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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2019

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 number 001-35219

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

Delaware	**45-2598330**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
6649 Westwood Blvd. Orlando FL	**32821**
(Address of principal executive offices)	**(Zip Code)**

(407) 206-6000
(Registrant's telephone number, including area code)
(Former name, former address and former fiscal year, if changed since last report)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.01 Par Value	VAC	New York Stock Exchange

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

Large accelerated filer	☒	Accelerated filer	☐
Non-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 number of shares outstanding of the issuer's common stock, par value $0.01 per share, as of July 26, 2019 was 43,527,329.

MARRIOTT VACATIONS WORLDWIDE CORPORATION
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Throughout this 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 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. Capitalized terms used and not specifically defined herein have the same meaning given those terms in our Annual Report on Form 10-K for the year ended December 31, 2018. When discussing our properties or markets, we refer to the United States, Mexico, Central America and the Caribbean as “North America.”

On September 1, 2018, we completed the acquisition of ILG, LLC (formerly known as ILG, Inc. (“ILG”)). ILG’s businesses include Aqua-Aston Hospitality, Hyatt Vacation Ownership (“HVO”), Interval International, Trading Places International (“TPI”), Vacation Resorts International (“VRI”), VRI Europe and Vistana Signature Experiences (“Vistana”), the exclusive licensee for the Sheraton and Westin brands in vacation ownership.

PART I. FINANCIAL INFORMATION (UNAUDITED)

Item 1. Financial Statements

MARRIOTT VACATIONS WORLDWIDE CORPORATION
INTERIM CONSOLIDATED STATEMENTS OF INCOME
(In millions, except per share amounts)
(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
REVENUES				
Sale of vacation ownership products	$ 350	$ 205	$ 651	$ 380
Management and exchange	239	78	478	148
Rental	158	74	323	149
Financing	69	36	137	71
Cost reimbursements	252	202	539	418
TOTAL REVENUES	1,068	595	2,128	1,166
EXPENSES				
Cost of vacation ownership products	91	57	171	103
Marketing and sales	193	106	381	211
Management and exchange	118	39	234	75
Rental	104	62	212	117
Financing	25	10	47	21
General and administrative	79	33	157	61
Depreciation and amortization	36	5	73	11
Litigation charges	1	16	2	16
Royalty fee	26	16	52	31
Impairment	—	—	26	—
Cost reimbursements	252	202	539	418
TOTAL EXPENSES	925	546	1,894	1,064
Gains (losses) and other income (expense), net	2	(7)	10	(6)
Interest expense	(35)	(5)	(69)	(9)
ILG acquisition-related costs	(36)	(19)	(62)	(20)
Other	—	(1)	—	(3)
INCOME BEFORE INCOME TAXES AND NONCONTROLLING INTERESTS	74	17	113	64
Provision for income taxes	(25)	(6)	(40)	(17)
NET INCOME	49	11	73	47
Net income attributable to noncontrolling interests	—	—	—	—
NET INCOME ATTRIBUTABLE TO COMMON SHAREHOLDERS	$ 49	$ 11	$ 73	$ 47
EARNINGS PER SHARE ATTRIBUTABLE TO COMMON SHAREHOLDERS				
Basic	$ 1.11	$ 0.40	$ 1.62	$ 1.75
Diluted	$ 1.10	$ 0.39	$ 1.61	$ 1.71
CASH DIVIDENDS DECLARED PER SHARE	$ 0.45	$ 0.40	$ 0.90	$ 0.80

See Notes to Interim Consolidated Financial Statements

MARRIOTT VACATIONS WORLDWIDE CORPORATION
INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In millions)
(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2019	**June 30, 2018**	**June 30, 2019**	**June 30, 2018**
NET INCOME	$ 49	$ 11	$ 73	$ 47
Foreign currency translation adjustments	(2)	(7)	(1)	(1)
Derivative instrument adjustment, net of tax	(13)	—	(16)	—
OTHER COMPREHENSIVE LOSS, NET OF TAX	(15)	(7)	(17)	(1)
Net income attributable to noncontrolling interests	—	—	—	—
Other comprehensive income attributable to noncontrolling interests	—	—	—	—
COMPREHENSIVE INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	—	—	—	—
COMPREHENSIVE INCOME ATTRIBUTABLE TO COMMON SHAREHOLDERS	$ 34	$ 4	$ 56	$ 46

See Notes to the Interim Consolidated Financial Statements

MARRIOTT VACATIONS WORLDWIDE CORPORATION
INTERIM CONSOLIDATED BALANCE SHEETS
(In millions, except share and per share data)

	Unaudited June 30, 2019	December 31, 2018
ASSETS		
Cash and cash equivalents	$ 179	$ 231
Restricted cash (including $80 and $69 from VIEs, respectively)	337	383
Accounts receivable, net (including $12 and $11 from VIEs, respectively)	327	324
Vacation ownership notes receivable, net (including $1,681 and $1,627 from VIEs, respectively)	2,098	2,039
Inventory	888	863
Property and equipment	837	951
Goodwill	2,824	2,828
Intangibles, net	1,075	1,107
Other (including $34 and $26 from VIEs, respectively)	458	292
TOTAL ASSETS	$ 9,023	$ 9,018
LIABILITIES AND EQUITY		
Accounts payable	$ 164	$ 253
Advance deposits	186	171
Accrued liabilities (including $3 and $2 from VIEs, respectively)	417	357
Deferred revenue	356	319
Payroll and benefits liability	172	211
Deferred compensation liability	102	93
Securitized debt, net (including $1,787 and $1,706 from VIEs, respectively)	1,792	1,714
Debt, net	2,157	2,104
Other	64	12
Deferred taxes	343	318
TOTAL LIABILITIES	5,753	5,552
Contingencies and Commitments (Note 11)		
Preferred stock — $0.01 par value; 2,000,000 shares authorized; none issued or outstanding	—	—
Common stock — $0.01 par value; 100,000,000 shares authorized; 57,862,278 and 57,626,462 shares issued, respectively	1	1
Treasury stock — at cost; 13,979,609 and 11,633,731 shares, respectively	(1,004)	(790)
Additional paid-in capital	3,730	3,721
Accumulated other comprehensive (loss) income	(11)	6
Retained earnings	548	523
TOTAL MVW SHAREHOLDERS' EQUITY	3,264	3,461
Noncontrolling interests	6	5
TOTAL EQUITY	3,270	3,466
TOTAL LIABILITIES AND EQUITY	$ 9,023	$ 9,018

The abbreviation VIEs above means Variable Interest Entities.

