2016, the FASB issued ASU 2016-16, which changes the timing of when certain intercompany transactions are recognized within the provision for income taxes. This update is effective for public companies for annual periods beginning after December 15, 2017, and for annual periods and interim periods thereafter, with early adoption permitted. The adoption of ASU 2016-16 in the first quarter of 2018 did not have a material impact on our financial statements or disclosures.

Accounting Standards Update 2014-09 – *“Revenue from Contracts with Customers (Topic 606)”* (“ASU 2014-09”), as Amended

In May 2014, the FASB issued ASU 2014-09, which, as amended, created ASC Topic 606, *“Revenue from Contracts with Customers”* (“ASC 606”), and supersedes the revenue recognition requirements in ASC Topic 605, *“Revenue Recognition,”* including most industry-specific guidance, and significantly enhances comparability of revenue recognition practices across entities and industries by providing a principle-based, comprehensive framework for addressing revenue recognition issues. In order for a provider of promised goods or services to recognize as revenue the consideration that it expects to receive in exchange for the promised goods or services, the provider should apply the following five steps: (1) identify the contract with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09, as amended, is effective for annual reporting periods, and interim periods within those reporting periods, beginning after December 15, 2017. The new standard may be applied retrospectively or on a modified retrospective basis with the cumulative effect recognized on the date of adoption. We adopted ASU 2014-09, as amended, effective January 1, 2018, the first day of our 2018 fiscal year, on a retrospective basis and have restated our previously reported historical results within these Financial Statements. See Footnote 21 *“Adoption Impact of New Revenue Standard”* for further discussion of the adoption and the impact on our previously reported historical results and Footnote 4 *“Revenue”* for additional information on how we recognize revenue.

Future Adoption of Accounting Standards

Accounting Standards Update 2017-12 – *“Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities”* (“ASU 2017-12”)

In August 2017, the FASB issued ASU 2017-12, which amends and simplifies existing guidance in order to allow companies to better portray the economic effects of risk management activities in the financial statements and enhance the transparency and understandability of the results of hedging activities. ASU 2017-12 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. This update is effective for public companies for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. We expect to adopt ASU 2017-12 commencing in fiscal year 2019 and are continuing to evaluate the impact that adoption of this update will have on our financial statements and disclosures.

Accounting Standards Update 2016-13 – *“Financial Instruments – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments”* (“ASU 2016-13”)

In June 2016, the FASB issued ASU 2016-13, which, as amended, replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses. The update is intended to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. This update is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, with early adoption permitted for fiscal years beginning after December 15, 2018. We expect to adopt ASU 2016-13 commencing in fiscal year 2020 and are continuing to evaluate the impact that adoption of this update will have on our financial statements and disclosures.

Accounting Standards Update 2016-02 – *“Leases (Topic 842)”* (“ASU 2016-02”)

In February 2016, the FASB issued ASU 2016-02 to increase transparency and comparability of information regarding an entity’s leasing activities by providing additional information to users of financial statements. ASU 2016-02 requires lessees to recognize most leases on their balance sheet by recording a liability for its lease obligation and an asset for its right to use the underlying asset as of the lease commencement date and recognizing expenses on the income statement in a similar manner to the current guidance in ASC Topic 840, *Leases* (“ASC 840”). Lessor accounting will remain largely unchanged, other than certain targeted improvements intended to align lessor accounting with the lessee accounting model and with the updated revenue recognition guidance.

Upon adoption of ASU 2016-02, as amended, leases will be classified as either finance or operating, with classification affecting the geography of expense recognition in the income statement. Additionally, enhanced quantitative and qualitative disclosures regarding leases are required. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted.

As permitted by the amended guidance, we intend to elect to retain the original lease classification and historical accounting for existing or expired contracts of lessees and lessors so that we will not be required to reassess whether such contracts contain leases, the lease classification, or the initial direct costs. Additionally, we intend to elect an accounting policy by class of underlying asset to combine lease and non-lease components. We do not intend to utilize the practical expedient which allows the use of hindsight by lessees and lessors in determining the lease term and in assessing impairment of its right-of-use assets.

We plan to adopt ASU 2016-02, as amended, using the transition method which allows the application of the standard at the adoption date, January 1, 2019, and will recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption.

We have implemented leasing software solutions to account for our population of leases where we are the lessee and are continuing to identify changes to our business processes, systems and controls to support adoption of the new standard in 2019. We expect the adoption of ASU 2016-02 will have a material effect on our balance sheets as a result of recognizing a lease obligation and right-of-use asset for our operating leases, primarily those related to leases of real estate and other assets. We do not expect the adoption of ASU 2016-02 to have a material effect on our Income Statements or Cash Flows.

3. ACQUISITIONS AND DISPOSITIONS

ILG Acquisition

On September 1, 2018, we completed the ILG Acquisition. ILG is a leading provider of professionally delivered vacation experiences with a portfolio of leisure businesses ranging from vacation exchange and rental services to vacation ownership, and is the exclusive global licensee for the Hyatt, Sheraton and Westin brands in vacation ownership. The combination of our brands creates a leading global provider of upper upscale vacation ownership, exchange networks and management services with access to world-class loyalty programs and an expanded portfolio of highly demanded vacation destinations.

Shareholders of ILG received 0.165 shares of our common stock and \$14.75 in cash for each share of ILG common stock. The following table presents the fair value of each class of consideration transferred at the Acquisition Date.

(in millions, except per share amounts)

Equivalent shares of Marriott Vacations Worldwide common stock issued in exchange for ILG outstanding shares	20.5
Marriott Vacations Worldwide common stock price per share as of Acquisition Date	\$ 119.00
Fair value of Marriott Vacations Worldwide common stock issued in exchange for ILG outstanding shares.	2,441
Cash consideration to ILG shareholders, net of cash acquired of \$154 million	1,680
Fair value of ILG equity-based awards attributed to pre-combination service.	64
Total consideration transferred, net of cash acquired	4,185
Noncontrolling interests	29
	<u>\$ 4,214</u>

Preliminary Fair Values of Assets Acquired and Liabilities Assumed

We accounted for the ILG Acquisition as a business combination, which requires us to record the assets acquired and liabilities assumed at fair value as of the Acquisition Date. The amounts recorded for certain assets and liabilities are preliminary in nature and are subject to adjustment as additional information is obtained about the facts and circumstances that existed as of the Acquisition Date. We are continuing to evaluate the underlying inputs and assumptions used in our valuations. Accordingly, these preliminary estimates are subject to change during the measurement period, which is up to one year from the Acquisition Date, as permitted under GAAP. Any potential adjustments made could be material in relation to the values presented in the table below. During the fourth quarter of 2018, we refined our valuation models to reflect changes in assumptions related to operating margins, discount rates, remaining useful lives, tax rates and growth rates.

The following table presents our preliminary estimates of the fair values of the assets that we acquired and the liabilities that we assumed in connection with the business combination as previously reported at the end of the third quarter of 2018 and as of year-end 2018.

<i>(\$ in millions)</i>	September 1, 2018 (as previously reported)	Adjustments ⁽¹⁾	September 1, 2018 (as adjusted)
Vacation ownership notes receivable . . .	\$ 736	\$ 17	\$ 753
Inventory	494	(20)	474
Property and equipment	384	(10)	374
Intangible assets	1,223	(57)	1,166
Other assets	581	39	620
Deferred revenue	(217)	—	(217)
Deferred taxes	(174)	(5)	(179)
Debt	(392)	—	(392)
Securitized debt from VIEs	(696)	(6)	(702)
Other liabilities	(476)	(35)	(511)
Net assets acquired	1,463	(77)	1,386
Goodwill ⁽²⁾	2,747	81	2,828
	<u>\$ 4,210</u>	<u>\$ 4</u>	<u>\$ 4,214</u>

⁽¹⁾ Adjustments to Goodwill include the correction of an immaterial prior period error related to \$30 million of acquisition-related costs incurred by Legacy-ILG prior to the Acquisition Date, that we paid in connection with the completion of the ILG Acquisition. These costs were incorrectly expensed as “ILG acquisition-related costs” during the third quarter of 2018, and during the fourth quarter of 2018 were reclassified to Goodwill.

⁽²⁾ Goodwill is calculated as total consideration transferred, net of cash acquired, less identified net assets acquired and it primarily represents the value that we expect to obtain from synergies and growth opportunities from our combined operations.

Vacation Ownership Notes Receivable

We acquired vacation ownership notes receivable which consist of loans to customers who purchased vacation ownership products and chose to finance their purchase. These vacation ownership notes receivable are collateralized by the underlying VOIs and generally have terms ranging from five to 15 years. We provisionally estimated the fair value of the vacation ownership notes receivables using a discounted cash flow model, which calculated a present value of expected future cash flows over the term of the respective vacation ownership notes receivable (Level 2). We are continuing to evaluate the significant assumptions underlying the discounted cash flow model including default and prepayment assumptions, which could result in changes to our provisional estimate. See Footnote 6 “Vacation Ownership Notes Receivable” for additional information.

Inventory

We acquired inventory which consists of completed unsold VOIs and vacation ownership projects under construction. We provisionally estimated the value of acquired inventory using an income approach, which is primarily based on significant Level 3 assumptions, such as estimates of future income growth, capitalization rates, discount rates and capital expenditure needs of the relevant properties. We are continuing to assess the market assumptions and property conditions, which could result in changes to these provisional values.

Property and Equipment

We acquired property and equipment, which includes four owned hotels, information technology, ancillary business assets, furniture and equipment and land held for future development. We provisionally estimated the value of the property and equipment using a combination of the income, cost, and market approaches, which are primarily based on significant Level 3 assumptions, such as estimates of future income growth, capitalization rates, discount rates, and capital expenditure needs of the hotels. We are continuing to assess the market assumptions and property conditions, which could result in changes to these provisional values.

Goodwill

The following table details the carrying amount of our goodwill at December 31, 2018 and reflects our preliminary estimate of goodwill added as a result of the ILG Acquisition. The assignment of goodwill to our reporting units may change during the measurement period as we have not yet finalized the fair value of the assets and liabilities assumed in the ILG Acquisition.

<i>(\$ in millions)</i>	<u>Vacation Ownership Segment</u>	<u>Exchange & Third-Party Management Segment</u>	<u>Total Consolidated</u>
Year-End 2018 Balance			
Goodwill	\$ 2,448	\$ 380	\$ 2,828

Intangible Assets

The following table presents our preliminary estimates of the fair values of the identified intangible assets acquired in the ILG Acquisition and their related estimated useful lives.

	<u>Estimated Fair Value (\$ in millions)</u>	<u>Estimated Useful Life (in years)</u>
Member relationships	\$ 695	15 to 20
Management contracts	356	15 to 25
Management contracts ⁽¹⁾	33	indefinite
Trade names and trademarks	82	indefinite
	<u>\$ 1,166</u>	

⁽¹⁾ The indefinite-lived management contracts, by their terms, continue for the foreseeable horizon. There are no legal, regulatory, contractual, competitive, economic or other factors which limit the period of time over which these resort management contracts are expected to contribute future cash flows.

We provisionally estimated the value of the trade names and trademarks using the relief-from-royalty method, which applies an estimated royalty rate to forecasted future cash flows, discounted to present value. We estimated the value of management contracts and member relationships using the multi-period excess earnings method, which is a variation of the income approach. This method estimates an intangible asset's value based on the present value of the incremental after-tax cash flows attributable to the intangible asset. These valuation approaches utilize Level 3 inputs, and we continue to review the related contracts and historical performance in addition to evaluating the inputs, including the discount rates and renewal and growth assumptions, which could result in changes to these provisional values.

Deferred Revenue

Deferred revenue primarily relates to membership fees, which are deferred and recognized over the terms of the applicable memberships, ranging from one to five years, on a straight-line basis. Additionally, deferred revenue includes maintenance fees collected from owners, in certain cases, which are earned by the relevant property owners' association over the applicable period. We provisionally estimated the value of the deferred revenue utilizing Level 3 inputs based on a review of existing deferred revenue balances against legal performance obligations. We continue to review the related contracts in addition to evaluating the inputs, including the discount rates, which could result in changes to the provisional estimate.

Deferred Income Taxes

Deferred income taxes primarily relate to the fair value of assets and liabilities acquired, including vacation ownership notes receivable, inventory, property and equipment, intangible assets, and debt. We provisionally estimated deferred income taxes based on statutory rates in the jurisdictions of the legal entities where the acquired assets and liabilities are recorded. We are continuing to assess the tax rates used, and we will update our estimate of deferred income taxes based on changes to our provisional valuations of the related assets and liabilities and refinement of the effective tax rates, which could result in changes to these provisional values.

Debt

We valued the IAC Notes (as defined in Footnote 13 “Debt”) using a quoted market price, which is considered a Level 2 input as it is observable in the market; however these notes have only a limited trading volume and as such this fair value estimate is not necessarily indicative of the value at which the IAC Notes could be retired or transferred. The carrying value of the ILG Revolving Credit Facility (as defined in Footnote 13 “Debt”) approximated fair value, as the contractual interest rate was variable plus an applicable margin based credit rating (Level 3 input). The ILG Revolving Credit Facility was extinguished and all amounts due were repaid in full upon completion of the ILG Acquisition.

Securitized Debt from VIEs

We provisionally estimated the fair value of the securitized debt from VIEs using a discounted cash flow model. The significant assumptions in our analysis include default rates, prepayment rates, bond interest rates and other structural factors (Level 3 inputs). We are continuing to evaluate the significant assumptions underlying the discounted cash flow model including default and prepayment assumptions, which could result in changes to our provisional estimate.

Pro Forma Results of Operations

The following unaudited pro forma information presents the combined results of operations of Marriott Vacations Worldwide and ILG as if we had completed the ILG Acquisition on December 30, 2016, the last day of our 2016 fiscal year, but using our preliminary fair values of assets and liabilities as of the Acquisition Date. As required by GAAP, these unaudited pro forma results do not reflect any synergies from operating efficiencies. Accordingly, these unaudited pro forma results are presented for informational purposes only and are not necessarily indicative of what the actual results of operations of the combined company would have been if the ILG Acquisition had occurred at the beginning of the period presented, nor are they indicative of future results of operations.

<i>(\$ in millions, except per share data)</i>	2018	2017
Revenues	\$ 4,216	\$ 3,927
Net income	\$ 192	\$ 191
Net income attributable to common stockholders	\$ 193	\$ 189
EARNINGS PER SHARE ATTRIBUTABLE TO COMMON SHAREHOLDERS		
Basic	\$ 4.10	\$ 3.96
Diluted	\$ 4.00	\$ 3.88

The unaudited pro forma results include \$28 million and \$197 million of ILG acquisition-related costs for 2018 and 2017, respectively.

ILG Results of Operations

The following table presents the results of Legacy-ILG operations included in our Income Statement from the Acquisition Date through the end of 2018.

<i>(\$ in millions)</i>	September 1, 2018 to December 31, 2018
Revenue	\$ 568
Net loss	\$ (5)

Other 2018 Acquisitions

Marco Island, Florida

During the fourth quarter of 2018, we acquired 92 completed vacation ownership units for \$83 million and during the first quarter of 2018, we acquired 20 completed vacation ownership units for \$24 million. Both transactions were accounted for as asset acquisitions with all of the purchase price allocated to Inventory.

2018 Dispositions

VRI Europe

As part of the ILG Acquisition, we acquired a 75.5 percent interest in VRI Europe Limited (“VRI Europe”), a joint venture comprised of a European vacation ownership resort management business, which was consolidated by MVW under the voting interest model. During the fourth quarter of 2018, we sold our interest in VRI Europe to an affiliate of the noncontrolling interest holder for our book value of \$63 million, of which \$40 million of cash was received in 2018. In addition, we recorded a receivable of \$6 million due in 2019 and a note receivable of \$17 million due in 2020 relating to the transaction.

2017 Acquisitions

Bali, Indonesia

During the 2017 third quarter, we acquired 51 completed vacation ownership units, as well as a sales gallery and related resort amenities, located in Bali, Indonesia for \$24 million. The transaction was accounted for as an asset acquisition with the purchase price allocated to Inventory (\$22 million) and Property and equipment (\$2 million).

Marco Island, Florida

During the 2017 second quarter, we acquired 36 completed vacation ownership units located at our resort in Marco Island, Florida for \$34 million. The transaction was accounted for as an asset acquisition with all of the purchase price allocated to Property and equipment. To ensure consistency with the expected related future cash flow presentation, the cash purchase price was included as an operating activity in the Purchase of vacation ownership units for future transfer to inventory line on our Cash Flow for the year ended December 31, 2017.

Big Island of Hawaii

During the 2017 second quarter, we acquired 112 completed vacation ownership units located on the Big Island of Hawaii. The transaction was accounted for as an asset acquisition with all of the purchase price allocated to Inventory. As consideration for the acquisition, we paid \$27 million in cash, settled a note receivable from the seller of less than \$1 million on a non-cash basis, and issued a non-interest bearing note payable for \$64 million. See Footnote 13 “Debt” for information on the non-interest bearing note payable.

2017 Dispositions

We made no significant dispositions in 2017.

2016 Acquisitions

Miami Beach, Florida

During the 2016 first quarter, we completed the acquisition of an operating property located in the South Beach area of Miami Beach, Florida, for \$24 million. The acquisition was treated as a business combination, accounted for using the acquisition method of accounting and included within operating activities on our Cash Flow for the year ended December 30, 2016. As consideration for the acquisition, we paid \$24 million in cash; the value of the acquired property was allocated to Inventory. We rebranded this property as Marriott Vacation Club Pulse, South Beach and converted it, in its entirety, into vacation ownership inventory.

2016 Dispositions

San Francisco, California

During the 2016 second quarter, we disposed of 19 residential units, located at The Ritz-Carlton Club and Residences, San Francisco (the “RCC San Francisco”), for gross cash proceeds of \$20 million. We accounted for the sale under the full accrual method in accordance with the authoritative guidance on accounting for sales of real estate and recorded a gain of \$11 million in the Gains and other income line on our Income Statement for the year ended December 30, 2016.

Surfers Paradise, Australia

During the 2016 second quarter, we disposed of a portion of an operating property located in Surfers Paradise, Australia for gross cash proceeds of AUD \$71 million (\$51 million). We accounted for the sale under the full accrual method in accordance with the authoritative guidance on accounting for sales of real estate. As part of the disposition, we guaranteed the net operating income of this portion of the operating property through 2021 up to a specified maximum of AUD \$3 million (\$2 million), which was recorded as a deferred gain in the Other line within liabilities on our balance sheet. We recognized a loss, inclusive of the deferred gain, of AUD \$1 million (\$1 million) in connection with the sale, which was recorded in the Gains and other income line on the Income Statement for the year ended December 30, 2016.

4. REVENUE

We account for revenue in accordance with ASC 606, which we adopted on January 1, 2018, using the retrospective method. See Footnote 2 “Summary of Significant Accounting Policies” for additional information and Footnote 21 “Adoption Impact of New Revenue Standard” for further discussion of the adoption and the impact on our previously reported historical results.

Sources of Revenue by Segment

The following tables detail the sources of revenue by segment for each of the last three fiscal years.

(\$ in millions)	2018			
	Vacation Ownership	Exchange & Third-Party Management	Corporate and Other	Total
Sale of vacation ownership products	\$ 990	\$ —	\$ —	\$ 990
Ancillary revenues	160	1	—	161
Management fee revenues	114	30	(4)	140
Other services revenues	85	78	35	198
Management and exchange	359	109	31	499
Rental	352	18	1	371
Cost reimbursements	920	33	(28)	925
Revenue from contracts with customers . .	2,621	160	4	2,785
Financing	182	1	—	183
Total Revenues	\$ 2,803	\$ 161	\$ 4	\$ 2,968

2017

<i>(\$ in millions)</i>	Vacation Ownership	Exchange & Third-Party Management	Corporate and Other	Total
Sale of vacation ownership products	\$ 757	\$ —	\$ —	\$ 757
Ancillary revenues	118	—	—	118
Management fee revenues	89	—	—	89
Other services revenues	72	—	—	72
Management and exchange.	279	—	—	279
Rental	262	—	—	262
Cost reimbursements	750	—	—	750
Revenue from contracts with customers . .	2,048	—	—	2,048
Financing	135	—	—	135
Total Revenues.	<u>\$ 2,183</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 2,183</u>

2016

<i>(\$ in millions)</i>	Vacation Ownership	Exchange & Third-Party Management	Corporate and Other	Total
Sale of vacation ownership products	\$ 623	\$ —	\$ —	\$ 623
Ancillary revenues	124	—	—	124
Management fee revenues	84	—	—	84
Other services revenues	70	—	—	70
Management and exchange.	278	—	—	278
Rental	252	—	—	252
Cost reimbursements	720	—	—	720
Revenue from contracts with customers . .	1,873	—	—	1,873
Financing	127	—	—	127
Total Revenues.	<u>\$ 2,000</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 2,000</u>

Timing of Revenue from Contracts with Customers by Segment

The following tables detail the timing of revenue from contracts with customers by segment for each of the last three fiscal years.