See Notes to Interim Consolidated Financial Statements

MARRIOTT VACATIONS WORLDWIDE CORPORATION
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)
(Unaudited)

	Six Months Ended	
	June 30, 2019	**June 30, 2018**
OPERATING ACTIVITIES		
Net income	$ 73	$ 47
Adjustments to reconcile net income to net cash, cash equivalents and restricted cash provided by operating activities:		
Depreciation and amortization of intangibles	73	11
Amortization of debt discount and issuance costs	9	8
Vacation ownership notes receivable reserve	51	24
Share-based compensation	17	10
Impairment charges	26	—
Deferred income taxes	20	12
Net change in assets and liabilities, net of the effects of acquisition:		
Accounts receivable	(18)	24
Vacation ownership notes receivable originations	(423)	(233)
Vacation ownership notes receivable collections	309	155
Inventory	76	37
Other assets	(30)	12
Accounts payable, advance deposits and accrued liabilities	(129)	(59)
Deferred revenue	37	29
Payroll and benefit liabilities	(39)	(27)
Deferred compensation liability	9	8
Other, net	(5)	—
Net cash, cash equivalents and restricted cash provided by operating activities	56	58
INVESTING ACTIVITIES		
Capital expenditures for property and equipment (excluding inventory)	(19)	(7)
Proceeds from collection of notes receivable	38	—
Purchase of company owned life insurance	(4)	(12)
Net cash, cash equivalents and restricted cash provided by (used in) investing activities	15	(19)

Continued

See Notes to Interim Consolidated Financial Statements

MARRIOTT VACATIONS WORLDWIDE CORPORATION
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
(In millions)
(Unaudited)

	Six Months Ended	
	June 30, 2019	June 30, 2018
FINANCING ACTIVITIES		
Borrowings from securitization transactions	574	423
Repayment of debt related to securitization transactions	(496)	(154)
Proceeds from debt	310	—
Repayments of debt	(266)	(33)
Debt issuance costs	(6)	(7)
Repurchase of common stock	(215)	(2)
Payment of dividends	(61)	(32)
Payment of withholding taxes on vesting of restricted stock units	(10)	(8)
Net cash, cash equivalents and restricted cash (used in) provided by financing activities	(170)	187
Effect of changes in exchange rates on cash, cash equivalents and restricted cash	1	1
Change in cash, cash equivalents and restricted cash	(98)	227
Cash, cash equivalents and restricted cash, beginning of period	614	491
Cash, cash equivalents and restricted cash, end of period	$ 516	$ 718
SUPPLEMENTAL DISCLOSURES		
Non-cash transfer from property and equipment to inventory	$ 64	$ —
Interest paid, net of amounts capitalized	81	12
Income taxes paid, net of refunds	60	13

See Notes to Interim Consolidated Financial Statements

MARRIOTT VACATIONS WORLDWIDE CORPORATION
INTERIM CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(In millions)
(Unaudited)

Common Stock Issued		Common Stock	Treasury Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total MVW Shareholders' Equity	Noncontrolling Interests	Total Equity
57.6	**BALANCE AT DECEMBER 31, 2018**	$ 1	$ (790)	$ 3,721	$ 6	$ 523	$ 3,461	$ 5	$ 3,466
—	Impact of adoption of ASU 2016-02	—	—	—	—	(8)	(8)	—	(8)
57.6	**OPENING BALANCE 2019**	1	(790)	3,721	6	515	3,453	5	3,458
—	Net income	—	—	—	—	24	24	—	24
—	Foreign currency translation adjustments	—	—	—	1	—	1	—	1
—	Derivative instrument adjustment	—	—	—	(3)	—	(3)	—	(3)
0.2	Share-based compensation plans	—	—	(4)	—	—	(4)	—	(4)
—	Repurchase of common stock	—	(106)	—	—	—	(106)	—	(106)
—	Dividends	—	—	—	—	(20)	(20)	—	(20)
—	Employee stock plan issuance	—	1	—	—	—	1	—	1
57.8	**BALANCE AT MARCH 31, 2019**	1	(895)	3,717	4	519	3,346	5	3,351
—	Net income	—	—	—	—	49	49	—	49
—	ILG Acquisition purchase accounting adjustment	—	—	—	—	—	—	1	1
—	Foreign currency translation adjustments	—	—	—	(2)	—	(2)	—	(2)
—	Derivative instrument adjustment	—	—	—	(13)	—	(13)	—	(13)
—	Share-based compensation plans	—	—	13	—	—	13	—	13
—	Repurchase of common stock	—	(109)	—	—	—	(109)	—	(109)
—	Dividends	—	—	—	—	(20)	(20)	—	(20)
0.1	Employee stock plan issuance	—	—	—	—	—	—	—	—
57.9	**BALANCE AT JUNE 30, 2019**	$ 1	$ (1,004)	$ 3,730	$ (11)	$ 548	$ 3,264	$ 6	$ 3,270

Continued

MARRIOTT VACATIONS WORLDWIDE CORPORATION
INTERIM CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (CONTINUED)
(In millions)
(Unaudited)

See Notes to Interim Consolidated Financial Statements

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
36.9	**BALANCE AT DECEMBER 31, 2017**	$ —	$ (694)	$ 1,189	$ 17	$ 529	$ 1,041	$ —	$ 1,041
—	Net income	—	—	—	—	36	36	—	36
—	Foreign currency translation adjustments	—	—	—	6	—	6	—	6
0.1	Share-based compensation plans	—	—	(5)	—	—	(5)	—	(5)
—	Repurchase of common stock	—	(2)	—	—	—	(2)	—	(2)
—	Dividends	—	—	—	—	(10)	(10)	—	(10)
37.0	**BALANCE AT MARCH 31, 2018**	—	(696)	1,184	23	555	1,066	—	1,066
—	Net income	—	—	—	—	11	11	—	11
—	Foreign currency translation adjustments	—	—	—	(7)	—	(7)	—	(7)
—	Share-based compensation plans	—	—	7	—	—	7	—	7
—	Dividends	—	—	—	—	(11)	(11)	—	(11)
37.0	**BALANCE AT JUNE 30, 2018**	$ —	$ (696)	$ 1,191	$ 16	$ 555	$ 1,066	$ —	$ 1,066