2018

<i>(\$ in millions)</i>	Vacation Ownership	Exchange & Third-Party Management	Corporate and Other	Total
Services transferred over time	\$ 1,467	\$ 95	\$ 4	\$ 1,566
Goods or services transferred at a point in time. . . .	1,154	65	—	1,219
Revenue from contracts with customers	<u>\$ 2,621</u>	<u>\$ 160</u>	<u>\$ 4</u>	<u>\$ 2,785</u>

2017

<i>(\$ in millions)</i>	Vacation Ownership	Exchange & Third-Party Management	Corporate and Other	Total
Services transferred over time	\$ 1,149	\$ —	\$ —	\$ 1,149
Goods or services transferred at a point in time	899	—	—	899
Revenue from contracts with customers	<u>\$ 2,048</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 2,048</u>

2016

<i>(\$ in millions)</i>	Vacation Ownership	Exchange & Third-Party Management	Corporate and Other	Total
Services transferred over time	\$ 1,104	\$ —	\$ —	\$ 1,104
Goods or services transferred at a point in time	769	—	—	769
Revenue from contracts with customers	<u>\$ 1,873</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,873</u>

Receivables, Contract Assets & Contract Liabilities

The following table shows the composition of our receivables and contract liabilities. We had no contract assets at either December 31, 2018 or December 31, 2017.

<i>(\$ in millions)</i>	At December 31, 2018	At December 31, 2017
Receivables		
Accounts receivable	\$ 68	\$ 73
Vacation ownership notes receivable, net	2,039	1,115
	<u>\$ 2,107</u>	<u>\$ 1,188</u>
Contract Liabilities		
Advance deposits	\$ 113	\$ 84
Deferred revenue	319	69
	<u>\$ 432</u>	<u>\$ 153</u>

Revenue recognized during the year ended December 31, 2018 that was included in our contract liabilities balance at December 31, 2017 was \$117 million.

Remaining Performance Obligations

Our remaining performance obligations represent the expected transaction price allocated to our contracts that we expect to recognize as revenue in future periods when we perform under the contracts. At December 31, 2018, 90 percent of this amount is expected to be recognized as revenue over the next two years.

5. INCOME TAXES*Tax Reform*

On December 22, 2017, the Tax Cuts and Jobs Act (the “Tax Act”) was signed into law effective January 1, 2018. The Tax Act significantly revised the U.S. tax code by, in part, but not limited to: reducing the U.S. corporate maximum tax rate from 35 percent to 21 percent, imposing a mandatory one-time transition tax on certain un-repatriated earnings of foreign subsidiaries, modifying executive compensation deduction limitations and repealing the deduction for domestic production activities. Under ASC Topic 740, “Income Taxes,” we must generally recognize the effects of tax law changes in the period in which the new legislation is enacted.

During December 2017, the Securities and Exchange Commission staff issued Staff Accounting Bulletin (“SAB”) No. 118 (“SAB 118”) to address the application of GAAP in situations when a registrant does not have all the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Act. In accordance with SAB 118, our deferred tax assets and liabilities were remeasured using the new corporate tax rate of 21 percent, rather than the previous rate of 35 percent, resulting in a \$65 million decrease in our income tax expense for the year ended December 31, 2017 and a corresponding \$65 million decrease in our net deferred tax

liability as of December 31, 2017. In 2018, we recorded an additional \$1 million of income tax expense related to the effects of the Tax Act, primarily due to final Internal Revenue Service guidance issued during the year regarding executive compensation. As of December 31, 2018, all adjustments related to the Tax Act have been finalized.

The one-time transition tax on certain un-repatriated earnings of foreign subsidiaries is based on total post-1986 earnings and profits that we previously deferred from U.S. income taxes. We completed our analysis of the transition tax and determined that, due to deficits in foreign earnings and profits, there was no one-time transition impact. We recognized a \$3 million deferred tax liability for tax consequences of a portion of foreign unremitted earnings that are not permanently reinvested. Our present intention is to indefinitely reinvest the residual historic undistributed accumulated earnings associated with certain foreign subsidiaries and as such, we have not provided for deferred taxes on outside basis differences in our investments in these foreign subsidiaries.

The Tax Act added a new provision for a tax on Global Intangible Low-Taxed Income (“GILTI”). As of December 31, 2018, we finalized our policy and have elected to use the period cost method for GILTI provisions and therefore have not recorded deferred taxes for basis differences expected to reverse in future periods.

Income Tax Provision

The components of our earnings before income taxes for the last three years consisted of:

<i>(\$ in millions)</i>	<u>2018</u>	<u>2017</u>	<u>2016</u>
United States	\$ 108	\$ 232	\$ 195
Non-U.S. jurisdictions	(5)	8	3
	<u>\$ 103</u>	<u>\$ 240</u>	<u>\$ 198</u>

In 2018 and 2017, our tax benefit included an excess tax benefit of \$2 million and \$6 million, respectively, related to the vesting or exercise of employee share-based awards. In 2016, our tax provision did not reflect an excess tax benefit of \$1 million related to the vesting and exercise of share-based awards, as this period was before our adoption of ASU 2016-09. In our statements of cash flows, we presented excess tax benefits as financing cash flows before our adoption of ASU 2016-09.

Our provision for income taxes for the last three years consisted of:

<i>(\$ in millions)</i>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Current – U.S. Federal	\$ 17	\$ (49)	\$ (35)
– U.S. State	(1)	(7)	(5)
– Non-U.S.	(10)	(7)	(5)
	<u>6</u>	<u>(63)</u>	<u>(45)</u>
Deferred – U.S. Federal	(46)	44	(30)
– U.S. State	(9)	(1)	(2)
– Non-U.S.	(2)	15	1
	<u>(57)</u>	<u>58</u>	<u>(31)</u>
	<u>\$ (51)</u>	<u>\$ (5)</u>	<u>\$ (76)</u>

The deferred tax assets and related valuation allowances in these Financial Statements have been determined on a separate return basis. The assessment of the valuation allowances requires considerable judgment on the part of management with respect to benefits that could be realized from future taxable income, as well as other positive and negative factors. Valuation allowances are recorded against the deferred tax assets of certain foreign operations for which historical losses, restructuring and impairment charges have been incurred. The change in the valuation allowances established were \$9 million in 2018, (\$4) million in 2017 and \$2 million in 2016. In addition to the \$9 million increase for 2018, valuation allowances totaling \$53 million were recorded as part of the ILG Acquisition.

We conduct business in countries that grant “holidays” from income taxes for ten to thirty year periods. These holidays expire through 2034.

Our income tax returns are subject to examination by relevant tax authorities. Certain of our returns are being audited in various jurisdictions for years 2012 through 2017. Although we do not anticipate that a significant impact to our unrecognized tax benefit balance will occur during the next fiscal year, the amount of our liability for unrecognized tax benefits could change as a result of audits in these jurisdictions.

Deferred Income Taxes

Deferred income tax balances reflect the effects of temporary differences between the carrying amounts of assets and liabilities and their tax bases, as well as from net operating loss and tax credit carry-forwards. We state those balances at the enacted tax rates we expect will be in effect when we actually pay or recover taxes. Deferred income tax assets represent amounts available to reduce income taxes we will pay on taxable income in future years. We evaluate our ability to realize these future tax deductions and credits by assessing whether we expect to have sufficient future taxable income from all sources, including reversal of taxable temporary differences, forecasted operating earnings and available tax planning strategies, to utilize these future deductions and credits. We establish a valuation allowance when we no longer consider it more likely than not that a deferred tax asset will be realized.

The following table presents our deferred tax assets and liabilities, and the tax effect of each type of temporary difference and carry-forward that gave rise to a significant portion of our deferred tax assets and liabilities at December 31, 2018 and December 31, 2017:

<i>(\$ in millions)</i>	<u>At Year-End 2018</u>	<u>At Year-End 2017</u>
Deferred Tax Assets		
Inventory	\$ 145	\$ 38
Reserves	84	26
Deferred revenue	22	1
Property and equipment	54	12
Long lived intangible assets	—	24
Net operating loss and capital loss carryforwards	59	39
Tax credits	24	40
Other, net	21	17
Deferred tax assets	<u>409</u>	<u>197</u>
Less valuation allowance	<u>(106)</u>	<u>(44)</u>
Net deferred tax assets	303	153
Deferred Tax Liabilities		
Long lived intangible assets	(234)	—
Deferred sales of vacation ownership interests	(377)	(230)
Deferred tax liabilities	<u>(611)</u>	<u>(230)</u>
Total net deferred tax liabilities	<u>\$ (308)</u>	<u>\$ (77)</u>

At December 31, 2018, we had approximately \$48 million of foreign net operating loss carryforwards (excluding valuation allowances) some of which begin expiring in 2019; however, a significant portion of these have indefinite carryforward periods. We have \$1 million of federal net operating loss carryforwards and \$2 million of state net operating loss carryforwards, of which less than \$1 million will expire within the next five years. We also have a capital loss carryforward of approximately \$10 million, which expires at the end of 2019, and is offset by a full valuation allowance. We also have a federal alternative minimum tax credit carryforward of \$14 million, which we expect will be fully utilized in 2019, U.S. federal foreign tax credit carryforwards of \$4 million, \$5 million of state tax credit carryforwards and less than \$1 million of non-U.S. tax credit carryforwards.

Reconciliation of U.S. Federal Statutory Income Tax Rate to Actual Income Tax Rate

The following table reconciles the U.S. statutory income tax rate to our effective income tax rate:

	2018	2017	2016
U.S. statutory income tax rate	21.00%	35.00%	35.00%
U.S. state income taxes, net of U.S. federal tax benefit	4.23	2.50	2.47
Permanent differences ⁽¹⁾	2.78	(0.58)	1.16
Transaction costs ⁽²⁾	4.68	—	—
Impact related to the Tax Act	1.23	(27.12)	—
Impact of non-deductible executive compensation ⁽³⁾	3.60	(2.54)	—
Foreign tax rate changes	(0.11)	(2.01)	0.05
Non-U.S. income (loss) ⁽⁴⁾	3.90	(2.61)	0.08
Other items	(0.11)	(0.79)	(1.06)
Change in valuation allowance ⁽⁵⁾	8.60	0.03	0.78
Effective rate	<u>49.80%</u>	<u>1.88%</u>	<u>38.48%</u>

(1) Primarily due to non-deductible meal and entertainment expenses and new foreign tax provisions net of foreign tax credits, under provisions of the Tax Act.

(2) Attributed to non-deductible transaction costs incurred as a result of the ILG Acquisition.

(3) Increase attributable to non-deductible executive compensation under provisions of the Tax Act.

(4) Attributed to the difference between U.S. and foreign income tax rates and other foreign adjustments.

(5) In 2018 and 2016, primarily attributable to losses and future deductions in foreign jurisdictions for which a tax benefit has not been recognized through establishment of valuation allowances. The 2017 impact is the net impact of foreign losses not resulting in a benefit due to the establishment of valuation allowances, partially offset by the release of a portion of previously established foreign valuation allowances.

6. VACATION OWNERSHIP NOTES RECEIVABLE

The following table shows the composition of our vacation ownership notes receivable balances, net of reserves:

<i>(\$ in millions)</i>	December 31, 2018			December 31, 2017		
	Originated	Acquired	Total	Originated	Acquired	Total
Securitized	\$ 1,070	\$ 557	\$ 1,627	\$ 814	\$ —	\$ 814
Non-securitized						
Eligible for securitization ⁽¹⁾	85	22	107	142	—	142
Not eligible for securitization ⁽¹⁾	233	72	305	159	—	159
Subtotal	<u>318</u>	<u>94</u>	<u>412</u>	<u>301</u>	<u>—</u>	<u>301</u>
	<u>\$ 1,388</u>	<u>\$ 651</u>	<u>\$ 2,039</u>	<u>\$ 1,115</u>	<u>\$ —</u>	<u>\$ 1,115</u>

(1) Refer to Footnote 7 “Financial Instruments” for discussion of eligibility of our vacation ownership notes receivable for securitization.

We reflect interest income associated with vacation ownership notes receivable in our Income Statements in the Financing revenues caption. The following table summarizes interest income associated with vacation ownership notes receivable:

<i>(\$ in millions)</i>	2018	2017	2016
Interest income associated with vacation ownership notes receivable — securitized	\$ 151	\$ 101	\$ 97
Interest income associated with vacation ownership notes receivable — non-securitized	24	27	23
Total interest income associated with vacation ownership notes receivable	<u>\$ 175</u>	<u>\$ 128</u>	<u>\$ 120</u>

Acquired Vacation Ownership Notes Receivable

As part of the ILG Acquisition, we acquired existing portfolios of vacation ownership notes receivable. These notes receivable are accounted for using the expected cash flow method of recognizing discount accretion based on the expected cash flows from the acquired vacation ownership notes receivable pursuant to ASC Topic 310-30, “Loans acquired with deteriorated credit quality” (“ASC 310-30”). At acquisition, we recorded these acquired vacation ownership notes receivable at a preliminary estimate of fair value, including a credit discount which is accreted as an adjustment to yield over the estimated life of the vacation ownership notes receivable.

The fair value of our acquired vacation ownership notes receivable as of the Acquisition Date was determined using a discounted cash flow method, which calculated a present value of expected future cash flows based on scheduled principal and interest payments over the term of the respective vacation ownership notes receivable, while considering anticipated defaults and early repayments based on historical experience. Consequently, the fair value of the acquired vacation ownership notes receivable recorded on our balance sheet as of the Acquisition Date included an estimate for future uncollectible amounts which became the historical cost basis for that portfolio going forward.

The table below presents a rollforward from the Acquisition Date of the accretable yield (interest income) expected to be earned related to our acquired vacation ownership notes receivable, as well as the amount of non-accretable difference at the end of the period. The non-accretable difference represents estimated contractually required payments in excess of estimated cash flows expected to be collected. The accretable yield represents the excess of estimated cash flows expected to be collected over the carrying amount of the acquired vacation ownership notes receivable.

<i>(\$ in millions)</i>	122 Days Ended December 31, 2018
Balance at Acquisition Date	\$ —
Acquired accretable yield	233
Accretion	(32)
Reclassification from non-accretable difference	(2)
Balance at December 31, 2018	<u>\$ 199</u>
Non-accretable difference at December 31, 2018	\$ 68

The accretable yield is recognized into interest income over the estimated life of the acquired vacation ownership notes receivable using the level yield method. The accretable yield may change in future periods due to changes in the anticipated remaining life of the acquired vacation ownership notes receivable, which may alter the amount of future interest income expected to be collected, and changes in expected future principal and interest cash collections which impacts the non-accretable difference.

Our acquired vacation ownership notes receivable are remeasured at period end based on expected future cash flows which takes into consideration an estimated measure of anticipated defaults and early repayments. We consider historical Legacy-ILG vacation ownership notes receivable performance and the current economic environment in developing the expected future cash flows used in the re-measurement of our acquired vacation ownership notes receivable.

The following tables show future contractual principal payments, as well as interest rates for our acquired non-securitized and securitized vacation ownership notes receivable at December 31, 2018:

<i>(\$ in millions)</i>	Acquired Vacation Ownership Notes Receivable		
	Non-Securitized	Securitized	Total
2019	\$ 9	\$ 57	\$ 66
2020	8	59	67
2021	9	61	70
2022	9	61	70
2023	9	60	69
Thereafter	50	259	309
Balance at December 31, 2018	<u>\$ 94</u>	<u>\$ 557</u>	<u>\$ 651</u>
Weighted average stated interest rate	13.4%	13.4%	13.4%
Range of stated interest rates	0.0% to 17.9%	6.0% to 17.9%	0.0% to 17.9%

Originated Vacation Ownership Notes Receivable

Originated vacation ownership notes receivable represent vacation ownership notes receivable originated by Legacy-ILG subsequent to the Acquisition Date and all Legacy-MVW vacation ownership notes receivable. The following table shows future principal payments, net of reserves, as well as interest rates for our originated non-securitized and securitized originated vacation ownership notes receivable at December 31, 2018:

(\$ in millions)	Originated Vacation Ownership Notes Receivable		
	Non-Securitized	Securitized	Total
2019	\$ 52	\$ 104	\$ 156
2020	38	108	146
2021	32	112	144
2022	28	115	143
2023	25	116	141
Thereafter	143	515	658
Balance at December 31, 2018	\$ 318	\$ 1,070	\$ 1,388
Weighted average stated interest rate	11.8%	12.5%	12.4%
Range of stated interest rates	0.0% to 18.0%	5.2% to 17.5%	0.0% to 18.0%

For originated vacation ownership notes receivable, we record the difference between the vacation ownership note receivable and the variable consideration included in the transaction price for the sale of the related vacation ownership product as a reserve on our vacation ownership notes receivable. See Footnote 4 “Revenue” for further information.

The following table summarizes the activity related to our originated vacation ownership notes receivable reserve:

(\$ in millions)	Originated Vacation Ownership Notes Receivable		
	Non-Securitized	Securitized	Total
Balance at December 31, 2015	\$ 59	\$ 49	\$ 108
Increase in vacation ownership notes receivable reserve	27	17	44
Securitized	(28)	28	—
Clean-up of Warehouse Credit Facility ⁽¹⁾	10	(10)	—
Write-offs	(40)	—	(40)
Defaulted vacation ownership notes receivable repurchase activity ⁽²⁾	30	(30)	—
Balance at December 31, 2016	58	54	112
Increase in vacation ownership notes receivable reserve	42	10	52
Securitized	(29)	29	—
Clean-up of Warehouse Credit Facility ⁽¹⁾	4	(4)	—
Write-offs	(45)	—	(45)
Defaulted vacation ownership notes receivable repurchase activity ⁽²⁾	28	(28)	—
Balance at December 31, 2017	58	61	119
Vacation ownership notes receivable reserve	57	7	64
Securitized	(39)	39	—
Clean-up call ⁽¹⁾	1	(1)	—
Write-offs	(43)	—	(43)
Defaulted vacation ownership notes receivable repurchase activity ⁽²⁾	27	(27)	—
Balance at December 31, 2018	\$ 61	\$ 79	\$ 140

⁽¹⁾ Refers to our voluntary repurchase of previously securitized non-defaulted vacation ownership notes receivable to retire outstanding vacation ownership notes receivable securitizations in 2018 and from our Warehouse Credit Facility (as defined in Footnote 13 “Securitized Debt”) in 2017 and 2016.

⁽²⁾ Decrease in securitized vacation ownership notes receivable reserve and increase in non-securitized vacation ownership notes receivable reserve was attributable to the transfer of the reserve when we voluntarily repurchased defaulted securitized vacation ownership notes receivable.

Credit Quality of Vacation Ownership Notes Receivable

Legacy-MVW Vacation Ownership Notes Receivable

The following table shows our recorded investment in non-accrual Legacy-MVW vacation ownership notes receivable, which are vacation ownership notes receivable that are 90 days or more past due. As noted in Footnote 2 “Summary of Significant Accounting Policies” we recognize interest income on a cash basis for these vacation ownership notes receivable.

(\$ in millions)	Legacy-MVW Vacation Ownership Notes Receivable		
	Non-Securitized	Securitized	Total
Investment in vacation ownership notes receivable on non-accrual status at year-end 2018	\$ 36	\$ 9	\$ 45
Investment in vacation ownership notes receivable on non-accrual status at year-end 2017	\$ 39	\$ 7	\$ 46
Average investment in vacation ownership notes receivable on non-accrual status during 2018	\$ 38	\$ 8	\$ 46

The following table shows the aging of the recorded investment in principal, before reserves, in Legacy-MVW vacation ownership notes receivable as of December 31, 2018:

(\$ in millions)	Legacy-MVW Vacation Ownership Notes Receivable		
	Non-Securitized	Securitized	Total
31 – 90 days past due	\$ 7	\$ 26	\$ 33
91 – 150 days past due	3	9	12
Greater than 150 days past due	33	—	33
Total past due	43	35	78
Current	235	1,090	1,325
Total vacation ownership notes receivable	\$ 278	\$ 1,125	\$ 1,403

The following table shows the aging of the recorded investment in principal, before reserves, in Legacy-MVW vacation ownership notes receivable as of December 31, 2017:

(\$ in millions)	Legacy-MVW Vacation Ownership Notes Receivable		
	Non-Securitized	Securitized	Total
31 – 90 days past due	\$ 7	\$ 19	\$ 26
91 – 150 days past due	5	7	12
Greater than 150 days past due	34	—	34
Total past due	46	26	72
Current	313	849	1,162
Total vacation ownership notes receivable	\$ 359	\$ 875	\$ 1,234

Legacy-ILG Vacation Ownership Notes Receivable

As noted in Footnote 2 “Summary of Significant Accounting Policies” we consider Legacy-ILG vacation ownership notes receivable to be in default upon reaching 120 days outstanding. We use the origination of the vacation ownership notes receivable by brand (Hyatt, Sheraton, Westin) and the FICO scores of the customer as the primary credit quality indicators for our Legacy-ILG vacation ownership notes receivable, as historical performance indicates that there is a relationship between the default behavior of borrowers and the brand associated with the vacation ownership interest they have acquired, supplemented by the FICO scores of the customers.

The following table shows the Legacy-ILG acquired vacation ownership notes receivable by brand and FICO score as of December 31, 2018:

(\$ in millions)	Acquired Vacation Ownership Notes Receivable				
	700 +	600 - 699	< 600	No Score ⁽¹⁾	Total
Westin	\$ 154	\$ 82	\$ 6	\$ 21	\$ 263
Sheraton	145	124	21	55	345
Hyatt.....	20	13	2	—	35
Other	4	1	—	3	8
	<u>\$ 323</u>	<u>\$ 220</u>	<u>\$ 29</u>	<u>\$ 79</u>	<u>\$ 651</u>

⁽¹⁾ Vacation ownership notes receivable with no FICO score primarily relate to non-U.S. resident borrowers.

The following table shows the Legacy-ILG originated vacation ownership notes receivable by brand and FICO score as of December 31, 2018:

(\$ in millions)	Originated Vacation Ownership Notes Receivable				
	700 +	600 - 699	< 600	No Score ⁽¹⁾	Total
Westin	\$ 43	\$ 11	\$ 1	\$ 7	\$ 62
Sheraton	28	17	3	9	57
Hyatt.....	5	2	—	—	7
	<u>\$ 76</u>	<u>\$ 30</u>	<u>\$ 4</u>	<u>\$ 16</u>	<u>\$ 126</u>

⁽¹⁾ Vacation ownership notes receivable with no FICO score primarily relate to non-U.S. resident borrowers.

The following table shows the aging of the recorded investment in principal, before reserves, in Legacy-ILG originated vacation ownership notes receivable as of December 31, 2018:

(\$ in millions)	Originated Vacation Ownership Notes Receivable						
	Receivables	Current	Delinquent			Defaulted ⁽¹⁾	Total Delinquent & Defaulted
			30 - 59 Days	60 - 89 Days	90 - 119 Days	> 120 Days	
December 31, 2018 ..	\$ 126	\$ 124	\$ 2	\$ —	\$ —	\$ —	\$ 2

⁽¹⁾ Vacation ownership notes receivable equal to or greater than 120 days are considered in default.

7. FINANCIAL INSTRUMENTS

The following table shows the carrying values and the estimated fair values of financial assets and liabilities that qualify as financial instruments, determined in accordance with the authoritative guidance for disclosures regarding the fair value of financial instruments. Considerable judgment is required in interpreting market data to develop estimates of fair value. The use of different market assumptions and/or estimation methodologies could have a material effect on the estimated fair value amounts. The table excludes Cash and cash equivalents, Restricted cash, Accounts receivable, Accounts payable, Advance deposits and Accrued liabilities, all of which had fair values approximating their carrying amounts due to the short maturities and liquidity of these instruments.

(\$ in millions)	December 31, 2018		December 31, 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Originated vacation ownership notes receivable	\$ 1,388	\$ 1,413	\$ 1,115	\$ 1,276
Other assets	66	66	14	14
	<u>\$ 1,454</u>	<u>\$ 1,479</u>	<u>\$ 1,129</u>	<u>\$ 1,290</u>
Securitized debt, net	\$ (1,694)	\$ (1,698)	\$ (835)	\$ (836)
Exchange Notes, net	(88)	(87)	—	—
Senior Unsecured Notes, net	(741)	(726)	—	—
IAC Notes	(141)	(140)	—	—
Term Loan, net.	(888)	(887)	—	—
Convertible notes, net	(199)	(198)	(192)	(260)
Non-interest bearing note payable, net	(30)	(30)	(61)	(61)
Other debt, net	(20)	(20)	—	—
Other liabilities	(6)	(6)	—	—
	<u>\$ (3,807)</u>	<u>\$ (3,792)</u>	<u>\$ (1,088)</u>	<u>\$ (1,157)</u>

Originated Vacation Ownership Notes Receivable

(\$ in millions)	December 31, 2018		December 31, 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Originated vacation ownership notes receivable				
Securitized	\$ 1,070	\$ 1,093	\$ 814	\$ 955
Eligible for securitization.	85	87	142	162
Not eligible for securitization	233	233	159	159
Non-securitized.	318	320	301	321
	<u>\$ 1,388</u>	<u>\$ 1,413</u>	<u>\$ 1,115</u>	<u>\$ 1,276</u>

We estimate the fair value of our originated vacation ownership notes receivable that have been securitized using a discounted cash flow model. We believe this is comparable to the model that an independent third party would use in the current market. Our model uses default rates, prepayment rates, coupon rates and loan terms for our securitized vacation ownership notes receivable portfolio as key drivers of risk and relative value to determine the fair value of the underlying vacation ownership notes receivable. We concluded that this fair value measurement should be categorized within Level 3.

Due to factors that impact the general marketability of our originated vacation ownership notes receivable that have not been securitized, as well as current market conditions, we bifurcate our non-securitized vacation ownership notes receivable at each balance sheet date into those eligible and not eligible for securitization using criteria applicable to current securitization transactions in the asset-backed securities (“ABS”) market. Generally, vacation ownership notes receivable are considered not eligible for securitization if any of the following attributes are present: (1) payments are greater than 30 days past due; (2) the first payment has not been received; or (3) the collateral is located in Asia or Europe. In some cases, eligibility may also be determined based on the credit score of the borrower, the remaining term of the loans and other similar factors that may reflect investor demand in a securitization transaction or the cost to effectively securitize the vacation ownership notes receivable.

The table above shows the bifurcation of our originated vacation ownership notes receivable that have not been securitized into those eligible and not eligible for securitization based upon the aforementioned eligibility criteria.

We estimate the fair value of the portion of our originated vacation ownership notes receivable that have not been securitized that we believe will ultimately be securitized in the same manner as originated vacation ownership notes receivable that have been securitized. We value the remaining originated vacation ownership notes receivable that have not been securitized at their carrying value, rather than using our pricing model. We believe that the carrying value of these particular vacation ownership notes receivable approximates fair value because the stated, or otherwise imputed, interest rates of these loans are consistent with current market rates and the reserve for these vacation ownership notes receivable appropriately accounts for risks in default rates, prepayment rates, discount rates and loan terms. We concluded that this fair value measurement should be categorized within Level 3.

Other Assets

Other assets include \$26 million of company owned insurance policies (the “COLI policies”), acquired on the lives of certain participants in the Marriott Vacations Worldwide Deferred Compensation Plan, that are held in a rabbi trust. The carrying value of the COLI policies is equal to their cash surrender value (Level 2 inputs). In addition, we have investments in marketable securities of \$8 million which are marked to market as trading securities using quoted market prices (Level 1 inputs). We also have a \$32 million note receivable related to a convertible secured loan facility for which fair value approximates carrying value as the terms and interest rate approximate market.

Non-Recourse Debt Associated with Securitized Vacation Ownership Notes Receivable

We generate cash flow estimates by modeling all bond tranches for our active vacation ownership notes receivable securitization transactions, with consideration for the collateral specific to each tranche. The key drivers in our analysis include default rates, prepayment rates, bond interest rates and other structural factors, which we use to estimate the projected cash flows. In order to estimate market credit spreads by rating, we obtain indicative credit spreads from investment banks that actively issue and facilitate the market for vacation ownership securities and determine an average credit spread by rating level of the different tranches. We then apply those estimated market spreads to swap rates in order to estimate an underlying discount rate for calculating the fair value of the active bonds payable. We concluded that this fair value measurement should be categorized within Level 3.

Exchange Notes

We estimate the fair value of our Exchange Notes (as defined in Footnote 14 “Debt”) using indicative quotes from securities dealers as of the last trading day for the quarter; however these notes have only a limited trading history and volume and as such this fair value estimate is not necessarily indicative of the value at which the Exchange Notes could be retired or transferred. We concluded that this fair value measurement should be categorized within Level 3.

Senior Unsecured Notes

We estimate the fair value of our Senior Unsecured Notes (as defined in Footnote 14 “Debt”) using quoted market prices as of the last trading day for the quarter; however these notes have only a limited trading history and volume as such this fair value estimate is not necessarily indicative of the value at which the Senior Unsecured Notes could be retired or transferred. We concluded that this fair value measurement should be categorized within Level 2.

IAC Notes

We estimate the fair value of our IAC Notes (as defined in Footnote 14 “Debt”) using indicative quotes from securities dealers as of the last trading day for the quarter; however these notes have only a limited trading volume and as such this fair value estimate is not necessarily indicative of the value at which the IAC Notes could be retired or transferred. We concluded that this fair value measurement should be categorized within Level 3.

Term Loan

We estimate the fair value of our Term Loan (as defined in Footnote 14 “Debt”) approximates its gross carrying value as the contractual interest rate is variable plus an applicable margin. In addition, the Term Loan was priced and closed within the third quarter of 2018. We concluded that this fair value measurement should be categorized within Level 3.

Convertible Notes

We estimate the fair value of our Convertible Notes using quoted market prices as of the last trading day for the quarter; however these notes have only a limited trading history and volume and as such this fair value estimate is not necessarily indicative of the value at which the Convertible Notes could be retired or transferred. We concluded that this fair value measurement should be categorized within Level 2. The difference between the carrying value and the fair value is primarily attributed to the underlying conversion feature, and the spread between the conversion price and the market value of the shares underlying the Convertible Notes.

Non-Interest Bearing Note Payable

The carrying value of our non-interest bearing note payable issued in connection with the acquisition of vacation ownership units located on the Big Island of Hawaii approximates fair value, because the imputed interest rate used to discount this note payable is consistent with current market rates.

8. EARNINGS PER SHARE

Basic earnings per common share is calculated by dividing net income attributable to common shareholders by the weighted average number of shares of common stock outstanding during the reporting period. Treasury stock is excluded from the weighted average number of shares of common stock outstanding. Diluted earnings per common share is calculated to give effect to all potentially dilutive common shares that were outstanding during the reporting period. The dilutive effect of outstanding equity-based compensation awards is reflected in diluted earnings per common share by application of the treasury stock method using average market prices during the period.

Our calculation of diluted earnings per share reflects our intent to settle conversions of the Convertible Notes through a combination settlement, which contemplates repayment in cash of the principal amount and repayment in shares of our common stock of any excess of the conversion value over the principal amount (the “conversion premium”). Therefore, we include only the shares that may be issued with respect to any conversion premium in total dilutive weighted average shares outstanding, which we calculate using the treasury stock method. As no conversion premium existed as of either December 31, 2018 or December 31, 2017, there was no dilutive impact from the Convertible Notes for either 2018 or 2017.

The shares issuable on exercise of the Warrants (as defined in Footnote 14 “Debt”) sold in connection with the issuance of the Convertible Notes will not impact the total dilutive weighted average shares outstanding unless and until the price of our common stock exceeds the strike price, which was subject to adjustment in the fourth quarter of 2018 to \$176.15, as described in Footnote 14 “Debt.” If and when the price of our common stock exceeds the strike price of the Warrants, we will include the dilutive effect of the additional shares that may be issued upon exercise of the Warrants in total dilutive weighted average shares outstanding, which we calculate using the treasury stock method. The Convertible Note Hedges (as defined in Footnote 14 “Debt”) purchased in connection with the issuance of the Convertible Notes are considered to be anti-dilutive and will not impact our calculation of diluted earnings per share.

The table below illustrates the reconciliation of the earnings and number of shares used in our calculation of basic and diluted earnings per share.

<i>(in millions, except per share amounts)</i>	2018 ⁽¹⁾	2017 ⁽¹⁾	2016 ⁽¹⁾
Net income attributable to common shareholders	\$ 55	\$ 235	\$ 122
Shares for basic earnings per share	33.3	27.1	27.9
Basic earnings per share	<u>\$ 1.64</u>	<u>\$ 8.70</u>	<u>\$ 4.37</u>
Net income attributable to common shareholders	\$ 55	\$ 235	\$ 122
Shares for basic earnings per share	33.3	27.1	27.9
Effect of dilutive shares outstanding			
Employee stock options and SARs	0.4	0.4	0.3
Restricted stock units	0.3	0.2	0.2
Shares for diluted earnings per share	<u>34.0</u>	<u>27.7</u>	<u>28.4</u>
Diluted earnings per share	<u>\$ 1.61</u>	<u>\$ 8.49</u>	<u>\$ 4.29</u>

⁽¹⁾ The computations of diluted earnings per share exclude approximately 165,000, 238,000 and 217,000 shares of common stock, the maximum number of shares issuable as of December 31, 2018, December 31, 2017 and

December 30, 2016, respectively, upon the vesting of certain performance-based awards, because the performance conditions required to be met for the shares subject to such awards to vest were not achieved by the end of the respective reporting period.

In accordance with the applicable accounting guidance for calculating earnings per share, for the year ended December 31, 2018, we excluded from our calculation of diluted earnings per share 56,649 shares underlying SARs that may be settled in shares of common stock because the exercise price of \$143.38 of such SARs was greater than the average market price for the applicable period.

For the year ended December 31, 2017, our calculation of diluted earnings per share included shares underlying SARs that may be settled in shares of common stock because the exercise price of such SARs were less than or equal to the average market price for the applicable period.

For the year ended December 30, 2016, we excluded from our calculation of diluted earnings per share 62,018 shares underlying SARs that may be settled in shares of common stock because the exercise price of \$77.42 of such SARs was greater than the average market prices for the applicable period.

9. INVENTORY

The following table shows the composition of our inventory balances:

<i>(\$ in millions)</i>	<u>At Year-End 2018</u>	<u>At Year End 2017</u>
Finished goods ⁽¹⁾	\$ 843	\$ 391
Work-in-progress	9	2
Real estate inventory	852	393
Operating supplies and retail inventory	11	5
	<u>\$ 863</u>	<u>\$ 398</u>

⁽¹⁾ Represents completed inventory that is either registered for sale as vacation ownership interests, or unregistered and available for sale in its current form.

We value vacation ownership interests at the lower of cost or fair market value less costs to sell, in accordance with applicable accounting guidance, and we record operating supplies at the lower of cost (using the first-in, first-out method) or net realizable value.

In addition to the above, at December 31, 2018, we had \$51 million of completed vacation ownership units which have been classified as a component of Property and equipment until the time at which they are legally registered for sale as vacation ownership products.

10. PROPERTY AND EQUIPMENT

The following table details the composition of our property and equipment balances:

<i>(\$ in millions)</i>	<u>At Year-End 2018</u>	<u>At Year-End 2017</u>
Land and land improvements	\$ 466	\$ 390
Buildings and leasehold improvements	404	259
Furniture, fixtures and other equipment	88	54
Information technology	297	185
Construction in progress	32	23
	<u>1,287</u>	<u>911</u>
Accumulated depreciation	(336)	(328)
	<u>\$ 951</u>	<u>\$ 583</u>

11. CONTINGENCIES AND COMMITMENTS

Commitments and Letters of Credit

As of December 31, 2018, we had the following commitments outstanding:

- We have various contracts for the use of information technology hardware and software that we use in the normal course of business. Our aggregate commitments under these contracts were \$51 million, of which we expect \$29 million, \$12 million, \$4 million, \$3 million, \$2 million and \$1 million will be paid in 2019, 2020, 2021, 2022, 2023 and thereafter, respectively.
- We have commitments of \$6 million to subsidize operating costs of vacation ownership property owners' associations, which we expect to pay in 2019.
- We have a commitment to purchase an operating property located in New York, New York for \$182 million, of which \$7 million is attributed to a related capital lease arrangement and recorded in Debt. We expect to acquire the units in the property, in their current form, over time, and we expect to make payments for these units of \$120 million and \$62 million in 2020 and 2021, respectively. We currently manage this property, which we have rebranded as Marriott Vacation Club Pulse, New York City. See Footnote 17 "Variable Interest Entities," for additional information on this transaction and our activities relating to the variable interest entity involved in this transaction.
- We have a commitment to purchase 88 vacation ownership units located in Bali, Indonesia for use in our Vacation Ownership segment, contingent upon completion of construction to agreed-upon standards within specified timeframes. We expect to complete the acquisition in 2019 and to make the remaining payments with respect to these units when specific construction milestones are completed, as follows: \$31 million in 2019 and \$2 million in 2020.
- During the first quarter of 2019, we amended a commitment to purchase an operating property located in San Francisco, California for \$158 million, of which \$9 million is attributed to a related capital lease arrangement and recorded in Debt. We expect to acquire the operating property over time and expect to make payments for the operating property as follows: \$56 million in 2019, \$55 million in 2020 and \$47 million in 2021. We currently manage this unbranded property, and expect it to be branded as Marriott Vacation Club Pulse, San Francisco during 2019. See Footnote 17 "Variable Interest Entities" for additional information on this transaction and our activities relating to the variable interest entity involved in this transaction.

Surety bonds issued as of December 31, 2018 totaled \$74 million, the majority of which were requested by federal, state or local governments in connection with our operations.

Additionally, as of December 31, 2018, we had \$4 million of letters of credit outstanding under our \$600 million revolving credit facility (the "Revolving Corporate Credit Facility").

Guarantees

At December 31, 2018, our maximum exposure under guarantees was \$40 million which primarily relates to certain of our rental management agreements within our Exchange & Third-Party Management segment. These agreements provide for owners to receive specified percentages or guaranteed amounts of the rental revenue generated under its management. In these cases, the operating expenses for the rental operations are paid from the revenue generated by the rentals, the owners are then paid their contractual percentages or guaranteed amounts, and our vacation rental business either retains the balance (if any) as its fee or makes up the deficit.

Loss Contingencies

In April 2013, Krishna and Sherrie Narayan and other owners of 12 residential units (owners of two of which subsequently agreed to release their claims) at the resort formerly known as The Ritz-Carlton Club & Residences, Kapalua Bay ("Kapalua Bay") filed an amended complaint in Circuit Court for Maui County, Hawaii against us, certain of our subsidiaries, Marriott International certain of its subsidiaries, and the joint venture in which we have an equity investment that developed and marketed vacation ownership and residential products at Kapalua Bay (the "Joint Venture"). In the original complaint, the plaintiffs alleged that defendants mismanaged funds of the residential owners' association (the "Kapalua Bay Association"), created a conflict of interest by permitting their employees to serve on the Kapalua Bay Association's board, and failed to disclose documents to which the plaintiffs were allegedly entitled. The amended complaint alleged breach of fiduciary duty, violations of the Hawaii Unfair and Deceptive Trade Practices Act and the Hawaii condominium statute, intentional misrepresentation and concealment, unjust enrichment and civil conspiracy. The relief sought in the amended complaint included injunctive relief, repayment of all sums paid to us and our subsidiaries and Marriott International and its subsidiaries, compensatory and punitive damages, and treble damages under the Hawaii Unfair and Deceptive Trade Practices Act. In

October 2018, the parties reached agreements to settle the claims of the plaintiffs and during the third quarter of 2018 we recorded an accrual of \$16 million in conjunction with the settlements.

In June 2013, Earl C. and Patricia A. Charles, owners of a fractional interest at Kapalua Bay, together with owners of 38 other fractional interests (owners of two of which subsequently agreed to release their claims) at Kapalua Bay, filed an amended complaint in the Circuit Court of the Second Circuit for the State of Hawaii against us, certain of our subsidiaries, Marriott International, certain of its subsidiaries, the Joint Venture, and other entities that have equity investments in the Joint Venture. The plaintiffs alleged that the defendants failed to disclose the financial condition of the Joint Venture and the commitment of the defendants to the Joint Venture, and that defendants' actions constituted fraud and violated the Hawaii Unfair and Deceptive Trade Practices Act, the Hawaii Condominium Property Act and the Hawaii Time Sharing Plans statute. The relief sought included compensatory and punitive damages, attorneys' fees, pre-judgment interest, declaratory relief, rescission and treble damages under the Hawaii Unfair and Deceptive Trade Practices Act. The complaint was subsequently further amended to add owners of two additional fractional interests as plaintiffs. In February 2019, the parties reached a tentative agreement to settle the case and during the fourth quarter of 2018 we recorded an accrual of \$12 million in conjunction with the settlement. The definitive terms of the settlement agreement are being finalized.

In May 2015, we and certain of our subsidiaries were named as defendants in an action filed in the Superior Court of San Francisco County, California, by William and Sharon Petrick and certain other present and former owners of fractional interests at the RCC San Francisco. The plaintiffs alleged that the affiliation of the RCC San Francisco with our points-based Marriott Vacation Club Destinations ("MVCD") program, certain alleged sales practices, and other acts we and the other defendants allegedly took caused an actionable decrease in the value of their fractional interests. The relief sought included, among other things, compensatory and punitive damages, rescission, and pre- and post-judgment interest. In July 2018, the parties reached an agreement to settle the case and during the third quarter of 2018 we recorded an accrual of \$11 million in connection with the settlement. In addition to various terms and conditions, the settlement calls for our repurchase of fractional interests owned by the plaintiffs.

In March 2017, RCHFU, L.L.C. and other owners of 232 fractional interests at The Ritz-Carlton Club, Aspen Highlands ("RCC Aspen Highlands") served an amended complaint in an action pending in the U.S. District Court for the District of Colorado against us, certain of our subsidiaries, and other third party defendants. The amended complaint alleges that the plaintiffs' fractional interests were devalued by the affiliation of the RCC Aspen Highlands and other Ritz-Carlton Clubs with our points-based MVCD program. The relief sought includes, among other things, unspecified damages, pre- and post-judgment interest, and attorneys' fees. We filed a motion to dismiss the amended complaint, which the Court granted in part and denied in part in March 2018. In February 2018, plaintiffs filed a motion seeking to add a claim for punitive damages to their complaint, which the Court granted in May 2018. In January 2019, plaintiffs filed a motion seeking to further amend their complaint. That motion remains pending. We dispute the plaintiffs' material allegations and continue to defend against the action vigorously. Given the inherent uncertainties of litigation, we cannot estimate a range of the potential liability, if any, at this time.

In May 2016, we, certain of our subsidiaries, and certain third parties were named as defendants in an action filed in the U.S. District Court for the Middle District of Florida by Anthony and Beth Lennen. The case is filed as a putative class action; the plaintiffs seek to represent a class consisting of themselves and all other purchasers of MVCD points, from inception of the MVCD program in June 2010 to the present, as well as all individuals who own or have owned weeks in any resorts for which weeks have been added to the MVCD program. Plaintiffs challenge the characterization of the beneficial interests in the MVCD trust that are sold to customers as real estate interests under Florida law. They also challenge the structure of the trust and associated operational aspects of the trust product. The relief sought includes, among other things, declaratory relief, an unwinding of the MVCD product, and punitive damages. In September 2016, we filed a motion to dismiss the complaint and a motion to stay the case pending referral of certain questions to Florida state regulators, and the Court granted the motion to dismiss and denied the motion to stay. The Court granted leave to plaintiffs to file an amended complaint, which plaintiffs filed in October 2017. In November 2017, we filed a motion to dismiss the amended complaint, which remains pending. In October 2018, plaintiffs filed a motion for class certification, which we opposed. The motion remains pending. We dispute the plaintiffs' material allegations and continue to defend against the action vigorously. Given the early stages of the action and the inherent uncertainties of litigation, we cannot estimate a range of the potential liability, if any, at this time.