See Notes to Interim Consolidated Financial Statements

1. BASIS OF PRESENTATION

The Interim Consolidated Financial Statements present the results of operations, financial position and cash flows of Marriott Vacations Worldwide Corporation (referred to in this report as (i) "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, or (ii) "MVWC," which shall refer only to Marriott Vacations Worldwide Corporation, without its consolidated subsidiaries). In order to make this report easier to read, we refer throughout to (i) our Interim Consolidated Financial Statements as our "Financial Statements," (ii) our Interim Consolidated Statements of Income as our "Income Statements," (iii) our Interim Consolidated Balance Sheets as our "Balance Sheets," and (iv) our Interim 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 Interim Consolidated Financial Statements, unless otherwise noted. Capitalized terms used and not specifically defined herein have the same meaning given those terms in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018 (the "2018 Annual Report"). 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.

In our opinion, our Financial Statements reflect all normal and recurring adjustments necessary to present fairly our financial position, the results of our operations and cash flows for the periods presented. Interim results may not be indicative of fiscal year performance because of, among other reasons, the ILG Acquisition (defined below) and seasonal and short-term variations. These Financial Statements have not been audited. We have condensed or omitted certain information and footnote disclosures normally included in financial statements presented in accordance with GAAP. Although we believe our footnote disclosures are adequate to make the information presented not misleading, the Financial Statements in this report should be read in conjunction with the consolidated financial statements and notes thereto in our 2018 Annual Report.

The accompanying Financial Statements also reflect our adoption of new accounting standards. See Footnote 2 "Significant Accounting Policies and Recent Accounting Standards" for additional information.

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 $8 million from Accrued liabilities to Accounts payable;
- Reclassified $58 million from Accrued liabilities to Advance deposits; and
- Reclassified $20 million of other debt from Debt, net to Securitized debt, net.

Acquisition of ILG

On September 1, 2018, we completed the 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. 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.

2. SIGNIFICANT ACCOUNTING POLICIES AND RECENT ACCOUNTING STANDARDS

New 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 fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. The adoption of ASU 2017-12 in the first quarter of 2019 did not have a material impact on our Financial Statements or disclosures.

We record derivatives at fair value. The designation of a derivative instrument as a hedge and its ability to meet the hedge accounting criteria determine how we reflect the change in fair value of the derivative instrument in our Financial Statements. A derivative qualifies for hedge accounting if we expect it to be highly effective in offsetting the underlying hedged exposure and we fulfill the hedge documentation requirements. We may designate a hedge as a cash flow hedge, fair value hedge, or a net investment in non-U.S. operations hedge based on the exposure we are hedging. For the effective portion of qualifying hedges, we record changes in fair value in other comprehensive income.

We assess the effectiveness of our hedging instruments quarterly, recognize current period hedge ineffectiveness immediately in earnings, and discontinue hedge accounting for any hedge that we no longer consider to be highly effective. We recognize changes in fair value for derivatives not designated as hedges or those not qualifying for hedge accounting in current period earnings.

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. 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.

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, which as amended, created Accounting Standards Codification 842, *Leases* ("ASC 842"). ASU 2016-02 requires a lessee to recognize most leases on its 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 Accounting Standards Codification 840, *Leases* ("ASC 840"). Lessor accounting remains 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 elected 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 of any such leases or the initial direct costs of any such leases. We will continue to report comparative periods presented in the financial statements in the period of adoption under GAAP in effect as of such comparative period, resulting in a balance sheet presentation that is not comparable to the prior period in the first year of adoption. Additionally, with respect to our real estate leases, we elected an accounting policy by class of underlying asset to combine lease and non-lease components. We also elected to apply an exemption for short-term leases whereby leases with an initial term of a year or less are not recorded on the balance sheet. We did not utilize the practical expedient which allows the use of hindsight by lessees and lessors in determining the lease term and in assessing impairment of their right-of-use assets.

We adopted ASU 2016-02, as amended, during the first quarter of 2019 using the transition method which allows the application of the standard at the adoption date, January 1, 2019. Upon adoption, we recognized a lease obligation of $165 million and a right-of-use asset of $155 million, as well as, a cumulative-effect adjustment of $8 million to the opening balance of retained earnings for our operating and finance leases, primarily related to leases of real estate and other assets.

The adoption of ASU 2016-02 did not have a material effect on our Income Statement or Cash Flows for the six months ended June 30, 2019. See Footnote 12 "Leases" for further discussion of the adoption and the impact on our Financial Statements.

Future Adoption of Accounting Standards

Accounting Standards Update 2017-04 – "*Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*" ("ASU 2017-04")

In January 2017, the FASB issued ASU 2017-04, which simplifies the subsequent measurement of goodwill by eliminating the second step from the goodwill impairment test. ASU 2017-04 requires an entity to perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount, and to recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, not to exceed the total amount of goodwill allocated to that reporting unit. ASU 2017-04 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, and is applied on a prospective basis. Early adoption is permitted for interim or annual impairment tests performed after January 1, 2017. We expect to adopt ASU 2017-04 when required and will follow this guidance during our annual impairment testing to be performed during the fourth quarter of 2019, or earlier upon the occurrence of certain events or substantive changes in circumstances. We do not expect the adoption of ASU 2017-04 to have a material effect on our financial statements or 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 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.

3. ACQUISITIONS AND DISPOSITIONS

Acquisitions

ILG Acquisition

On September 1, 2018, (the "Acquisition Date"), 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 created 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, as adjusted at June 30, 2019.

(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		30
	$	4,215

Preliminary Fair Values of Assets Acquired and Liabilities Assumed

We accounted for the ILG Acquisition as a business combination, which required 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 could be material in relation to the values presented in the table below.

The following table presents our preliminary estimates of the fair values of the assets that we acquired and the liabilities that we assumed on the Acquisition Date in connection with the business combination as previously reported at December 31, 2018 and as adjusted at June 30, 2019. During the second quarter of 2019, we refined our valuation models related to certain acquired property and equipment and our assumptions related to certain acquired management agreements, and recorded an indemnification asset and corresponding liability for tax matters that we believe will be indemnified. See Footnote 5, "Income Taxes" for further information.

($ in millions)		**September 1, 2018 (as reported at December 31, 2018)**		**Adjustments**		**September 1, 2018 (as adjusted at June 30, 2019)**
Vacation ownership notes receivable	$	753	$	—	$	753
Inventory		474		—		474
Property and equipment		374		(1)		373
Intangible assets		1,166		(3)		1,163
Other assets		620		42		662
Deferred revenue		(217)		—		(217)
Deferred taxes		(179)		4		(175)
Debt		(392)		—		(392)
Securitized debt from VIEs		(702)		—		(702)
Other liabilities		(511)		(37)		(548)
Net assets acquired		1,386		5		1,391
Goodwill[(1)]		2,828		(4)		2,824
	$	4,214	$	1	$	4,215

(1) 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 vacation ownership interests ("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 consisted 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 included 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 refine our estimate of the capital expenditure needs of one of the owned hotels, which could result in a change to the provisional value of that asset. We do not expect any other material changes to the provisional estimates.

Goodwill

We allocated the carrying amount of our preliminary estimate of goodwill to our Vacation Ownership and our Exchange & Third-Party Management reporting units. The following table details the carrying amount of our goodwill at June 30, 2019 and 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.

($ in millions)	**Vacation Ownership Segment**	**Exchange & Third-Party Management Segment**	**Total Consolidated**
Balance at December 31, 2018	$ 2,448	$ 380	$ 2,828
Adjustments	(4)	—	(4)
Balance at June 30, 2019	$ 2,444	$ 380	$ 2,824

Intangible Assets

The following table presents our preliminary estimates of the fair values of ILG's identified intangible assets and their related estimated useful lives as of the Acquisition Date.

	Estimated Fair Value ($ in millions)	**Estimated Useful Life (in years)**
Member relationships	$ 695	15 to 20
Management contracts	356	15 to 25
Management contracts[(1)]	30	indefinite
Trade names and trademarks	82	indefinite
	$ 1,163	

(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. These management contracts were entirely related to the VRI Europe business, which we disposed of in the fourth quarter of 2018.

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 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. While we continue to review the related contracts in addition to evaluating the inputs, we do not expect a material change 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 14 "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 outstanding balance on the revolving credit facility that was acquired (the "ILG Revolving Credit Facility") 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.

($ in millions, except per share data)	**Six Months Ended June 30, 2018**	
Revenues	$	2,097
Net income	$	71
Net income attributable to common shareholders	$	68
EARNINGS PER SHARE ATTRIBUTABLE TO COMMON SHAREHOLDERS		
Basic	$	1.45
Diluted	$	1.42

The unaudited pro forma results above include $27 million of ILG acquisition-related costs for the six months ended June 30, 2018.

ILG Results of Operations

The following table presents the results of Legacy-ILG operations included in our Income Statement for the three and six months ended June 30, 2019.

($ in millions)	Three Months Ended June 30, 2019	Six Months Ended June 30, 2019
Revenue	$ 455	$ 913
Net income attributable to common shareholders	$ 34	$ 66

Marco Island, Florida

During the first quarter of 2018, we acquired 20 completed vacation ownership units located at our resort in Marco Island, Florida for $24 million. We accounted for the transaction as an asset acquisition with all of the purchase price allocated to Inventory.

4. REVENUE

Sources of Revenue by Segment

The following tables detail the sources of revenue by segment for the time periods presented.

	Three Months Ended June 30, 2019			
($ in millions)	Vacation Ownership	Exchange & Third-Party Management	Corporate and Other	Total
Sale of vacation ownership products	$ 350	$ —	$ —	$ 350
Ancillary revenues	66	1	—	67
Management fee revenues	38	11	(3)	46
Other services revenues	30	63	33	126
Management and exchange	134	75	30	239
Rental	141	17	—	158
Cost reimbursements	258	22	(28)	252
Revenue from contracts with customers	883	114	2	999
Financing	68	1	—	69
Total Revenues	$ 951	$ 115	$ 2	$ 1,068

($ in millions)	Three Months Ended June 30, 2018 Vacation Ownership	Exchange & Third-Party Management	Corporate and Other	Total
Sale of vacation ownership products	$ 205	$ —	$ —	$ 205
Ancillary revenues	36	—	—	36
Management fee revenues	26	—	—	26
Other services revenues	16	—	—	16
Management and exchange	78	—	—	78
Rental	74	—	—	74
Cost reimbursements	202	—	—	202
Revenue from contracts with customers	559	—	—	559
Financing	36	—	—	36
Total Revenues	$ 595	$ —	$ —	$ 595

($ in millions)	Six Months Ended June 30, 2019 Vacation Ownership	Exchange & Third-Party Management	Corporate and Other	Total
Sale of vacation ownership products	$ 651	$ —	$ —	$ 651
Ancillary revenues	123	2	—	125
Management fee revenues	75	26	(7)	94
Other services revenues	61	129	69	259
Management and exchange	259	157	62	478
Rental	288	34	1	323
Cost reimbursements	549	46	(56)	539
Revenue from contracts with customers	1,747	237	7	1,991
Financing	135	2	—	137
Total Revenues	$ 1,882	$ 239	$ 7	$ 2,128

($ in millions)	Six Months Ended June 30, 2018 Vacation Ownership	Exchange & Third-Party Management	Corporate and Other	Total
Sale of vacation ownership products	$ 380	$ —	$ —	$ 380
Ancillary revenues	64	—	—	64
Management fee revenues	50	—	—	50
Other services revenues	34	—	—	34
Management and exchange	148	—	—	148
Rental	149	—	—	149
Cost reimbursements	418	—	—	418
Revenue from contracts with customers	1,095	—	—	1,095
Financing	71	—	—	71
Total Revenues	$ 1,166	$ —	$ —	$ 1,166

Timing of Revenue from Contracts with Customers by Segment

The following tables detail the timing of revenue from contracts with customers by segment for the time periods presented.