In December 2016, individuals and entities who own or owned 107 fractional interests at the Fifth and Fifty-Fifth Residence Club located within The St. Regis, New York (the "St. Regis NY Club") filed an action against ILG, certain of its subsidiaries, Marriott International and certain of its subsidiaries including Starwood. The case is filed as a mass action in the U.S. District Court for the Southern District of New York. Plaintiffs principally challenge the sale of less than all interests offered in the fractional offering plan, the amendment of the plan to include additional units, and the rental of unsold fractional interests by the plan's sponsor, claiming that the alleged acts breached the relevant agreements and harmed the value of plaintiffs' fractional interests. The relief sought includes, among other things, compensatory damages, rescission, disgorgement, attorneys' fees, and pre- and post-judgment interest. In April 2017, we filed a motion to dismiss the amended complaint, which

the Court granted in part and denied in part in September 2018. Thereafter, in October 2018 plaintiffs filed another amended complaint. We responded by filing a motion to dismiss, which remains pending. We dispute the material allegations and continue to defend against the action vigorously. Given the inherent uncertainties of litigation, we cannot estimate a range of the potential liability, if any, at this time.

In February 2017, the owners' association for the St. Regis NY Club filed a separate suit against ILG and certain of its subsidiaries in the U.S. District Court for the Southern District of New York. In March 2017, before we were served with the initial complaint, plaintiff filed an amended complaint that added Marriott International and Starwood as defendants and added additional claims. Plaintiff filed a second amended complaint in July 2017. The complaint, as amended, asserts claims against the sponsor of the St. Regis NY Club (St. Regis Residence Club, New York, Inc.), the St. Regis NY Club manager (St. Regis New York Management, Inc.), and certain affiliated entities, as well as against Marriott International and Starwood, for alleged breach of fiduciary duties, principally related to sale and rental practices, tortious interference with the management agreement, and alleged unjust enrichment, seeks certain declaratory relief in connection with the Starpoints conversion program and the exchange program at the St. Regis NY Club, and asserts claims based on alleged anticompetitive conduct by the defendants in connection with plaintiff's renewal of the St. Regis NY Club management agreement. In addition to the declaratory relief sought, plaintiff seeks unspecified actual damages, punitive damages, and disgorgement of payments under the management and purchase agreements, as well as related agreements. In September 2017, we filed a motion to dismiss the second amended complaint, which the Court granted in part and denied in part in September 2018. In December 2018, the remaining claims were transferred to the U.S. District Court for the Middle District of Florida. On February 21, 2019, the owners' association filed a complaint against the defendants in the state Supreme Court of New York, New York County, alleging claims for breach of fiduciary duty, unjust enrichment, tortious interference with contract and violation of the Donnelly Act (state antitrust law). The complaint seeks disgorgement of monies received by defendants as a result of the alleged wrongdoing, unspecified actual damages, punitive damages, and treble damages for the alleged Donnelly act violations. We dispute the plaintiff's material allegations and continue to defend against the action vigorously. Given the inherent uncertainties of litigation, we cannot estimate a range of the potential liability, if any, at this time.

Other

In addition to the above, in 2018 we recorded an accrual of \$5 million in connection with an action brought by owners of fractional interests at The Ritz-Carlton, Lake Tahoe, and \$2 million related to vacation ownership projects in Europe.

During June 2018, we identified forged and fraudulently induced electronic payment disbursements we made to third parties in an aggregate amount of \$10 million resulting from unauthorized third-party access to our email system. Upon detection, we immediately notified law enforcement authorities and relevant financial institutions and commenced a forensic investigation and have recovered \$6 million as of December 31, 2018. We expect to recover a portion of the remaining \$4 million through applicable insurance coverage. We recorded a loss of \$4 million in the Gains and other income, net line of our Income Statement for 2018. Any additional recoveries will be recorded in our results in the future. We have concluded that this event did not involve access to any of our other systems. No other misappropriation of assets was identified during our investigation.

Insurance Recoveries

During September 2017, the Westin St. John Resort Villas, a Legacy-ILG property, sustained damage as a result of Hurricane Irma and remained closed until January 2019. As of December 31, 2018, the property insurance claim receivable related to this event and other 2017 storms was \$11 million and is presented within Accounts receivable on our Balance Sheet. This balance is subject to change.

In September 2017, over 20 of our Legacy-MVW properties were impacted by Hurricane Irma and Hurricane Maria and, as a result, as of December 31, 2017, we accrued \$1 million for the estimated property damage insurance deductibles and impairment of property and equipment, which was recorded in the Gains and other income, net line on the Income Statement for the year ended December 31, 2017. In 2018, we received \$32 million of insurance proceeds related to the settlement of Legacy-MVW business interruption insurance claims arising from Hurricane Irma. These proceeds, and the related deductible of \$3 million, were recorded net in the Gains and other income, net line on the Income Statement for the year ended December 31, 2018. Subsequent to the end of 2018, we recorded an additional \$9 million of other income relating to the final settlement of these business interruption insurance claims.

During 2016, our Legacy-MVW properties in Hilton Head and Myrtle Beach, South Carolina were temporarily closed as a result of damage from Hurricane Matthew. In 2017, we received \$9 million in net insurance proceeds related to the settlement of business interruption insurance claims arising from Hurricane Matthew. These proceeds were recorded in the Gains and other income, net line on the Income Statement for the year ended December 31, 2017.

12. LEASES

We have various land, corporate facilities, real estate and equipment operating leases. Our land leases consist of long-term leases for a golf course (term of 30 years) and for land underlying an operating hotel (term of 50 years). Corporate facilities leases are for office space, including our corporate headquarters in Orlando, Florida, and have lease terms that range from nine to 14 years. Other operating leases are primarily for office and retail space, as well as other various equipment supporting our operations, with varying terms and renewal option periods.

The following table presents our future minimum lease obligations under operating leases, including those leases that we assumed in the ILG Acquisition, for which we are the primary obligor as of December 31, 2018:

<i>(\$ in millions)</i>	Land Leases	Corporate Facilities Leases	Other Operating Leases	Total
2019	\$ 2	\$ 12	\$ 24	\$ 38
2020	2	12	19	33
2021	2	8	13	23
2022	2	5	10	17
2023	3	5	8	16
Thereafter	50	19	26	95
Total minimum lease payments	<u>\$ 61</u>	<u>\$ 61</u>	<u>\$ 100</u>	<u>\$ 222</u>

Certain of these leases provide for minimum rental payments and additional rental payments based on our operations of the leased property. The following table details the composition of rent expense associated with operating leases, net of sublease income, for the last three years:

<i>(\$ in millions)</i>	2018	2017	2016
Minimum rentals	\$ 16	\$ 9	\$ 8
Additional rentals	5	4	4
	<u>\$ 21</u>	<u>\$ 13</u>	<u>\$ 12</u>

13. SECURITIZED DEBT

The following table provides detail on our debt associated with vacation ownership notes receivable securitizations, net of unamortized debt issuance costs:

<i>(\$ in millions)</i>	At December 31, 2018	At December 31, 2017
Vacation ownership notes receivable securitizations, gross ⁽¹⁾	\$ 962	\$ 845
Unamortized debt issuance costs	(11)	(10)
	951	835
Legacy-ILG		
Vacation ownership notes receivable securitizations ⁽²⁾	628	—
Warehouse Credit Facility, gross ⁽³⁾	116	—
Unamortized debt issuance costs ⁽⁴⁾	(1)	—
	115	—
	<u>\$ 1,694</u>	<u>\$ 835</u>

(1) Interest rates as of December 31, 2018 range from 2.2% to 6.3%, with a weighted average interest rate of 2.9%.

(2) Interest rates as of December 31, 2018 range from 2.3% to 4.0%, with a weighted average interest rate of 2.9%.

(3) The effective interest rate as of December 31, 2018 was 3.5%.

(4) Excludes \$1 million of unamortized debt issuance costs as of December 31, 2017, as no cash borrowings were outstanding at that time.

See Footnote 17 “Variable Interest Entities” for a discussion of the collateral for the non-recourse debt associated with the securitized vacation ownership notes receivable and our non-recourse warehouse credit facility (the “Warehouse Credit Facility”). The debt associated with our vacation ownership notes receivable securitizations and our Warehouse Credit Facility is non-recourse to us.

Vacation Ownership Notes Receivable Securitizations

During the second quarter of 2018, we completed the securitization of a pool of \$436 million of vacation ownership notes receivable. In connection with the securitization, investors purchased in a private placement \$423 million in vacation ownership loan backed notes from the MVW Owner Trust 2018-1 (the “2018-1 Trust”). Three classes of vacation ownership loan backed notes were issued by the 2018-1 Trust: \$316 million of Class A Notes, \$65 million of Class B Notes and \$42 million of Class C Notes. The Class A Notes have an interest rate of 3.5 percent, the Class B Notes have an interest rate of 3.6 percent and Class C Notes have an interest rate of 3.9 percent, for an overall weighted average interest rate of 3.5 percent.

In August 2018, prior to the ILG Acquisition, Legacy-ILG completed a securitization of a pool of \$293 million of vacation ownership notes receivable. Approximately \$221 million of vacation ownership notes receivable were purchased prior to the ILG Acquisition by VSE 2018-A VOI Mortgage LLC (the “2018-A Trust”). During the fourth quarter of 2018, the 2018-A Trust purchased \$59 million of the remaining vacation ownership notes receivable and \$58 million was released from restricted cash. As of December 31, 2018, the 2018-A Trust held \$13 million of the proceeds, all of which was released when the remaining vacation ownership notes receivable were purchased in January 2019. In connection with the securitization, investors purchased in a private placement \$287 million in vacation ownership loan backed notes from the 2018-A Trust. Three classes of vacation ownership loan backed notes were issued by the 2018-A Trust: \$209 million of Class A Notes, \$49 million of Class B Notes and \$29 million of Class C Notes. The Class A Notes have an interest rate of 3.6 percent, the Class B Notes have an interest rate of 3.7 percent and Class C Notes have an interest rate of 4.0 percent, for an overall weighted average interest rate of 3.63 percent.

Each of the securitized vacation ownership notes receivable transactions contains various triggers relating to the performance of the underlying vacation ownership notes receivable. If a pool of securitized vacation ownership notes receivable fails to perform within the pool’s established parameters (default or delinquency thresholds vary by transaction), transaction provisions effectively redirect the monthly excess spread we would otherwise receive from that pool (attributable to the interests we retained) to accelerate the principal payments to investors (taking into account the subordination of the different tranches to the extent there are multiple tranches) until the performance trigger is cured. During 2018, and as of December 31, 2018, no securitized vacation ownership notes receivable pools were out of compliance with their respective established parameters. As of December 31, 2018, we had 11 securitized vacation ownership notes receivable pools outstanding.

As the contractual terms of the underlying securitized vacation ownership notes receivable determine the maturities of the non-recourse debt associated with them, actual maturities may occur earlier than shown below due to prepayments by the vacation ownership notes receivable obligors. The following table shows scheduled future principal payments for our vacation ownership notes receivable securitizations as of December 31, 2018:

(\$ in millions)	Vacation Ownership Notes Receivable Securitizations		Warehouse Credit Facility	Total
	Legacy-MVW	Legacy-ILG		
Payments Year				
2019.....	\$ 98	\$ 155	\$ 6	\$ 259
2020.....	102	110	7	219
2021.....	105	82	103	290
2022.....	107	65	—	172
2023.....	106	55	—	161
Thereafter	444	161	—	605
	<u>\$ 962</u>	<u>\$ 628</u>	<u>\$ 116</u>	<u>\$ 1,706</u>

Warehouse Credit Facility

The Warehouse Credit Facility, which has a borrowing capacity of \$250 million, allows for the securitization of Legacy-MVW vacation ownership notes receivable on a revolving non-recourse basis, through March 13, 2020. If the Warehouse Credit Facility is not renewed prior to termination, any amounts outstanding thereunder would become due and payable 13 months after termination, at which time all principal and interest collected with respect to the vacation ownership notes receivable held in the Warehouse Credit Facility would be redirected to the lenders to pay down the outstanding debt under the facility. The advance rate for vacation ownership notes receivable securitized using the Warehouse Credit Facility varies based on the characteristics of the securitized vacation ownership notes receivable. We also pay unused facility and other fees under the Warehouse Credit Facility. We generally expect to securitize our vacation ownership notes receivable, including any vacation ownership notes receivable held in the Warehouse Credit Facility, in the ABS market once or twice per year.

During the fourth quarter of 2018, we securitized vacation ownership notes receivable under our Warehouse Credit Facility. The carrying amount of the vacation ownership notes receivable securitized was \$137 million. The advance rate was 85 percent, which resulted in gross proceeds of \$116 million. Net proceeds were \$115 million due to the funding of reserve accounts in the amount of \$1 million.

Subsequent to the end of 2018, we securitized vacation ownership notes receivable under our Warehouse Credit Facility. The carrying amount of the vacation ownership notes receivable securitized was \$85 million. The advance rate was 85 percent, which resulted in gross proceeds of \$73 million. Net proceeds were \$72 million due to the funding of reserve accounts of less than \$1 million.

14. DEBT

The following table provides detail on our debt balances, net of unamortized debt discount and issuance costs:

<i>(\$ in millions)</i>	<u>At December 31, 2018</u>	<u>At December 31, 2017</u>
Senior Notes		
Exchange Notes ⁽¹⁾	\$ 89	\$ —
Unamortized debt issuance costs	(1)	—
	<u>88</u>	<u>—</u>
Senior Unsecured Notes ⁽²⁾	750	—
Unamortized debt issuance costs	(9)	—
	<u>741</u>	<u>—</u>
IAC Notes ⁽³⁾	141	—
Corporate Credit Facility		
Term Loan	900	—
Unamortized debt discount and issuance costs	(12)	—
	<u>888</u>	<u>—</u>
Convertible notes, gross ⁽⁴⁾	230	230
Unamortized debt discount and issuance costs	(31)	(38)
	<u>199</u>	<u>192</u>
Non-Interest bearing note payable	31	64
Unamortized debt discount ⁽⁵⁾	(1)	(3)
	<u>30</u>	<u>61</u>
Capital leases	17	7
Other ⁽⁶⁾	20	—
	<u>\$ 2,124</u>	<u>\$ 260</u>

(1) Interest rate of 5.625%, maturing on April 15, 2023

(2) Interest rate of 6.500%, maturing on September 15, 2026

(3) Interest rate of 5.625%, maturing on April 15, 2023

(4) Effective interest rate as of December 31, 2018 was 4.7%

(5) Debt discount based on imputed interest rate of 6.0%

(6) Non-recourse

The following table shows scheduled future principal payments for our debt as of December 31, 2018:

(\$ in millions)	Exchange Notes	Senior Unsecured Notes	IAC Notes	Term Loan	Convertible Notes	Non-Interest Bearing Note Payable	Capital Leases	Other	Total
Payments Year									
2019	\$ —	\$ —	\$ —	\$ 9	\$ —	\$ 31	\$ —	\$ 1	\$ 41
2020	—	—	—	9	—	—	17	2	28
2021	—	—	—	9	—	—	—	2	11
2022	—	—	—	9	230	—	—	2	241
2023	89	—	141	8	—	—	—	2	240
Thereafter,	—	750	—	856	—	—	—	11	1,617
	<u>\$ 89</u>	<u>\$ 750</u>	<u>\$ 141</u>	<u>\$ 900</u>	<u>\$ 230</u>	<u>\$ 31</u>	<u>\$ 17</u>	<u>\$ 20</u>	<u>\$ 2,178</u>

IAC Notes and Exchange Notes

In connection with the ILG Acquisition, we assumed \$350 million in aggregate principal amount of outstanding 5.625% Senior Unsecured Notes due 2023 (“IAC Notes”). The IAC Notes were issued under and are governed by the terms of an indenture, dated April 10, 2015, with HSBC Bank USA, National Association, as trustee.

During the third quarter of 2018, Marriott Ownership Resorts Inc. (“MORI”), a wholly owned subsidiary of MVW, offered to exchange any and all of the IAC Notes for 5.625% Senior Unsecured Notes due 2023 (“Exchange Notes”) and cash (collectively the “Exchange Offer”). On September 4, 2018, we settled the Exchange Offer and issued the Exchange Notes pursuant to an indenture dated September 4, 2018 with HSBC Bank USA, National Association, as trustee. We exchanged \$88 million of the IAC Notes for \$88 million of Exchange Notes, plus approximately \$1 million in cash.

In addition, on September 14, 2018, we announced an offer to purchase any and all of the outstanding IAC Notes remaining after the settlement of the Exchange Offer for cash at a price equal to 101% of the principal amount of the IAC Notes validly tendered and not validly withdrawn, plus accrued and unpaid interest (the “Offer”). The Offer expired on October 15, 2018, at which time, \$122 million in aggregate principal IAC Notes had been validly tendered. During the fourth quarter of 2018, the tendered IAC Notes were repurchased for \$123 million using cash on hand, leaving \$140 million in aggregate principal amounts of the IAC Notes remaining outstanding. We may redeem some or all of the outstanding IAC Notes prior to maturity under the terms provided in the indenture.

Senior Unsecured Notes due 2026

In the third quarter of 2018, we issued \$750 million aggregate principal amount of 6.500% senior unsecured notes due 2026 (“Senior Unsecured Notes”) under an indenture dated August 23, 2018 with The Bank of New York Mellon Trust, as trustee. We received net proceeds of \$742 million from the offering, after deducting the underwriting discount and estimated expenses. We used these proceeds, together with the borrowings under the Term Loan (defined below) primarily to finance the cash component of the consideration paid to ILG shareholders, certain fees and expenses we incurred in connection with the ILG Acquisition and working capital. We may redeem some or all of the Senior Unsecured Notes prior to maturity under the terms provided in the indenture.

Corporate Credit Facility

During the third quarter of 2018, we extinguished our \$250 million revolving credit facility (the “Previous Revolving Corporate Credit Facility”) and entered into a new credit facility (“Corporate Credit Facility”), including a \$900 million term loan facility (“Term Loan”), which matures on August 31, 2025, and a Revolving Corporate Credit Facility with a borrowing capacity of \$600 million, including a letter of credit sub-facility of \$75 million, that terminates on August 31, 2023. All outstanding cash borrowings under our Previous Revolving Corporate Credit Facility were repaid in full.

The Revolving Corporate Credit Facility will provide support for our business, including ongoing liquidity and letters of credit. The Term Loan bears interest at a floating rate plus an applicable margin that varies from 1.25 percent to 2.25 percent depending on the type of loan and our credit rating. Borrowings under the Revolving Corporate Credit Facility generally bear interest at a floating rate plus an applicable margin that varies from 0.50 percent to 2.75 percent depending on the type of loan and our credit rating. In addition, we pay a commitment fee on the unused availability under the Revolving Corporate Credit Facility at a rate that varies from 20 basis points per annum to 40 basis points per annum, also depending on our credit rating.

No cash borrowings were outstanding as of December 31, 2018 under our Revolving Corporate Credit Facility. Any amounts borrowed under that facility, as well as obligations with respect to letters of credit issued pursuant to that facility, are secured by a perfected first priority security interest in substantially all of the assets of the borrower under, and guarantors of, that facility (which include Marriott Vacations Worldwide and each of our direct and indirect, existing and future, domestic subsidiaries, excluding certain bankruptcy remote special purpose subsidiaries), in each case including inventory, subject to certain exceptions. As of December 31, 2018, we were in compliance with the applicable financial and operating covenants under the Corporate Credit Facility.

Subsequent to the end of 2018, we made borrowings totaling \$85 million under our Revolving Corporate Credit Facility to facilitate the funding of our short-term working capital needs, of which \$50 million has been repaid.

ILG Revolving Credit Facility

In connection with the ILG Acquisition, we acquired the outstanding balance on a revolving credit facility (the “ILG Revolving Credit Facility”). The ILG Revolving Credit Facility was extinguished and all amounts outstanding were repaid in full subsequent to the completion of the ILG Acquisition.

Convertible Notes

During the 2017 third quarter, we issued \$230 million aggregate principal amount of Convertible Notes that bear interest at a rate of 1.50 percent, payable in cash semi-annually on March 15 and September 15 of each year beginning on March 15, 2018. The Convertible Notes mature on September 15, 2022, unless repurchased or converted in accordance with their terms prior to that date. On or after June 15, 2022, and until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert their Convertible Notes at their option.

The Convertible Notes were convertible at an initial rate of 6.7482 shares of common stock per \$1,000 principal amount of Convertible Notes (equivalent to an initial conversion price of approximately \$148.19 per share of our common stock). The conversion rate is subject to adjustment for certain events as described in the indenture governing the notes and was subject to adjustment during the fourth quarter of 2018 to 6.7685 shares of common stock per \$1,000 principal amount of Convertible Notes (equivalent to a conversion price of approximately \$147.74 per share of our common stock) when we declared a quarterly dividend of \$0.45 per share, which was greater than the quarterly dividend at the time of the issuance of the Convertible Notes. Upon conversion, we will pay or deliver, as the case may be, cash, shares of our common stock or a combination of cash and shares of our common stock, at our election. It is our intent to settle conversions of the Convertible Notes through combination settlement, which contemplates repayment in cash of the principal amount and repayment in shares of our common stock of any excess of the conversion value over the principal amount.