($ in millions)	Three Months Ended June 30, 2019 Vacation Ownership	Exchange & Third-Party Management	Corporate and Other	Total
Services transferred over time	$ 471	$ 55	$ 2	$ 528
Goods or services transferred at a point in time	412	59	—	471
	$ 883	$ 114	$ 2	$ 999

($ in millions)	Three Months Ended June 30, 2018 Vacation Ownership	Exchange & Third-Party Management	Corporate and Other	Total
Services transferred over time	$ 315	$ —	$ —	$ 315
Goods or services transferred at a point in time	244	—	—	244
	$ 559	$ —	$ —	$ 559

($ in millions)	Six Months Ended June 30, 2019 Vacation Ownership	Exchange & Third-Party Management	Corporate and Other	Total
Services transferred over time	$ 978	$ 113	$ 7	$ 1,098
Goods or services transferred at a point in time	769	124	—	893
	$ 1,747	$ 237	$ 7	$ 1,991

($ in millions)	Six Months Ended June 30, 2018 Vacation Ownership	Exchange & Third-Party Management	Corporate and Other	Total
Services transferred over time	$ 643	$ —	$ —	$ 643
Goods or services transferred at a point in time	452	—	—	452
	$ 1,095	$ —	$ —	$ 1,095

Sale of Vacation Ownership Products

Revenues were reduced during the second quarter and first half of 2019 by $4 million and $3 million, respectively, due to changes in our estimate of variable consideration for performance obligations that were satisfied in prior periods.

Receivables, Contract Assets & Contract Liabilities

The following table shows the composition of our receivables and contract liabilities. We had no contract assets at either June 30, 2019 or December 31, 2018.

($ in millions)	**At June 30, 2019**	**At December 31, 2018**
Receivables		
Accounts receivable	$ 127	$ 164
Vacation ownership notes receivable, net	2,098	2,039
	$ 2,225	$ 2,203
Contract Liabilities		
Advance deposits	$ 186	$ 171
Deferred revenue	356	319
	$ 542	$ 490

Revenue recognized during the second quarter and first half of 2019 that was included in our contract liabilities balance at December 31, 2018 was $51 million and $203 million, respectively.

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 June 30, 2019, over 90 percent of this amount is expected to be recognized as revenue over the next two years.

5. INCOME TAXES

Our provision for income taxes is calculated using an estimated annual effective tax rate, based upon expected annual income, less losses in certain jurisdictions, permanent items, statutory rates and planned tax strategies in the various jurisdictions in which we operate. However, discrete items related to prior year tax items are treated separately.

Our interim effective tax rate was 32.97 percent and 38.08 percent for the three months ended June 30, 2019 and June 30, 2018, respectively. The decrease in effective tax rate is predominately attributable to a change in our projected mix of earnings in international jurisdictions with differing tax rates and jurisdictions where valuation allowances are recorded, primarily as a result of the ILG Acquisition.

Our interim effective tax rate was 35.55 percent and 27.05 percent for the six months ended June 30, 2019 and June 30, 2018, respectively. The increase in the effective tax rate is predominately attributable to the change in expected annual income primarily as a result of the ILG Acquisition, and discrete tax adjustments relating to share-based compensation.

We file income tax returns with U.S. federal and state and non-U.S. jurisdictions and are subject to audits in these jurisdictions. Certain of our returns are being audited in various jurisdictions for years 2012 through 2017. During the second quarter of 2019, we adjusted our preliminary purchase price allocation for the ILG Acquisition to record a $36 million reserve for Legacy-ILG tax matters prior to the ILG Acquisition. We expect that we will be indemnified for this amount pursuant to the Tax Matters Agreement dated May 11, 2016, among Starwood Hotels & Resorts Worldwide, Inc. (“Starwood”), Vistana Signature Experiences, Inc., and Interval Leisure Group, Inc., and as such, have recorded a corresponding indemnification asset. Our unrecognized tax benefit balance could change significantly during the next fiscal year as a result of audits in various jurisdictions and our total unrecognized tax benefit balance that, if recognized, would impact our effective tax rate, was $2 million at both June 30, 2019 and December 31, 2018.

6. VACATION OWNERSHIP NOTES RECEIVABLE

The following table shows the composition of our vacation ownership notes receivable balances, net of reserves.

	June 30, 2019			December 31, 2018		
($ in millions)	Originated	Acquired	Total	Originated	Acquired	Total
Securitized	$ 1,209	$ 472	$ 1,681	$ 1,070	$ 557	$ 1,627
Non-securitized						
Eligible for securitization[1]	83	11	94	85	22	107
Not eligible for securitization[1]	261	62	323	233	72	305
Subtotal	344	73	417	318	94	412
	$ 1,553	$ 545	$ 2,098	$ 1,388	$ 651	$ 2,039

(1) Refer to Footnote 7 "Financial Instruments" for a 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.

	Three Months Ended		Six Months Ended	
($ in millions)	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Interest income associated with vacation ownership notes receivable — securitized	$ 59	$ 27	$ 118	$ 53
Interest income associated with vacation ownership notes receivable — non-securitized	8	7	14	15
Total interest income associated with vacation ownership notes receivable	$ 67	$ 34	$ 132	$ 68

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 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 December 31, 2018 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.

($ in millions)	**Six Months Ended June 30, 2019**
Accretable yield balance at December 31, 2018	$ 199
Accretion	(43)
Reclassification from non-accretable difference	(3)
Accretable yield balance at June 30, 2019	$ 153
Non-accretable difference at June 30, 2019	$ 55

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 table shows future contractual principal payments, as well as interest rates for our non-securitized and securitized acquired vacation ownership notes receivable, at June 30, 2019.

	Acquired Vacation Ownership Notes Receivable		
($ in millions)	**Non-Securitized**	**Securitized**	**Total**
2019, remaining	$ 7	$ 55	$ 62
2020	7	53	60
2021	8	53	61
2022	8	53	61
2023	8	52	60
Thereafter	35	206	241
Balance at June 30, 2019	$ 73	$ 472	$ 545
Weighted average stated interest rate	13.5%	13.4%	13.4%
Range of stated interest rates	0.0% to 17.9%	6.0% to 16.9%	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 June 30, 2019.

	Originated Vacation Ownership Notes Receivable		
($ in millions)	**Non-Securitized**	**Securitized**	**Total**
2019, remaining	$ 34	$ 65	$ 99
2020	45	114	159
2021	37	120	157
2022	32	125	157
2023	29	128	157
Thereafter	167	657	824
Balance at June 30, 2019	$ 344	$ 1,209	$ 1,553
Weighted average stated interest rate	11.8%	12.6%	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.