Holders may convert their Convertible Notes prior to June 15, 2022 only under certain circumstances. We may not redeem the Convertible Notes prior to their maturity date. If we undergo a fundamental change, as described in the indenture, subject to certain conditions, holders may require us to repurchase for cash all or any portion of their Convertible Notes, at a repurchase price equal to 100 percent of the principal amount of the Convertible Notes to be repurchased, plus accrued and unpaid interest to, but excluding, the repurchase date. If certain fundamental changes referred to in the indenture as make-whole fundamental changes occur, the conversion rate applicable to the Convertible Notes may increase.

The Convertible Notes are our general senior unsecured obligations, ranking senior in right of payment to any future debt that is expressly subordinated in right of payment to the Convertible Notes and equally in right of payment with all of our existing and future liabilities that are not so subordinated. The Convertible Notes are effectively subordinated to all of our existing and future secured debt to the extent of the value of the assets securing such debt. The Convertible Notes are structurally subordinated to all of the existing and future liabilities and obligations of our subsidiaries. The Convertible Notes are not guaranteed by any of our subsidiaries.

There are no financial or operating covenants related to the Convertible Notes. The indenture contains customary events of default with respect to the Convertible Notes and provides that upon the occurrence and continuation of certain events of default, the trustee or the holders of at least 25 percent in aggregate principal amount of the Convertible Notes then outstanding, may declare all principal of, and accrued and any unpaid interest on, the Convertible Notes then outstanding to be immediately due and payable. In case of certain events of bankruptcy or insolvency involving the Company or certain of its subsidiaries, all of the principal of and accrued and unpaid interest on the Convertible Notes will automatically become immediately due and payable.

In accounting for the issuance of the Convertible Notes, we separated the Convertible Notes into liability and equity components, and allocated \$197 million to the liability component and \$33 million to the equity component. The resulting debt discount is amortized as interest expense. As of December 31, 2018, the remaining debt discount amortization period was 3.7 years.

The following table shows the net carrying value of the Convertible Notes:

<i>(\$ in millions)</i>	<u>At December 31, 2018</u>	<u>At December 31, 2017</u>
Liability component		
Principal amount	\$ 230	\$ 230
Unamortized debt discount	(26)	(32)
Unamortized debt issuance costs	(5)	(6)
Net carrying amount of the liability component	<u>\$ 199</u>	<u>\$ 192</u>
Carrying amount of equity component, net of issuance costs	\$ 33	\$ 33

The following table shows interest expense information related to the Convertible Notes:

<i>(\$ in millions)</i>	<u>2018</u>	<u>2017</u>
Contractual interest expense	\$ 3	\$ 1
Amortization of debt discount	6	2
Amortization of debt issuance costs	1	—
	<u>\$ 10</u>	<u>\$ 3</u>

Convertible Note Hedges and Warrants

In connection with the offering of the Convertible Notes, we entered into privately-negotiated convertible note hedge transactions with respect to our common stock (“Convertible Note Hedges”), covering a total of approximately 1.55 million shares of our common stock. The Convertible Note Hedges have a strike price that initially corresponds to the initial conversion price of the Convertible Notes, are subject to anti-dilution provisions substantially similar to those of the Convertible Notes, are exercisable by us upon any conversion under the Convertible Notes, and expire when the Convertible Notes mature.

Concurrently with the entry into the Convertible Note Hedges, we separately entered into privately-negotiated warrant transactions (the “Warrants”), whereby we sold to the counterparties to the Convertible Note Hedges warrants to acquire, collectively, subject to anti-dilution adjustments, approximately 1.55 million shares of our common stock at an initial strike price of \$176.68 per share, which was subject to adjustment during the fourth quarter of 2018 to \$176.15 per share when we declared a quarterly dividend of \$0.45 per share.

Taken together, the Convertible Note Hedges and the Warrants are generally expected to reduce the potential dilution to our common stock (or, in the event the conversion of the Convertible Notes is settled in cash, to reduce our cash payment obligation) in the event that at the time of conversion our stock price exceeds the conversion price under the Convertible Notes and to effectively increase the overall conversion price from \$148.19 (or a conversion premium of 30 percent) to \$176.68 per share (or a conversion premium of 55 percent). The Warrants will expire in ratable portions on a series of expiration dates commencing on December 15, 2022.

The Convertible Notes, the Convertible Note Hedges and the Warrants are transactions that are separate from each other. Holders of any such instrument have no rights with respect to the other instruments. As of December 31, 2018, no Convertible Note Hedges or Warrants have been exercised.

Non-Interest Bearing Note Payable

During the 2017 second quarter, we issued an unsecured non-interest bearing note payable in connection with the acquisition of vacation ownership units located on the Big Island of Hawaii. Per the terms of the note payable, the first payment of \$33 million was paid during the second quarter of 2018 and the remaining balance of \$31 million is due in the second quarter of 2019. See Footnote 3 “Acquisitions and Dispositions” for additional information regarding this transaction.

Capital Leases

In 2018 we entered into a capital lease arrangement for ancillary and operations space in connection with the commitment to purchase an operating property located in San Diego, California. See Footnote 11 “Contingencies and Commitments” for additional information regarding this transaction.

In 2016 we entered into a capital lease arrangement for ancillary and operations space in connection with the commitment to purchase an operating property located in New York, New York. See Footnote 11 “Contingencies and Commitments” for additional information regarding this transaction.

Restrictions

Amounts borrowed under the Corporate Credit Facility, as well as obligations with respect to letters of credit issued pursuant to that facility, are secured by a perfected first priority security interest in substantially all of the assets of the borrowers under, and guarantors of, that facility (which include MVW and certain of our direct and indirect, existing and future, domestic subsidiaries, excluding certain bankruptcy remote special purpose subsidiaries), in each case including inventory, subject to certain exceptions. In addition, the IAC Notes are guaranteed by Marriott Vacations Worldwide Corporation, ILG and certain other subsidiaries for which 100% of the voting securities are owned directly or indirectly by ILG. See Footnote 22 “Supplemental Guarantor Information” for additional information. The Exchange Notes are guaranteed by Marriott Vacations Worldwide Corporation and its domestic subsidiaries that guarantee the Corporate Credit Facility.

15. SHAREHOLDERS’ EQUITY

Marriott Vacations Worldwide has 100,000,000 authorized shares of common stock, par value of \$0.01 per share. At December 31, 2018, there were 57,626,462 shares of Marriott Vacations Worldwide common stock issued, of which 45,992,731 shares were outstanding and 11,633,731 shares were held as treasury stock. At December 31, 2017, there were 36,861,843 shares of Marriott Vacations Worldwide common stock issued, of which 26,461,296 shares were outstanding and 10,400,547 shares were held as treasury stock. Marriott Vacations Worldwide has 2,000,000 authorized shares of preferred stock, par value of \$0.01 per share, none of which were issued or outstanding as of December 31, 2018 or December 31, 2017.

Share Repurchase Program

The following table summarizes share repurchase activity under our current share repurchase program:

<i>(\$ in millions, except per share amounts)</i>	Number of Shares Repurchased	Cost of Shares Repurchased	Average Price Paid per Share
As of December 31, 2017	10,440,505	\$ 697	\$ 66.73
For the year ended December 31, 2018	1,247,269	96	77.16
As of December 31, 2018	11,687,774	\$ 793	\$ 67.85

On December 6, 2018, our Board of Directors authorized the extension of the duration of our existing share repurchase program to March 31, 2019, as well as the repurchase of up to 3.0 million additional shares of our common stock through December 31, 2019. As of December 31, 2018, our Board of Directors had authorized the repurchase of an aggregate of up to 14.9 million shares of our common stock under the share repurchase program since the initiation of the program in October 2013. Share repurchases may be made through open market purchases, privately negotiated transactions, block transactions, tender offers, accelerated share repurchase agreements or otherwise. The specific timing, amount and other terms of the repurchases will depend on market conditions, corporate and regulatory requirements and other factors. Acquired shares of our common stock are held as treasury shares carried at cost in our Financial Statements. In connection with the repurchase program, we are authorized to adopt one or more trading plans pursuant to the provisions of Rule 10b5-1 under the Securities Exchange Act of 1934, as amended.

As of December 31, 2018, 3.2 million shares remained available for repurchase under the authorization approved by our Board of Directors. The authorization for the share repurchase program may be suspended, terminated, increased or decreased by our Board of Directors at any time without prior notice.

Dividends

We declared cash dividends to holders of common stock during the year ended December 31, 2018 as follows:

Declaration Date	Shareholder Record Date	Distribution Date	Dividend per Share
February 16, 2018	March 1, 2018	March 15, 2018	\$0.40
May 14, 2018	May 28, 2018	June 11, 2018	\$0.40
September 6, 2018	September 20, 2018	October 4, 2018	\$0.40
December 6, 2018	December 20, 2018	January 3, 2019	\$0.45

Any future dividend payments will be subject to Board approval, and there can be no assurance that we will pay dividends in the future.

Noncontrolling Interests

Property Owners' Associations

As part of the ILG Acquisition we established a noncontrolling interest in property owners' associations that Legacy-ILG consolidates under the voting interest model, which represents the portion of the property owners' associations related to individual or third-party VOI owners. As of December 31, 2018, this noncontrolling interest amounts to \$8 million and is included on our Balance Sheet as a component of equity.

16. SHARE-BASED COMPENSATION

We maintain the MVW Stock Plan for the benefit of our officers, directors and employees. Under the MVW Stock Plan, we award: (1) RSUs of our common stock, (2) SARs relating to our common stock and (3) stock options to purchase our common stock. A total of 6 million shares are authorized for issuance pursuant to grants under the MVW Stock Plan. As of December 31, 2018, 1 million shares were available for grants under the MVW Stock Plan.

As part of the ILG Acquisition, we assumed the Interval Leisure Group, Inc. 2013 Stock and Incentive Plan (the "ILG Stock Plan") and equity based awards outstanding under the ILG Stock Plan. On the Acquisition Date, each outstanding ILG equity based award, whether vested or unvested, was converted into (1) an equity-based award with respect to MVW's common stock on the same terms and conditions (including time-based vesting conditions, but excluding performance conditions, if applicable) applicable to the equity-based award under the ILG Stock Plan ("ILG RSUs"), and (2) a cash-based award on the same terms and conditions (including time-based vesting conditions, but excluding performance conditions, if applicable) applicable to the equity-based award under the ILG Stock Plan ("ILG Cash-Based Awards"). The number of shares of MVW common stock subject to each ILG RSU was determined by multiplying the number of shares of ILG common stock subject to the original ILG equity-based award (that each holder would have been eligible to receive based on deemed achievement of performance at target level immediately prior to the ILG Acquisition, if applicable) ("award number") by 0.165, rounded up or down to the nearest whole share, as applicable. The amount of the cash-based award was determined by multiplying \$14.75 by the award number. ILG equity-based awards were converted into 0.4 million MVW RSUs and \$39 million of MVW Cash-Based Awards. The obligation for these cash-settled awards is classified as a liability on our Balance Sheet.

The converted awards (both MVW RSUs and MVW Cash-Based Awards) remain subject to graded vesting (i.e., portions of the award vest at different times during the vesting period) or to cliff vesting (i.e., all awards vest at the end of the vesting period), subject to a prorated adjustment for employees who are terminated under certain circumstances or who retire. The ILG RSUs had a weighted average fair value of \$118.03 on the Acquisition Date. As of December 31, 2018, 1 million shares were available for grants under the ILG Stock Plan to Legacy-ILG employees.

The following table details our share-based compensation expense related to award grants to our officers, directors and employees:

<i>(\$ in millions)</i>	2018	2017	2016
Service-based RSUs	\$ 12	\$ 10	\$ 9
Performance-based RSUs	7	4	3
ILG Acquisition Converted RSUs ⁽¹⁾	13	—	—
	<u>32</u>	<u>14</u>	<u>12</u>
SARs	3	2	2
Stock options	—	—	—
	<u>\$ 35</u>	<u>\$ 16</u>	<u>\$ 14</u>

⁽¹⁾ Includes \$6 million of share-based compensation expense related to the ILG Cash-Based Awards discussed above.

The following table details our deferred compensation costs related to unvested awards:

<i>(\$ in millions)</i>	At Year-End 2018 ⁽¹⁾	At Year-End 2017
Service-based RSUs	\$ 16	\$ 9
Performance-based RSUs	7	5
ILG Acquisition Converted RSUs	15	—
	<u>38</u>	<u>14</u>
SARs	1	1
Stock options	—	—
	<u>\$ 39</u>	<u>\$ 15</u>

⁽¹⁾ As of December 31, 2018, the weighted average remaining term for RSU grants outstanding at year-end 2018 was one to two years and we expect that deferred compensation expense will be recognized over a weighted average period of one to three years.

Restricted Stock Units

We have issued RSUs that vest over time, which we refer to as service-based RSUs, and RSUs that vest based on performance with respect to established criteria, which we refer to as performance-based RSUs.

The following table shows the changes in our outstanding RSUs and the associated weighted average grant-date fair values:

	2018					
	Service-based		Performance-based		Total	
	Number of RSUs	Weighted Average Grant- Date Fair Value Per RSU	Number of RSUs	Weighted Average Grant- Date Fair Value Per RSU	Number of RSUs	Weighted Average Grant- Date Fair Value Per RSU
Outstanding at year-end 2017 . . .	471,007	\$ 59.49	311,512	\$ 72.89	782,519	\$ 64.83
Granted	188,622	\$ 112.93	71,902	\$ 138.68	260,524	\$ 120.04
Converted from ILG Acquisition	447,026	\$ 117.92	—	\$ —	447,026	\$ 117.92
Distributed	(341,520)	\$ 97.86	(35,067)	\$ 75.20	(376,587)	\$ 95.75
Forfeited	(11,554)	\$ 91.00	(41,267)	\$ 74.96	(52,821)	\$ 78.47
Outstanding at year-end 2018 . . .	<u>753,581</u>	\$ 89.66	<u>307,080</u>	\$ 87.75	<u>1,060,661</u>	\$ 89.11

The weighted average grant-date fair value per RSU granted in 2017 and 2016 was \$64.83 and \$53.56, respectively. The fair value of the RSUs which vested in 2018 was \$48 million, and included \$24 million related to RSUs converted in the ILG Acquisition. The fair value of the RSUs which vested in 2017 and 2016 was \$18 million and \$13 million, respectively.

Stock Appreciation Rights

The following table shows the changes in our outstanding SARs and the associated weighted average exercise prices:

	2018	
	Number of SARs	Weighted Average Exercise Price Per SAR
Outstanding at year-end 2017	658,453	\$ 47.63
Granted	56,649	143.38
Exercised	(17,924)	26.30
Forfeited or expired	—	—
Outstanding at year-end 2018 ⁽¹⁾⁽²⁾	<u>697,178</u>	\$ 55.96

⁽¹⁾ As of December 31, 2018, outstanding SARs had a total intrinsic value of \$17 million and a weighted average remaining term of 5 years.

(2) As of December 31, 2018, 497,243 SARs with a weighted average exercise price of \$39.43, an aggregate intrinsic value of \$16 million and a weighted average remaining contractual term of 4 years were exercisable.

The weighted average grant-date fair value per SAR granted in 2018, 2017 and 2016 was \$44.75, \$27.63 and \$16.12, respectively. The intrinsic value of SARs which vested in 2018, 2017 and 2016, was less than \$1 million, \$6 million and \$1 million, respectively. The aggregate intrinsic value of SARs which were exercised in 2018, 2017 and 2016 was \$2 million, \$19 million and \$6 million, respectively.

We use the Black-Scholes model to estimate the fair value of the SARs granted. The expected stock price volatility was calculated based on the average of the historical and implied volatility from our stock price. The average expected life was calculated using the simplified method, as we have insufficient historical information to provide a basis for estimate. The risk-free interest rate was calculated based on U.S. Treasury zero-coupon issues with a remaining term equal to the expected life assumed at the date of grant. The dividend yield assumption listed below is based on the expectation of future payouts.

The following table outlines the assumptions used to estimate the fair value of grants in 2018, 2017 and 2016:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Expected volatility	30.78%	30.41%	31.60%
Dividend yield	1.11%	1.44%	1.96%
Risk-free rate	2.68%	2.06%	1.41%
Expected term (in years)	6.25	6.25	6.25

Stock Options

We may grant non-qualified stock options to employees and non-employee directors at exercise prices or strike prices equal to the market price of our common stock on the date of grant.

There were no outstanding or exercisable stock options held by our employees at year-end 2018 or 2017, and no stock options were granted to our employees in 2018, 2017 or 2016. At December 31, 2018, approximately 5,000 stock options were outstanding and exercisable with a weighted average exercise price per option of \$18.49 and a weighted average remaining life of approximately two years.

Employee Stock Purchase Plan

During 2015, the Board of Directors adopted, and our shareholders subsequently approved, the Marriott Vacations Worldwide Corporation Employee Stock Purchase Plan (the “ESPP”), which became effective during 2015. A total of 500,000 shares of common stock may be purchased under the ESPP. The ESPP allows eligible employees to purchase shares of our common stock at a price per share not less than 95% of the fair market value per share of common stock on the purchase date, up to a maximum threshold established by the plan administrator for the offering period.

Legacy-ILG Deferred Compensation Plan

Certain deferred share units (“DSUs”) of ILG common stock were outstanding on the Acquisition Date under the Interval Leisure Group, Inc. Deferred Compensation Plan for Non-Employee Directors. On the Acquisition Date, these DSUs were converted to equity-based awards with respect to MVW’s common stock and cash-based awards, resulting in 12,265 DSUs (“ILG DSUs”) and \$1 million of cash-based awards. The ILG DSUs had a weighted average fair value of \$114.31 on the Acquisition Date. The services associated with the ILG DSUs were completed as of the Acquisition Date, resulting in no deferred compensation costs. The total obligation for the ILG DSUs of \$2 million as of December 31, 2018 is classified in Payroll and benefits liability on our Balance Sheet.

17. VARIABLE INTEREST ENTITIES

Variable Interest Entities Related to Our Vacation Ownership Notes Receivable Securitizations

We periodically securitize, without recourse, through bankruptcy remote special purpose entities, notes receivable originated in connection with the sale of vacation ownership products. These vacation ownership notes receivable securitizations provide funding for us and transfer the economic risks and substantially all the benefits of the consumer loans we originate to third parties. In a vacation ownership notes receivable securitization, various classes of debt securities issued by a special purpose entity are generally collateralized by a single tranche of transferred assets, which consist of vacation ownership notes receivable. With each vacation ownership notes receivable securitization, we may retain a portion of the securities, subordinated tranches, interest-only strips, subordinated interests in accrued interest and fees on the securitized vacation ownership notes receivable or, in some cases, overcollateralization and cash reserve accounts.

We created these bankruptcy remote special purpose entities to serve as a mechanism for holding assets and related liabilities, and the entities have no equity investment at risk, making them variable interest entities. We continue to service the vacation ownership notes receivable, transfer all proceeds collected to these special purpose entities, and retain rights to receive benefits that are potentially significant to the entities. Accordingly, we concluded that we are the entities' primary beneficiary and, therefore, consolidate them. There is no noncontrolling interest balance related to these entities and the creditors of these entities do not have general recourse to us.

As part of the ILG Acquisition, we acquired the variable interests in the entities associated with ILG's outstanding vacation ownership notes receivable securitization transactions. As these vacation ownership notes receivable securitizations are similar in nature to the Legacy-MVW vacation ownership notes receivable securitizations they have been aggregated for disclosure purposes.

The following table shows consolidated assets, which are collateral for the obligations of these variable interest entities, and consolidated liabilities included on our Balance Sheet at December 31, 2018:

<i>(\$ in millions)</i>	Vacation Ownership Notes Receivable Securitizations	Warehouse Credit Facility	Total
Consolidated Assets			
Vacation ownership notes receivable, net of reserves . . .	\$ 1,501	\$ 126	\$ 1,627
Interest receivable	10	1	11
Restricted cash	66	3	69
Total	<u>\$ 1,577</u>	<u>\$ 130</u>	<u>\$ 1,707</u>
Consolidated Liabilities			
Interest payable	\$ 2	\$ —	\$ 2
Securitized debt	1,590	116	1,706
Total	<u>\$ 1,592</u>	<u>\$ 116</u>	<u>\$ 1,708</u>

The following table shows the interest income and expense recognized as a result of our involvement with these variable interest entities during 2018:

<i>(\$ in millions)</i>	Vacation Ownership Notes Receivable Securitizations	Warehouse Credit Facility	Total
Interest income	\$ 149	\$ 2	\$ 151
Interest expense to investors	\$ 34	\$ 2	\$ 36
Debt issuance cost amortization	\$ 4	\$ 1	\$ 5
Administrative expenses	\$ 1	\$ —	\$ 1

The following table shows cash flows between us and the vacation ownership notes receivable securitization variable interest entities:

<i>(\$ in millions)</i>	2018	2017
Cash Inflows		
Net proceeds from vacation ownership notes receivable securitizations	\$ 419	\$ 346
Principal receipts	322	229
Interest receipts	145	100
Reserve release ⁽¹⁾	168	1
Total	<u>1,054</u>	<u>676</u>
Cash Outflows		
Principal to investors	(329)	(215)
Voluntary repurchases of defaulted vacation ownership notes receivable, net of substitutions	(31)	(28)
Voluntary clean-up call	(22)	—
Interest to investors	(31)	(19)
Funding of restricted cash ⁽²⁾	(110)	(2)
Total	<u>(523)</u>	<u>(264)</u>
Net Cash Flows	<u>\$ 531</u>	<u>\$ 412</u>

⁽¹⁾ Includes the release of \$106 million related to the securitization transaction completed during the second quarter of 2018 and \$58 million related to the Legacy-ILG securitization completed prior to the ILG Acquisition. The funds were released as the remaining vacation ownership notes receivable were purchased by 2018-1 Trust and the 2018-A Trust. Refer to Footnote 13 “Securitized Debt” for a discussion of the terms of the securitization transactions and the purchase of additional vacation ownership notes receivable subsequent to December 31, 2018.

⁽²⁾ Includes \$106 million of the proceeds from the securitization transaction completed during the second quarter of 2018, which were released when the remaining vacation ownership notes receivable were purchased by the 2018-1 Trust during the third quarter of 2018.

Under the terms of our vacation ownership notes receivable securitizations, we have the right to substitute loans for, or repurchase, defaulted loans at our option, subject to certain limitations. We made voluntary repurchases of defaulted vacation ownership notes receivable, net of substitutions, of \$31 million during 2018, \$28 million during 2017 and \$30 million during 2016. We also made voluntary repurchases, net of substitutions, of \$39 million, \$57 million and \$144 million of other non-defaulted vacation ownership notes receivable during 2018, 2017 and 2016, respectively, to retire previous vacation ownership notes receivable securitizations. Our maximum exposure to loss relating to the special purpose entities that purchase, sell and own these vacation ownership notes receivable is the overcollateralization amount (the difference between the loan collateral balance and the balance on the outstanding vacation ownership notes receivable), plus cash reserves and any residual interest in future cash flows from collateral.

The following table shows cash flows between us and the Warehouse Credit Facility variable interest entity:

<i>(\$ in millions)</i>	2018	2017
Cash Inflows		
Proceeds from vacation ownership notes receivable securitizations	\$ 116	\$ 50
Principal receipts	1	2
Interest receipts	1	2
Total	<u>118</u>	<u>54</u>
Cash Outflows		
Principal to investors	—	(1)
Repayment of Warehouse Credit Facility	—	(49)
Interest to investors	(1)	(2)
Funding of restricted cash	(1)	—
Total	<u>(2)</u>	<u>(52)</u>
Net Cash Flows	<u>\$ 116</u>	<u>\$ 2</u>

Other Variable Interest Entities

We have a commitment to purchase an operating property located in San Francisco, California. Refer to Footnote 11 “Contingencies and Commitments” for additional information on the commitment. We are required to purchase the operating property from the third party developer unless the developer has sold the property to another party. The operating property is held by a variable interest entity for which we are not the primary beneficiary as we cannot prevent the variable interest entity from selling the operating property at a higher price. Accordingly, we have not consolidated the variable interest entity. As of December 31, 2018, our Balance Sheet reflected \$10 million in Property and equipment related to a capital lease and leasehold improvements and \$9 million in Debt related to the capital lease liability for ancillary and operations space we lease from the variable interest entity. In addition, a note receivable of less than \$1 million is included in the Accounts receivable line. We believe that our maximum exposure to loss as a result of our involvement with this variable interest entity is \$1 million as of December 31, 2018.

We have a commitment to purchase an operating property located in New York, New York, that we currently manage as Marriott Vacation Club Pulse, New York City. Refer to Footnote 11 “Contingencies and Commitments” for additional information on the commitment. We are required to purchase the completed property from the third party developer unless the developer has sold the property to another party. The property is held by a variable interest entity for which we are not the primary beneficiary as we cannot prevent the variable interest entity from selling the property at a higher price. Accordingly, we have not consolidated the variable interest entity. As of December 31, 2018, our Balance Sheet reflected \$8 million in Property and equipment related to a capital lease and leasehold improvements and \$7 million in Debt related to the capital lease liability for ancillary and operations space we lease from the variable interest entity. In addition, a note receivable of less than \$1 million is included in the Accounts receivable line on the Balance Sheet as of December 31, 2018. We believe that our maximum exposure to loss as a result of our involvement with this variable interest entity is \$1 million as of December 31, 2018.

Pursuant to a commitment to repurchase an operating property located in Marco Island, Florida that was previously sold to a third-party developer, we acquired 36 completed vacation ownership units during 2017, 20 completed vacation ownership units during the first quarter of 2018, and the remaining 92 completed vacation ownership units during the fourth quarter of 2018. See Footnote 2 “Acquisitions and Dispositions” for additional information on these transactions. The developer was a variable interest entity for which we were not the primary beneficiary as we could not prevent the variable interest entity from selling the property at a higher price. Accordingly, we did not consolidate the variable interest entity. As of December 31, 2018, our purchase commitment related to this operating property was fulfilled and, as such, we no longer retain a variable interest in the entity.

18. BUSINESS SEGMENTS

We define our reportable segments based on the way in which the chief operating decision maker (“CODM”), currently our chief executive officer, manages the operations of the company for purposes of allocating resources and assessing performance. We operate in two reportable business segments:

- Vacation Ownership, which as of December 31, 2018, had more than 100 resorts and over 660,000 owners and members of a diverse portfolio that includes seven vacation ownership brands licensed under exclusive, long-term relationships with Marriott International and Hyatt Hotels Corporation. We are the exclusive worldwide developer, marketer, seller and manager of vacation ownership and related products under the Marriott Vacation Club, Grand Residences by Marriott, Sheraton, Westin, and Hyatt Residence Club brands, as well as under Marriott Vacation Club Pulse, an extension to the Marriott Vacation Club brand. We are also the exclusive worldwide developer, marketer and seller of vacation ownership and related products under The Ritz-Carlton Destination Club brand, we have the non-exclusive right to develop, market and sell whole ownership residential products under The Ritz-Carlton Residences brand, and we have a license to use the St. Regis brand for specified fractional ownership resorts.

Our Vacation Ownership segment generates most of its revenues from four primary sources: selling vacation ownership products; managing vacation ownership resorts, clubs and owners’ associations; financing consumer purchases of vacation ownership products; and renting vacation ownership inventory.

- Exchange & Third-Party Management, which, as of December 31, 2018, includes exchange networks and membership programs comprised of more than 3,200 resorts in over 80 nations and nearly two million members, as well as management of over 180 other resorts and lodging properties. We provide these services through a variety of brands including Interval International, Trading Places International, Vacation Resorts International, VRI Europe, Aqua-Aston and Great Destinations. Exchange & Third-Party Management revenue generally is fee-based and derived from membership, exchange and rental transactions, property and association management, and other related products and services.

Our CODM evaluates the performance of our segments based primarily on the results of the segment without allocating corporate expenses or income taxes. We do not allocate corporate interest expense or indirect general and administrative expenses to our segments. We include interest income specific to segment activities within the appropriate segment. We allocate depreciation, other gains and losses, equity in earnings or losses from our joint ventures and noncontrolling interest to each of our segments as appropriate. Corporate and other represents that portion of our results that are not allocable to our segments, including those relating to property owners' associations consolidated under the voting interest model, as our CODM does not use this information to make operating segment resource allocations. Prior year segment information has been reclassified to conform to the current reportable segment presentation.

Our CODM uses Adjusted EBITDA to evaluate the profitability of our operating segments, and the components of net income attributable to common shareholders excluded from Adjusted EBITDA are not separately evaluated. Adjusted EBITDA is defined as net income attributable to common shareholders, before interest expense (excluding consumer financing interest expense), income taxes, depreciation and amortization, excluding share-based compensation expense and adjusted for certain items that affect the comparability of our operating performance. Our reconciliation of the aggregate amount of Adjusted EBITDA for our reportable segments to consolidated net income attributable to common shareholders is presented below.

Revenues

<i>(\$ in millions)</i>	2018	2017	2016
Vacation Ownership	\$ 2,803	\$ 2,183	\$ 2,000
Exchange & Third-Party Management	161	—	—
Total segment revenues	2,964	2,183	2,000
Corporate and other	4	—	—
	<u>\$ 2,968</u>	<u>\$ 2,183</u>	<u>\$ 2,000</u>

Adjusted EBITDA and Reconciliation to Net Income Attributable to Common Shareholders

<i>(\$ in millions)</i>	2018	2017	2016
Adjusted EBITDA Vacation Ownership	\$ 511	\$ 383	\$ 326
Adjusted EBITDA Exchange & Third-Party Management	77	—	—
Reconciling items:			
Corporate and other	(169)	(89)	(89)
Interest expense	(54)	(10)	(9)
Tax provision	(51)	(5)	(76)
Depreciation and amortization	(62)	(21)	(21)
Share-based compensation expense	(35)	(16)	(14)
Certain items	(162)	(7)	5
Net income attributable to common shareholders	\$ 55	\$ 235	\$ 122

Depreciation and Amortization

<i>(\$ in millions)</i>	2018	2017	2016
Vacation Ownership	\$ 37	\$ 17	\$ 16
Exchange & Third-Party Management	16	—	—
Total segment depreciation	53	17	16
Corporate and other	9	4	5
	<u>\$ 62</u>	<u>\$ 21</u>	<u>\$ 21</u>

Assets

<i>(\$ in millions)</i>	<u>2018</u>	<u>2017</u>
Vacation Ownership	\$ 7,275	\$ 2,279
Exchange & Third-Party Management	1,182	—
Total segment assets	8,457	2,279
Corporate and other	561	566
	<u>\$ 9,018</u>	<u>\$ 2,845</u>

Capital Expenditures (including inventory)

<i>(\$ in millions)</i>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Vacation Ownership	\$ 245	\$ 174	\$ 164
Exchange & Third-Party Management	5	—	—
Total segment capital expenditures	250	174	164
Corporate and other	2	7	9
	<u>\$ 252</u>	<u>\$ 181</u>	<u>\$ 173</u>

Geographic Information

We conduct business globally, and our operations outside the United States represented approximately 13 percent, 13 percent and 15 percent of our revenues, excluding cost reimbursements, for 2018, 2017 and 2016, respectively.

Revenues (excluding cost reimbursements)

<i>(\$ in millions)</i>	<u>2018</u>	<u>2017</u>	<u>2016</u>
United States	\$ 1,780	\$ 1,247	\$ 1,090
All other countries	263	186	190
	<u>\$ 2,043</u>	<u>\$ 1,433</u>	<u>\$ 1,280</u>

Fixed Assets

<i>(\$ in millions)</i>	<u>2018</u>	<u>2017</u>
United States	\$ 748	\$ 506
All other countries	203	77
	<u>\$ 951</u>	<u>\$ 583</u>

19. QUARTERLY RESULTS (UNAUDITED)

	2018 ⁽¹⁾				
	First Quarter	Second Quarter	Third Quarter ⁽²⁾	Fourth Quarter	Fiscal Year
<i>(\$ in millions, except per share data)</i>					
Revenues	\$ 571	\$ 595	\$ 750	\$ 1,052	\$ 2,968
Expenses	\$ (518)	\$ (546)	\$ (698)	\$ (939)	\$ (2,701)
Net income (loss) attributable to common shareholders	\$ 36	\$ 11	\$ (36)	\$ 44	\$ 55
Earnings (loss) per share attributable to common shareholders					
Basic	\$ 1.35	\$ 0.40	\$ (1.08)	\$ 0.92	\$ 1.64
Diluted	\$ 1.32	\$ 0.39	\$ (1.08)	\$ 0.91	\$ 1.61

	2017 ⁽¹⁾				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal Year
<i>(\$ in millions, except per share data)</i>					
Revenues	\$ 528	\$ 563	\$ 530	\$ 562	\$ 2,183
Expenses	\$ (483)	\$ (489)	\$ (472)	\$ (493)	\$ (1,937)
Net income attributable to common shareholders	\$ 28	\$ 48	\$ 40	\$ 119	\$ 235
Earnings per share attributable to common shareholders					
Basic	\$ 1.02	\$ 1.76	\$ 1.49	\$ 4.46	\$ 8.70
Diluted	\$ 1.00	\$ 1.72	\$ 1.45	\$ 4.35	\$ 8.49

(1) The sum of the earnings per share attributable to common shareholders for the four quarters differs from annual earnings per share attributable to common shareholders due to the required method of computing the weighted average shares in interim periods.

(2) The third quarter results were revised to correct an immaterial prior period error relating to \$30 million of acquisition-related costs incurred by Legacy-ILG prior to the Acquisition Date, that we paid in connection with the completion of the ILG Acquisition. These costs were incorrectly expensed as “ILG acquisition-related costs” during the third quarter of 2018, and during the fourth quarter of 2018 were reclassified to Goodwill. The impact to net income (loss) attributable to common shareholders during the three and nine-months ended September 30, 2018 was \$22 million. See Footnote 3 “Acquisitions and Dispositions” for additional information.

20. SUBSEQUENT EVENTS

Dividends

On February 15, 2019, our Board of Directors declared a quarterly dividend of \$0.45 per share to be paid on March 14, 2019 to shareholders of record as of February 28, 2019.

21. ADOPTION IMPACT OF NEW REVENUE STANDARD

As discussed in Footnote 2 "Summary of Significant Accounting Policies" the FASB issued ASU 2014-09 in 2014, which, as amended, created ASC 606. The core principle of ASC 606 is that an entity shall recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard also contains significant new disclosure requirements regarding the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. We adopted ASC 606 effective January 1, 2018, on a retrospective basis and restated our previously reported historical results as shown in the tables below. The cumulative impact of the adoption of the new Revenue Standard on our opening retained earnings as of January 3, 2015, the first day of our 2015 fiscal year, was \$2 million.

Upon adoption of the new Revenue Standard, recognition of revenue from the sale of vacation ownership products that is deemed collectible is now deferred from the point in time at which the statutory rescission period expires to closing, when control of the vacation ownership product is transferred to the customer. In addition, we aligned our assessment of collectibility of the transaction price for sales of vacation ownership products with our credit granting policies. We elected the practical expedient to expense all marketing and sales costs as they are incurred. Our consolidated cost reimbursements revenues and cost reimbursements expenses increased significantly, as all costs reimbursed to us by property owners' associations are now reported on a gross basis upon adoption of the new Revenue Standard. In conjunction with the adoption of the new Revenue Standard we reclassified certain revenues and expenses.

As part of the adoption of the new Revenue Standard, we elected the following practical expedients and accounting policies:

- We expense all marketing and sales costs that we incur to sell vacation ownership products when incurred.
- In determining the transaction price for contracts from customers, we exclude all taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-product transaction and collected by the entity from a customer (e.g., sales tax).
- We do not disclose the amount of the transaction price allocated to the remaining performance obligations as of December 31, 2017 or provide an explanation of when we expect to recognize that amount as revenue.

The following tables present the impact of the adoption of the new Revenue Standard on our previously reported historical results for the periods presented.

2017

(\$ in millions, except per share amounts)

	As Reported	ASC 606 Adjustments	Conforming Reclassifications ⁽¹⁾	As Adjusted
REVENUES				
Sale of vacation ownership products	\$ 728	\$ 29	\$ —	\$ 757
Resort management and other services	306	(27)	(279)	—
Management and exchange	—	—	279	279
Rental	323	(61)	—	262
Financing	135	—	—	135
Cost reimbursements	460	290	—	750
TOTAL REVENUES	1,952	231	—	2,183
EXPENSES				
Cost of vacation ownership products	178	16	—	194
Marketing and sales	409	(14)	(7)	388
Resort management and other services	172	(17)	(155)	—
Management and exchange	—	—	147	147
Rental	281	(58)	(2)	221
Financing	18	—	25	43
General and administrative	110	—	(4)	106
Depreciation and amortization	—	—	21	21
Litigation settlement	4	—	—	4
Consumer financing interest	25	—	(25)	—
Royalty fee	63	—	—	63
Cost reimbursements	460	290	—	750
TOTAL EXPENSES	1,720	217	—	1,937
Gains and other income, net	6	—	—	6
Interest expense	(10)	—	—	(10)
ILG acquisition costs	—	—	(1)	(1)
Other	(2)	—	1	(1)
INCOME BEFORE INCOME TAXES AND NONCONTROLLING INTERESTS	226	14	—	240
Benefit (provision) for income taxes	1	(6)	—	(5)
NET INCOME	227	8	—	235
Net income attributable to noncontrolling interests	—	—	—	—
NET INCOME ATTRIBUTABLE TO COMMON SHAREHOLDERS	\$ 227	\$ 8	\$ —	\$ 235
EARNINGS PER SHARE ATTRIBUTABLE TO COMMON SHAREHOLDERS				
Basic	\$ 8.38	\$ 0.32	\$ —	\$ 8.70
Diluted	\$ 8.18	\$ 0.31	\$ —	\$ 8.49

⁽¹⁾ We have reclassified certain prior year amounts to conform to our current year presentation. See Footnote 1 "Basis of Presentation" for a description of the reclassifications.

2016

<i>(\$ in millions, except per share amounts)</i>	<u>As Reported</u>	<u>ASC 606 Adjustments</u>	<u>Conforming Reclassifications⁽¹⁾</u>	<u>As Adjusted</u>
REVENUES				
Sale of vacation ownership products	\$ 638	\$ (15)	\$ —	\$ 623
Resort management and other services	300	(22)	(278)	—
Management and exchange	—	—	278	278
Rental	312	(60)	—	252
Financing	126	1	—	127
Cost reimbursements	432	288	—	720
TOTAL REVENUES	<u>1,808</u>	<u>192</u>	<u>—</u>	<u>2,000</u>
EXPENSES				
Cost of vacation ownership products	155	8	—	163
Marketing and sales	353	(13)	(6)	334
Resort management and other services	174	(17)	(157)	—
Management and exchange	—	—	149	149
Rental	261	(49)	(2)	210
Financing	19	—	24	43
General and administrative	105	—	(5)	100
Depreciation and amortization	—	—	21	21
Litigation settlement	(1)	—	—	(1)
Consumer financing interest	24	—	(24)	—
Royalty fee	61	—	—	61
Cost reimbursements	432	288	—	720
TOTAL EXPENSES	<u>1,583</u>	<u>217</u>	<u>—</u>	<u>1,800</u>
Gains and other income, net	11	—	—	11
Interest expense	(9)	—	—	(9)
Other	(4)	—	—	(4)
INCOME BEFORE INCOME TAXES AND NONCONTROLLING INTERESTS	<u>223</u>	<u>(25)</u>	<u>—</u>	<u>198</u>
Provision for income taxes	(86)	10	—	(76)
NET INCOME	<u>137</u>	<u>(15)</u>	<u>—</u>	<u>122</u>
Net income attributable to noncontrolling interests	—	—	—	—
NET INCOME ATTRIBUTABLE TO COMMON SHAREHOLDERS	<u>\$ 137</u>	<u>\$ (15)</u>	<u>\$ —</u>	<u>\$ 122</u>
EARNINGS PER SHARE ATTRIBUTABLE TO COMMON SHAREHOLDERS				
Basic	\$ 4.93	\$ (0.56)	\$ —	\$ 4.37
Diluted	\$ 4.83	\$ (0.54)	\$ —	\$ 4.29

⁽¹⁾ We have reclassified certain prior year amounts to conform to our current year presentation. See Footnote 1 "Basis of Presentation" for a description of the reclassifications.

	As of December 31, 2017			
<i>(\$ in millions)</i>	As Reported	ASC 606 Adjustments	Conforming Reclassifications ⁽¹⁾	As Adjusted
ASSETS				
Cash and cash equivalents	\$ 409	\$ —	\$ —	\$ 409
Restricted cash	82	—	—	82
Accounts receivable, net	154	(62)	—	92
Vacation ownership notes receivable, net	1,120	(5)	—	1,115
Inventory	716	12	(330)	398
Property and equipment	253	—	330	583
Other	172	(6)	—	166
TOTAL ASSETS	\$ 2,906	\$ (61)	\$ —	\$ 2,845
LIABILITIES AND EQUITY				
Accounts payable	\$ 145	\$ —	\$ —	\$ 145
Advance deposits	63	21	—	84
Accrued liabilities	168	(48)	—	120
Deferred revenue	98	(29)	—	69
Payroll and benefits liability	112	—	—	112
Deferred compensation liability	75	—	—	75
Securitized debt	—	—	835	835
Debt, net	1,095	—	(835)	260
Other	14	—	—	14
Deferred taxes	91	(1)	—	90
TOTAL LIABILITIES	1,861	(57)	—	1,804
Preferred stock	—	—	—	—
Common stock	—	—	—	—
Treasury stock	(694)	—	—	(694)
Additional paid-in capital	1,189	—	—	1,189
Accumulated other comprehensive income	17	—	—	17
Retained earnings	533	(4)	—	529
TOTAL EQUITY	1,045	(4)	—	1,041
TOTAL LIABILITIES AND EQUITY	\$ 2,906	\$ (61)	\$ —	\$ 2,845

⁽¹⁾ We have reclassified certain prior year amounts to conform to our current year presentation. See Footnote 1 "Basis of Presentation" for a description of the reclassifications.