The following table summarizes the activity related to our originated vacation ownership notes receivable reserve.

	Originated Vacation Ownership Notes Receivable Reserve		
($ in millions)	**Non-Securitized**	**Securitized**	**Total**
Balance at December 31, 2018	$ 61	$ 79	$ 140
Increase in vacation ownership notes receivable reserve	38	8	46
Securitizations	(35)	35	—
Clean-up call[(1)]	18	(18)	—
Write-offs	(23)	—	(23)
Defaulted vacation ownership notes receivable repurchase activity[(2)]	11	(11)	—
Balance at June 30, 2019	$ 70	$ 93	$ 163

(1) Refers to our voluntary repurchase of previously securitized non-defaulted vacation ownership notes receivable to retire outstanding vacation ownership notes receivable from our Warehouse Credit Facility.

(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

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 6.94 percent and 7.01 percent as of June 30, 2019 and December 31, 2018, respectively. A 0.5

percentage point increase in the estimated default rate would have resulted in an increase in our vacation ownership notes receivable reserve of $7 million as of both June 30, 2019 and December 31, 2018.

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.

	Legacy-MVW Vacation Ownership Notes Receivable		
($ in millions)	**Non-Securitized**	**Securitized**	**Total**
Investment in vacation ownership notes receivable on non-accrual status at June 30, 2019	$ 41	$ 8	$ 49
Investment in vacation ownership notes receivable on non-accrual status at December 31, 2018	$ 36	$ 9	$ 45
Average investment in vacation ownership notes receivable on non-accrual status during the second quarter of 2019	$ 39	$ 10	$ 49
Average investment in vacation ownership notes receivable on non-accrual status during the second quarter of 2018	$ 39	$ 8	$ 47
Average investment in vacation ownership notes receivable on non-accrual status during the first half of 2019	$ 38	$ 9	$ 47
Average investment in vacation ownership notes receivable on non-accrual status during the first half of 2018	$ 39	$ 7	$ 46

The following table shows the aging of the recorded investment in principal, before reserves, in Legacy-MVW vacation ownership notes receivable as of June 30, 2019.

	Legacy-MVW Vacation Ownership Notes Receivable		
($ in millions)	**Non-Securitized**	**Securitized**	**Total**
31 – 90 days past due	$ 6	$ 21	$ 27
91 – 150 days past due	5	8	13
Greater than 150 days past due	36	—	36
Total past due	47	29	76
Current	223	1,160	1,383
Total vacation ownership notes receivable	$ 270	$ 1,189	$ 1,459

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.

	Legacy-MVW Vacation Ownership Notes Receivable		
($ in millions)	**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

Legacy-ILG Vacation Ownership Notes Receivable

On an ongoing basis, we monitor 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 or 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 June 30, 2019 and December 31, 2018, the weighted average FICO score within our consolidated Legacy-ILG vacation ownership notes receivable pools was 711 and 710, respectively, 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 June 30, 2019 and December 31, 2018 was 12.41 percent and 12.37 percent, respectively. 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 $2 million and $1 million as of June 30, 2019 and December 31, 2018, respectively.

The following table shows the Legacy-ILG acquired vacation ownership notes receivable by brand and FICO score as of June 30, 2019.

	Acquired Vacation Ownership Notes Receivable				
($ in millions)	**700 +**	**600 - 699**	**< 600**	**No Score[(1)]**	**Total**
Westin	$ 127	$ 70	$ 5	$ 17	$ 219
Sheraton	120	104	19	45	288
Hyatt	17	12	2	—	31
Other	4	1	—	2	7
	$ 268	$ 187	$ 26	$ 64	$ 545

(1) Vacation ownership notes receivable with no FICO score primarily relate to non-U.S. resident borrowers.

The following table shows the Legacy-ILG acquired vacation ownership notes receivable by brand and FICO score as of December 31, 2018.

	Acquired Vacation Ownership Notes Receivable				
($ in millions)	**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
	$ 323	$ 220	$ 29	$ 79	$ 651

(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 June 30, 2019.

	Originated Vacation Ownership Notes Receivable				
($ in millions)	700 +	600 - 699	< 600	No Score[(1)]	Total
Westin	$ 80	$ 27	$ 2	$ 14	$ 123
Sheraton	58	36	6	21	121
Hyatt	9	4	1	—	14
	$ 147	$ 67	$ 9	$ 35	$ 258

(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.

	Originated Vacation Ownership Notes Receivable				
($ in millions)	700 +	600 - 699	< 600	No Score[(1)]	Total
Westin	$ 43	$ 11	$ 1	$ 7	$ 62
Sheraton	28	17	3	9	57
Hyatt	5	2	—	—	7
	$ 76	$ 30	$ 4	$ 16	$ 126

(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 June 30, 2019 and December 31, 2018.

	Originated Vacation Ownership Notes Receivable						
			Delinquent			Defaulted[(1)]	
($ in millions)	Receivables	Current	30 - 59 Days	60 - 89 Days	90 - 119 Days	> 120 Days	Total Delinquent & Defaulted
As of June 30, 2019	$ 258	$ 252	$ 3	$ 2	$ 1	$ —	$ 6
As of 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. The table also excludes acquired vacation ownership notes receivable which are remeasured at each period end based on expected future cash flows. See Footnote 6 "Vacation Ownership Notes Receivable" for additional information on our acquired vacation ownership notes receivable.

	At June 30, 2019		At December 31, 2018	
($ in millions)	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Originated vacation ownership notes receivable	$ 1,553	$ 1,584	$ 1,388	$ 1,413
Other assets	41	41	66	66
Total financial assets	$ 1,594	$ 1,625	$ 1,454	$ 1,479
Securitized debt, net	$ (1,792)	$ (1,820)	$ (1,714)	$ (1,718)
Exchange Notes, net	(88)	(89)	(88)	(87)
Senior Unsecured Notes, net	(742)	(807)	(741)	(726)
IAC Notes	(141)	(140)	(141)	(140)
Term Loan, net	(884)	(895)	(888)	(887)
Revolving Corporate Credit Facility, net	(76)	(76)	—	—
Convertible notes, net	(203)	(221)	(199)	(198)
Non-interest bearing note payable, net	—	—	(30)	(30)
Total financial liabilities	$ (3,926)	$ (4,048)	$ (3,801)	$ (3,786)

Originated Vacation Ownership Notes Receivable

	At June 30, 2019		At December 31, 2018	
($ in millions)	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Originated vacation ownership notes receivable				
Securitized	$ 1,209	$ 1,238	$ 1,070	$ 1,093
Eligible for securitization	83	85	85	87
Not eligible for securitization	261	261	233	233
Non-securitized	344	346	318	320
	$ 1,553	$ 1,584	$ 1,388	$ 1,413

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 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 $34 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 $7 million that are marked to market as trading securities using quoted market prices (Level 1 inputs).