2017 Cash Flow Impact - Operating Activities

(\$ in millions)	2017		
	As Reported	Adjustments	As Adjusted
OPERATING ACTIVITIES			
Net income	\$ 227	\$ 8	\$ 235
Adjustments to reconcile net income to net cash and restricted cash provided by operating activities:			
Depreciation and amortization of intangibles	21	—	21
Amortization of debt discount and issuance costs	10	—	10
Vacation ownership notes receivable reserve	50	2	52
Share-based compensation	16	—	16
Loss on disposal of property and equipment, net	2	—	2
Deferred income taxes	(66)	5	(61)
Net change in assets and liabilities:			
Accounts receivable	5	(14)	(9)
Vacation ownership notes receivable originations	(467)	1	(466)
Vacation ownership notes receivable collections	270	—	270
Inventory	42	3	45
Purchase of vacation ownership units for future transfer to inventory	(34)	—	(34)
Other assets	(21)	—	(21)
Accounts payable, advance deposits and accrued liabilities	51	(12)	39
Deferred revenue	2	7	9
Payroll and benefit liabilities	16	—	16
Deferred compensation liability	12	—	12
Other, net	6	—	6
Net cash and restricted cash provided by operating activities . .	<u>\$ 142</u>	<u>\$ —</u>	<u>\$ 142</u>

2016 Cash Flow Impact - Operating Activities

(\$ in millions)	2016		
	As Reported	Adjustments	As Adjusted
OPERATING ACTIVITIES			
Net income	\$ 137	\$ (15)	\$ 122
Adjustments to reconcile net income to net cash and restricted cash provided by operating activities:			
Depreciation and amortization of intangibles	21	—	21
Amortization of debt discount and issuance costs	6	—	6
Vacation ownership notes receivable reserve	48	(3)	45
Share-based compensation	14	—	14
Gain on disposal of property and equipment, net	(11)	—	(11)
Deferred income taxes	39	(9)	30
Net change in assets and liabilities:			
Accounts receivable	(29)	29	—
Vacation ownership notes receivable originations	(357)	—	(357)
Vacation ownership notes receivable collections	254	—	254
Inventory	5	(6)	(1)
Other assets	11	1	12
Accounts payable, advance deposits and accrued liabilities	(19)	5	(14)
Deferred revenue	17	(2)	15
Payroll and benefit liabilities	(7)	—	(7)
Deferred compensation liability	12	—	12
Other liabilities	—	1	1
Other, net	—	(1)	(1)
Net cash and restricted cash provided by operating activities	<u>\$ 141</u>	<u>\$ —</u>	<u>\$ 141</u>

22. SUPPLEMENTAL GUARANTOR INFORMATION

The IAC Notes are guaranteed by Marriott Vacations Worldwide Corporation, ILG and certain other subsidiaries for which 100% of the voting securities are owned directly or indirectly by ILG (collectively, the “Guarantor Subsidiaries”). These guarantees are full and unconditional and joint and several. The guarantees of the Guarantor Subsidiaries are subject to release in limited circumstances only upon the occurrence of certain customary conditions. The indenture governing the IAC Notes contains covenants that, among other things, limit the ability of Interval Acquisition Corp. (the “Issuer”) and the Guarantor Subsidiaries to pay dividends to us or make distributions, loans or advances to us.

The following tables present consolidating financial information as of December 31, 2018 and for the 122 days ended December 31, 2018 for MVW and ILG on a stand-alone basis, the Issuer on a stand-alone basis, the combined Guarantor Subsidiaries of MVW (collectively, the “Guarantor Subsidiaries”), the combined non-guarantor subsidiaries of MVW (collectively, the “Non-Guarantor Subsidiaries”) and MVW on a consolidated basis.

Condensed Consolidating Balance Sheet

	As of December 31, 2018						
(\$ in millions)	MVW	ILG	Interval Acquisition Corp.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Total Eliminations	MVW Consolidated
Cash and cash equivalents . . .	\$ —	\$ 2	\$ 11	\$ 26	\$ 192	\$ —	\$ 231
Restricted cash	—	—	—	83	300	—	383
Accounts receivable, net	29	—	2	101	194	(2)	324
Vacation ownership notes receivable, net	—	—	—	176	1,863	—	2,039
Inventory	—	—	—	440	423	—	863
Property and equipment	—	1	—	273	677	—	951
Goodwill	2,828	—	—	—	—	—	2,828
Intangibles, net	—	—	—	1,066	41	—	1,107
Investments in subsidiaries . .	123	1,446	1,588	(269)	1,748	(4,636)	—
Other	(2)	(7)	2	126	211	(38)	292
Total assets	<u>\$ 2,978</u>	<u>\$ 1,442</u>	<u>\$ 1,603</u>	<u>\$ 2,022</u>	<u>\$ 5,649</u>	<u>\$ (4,676)</u>	<u>\$ 9,018</u>
Accounts payable	\$ 39	\$ —	\$ —	\$ 64	\$ 142	\$ —	\$ 245
Advance deposits	—	—	—	25	88	—	113
Accrued liabilities	13	8	(24)	135	291	—	423
Deferred revenue	—	—	—	110	209	—	319
Payroll and benefits liability .	16	—	—	76	119	—	211
Deferred compensation liability	—	—	—	7	86	—	93
Securitized debt, net	—	—	—	—	1,694	—	1,694
Debt, net	—	—	142	—	1,982	—	2,124
Other	—	—	—	1	11	—	12
Deferred taxes	38	(60)	87	142	111	—	318
Intercompany liabilities (receivables) / equity	—	(1,272)	(335)	(98)	(2,530)	4,163	(72)
MVW shareholders' equity . .	2,872	2,766	1,733	1,563	3,438	(8,839)	3,533
Noncontrolling interests	—	—	—	(3)	8	—	5
Total liabilities and equity . . .	<u>\$ 2,978</u>	<u>\$ 1,442</u>	<u>\$ 1,603</u>	<u>\$ 2,022</u>	<u>\$ 5,649</u>	<u>\$ (4,676)</u>	<u>\$ 9,018</u>

Condensed Consolidating Statement of Income

122 Days Ended December 31, 2018

<i>(\$ in millions)</i>	<u>MVW</u>	<u>ILG</u>	<u>Interval Acquisition Corp.</u>	<u>Guarantor Subsidiaries</u>	<u>Non- Guarantor Subsidiaries</u>	<u>Total Eliminations</u>	<u>MVW Consolidated</u>
Revenues	\$ (3)	\$ —	\$ —	\$ 488	\$ 1,035	\$ (7)	\$ 1,513
Expenses	(14)	—	(1)	(495)	(888)	7	(1,391)
Interest expense	(3)	—	(2)	1	(50)	—	(54)
ILG acquisition-related costs	(11)	—	—	—	(47)	—	(58)
Equity in earnings from unconsolidated entities	—	—	—	(1)	—	—	(1)
Equity in net income of subsidiaries	65	5	9	—	—	(79)	—
Income tax benefit	(11)	—	(1)	2	21	—	11
Net income (loss)	23	5	5	(5)	71	(79)	20
Net loss (income) attributable to noncontrolling interests	—	—	—	1	2	—	3
Net income (loss) attributable to common shareholders	<u>\$ 23</u>	<u>\$ 5</u>	<u>\$ 5</u>	<u>\$ (4)</u>	<u>\$ 73</u>	<u>\$ (79)</u>	<u>\$ 23</u>

Condensed Consolidating Statement of Cash Flows

122 Days Ended December 31, 2018

<i>(\$ in millions)</i>	<u>MVW</u>	<u>ILG</u>	<u>Interval Acquisition Corp.</u>	<u>Guarantor Subsidiaries</u>	<u>Non- Guarantor Subsidiaries</u>	<u>Total Eliminations</u>	<u>MVW Consolidated</u>
Net cash, cash equivalents and restricted cash provided by (used in) operating activities	\$ 120	\$ —	\$ (2)	\$ 17	\$ (57)	\$ —	\$ 78
Net cash, cash equivalents and restricted cash (used in) provided by investing activities	(1)	2	125	115	(1,586)	(123)	(1,468)
Net cash, cash equivalents and restricted cash (used in) provided by financing activities	(119)	—	(113)	(23)	(221)	123	(353)
Cash, cash equivalents and restricted cash, beginning of period	—	—	—	—	2,357	—	2,357
Cash, cash equivalents and restricted cash, end of period	<u>\$ —</u>	<u>\$ 2</u>	<u>\$ 10</u>	<u>\$ 109</u>	<u>\$ 493</u>	<u>\$ —</u>	<u>\$ 614</u>

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

As of the end of the period covered by this Annual Report, we evaluated, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act), and management necessarily applied its judgment in assessing the costs and benefits of such controls and procedures, which by their nature, can provide only reasonable assurance about management's control objectives. Our disclosure controls and procedures have been designed to provide reasonable assurance of achieving the desired control objectives. However, you should note that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and we cannot assure you that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote. Based upon the foregoing evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective and operating to provide reasonable assurance that we record, process, summarize and report the information we are required to disclose in the reports that we file or submit under the Exchange Act within the time periods specified in the rules and forms of the SEC, and to provide reasonable assurance that we accumulate and communicate such information to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions about required disclosure.

Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f). We have set forth management's annual report on internal control over financial reporting and the independent registered public accounting firm's report on the effectiveness of our internal control over financial reporting in Part II, Item 8 of this Annual Report, and we incorporate those reports by reference.

During the third quarter of 2018 we completed the ILG Acquisition, which was accounted for as a business combination. In accordance with SEC Staff guidance permitting a company to exclude an acquired business from management's assessment of the effectiveness of internal control over financial reporting for the year in which the acquisition is completed, we have excluded the business that we acquired in the ILG Acquisition from our assessment of the effectiveness of internal control over financial reporting as of December 31, 2018. The business that we acquired in the ILG Acquisition represented 69 percent of our total assets as of December 31, 2018, and 19 percent of our revenues and 1 percent of our income before income taxes and noncontrolling interests for the year ended December 31, 2018.

Changes in Internal Control Over Financial Reporting

We are in the process of evaluating the existing controls and procedures of ILG and integrating ILG into our internal control over financial reporting. There were no other changes in our internal control over financial reporting during the fourth quarter of 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

PART III

As described below, we incorporate certain information appearing in the Proxy Statement we will furnish to our shareholders in connection with our 2019 Annual Meeting of Shareholders (the “Proxy Statement”) by reference in this Annual Report.

Item 10. Directors, Executive Officers and Corporate Governance

We incorporate this information by reference to the “Our Board of Directors,” “Section 16(a) Beneficial Ownership Reporting Compliance,” “Committees of our Board,” “Transactions with Related Persons” and “Selection of Director Nominees” sections of our Proxy Statement. We have included information regarding our executive officers and our Code of Conduct below.

Executive Officers

Set forth below is certain information with respect to our executive officers. The information set forth below is as of February 22, 2019, except where indicated.

<u>Name and Title</u>	<u>Age</u>	<u>Business Experience</u>
Stephen P. Weisz President and Chief Executive Officer	68	Stephen P. Weisz has served as our President since 1996 and as our Chief Executive Officer since 2011; he has also been a member of our Board of Directors since 2011. Mr. Weisz joined Marriott International in 1972. Over his 39-year career with Marriott International, he held a number of leadership positions in the Lodging division, including Regional Vice President of the Mid-Atlantic Region, Senior Vice President of Rooms Operations, and Vice President of the Revenue Management Group. Mr. Weisz became Senior Vice President of Sales and Marketing for Marriott Hotels, Resorts & Suites in 1992 and Executive Vice President-Lodging Brands in 1994 before being named to lead the Company in 1996. He is the Immediate Past Chairman of the Board of Directors of the American Resort Development Association. Mr. Weisz is also the Immediate Past Chairman of the Board of Trustees of Children’s Miracle Network.
R. Lee Cunningham Executive Vice President and Chief Operating Officer - Vacation Ownership	59	R. Lee Cunningham has served as our Executive Vice President and Chief Operating Officer - Vacation Ownership since September 2018. From December 2012 to August 2018 he served as our Executive Vice President and Chief Operating Officer. From 2007 to December 2012, he served as our Executive Vice President and Chief Operating Officer – North America and Caribbean. Mr. Cunningham joined Marriott International in 1982 and held various front office assignments at Marriott hotels in Atlanta, Scottsdale, Miami, Kansas City, and Washington, D.C. In 1990, he became one of Marriott International’s first revenue management-focused associates and held roles at property, regional and corporate levels. Mr. Cunningham joined our company in 1997 as Vice President of Revenue Management and Owner Service Operations.
Clifford M. Delorey Executive Vice President and Chief Resort Experience Officer	58	Clifford M. Delorey has served as our Executive Vice President and Chief Resort Experience Officer since October 2012. From May 2011 to October 2012, Mr. Delorey served as Vice President of Operations for the Middle East and Africa region for Marriott International. From April 2006 to May 2011, he served as our Vice President of Operations for the East region. Mr. Delorey joined Marriott International in 1981 and served in a number of operational roles, including Director of International Operations.

Name and Title	Age	Business Experience
John E. Geller, Jr. Executive Vice President and Chief Financial and Administrative Officer	51	John E. Geller, Jr. has served as our Executive Vice President and Chief Financial and Administrative Officer since January 2018. From 2009 to December 2017, he served as our Executive Vice President and Chief Financial Officer. Mr. Geller joined Marriott International in 2005 as Senior Vice President and Chief Audit Executive and Information Security Officer. In 2008, he led finance and accounting for Marriott International's North American Lodging Operation's West region as Chief Financial Officer. Mr. Geller began his professional career at Arthur Andersen, where he was promoted to audit partner in its real estate and hospitality practice in 2000. During 2002 and 2003, he was an audit partner with Ernst & Young in its real estate and hospitality practice. Mr. Geller served as Chief Financial Officer at AutoStar Realty in 2004.
James H Hunter, IV Executive Vice President and General Counsel	56	James H Hunter, IV has served as our Executive Vice President and General Counsel since November 2011. Prior to that time, he had served as Senior Vice President and General Counsel since 2006. Mr. Hunter joined Marriott International in 1994 as Corporate Counsel and was promoted to Senior Counsel in 1996 and Assistant General Counsel in 1998. While at Marriott International, he held several leadership positions supporting development of Marriott's lodging brands in all regions worldwide. Prior to joining Marriott International, Mr. Hunter was an associate at the law firm of Davis, Graham & Stubbs in Washington, D.C.
Lizabeth Kane-Hanan Executive Vice President and Chief Development and Product Officer	52	Lizabeth Kane-Hanan has served as our Executive Vice President and Chief Development and Product Officer since September 2018. From November 2011 to August 2018, she served as our Executive Vice President and Chief Growth and Inventory Officer. Prior to that time, she had served as our Senior Vice President, Resort Development and Planning, Inventory and Revenue Management and Product Innovation since 2009. Ms. Kane-Hanan joined our company in 2000, and has over 25 years of hospitality industry experience. Before joining Marriott International, she spent 14 years in public accounting and advisory firms, including Arthur Andersen and Horwath Hospitality, where she specialized in real estate strategic planning, acquisitions and development. At our company, she has held several leadership positions of increasing responsibility.
Jeanette Marbert President, Exchange and Third-Party Management	62	Jeanette Marbert has served as our President, Exchange and Third-Party Management since October 2018. From November 2017 to September 2018 she served at ILG, Inc. as President and Chief Executive Officer of the Exchange and Rental Segment and from June 2009 to December 2018 she served at ILG, Inc. as Executive Vice President. Previously she was Chief Operating Officer of ILG, Inc. from August 2008 to November 2017 and served as a Director of ILG, Inc. from February 2015 to May 2016. She served as Chief Operating Officer for Interval International beginning June 1999. Prior to her tenure as Chief Operating Officer, Ms. Marbert served as General Counsel of Interval International from 1994 to 1999. Ms. Marbert joined Interval International in 1984. She also serves as a director and Chairperson of the ILG Relief Fund.

Name and Title	Age	Business Experience
Brian E. Miller Executive Vice President and Chief Marketing, Sales and Service Officer	55	Brian E. Miller has served as our Executive Vice President and Chief Marketing, Sales and Service Officer since October 2018. From November 2011 to September 2018, he served as our Executive Vice President and Chief Sales and Marketing Officer. Prior to that time, he had served as our Senior Vice President, Sales and Marketing and Service Operations since 2007. Mr. Miller joined our company in 1991 as National Director of Marketing Operations and has more than 25 years of vacation ownership marketing and sales expertise. In 1994, he was promoted to Vice President of Marketing. From 1995 to 2000, he served as Regional Vice President of Sales and Marketing for the Europe and Middle East region based in London. He left our company briefly, but returned in 2001 to assume the role of Senior Vice President, Sales and Marketing.
Dwight D. Smith Executive Vice President and Chief Information Officer	58	Dwight D. Smith has served as our Executive Vice President and Chief Information Officer since December 2011. Prior to that time, he served as our Senior Vice President and Chief Information Officer since 2006. Mr. Smith joined Marriott International in 1988 as Senior Manager and then Director of Information Resources for Roy Rogers Restaurants. He worked from 1982 to 1988 at Andersen Consulting as Staff Consultant and then Consulting Manager in the advanced technology group. Mr. Smith moved to our corporate headquarters in 1990.
Ovidio Vitas Executive Vice President and Chief Brand and Digital Strategy Officer	42	Ovidio Vitas has served as our Executive Vice President and Chief Brand and Digital Strategy Officer since February 2019. From September 2018 to February 2019, he served as our Senior Vice President and Chief Brand and Digital Strategy Officer. Prior to that time, he served as our Vice President, Brand & Digital Strategy since May 2015 when he joined our company. From November 2013 to May 2015, Mr. Vitas served as Director of Global Brand Communications Reebok International, Inc. He previously held leadership roles at Electronic Arts, NBC/Universal, AOL and Warner Brothers.
Michael E. Yonker Executive Vice President and Chief Human Resources Officer	60	Michael E. Yonker has served as our Executive Vice President and Chief Human Resources Officer since December 2011. Prior to that time, he served as our Chief Human Resources Officer since 2010. Mr. Yonker joined Marriott International in 1983 as Assistant Controller at the Lincolnshire Marriott Resort in Chicago. While at Marriott International, he held a number of positions with increasing responsibility in both the finance and human resources areas. From 1996 to 1998, he was the Area Director of Human Resources, supporting the mid-central region at Sodexo Marriott. He returned to Marriott International in 1998 as Vice President, Human Resources supporting the Midwest Region and was named our Vice President, Human Resources in 2007 supporting global operations.

Code of Conduct

Our Board of Directors has adopted a code of conduct, our Business Conduct Guide, that applies to all of our directors, officers and associates, including our Chief Executive Officer, Chief Financial Officer and Principal Accounting Officer. Our Business Conduct Guide is available in the Investor Relations section of our website (www.marriottvacationsworldwide.com) and is accessible by clicking on “Corporate Governance.” Any amendments to our Business Conduct Guide and any grant of a waiver from a provision of our Business Conduct Guide requiring disclosure under applicable SEC rules may be disclosed at the same location as the Business Conduct Guide in the Investor Relations section of our website located at www.marriottvacationsworldwide.com or on a Current Report on Form 8-K.

Item 11. Executive Compensation

We incorporate this information by reference to the “Executive and Director Compensation” and “Compensation Committee Interlocks and Insider Participation” sections of our Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

We incorporate this information by reference to the “Securities Authorized for Issuance Under Equity Compensation Plans” and “Stock Ownership” sections of our Proxy Statement.

Item 13. Certain Relationships and Related Transactions, and Director Independence

We incorporate this information by reference to the “Transactions with Related Persons,” and “Director Independence” sections of our Proxy Statement.

Item 14. Principal Accounting Fees and Services

We incorporate this information by reference to the “Independent Registered Public Accounting Firm Fee Disclosure” and “Pre-Approval of Independent Auditor Fees and Services Policy” sections of our Proxy Statement.

PART IV

Item 15. Exhibits and Financial Statement Schedules

The following are filed as part of this Annual Report:

(1) Financial Statements

We include this portion of Item 15 under Part II, Item 8 of this Annual Report.

(2) Financial Statement Schedules

We include the financial statement schedules required by the applicable accounting regulations of the SEC in the notes to our consolidated financial statements and incorporate that information in this Item 15 by reference.

(3) Exhibits

A shareholder who wants a copy of any of the following Exhibits may obtain one from us, without charge, upon written request. Written requests to obtain any exhibit should be sent to Marriott Vacations Worldwide Corporation, 6649 Westwood Blvd., Orlando, Florida 32821, Attention: Corporate Secretary. All documents referenced below are being filed as a part of this Annual Report, unless otherwise noted.