Securitized Debt

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 and 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 that the fair value of our Term Loan (as defined in Footnote 14 “Debt”) 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 Term Loan could be retired or transferred. We concluded that this fair value measurement should be categorized within Level 3.

Revolving Corporate Credit Facility

We estimate that the fair value of our Revolving Corporate Credit Facility (as defined in Footnote 11 “Contingencies and Commitments”) approximates its gross carrying value as the contractual interest rate is variable plus an applicable margin. We concluded that this fair value measurement should be categorized within Level 3.

Convertible Notes

We estimate the fair value of our Convertible 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 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.

8. EARNINGS PER SHARE

Basic earnings per common share attributable to common shareholders 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 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 common share applicable to common shareholders by application of the treasury stock method using average market prices during the period.

Our calculation of diluted earnings per share attributable to common shareholders 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 June 30, 2019 or June 30, 2018, there was no dilutive impact from the Convertible Notes for either the second quarter or first half of 2019 or 2018.

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 during the second quarter of 2019 to $175.79, 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 attributable to common shareholders.

The table below illustrates the reconciliation of the earnings and number of shares used in our calculation of basic and diluted earnings per share attributable to common shareholders.

	Three Months Ended		Six Months Ended	
(in millions, except per share amounts)	**June 30, 2019[(1)]**	**June 30, 2018[(1)]**	**June 30, 2019[(1)]**	**June 30, 2018[(1)]**
Computation of Basic Earnings Per Share Attributable to Common Shareholders				
Net income attributable to common shareholders	$ 49	$ 11	$ 73	$ 47
Shares for basic earnings per share	44.7	26.7	45.1	26.7
Basic earnings per share	$ 1.11	$ 0.40	$ 1.62	$ 1.75
Computation of Diluted Earnings Per Share Attributable to Common Shareholders				
Net income attributable to common shareholders	$ 49	$ 11	$ 73	$ 47
Shares for basic earnings per share	44.7	26.7	45.1	26.7
Effect of dilutive shares outstanding				
Employee stock options and SARs	0.3	0.4	0.3	0.4
Restricted stock units	0.2	0.2	0.2	0.2
Shares for diluted earnings per share	45.2	27.3	45.6	27.3
Diluted earnings per share	$ 1.10	$ 0.39	$ 1.61	$ 1.71

(1) The computations of diluted earnings per share attributable to common shareholders exclude approximately 452,000 and 307,000 shares of common stock, the maximum number of shares issuable as of June 30, 2019 and June 30, 2018, 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 reporting period.

In accordance with the applicable accounting guidance for calculating earnings per share, for the second quarter of 2019, we excluded from our calculation of diluted earnings per share 167,760 shares underlying stock appreciation rights ("SARs") that may settle in shares of common stock because the exercise prices of such SARs, which ranged from $100.52 to $143.38, were greater than the average market price for the applicable period.

For the first half of 2019, we excluded from our calculation of diluted earnings per share 249,737 shares underlying SARs that may settle in shares of common stock because the exercise prices of such SARs, which ranged from $97.53 to $143.38, were greater than the average market price for the applicable period.

For the second quarter and first half of 2018, we excluded from our calculation of diluted earnings per share 56,649 shares underlying SARs that may settle 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.

9. INVENTORY

The following table shows the composition of our inventory balances:

($ in millions)	At June 30, 2019	At December 31, 2018
Finished goods[1]	$ 828	$ 843
Work-in-progress	48	9
Real estate inventory	876	852
Other	12	11
	$ 888	$ 863

(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 products 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. Product cost true-up activity relating to vacation ownership products increased carrying values of inventory by $4 million and less than $1 million during the first half of 2019 and the first half of 2018, respectively.

In addition to the above, at June 30, 2019, we had $48 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:

($ in millions)	At June 30, 2019	At December 31, 2018
Land and land improvements	$ 373	$ 466
Buildings and leasehold improvements	403	404
Furniture, fixtures and other equipment	87	88
Information technology	311	297
Construction in progress	38	32
	1,212	1,287
Accumulated depreciation	(375)	(336)
	$ 837	$ 951

As a result of the ILG Acquisition, we are performing a comprehensive review of our property and equipment to determine the best strategic direction with respect to these assets for the combined company. These assets include undeveloped parcels, future phases of existing resorts, operating hotels and other non-core assets. A key focus of the comprehensive review is to evaluate opportunities to reduce holdings in markets where we have excess supply so that future inventory spend will be focused on markets that create incremental cost-effective sales locations in areas of high customer demand. The result of this review could have a material impact on the carrying value of certain assets, which, in turn, would result in non-cash impairments.

During the second quarter of 2019, we entered into a contract to sell land and land improvements associated with a future phase of an existing resort located in Orlando, Florida for $10 million, which was less than the carrying value of the land and land improvements. As a result, we recorded a non-cash impairment of $26 million in the first half of 2019. The impairment is primarily attributable to the fact that the book value of the assets to be sold exceeds the sales price because the book value includes allocations of common costs incurred when we built the infrastructure for the resort, including future phases.

11. CONTINGENCIES AND COMMITMENTS

Commitments and Letters of Credit

As of June 30, 2019, 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 $62 million, of which we expect $19 million, $19 million, $10 million, $7 million, $6 million and $1 million will be paid in the remainder of 2019, 2020, 2021, 2022, 2023 and thereafter, respectively.
- We have commitments of $3 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 attributable to a related finance 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 was 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 2020 and to make the remaining payments with respect to these units when specific construction milestones are completed, as follows: $7 million in 2019, $23 million in 2020 and $2 million in 2021.
- During the second 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 attributable to a related finance 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: $57 million in 2019, $55 million in 2020 and $46 million in 2021. We currently manage this property, which was rebranded 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. Subsequent to the end of the second quarter of 2019, we made a payment of $57 million relating to this commitment.