Exhibit Number	Description	Filed Herewith	Incorporation By Reference From		
			Form	Exhibit	Date Filed
2.1	Separation and Distribution Agreement, entered into on November 17, 2011, among Marriott International, Inc., Marriott Vacations Worldwide Corporation, Marriott Ownership Resorts, Inc., Marriott Resorts Hospitality Corporation, MSCI Asia Pacific Pte. Ltd. and MVCO Series LLC		8-K	2.1	11/22/2011
2.2	Agreement and Plan of Merger, dated as of April 30, 2018, by and among Marriott Vacations Worldwide Corporation, ILG, Inc., Ignite Holdco, Inc., Ignite Holdco Subsidiary, Inc., Volt Merger Sub LLC ⁽¹⁾		8-K	2.1	5/1/2018
3.1	Restated Certificate of Incorporation of Marriott Vacations Worldwide Corporation		8-K	3.1	11/22/2011
3.2	Restated Bylaws of Marriott Vacations Worldwide Corporation		8-K	3.2	11/22/2011
4.1	Form of certificate representing shares of common stock, par value \$0.01 per share, of Marriott Vacations Worldwide Corporation		10	4.1	10/14/2011
4.2	Indenture between Marriott Vacations Worldwide Corporation and The Bank of New York Mellon Trust Company, N.A., as trustee, dated September 25, 2017		10-Q	4.1	11/2/2017
4.3	Form of 1.50% Convertible Senior Note due 2022 (included in Exhibit 4.2)		10-Q	4.1	11/2/2017

Exhibit Number	Description	Filed Herewith	Incorporation By Reference From		
			Form	Exhibit	Date Filed
4.4	Indenture, dated as of August 23, 2018, by and among Marriott Ownership Resorts, Inc., Marriott Vacations Worldwide Corporation, as guarantor, the other guarantors party thereto and the Bank of New York Mellon Trust Company, N.A., as trustee		8-K	4.1	8/23/2018
4.5	Supplemental Indenture, dated September 1, 2018, by and among Marriott Ownership Resorts, Inc., ILG, LLC, the guarantors party thereto and the Bank of New York Mellon Trust Company, N.A., as trustee		8-K	4.7	9/5/2018
4.6	Form of 6.500% Senior Note due 2026 (included as Exhibit A to Exhibit 4.4 above)		8-K	4.1	8/23/2018
4.7	Registration Rights Agreement, dated as of August 23, 2018, by and among Marriott Ownership Resorts, Inc., Marriott Vacations Worldwide Corporation, as guarantor, the other guarantors party thereto and Merrill Lynch, Pierce, Fenner & Smith Incorporated		8-K	4.3	8/23/2018
4.8	Joinder Agreement to Registration Rights Agreement, dated as of September 1, 2018, by and among ILG, LLC, the guarantors party thereto and Merrill Lynch, Pierce, Fenner & Smith Incorporated as the representative of the initial purchasers		8-K	4.8	9/5/2018
4.9	Indenture, dated as of September 4, 2018, by and among Marriott Ownership Resorts, Inc., ILG, LLC, Marriott Vacations Worldwide Corporation, as guarantor, the other guarantors party thereto and HSBC Bank USA, National Association, as trustee		8-K	4.1	9/5/2018
4.10	Form of 5.625% Senior Note due 2023 (included as Exhibit A to Exhibit 4.9 above)		8-K	4.1	9/5/2018
4.11	Registration Rights Agreement, dated as of September 4, 2018, by and among Marriott Ownership Resorts, Inc., ILG, LLC, Marriott Vacations Worldwide Corporation, as a guarantor, the other guarantors party thereto and Merrill Lynch, Pierce, Fenner & Smith Incorporated and J.P. Morgan Securities LLC		8-K	4.3	9/5/2018
4.12	Indenture, dated April 10, 2015, among Interval Acquisition Corp., Interval Leisure Group, Inc., the other Guarantors party thereto and HSBC Bank UA, National Association, as trustee		8-K ⁽²⁾	4.1	4/10/2015
4.13	Form of Interval Acquisition Corp. 5.625% Senior Note due 2023 (included as Exhibit A to Exhibit 4.12 above)		8-K ⁽²⁾	4.1	4/10/2015
4.14	Supplemental Indenture, dated as of June 29, 2016, among Interval Acquisition Corp., certain subsidiary guarantors and HSBC Bank USA, National Association		8-K ⁽²⁾	4.1	7/1/2016
10.1	License, Services, and Development Agreement, entered into on November 17, 2011, among Marriott International, Inc., Marriott Worldwide Corporation, Marriott Vacations Worldwide Corporation and the other signatories thereto		8-K	10.1	11/22/2011
10.2	Letter Agreement, dated as of February 21, 2013, between Marriott International, Inc. and Marriott Vacations Worldwide Corporation, supplementing the License, Services, and Development Agreement		10-Q	10.1	4/25/2013
10.3	Letter Agreement, dated May 9, 2016, among Marriott Vacations Worldwide Corporation, Marriott Worldwide Corporation and Marriott International, Inc. relating to the License, Services, and Development Agreement		10-Q	10.3	7/21/2016
10.4	First Amendment to License, Services, and Development Agreement, dated as of February 26, 2018, among Marriott International, Inc., Marriott Worldwide Corporation, Marriott Vacations Worldwide Corporation and the other signatories thereto		10-K	10.4	2/27/2018
10.5	Amended and Restated Side Letter Agreement, dated as of February 26, 2018 by among Marriott International, Inc., Marriott Worldwide Corporation, Marriott Rewards, LLC, Marriott Vacations Worldwide Corporation and Marriott Ownership Resorts, Inc.†		10-K	10.5	2/27/2018

Exhibit Number	Description	Filed Herewith	Incorporation By Reference From		
			Form	Exhibit	Date Filed
10.6	License, Services, and Development Agreement, entered into on November 17, 2011, among The Ritz-Carlton Hotel Company, L.L.C., Marriott Vacations Worldwide Corporation and the other signatories thereto		8-K	10.2	11/22/2011
10.7	First Amendment to License, Services, and Development Agreement, dated as of February 26, 2018, among The Ritz-Carlton Hotel Company, L.L.C., Marriott Vacations Worldwide Corporation and the other signatures thereto		10-K	10.7	2/27/2018
10.8	Employee Benefits and Other Employment Matters Allocation Agreement, entered into on November 17, 2011, between Marriott International, Inc. and Marriott Vacations Worldwide Corporation		8-K	10.3	11/22/2011
10.9	Tax Sharing and Indemnification Agreement, entered into on November 17, 2011, between Marriott International, Inc. and Marriott Vacations Worldwide Corporation		8-K	10.4	11/22/2011
10.10	Amendment, dated August 2, 2012, between Marriott International, Inc. and Marriott Vacations Worldwide Corporation, to the Tax Sharing and Indemnification Agreement		10-Q	10.1	10/18/2012
10.11	Marriott Rewards Affiliation Agreement, entered into on November 17, 2011, among Marriott International, Inc., Marriott Rewards, LLC, Marriott Vacations Worldwide Corporation, Marriott Ownership Resorts, Inc. and the other signatories thereto		8-K	10.5	11/22/2011
10.12	First Amendment to Marriott Rewards Affiliation Agreement, dated as of February 26, 2018, among Marriott International, Inc., Marriott Rewards, LLC, Marriott Vacations Worldwide Corporation and Marriott Ownership Resorts, Inc.		10-K	10.12	2/27/2018
10.13	Termination of Noncompetition Agreement, dated as of February 26, 2018, between Marriott International, Inc. and Marriott Vacations Worldwide Corporation		10-K	10.14	2/27/2018
10.14	Marriott Vacations Worldwide Corporation Amended and Restated Stock and Cash Incentive Plan*		10-K	10.14	2/23/2017
10.15	Form of Restricted Stock Unit Agreement – Marriott Vacations Worldwide Corporation Stock and Cash Incentive Plan*		8-K	10.1	12/9/2011
10.16	Form of Stock Appreciation Right Agreement – Marriott Vacations Worldwide Corporation Stock and Cash Incentive Plan*		8-K	10.2	12/9/2011
10.17	Form of Performance Unit Award Agreement – Marriott Vacations Worldwide Corporation Stock and Cash Incentive Plan*		8-K	10.1	3/16/2012
10.18	Form of Non-Employee Director Share Award Confirmation*		10-K	10.17	2/25/2016
10.19	Form of Non-Employee Director Stock Appreciation Right Award Agreement*		10-K	10.16	3/21/2012
10.20	Form of Director Stock Unit Agreement*		10-Q	10.1	4/30/2015
10.21	Marriott Vacations Worldwide Corporation Change in Control Severance Plan*		8-K	10.2	3/16/2012
10.22	Form of Participation Agreement for Change in Control Severance Plan – Marriott Vacations Worldwide Corporation Change in Control Severance Plan*		8-K	10.3	3/16/2012
10.23	Marriott Vacations Worldwide Corporation Deferred Compensation Plan*		8-K	10.3	6/13/2013
10.24	Marriott Vacations Worldwide Corporation Executive Long Term Disability Plan*		10-K	10.21	2/26/2015
10.25	Marriott Vacations Worldwide Corporation Employee Stock Purchase Plan*		8-K	10.1	6/11/2015
10.26	Third Amended and Restated Indenture and Servicing Agreement, entered into September 15, 2014 and dated as of September 1, 2014, among Marriott Vacations Worldwide Owner Trust 2011-1, Marriott Ownership Resorts, Inc., and Wells Fargo Bank, National Association		8-K	10.2	9/16/2014

Exhibit Number	Description	Filed Herewith	Incorporation By Reference From		
			Form	Exhibit	Date Filed
10.27	Indenture Supplement, dated June 24, 2015, among Marriott Vacations Worldwide Owner Trust 2011-1, Marriott Ownership Resorts, Inc., and Wells Fargo Bank, National Association, Deutsche Bank AG, New York Branch, and the Conduits, Alternate Purchasers, Funding Agents and Non-Conduit Committed Purchasers signatory thereto		10-Q	10.2	7/23/2015
10.28	Second Amended and Restated Sale Agreement, entered into September 15, 2014 and dated as of September 1, 2014, between MORI SPC Series Corp. and Marriott Vacations Worldwide Owner Trust 2011-1		8-K	10.1	9/16/2014
10.29	Omnibus Amendment No. 3, dated November 23, 2015, relating to, among other agreements, the Third Amended and Restated Indenture and the Second Amended and Restated Sale Agreement, by and among Marriott Vacations Worldwide Owner Trust 2011-1, Marriott Ownership Resorts, Inc., Wells Fargo Bank, National Association, MORI SPC Series Corp., Marriott Vacations Worldwide Corporation, the Purchasers signatory thereto, Deutsche Bank AG, New York Branch, Wilmington Trust, National Association, and MVCO Series LLC		8-K	10.1	11/25/2015
10.30	Omnibus Amendment No. 4, dated May 20, 2016, relating to, among other agreements, the Third Amended and Restated Indenture and the Second Amended and Restated Sale Agreement, by and among Marriott Vacations Worldwide Owner Trust 2011-1, Marriott Ownership Resorts, Inc., Wells Fargo Bank, National Association, MORI SPC Series Corp., Marriott Vacations Worldwide Corporation, the Purchasers signatory thereto, Deutsche Bank AG, New York Branch, Wilmington Trust, National Association, and MVCO Series LLC		10-Q	10.2	7/21/2016
10.31	Indenture Supplement, dated June 16, 2016, by and among Marriott Vacations Worldwide Owner Trust 2011-1, as issuer, Marriott Ownership Resorts, Inc., Wells Fargo Bank, National Association, Deutsche Bank AG, New York Branch, and the Conduits, Alternate Purchasers, Funding Agents and Non-Conduit Committed Purchasers signatory thereto		10-Q	10.1	7/21/2016
10.32	Omnibus Amendment No. 5, dated March 8, 2017, relating to, among other agreements, the Third Amended and Restated Indenture, by and among Marriott Vacations Worldwide Owner Trust 2011-1, Marriott Ownership Resorts, Inc., Wells Fargo Bank, National Association, MORI SPC Series Corp., Marriott Vacations Worldwide Corporation, the Purchasers signatory thereto, Deutsche Bank AG, New York Branch, Wilmington Trust, National Association, and MVCO Series LLC		8-K	10.1	3/14/2017
10.33	Omnibus Amendment No. 6, dated August 17, 2017, relating to, among other agreements, the Third Amended and Restated Indenture and the Second Amended and Restated Sale Agreement, by and among Marriott Vacations Worldwide Owner Trust 2011-1, Marriott Ownership Resorts, Inc., Wells Fargo Bank, National Association, MORI SPC Series Corp., Marriott Vacations Worldwide Corporation, the Purchasers signatory thereto, Deutsche Bank AG, New York Branch, Wilmington Trust, National Association, and MVCO Series LLC		8-K	10.3	8/21/2017
10.34	Form of Call Option Transaction Confirmation		10-Q	10.1	11/2/2017
10.35	Form of Warrant Confirmation		10-Q	10.2	11/2/2017
10.36	Credit Agreement, dated as of August 31, 2018, among Marriott Vacations Worldwide Corporation, Marriott Ownership Resorts, Inc., the lenders party thereto and JPMorgan Chase Bank, N.A., as administrative agent		8-K	4.9	9/5/2018
10.37	Joinder Agreement, dated as of September 1, 2018, among Interval Acquisition Corp. and JPMorgan Chase Bank, N.A.		8-K	4.10	9/5/2018

Exhibit Number	Description	Filed Herewith	Incorporation By Reference From		
			Form	Exhibit	Date Filed
10.38	Omnibus Amendment No. 8, dated August 31, 2018, relating to, among other agreements, the Third Amended and Restated Indenture, by and among Marriott Vacations Worldwide Owner Trust 2011-1, Marriott Ownership Resorts, Inc., Wells Fargo Bank, National Association, MORI SPC Series Corp., Marriott Vacations Worldwide Corporation, the Purchasers signatory thereto, Deutsche Bank AG, New York Branch, Wilmington Trust, National Association, and MVCO Series LLC.		10-Q	10.3	11/7/2018
10.39	Deferred Compensation Plan for Non-Employee Directors*		S-1 ⁽²⁾	10.12	8/1/2018
10.40	Interval Leisure Group, Inc. 2013 Stock and Incentive Compensation Plan, as amended*		S-8 ⁽²⁾	10.1	8/5/2016
10.41	Form of Terms and Conditions for Annual RSU Awards under the Interval Leisure Group, Inc. 2013 Stock and Incentive Compensation Plan*		10-Q ⁽²⁾	10.1	5/8/2014
10.42	Form of Terms and Conditions for Adjusted EBITDA Performance RSU Awards under the Interval Leisure Group, Inc. 2013 Stock and Incentive Compensation Plan*		10-Q ⁽²⁾	10.2	5/8/2014
10.43	Form of Terms and Conditions for TSR-Based Performance RSU Awards under the Interval Leisure Group, Inc. 2013 Stock and Incentive Compensation Plan*		10-Q ⁽²⁾	10.3	5/8/2014
10.44	Master License Agreement, dated October 1, 2014 between Hyatt Franchising, LLC and S.O.I. Acquisition Corp.		10-K ⁽²⁾	10.33	2/27/2015
10.45	Employee Matters Agreement, dated as of October 27, 2015 among Interval Leisure Group, Inc., Starwood Hotels & Resorts Worldwide, Inc. and Vistana Signature Experiences, Inc., as amended		8-K ⁽²⁾	10.6	5/12/2016
10.46	License, Services and Development Agreement, dated as of May 11, 2016, among Interval Leisure Group, Inc., Starwood Hotels & Resorts Worldwide, Inc. and Vistana Signature Experiences, Inc.		8-K ⁽²⁾	10.1	5/12/2016
10.47	Tax Matters Agreement, dated as of May 11, 2016, among Interval Leisure Group, Inc., Starwood Hotels & Resorts Worldwide, Inc. and Vistana Signature Experiences, Inc.		8-K ⁽²⁾	10.3	5/12/2016
10.48	Starwood Preferred Guest Affiliation Agreement, dated as of May 11, 2016, among Starwood Hotels & Resorts Worldwide, Inc., Preferred Guest, Inc. and Vistana Signature Experiences, Inc.		8-K ⁽²⁾	10.5	5/12/2016
10.49	Termination of Noncompetition Agreement, effective September 1, 2018, between Starwood Hotels & Resorts Worldwide, LLC (formerly Starwood Hotels & Resorts Worldwide, Inc.) and Vistana Signatures Experiences, Inc.		8-K	10.2	9/20/2018
10.50	Letter of Agreement, effective September 1, 2018, among Marriott Vacations Worldwide Corporation, Marriott Ownership Resorts, Inc., Vistana Signatures Experiences, Inc., ILG, LLC, Marriott International, Inc., Marriott Worldwide Corporation, Marriott Rewards, LLC and Starwood Hotels & Resorts Worldwide, LLC		8-K	10.1	9/20/2018
10.51	Amendment No. 2 to the Interval Leisure Group, Inc. 2013 Stock and Incentive Compensation Plan, dated February 25, 2018*		10-Q ⁽²⁾	10.2	5/4/2018
10.52	Amended and Restated Employment Agreement between ILG, Inc. and Jeanette E. Marbert, dated as of March 24, 2017*		10-Q ⁽²⁾	10.2	5/5/2017
10.53	Amendment dated March 28, 2018 to Amended and Restated Employment Agreement between ILG, Inc. and Jeanette E. Marbert*		10-Q ⁽²⁾	10.1	5/4/2018
10.54	Form of Amendment Agreement to Warrant Confirmation	X			
21.1	Subsidiaries of Marriott Vacations Worldwide Corporation	X			
23.1	Consent of Ernst & Young LLP	X			
24.1	Powers of Attorney (included on the signature pages hereto)	X			

Exhibit Number	Description	Filed Herewith	Incorporation By Reference From		
			Form	Exhibit	Date Filed
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934	X			
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934	X			
32.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(b) and Section 906 of the Sarbanes-Oxley Act of 2002			Furnished	
32.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(b) and Section 906 of the Sarbanes-Oxley Act of 2002			Furnished	
101.INS	XBRL Instance Document - The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.	X			
101.SCH	XBRL Taxonomy Extension Schema Document	X			
101.CAL	XBRL Taxonomy Calculation Linkbase Document	X			
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	X			
101.LAB	XBRL Taxonomy Label Linkbase Document	X			
101.PRE	XBRL Taxonomy Presentation Linkbase Document	X			

* Management contract or compensatory plan or arrangement.

† Portions of this exhibit were redacted pursuant to a confidential treatment request filed with the Securities and Exchange Commission pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended. The redacted portions of this exhibit have been filed with the Securities and Exchange Commission.

- (1) Schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The Company agrees to furnish supplemental copies to the SEC of any omitted schedule upon request by the SEC.
- (2) Filing made by ILG, LLC under SEC File No. 001-34062.

Item 16. Form 10-K Summary

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, we have duly caused this Form 10-K to be signed on our behalf by the undersigned, thereunto duly authorized, on this 28th day of February, 2019.

MARRIOTT VACATIONS WORLDWIDE CORPORATION

By: /s/ Stephen P. Weisz
Stephen P. Weisz
President and Chief Executive Officer

POWER OF ATTORNEY

KNOW BY ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints jointly and severally, Stephen P. Weisz, John E. Geller, Jr. and James H Hunter, IV, and each one of them, his or her attorneys-in-fact, each with the power of substitution, for him or her in any and all capacities, to sign any and all amendments to this Annual Report and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each said attorneys-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report has been signed by the following persons on our behalf in the capacities indicated and on the date indicated above.

Principal Executive Officer:

/s/ Stephen P. Weisz
Stephen P. Weisz
President, Chief Executive Officer and Director

Principal Financial Officer:

/s/ John E. Geller, Jr.
John E. Geller, Jr.
Executive Vice President and Chief Financial and Administrative Officer

Principal Accounting Officer:

/s/ Laurie A. Sullivan
Laurie A. Sullivan
Senior Vice President, Corporate Controller and Chief Accounting Officer

Directors:

<u>/s/ William J. Shaw</u> William J. Shaw, Chairman	<u>/s/ Melquiades R. Martinez</u> Melquiades R. Martinez, Director
<u>/s/ C.E. Andrews</u> C.E. Andrews, Director	<u>/s/ William W. McCarten</u> William W. McCarten, Director
<u>/s/ Lizanne Galbreath</u> Lizanne Galbreath, Director	<u>/s/ Dianna F. Morgan</u> Dianna F. Morgan, Director
<u>/s/ Raymond L. Gellein, Jr.</u> Raymond L. Gellein, Jr., Director	<u>/s/ Stephen R. Quazzo</u> Stephen R. Quazzo, Director
<u>/s/ Thomas J. Hutchison III</u> Thomas J. Hutchison III, Director	

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**MARRIOTT
VACATIONS
WORLDWIDE**
SM

BOARD OF DIRECTORS

WILLIAM J. SHAW

Chairman of the Board

STEPHEN P. WEISZ

President and
Chief Executive Officer

C.E. ANDREWS

Former Chief Executive Officer,
MorganFranklin Consulting

LIZANNE GALBREATH

Managing Director,
Galbreath & Company

RAYMOND L. "RIP" GELLEIN, JR.

Former Chairman of the Board,
Chief Executive Officer and President,
Strategic Hotels & Resorts, Inc.

THOMAS J. HUTCHISON III

Chairman,
Legacy Companies, LLC

**MELQUIADES R. "MEL"
MARTINEZ**

Chairman of the Southeast and
Latin America,
JPMorgan Chase & Co.

WILLIAM W. MCCARTEN

Chairman of the Board,
DiamondRock Hospitality Company

DIANNA F. MORGAN

Former Senior Vice President,
Walt Disney World Company

STEPHEN R. QUAZZO

Co-Founder and
Chief Executive Officer,
Pearlmark Real Estate, LLC

EXECUTIVE LEADERSHIP

STEPHEN P. WEISZ

President and
Chief Executive Officer

R. LEE CUNNINGHAM

Executive Vice President and
Chief Operating Officer—
Vacation Ownership

CLIFFORD M. DELOREY

Executive Vice President and
Chief Resort Experience Officer

JOHN E. GELLER, JR.

Executive Vice President and
Chief Financial and
Administrative Officer

JAMES H HUNTER, IV

Executive Vice President and
General Counsel

LIZABETH "LANI" KANE-HANAN

Executive Vice President and
Chief Development and Product Officer

JEANNETTE E. MARBERT

President, Exchange and
Third-Party Management

BRIAN E. MILLER

Executive Vice President and
Chief Marketing, Sales and
Service Officer

DWIGHT D. SMITH

Executive Vice President and
Chief Information Officer

OVIDIO E. VITAS

Executive Vice President and
Chief Brand and Digital Strategy Officer

MICHAEL E. YONKER

Executive Vice President and
Chief Human Resources Officer

INVESTOR RELATIONS

investor@MVWC.com

**CORPORATE
PUBLIC RELATIONS**

EDWARD F. KINNEY

Global Vice President
Corporate Affairs and Communications

TRANSFER AGENT

COMPUTERSHARE

P.O. Box 505000
Louisville, Kentucky 40233-5000

866-429-5244 (toll free)
201-680-6578

CORPORATE INFORMATION

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6649 Westwood Boulevard
Orlando, Florida 32821
407-206-6000

MarriottVacationsWorldwide.com

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LISTED
NYSE**

#theMVWay



Grow



Thrive



Care

Our Culture of Fun. Our Spirit to Serve. Our Way.

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WORLDWIDE
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