Surety bonds issued as of June 30, 2019 totaled $78 million, the majority of which were requested by federal, state or local governments in connection with our operations.

As of June 30, 2019, we had $4 million of letters of credit outstanding under our $600 million revolving credit facility (the "Revolving Corporate Credit Facility"). In addition, as of June 30, 2019, we had $4 million in letters of credit outstanding related to and in lieu of reserves required for several vacation ownership notes receivable securitization transactions outstanding. These letters of credit are not issued pursuant to, nor do they impact our borrowing capacity under, the Revolving Credit Facility.

We estimate the cash outflow associated with completing the phases of our existing portfolio of vacation ownership projects currently under development will be approximately $17 million, of which $3 million is included within liabilities on our Balance Sheet at June 30, 2019. This estimate is based on our current development plans, which remain subject to change, and we expect the phases currently under development will be completed by the end of 2019.

Guarantees

Certain of our rental management agreements in our Exchange & Third-Party Management segment provide for owners of properties we manage to receive specified percentages or guaranteed amounts of the rental revenue generated under our 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. At June 30, 2019, our maximum exposure under these guarantees is $37 million, of which $8 million, $10 million, $9 million, $4 million, $2 million and $4 million relate to the remainder of 2019, 2020, 2021, 2022, 2023 and thereafter. In addition, our maximum exposure under other guarantees is $4 million.

Loss Contingencies

In March 2017, RCHFU, L.L.C. and other owners at The Ritz-Carlton Club, Aspen Highlands ("RCC Aspen Highlands") filed a complaint in an action pending in the U.S. District Court for the District of Colorado against us and certain third parties, alleging that their fractional interests were devalued by the affiliation of the RCC Aspen Highlands and other Ritz-Carlton Clubs with our points-based Marriott Vacation Club Destinations ("MVCD") program. The plaintiffs are seeking compensatory damages, disgorgement, fees and costs.

In May 2016, a purported class-action lawsuit was filed in the U.S. District Court for the Middle District of Florida by Anthony and Beth Lennen against us and certain third parties. The complaint challenges the characterization of the beneficial interests in the MVCD trust that are sold to customers as real estate interests under Florida law, the structure of the trust, and associated operational aspects of the trust. The plaintiffs are seeking declaratory relief, an unwinding of the MVCD product, and punitive damages.

In December 2016, Flora and Bruce Gillespie and other owners and former owners of 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 in the U.S. District Court for the Southern District of New York against ILG, certain of its subsidiaries, and certain third parties alleging that 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 breached the relevant agreements and harmed the value of plaintiffs' fractional interests. The plaintiffs are seeking compensatory damages, rescission, disgorgement, fees and costs.

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, which was amended to add Marriott International and Starwood as additional defendants in March 2017. The lawsuit was subsequently transferred to the U.S. District Court for the Middle District of Florida. The operative complaint alleges that 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 Marriott International and Starwood, breached their fiduciary duties related to sale and rental practices, and further alleges tortious interference with the management agreement, unjust enrichment, and anticompetitive conduct. The amended complaint also alleges anticompetitive conduct in connection with the renewal of the St. Regis NY Club management agreement. The plaintiff is seeking declaratory relief in connection with the Starpoint conversion program and the exchange program at the St. Regis NY Club, unspecified damages, and disgorgement of payments under the management and purchase agreements.

In April 2019, a purported class-action lawsuit was filed by Alan and Marjorie Helman and others against us in the Superior Court of the Virgin Islands, Division of St. Thomas alleging that their fractional interests were devalued by the affiliation of The Ritz-Carlton Club, St. Thomas and other Ritz-Carlton Clubs with our MVCD program. The lawsuit was subsequently removed to the U.S. District Court for the District of the Virgin Islands. The plaintiffs are seeking unspecified damages, disgorgement of profits, fees and costs.

In May 2019, the G.A. Resort Condominium Association Inc., the owners' association for the fractional owners at the Hyatt Residence Club Grand Aspen resort ("HRC Grand Aspen") filed a lawsuit against us in the District Court for the County of Pitkin, Colorado relating to the transfer of ownership of developer-owned fractional interests at HRC Grand Aspen to the HPC Trust Club for sale and use as a part of the Hyatt Residence Club Portfolio Program. The lawsuit was subsequently removed to the U.S. District Court for the District of Colorado. The plaintiff is seeking termination of the management agreement with the owners' association, the annulment of certain amendments to governing documents at HRC Grand Aspen, the removal of fractional interests at HRC Grand Aspen from the HPC Trust Club, unspecified damages, disgorgement of profits, fees and costs.

We believe we have meritorious defenses to the claims in each of the above matters and intend to vigorously defend each matter.

In the ordinary course of our business, various claims and lawsuits have been filed or are pending against us. A number of these lawsuits and claims may exist at any given time. We record and accrue for legal 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 loss. We review these accruals each reporting period and make revisions based on changes in facts and circumstances.

We have not accrued for any of the pending matters described above and we cannot estimate a range of the potential liability associated with these pending matters, if any, at this time. We have accrued for other claims and lawsuits, but the amount accrued is not material in the aggregate. For matters not requiring accrual, we do not believe that the ultimate outcome of such matters, individually and in the aggregate, will materially harm our financial position, cash flows, or overall trends in results of operations based on information currently available. However, legal proceedings are inherently uncertain, and while we believe that our accruals are adequate and/or we have valid defenses to the claims asserted, unfavorable rulings could occur that could, individually or in the aggregate, have a material adverse effect on our business, financial condition, or operating results.

Other

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. During 2018, we recovered $6 million. During the second quarter of 2019, we received $3 million from our insurance company as final settlement of our claim, and the insurance company waived the requirement for us to reimburse the insurance company for any monies subsequently recovered. We recorded a gain of $3 million in the Gains (losses) and other income (expense), net line of our Income Statement for the second quarter and first half of 2019. 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 June 30, 2019, the property insurance claim receivable related to this event and other 2017 storms was $10 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 our 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 our Income Statement for the year ended December 31, 2018. During the first quarter of 2019, we recorded an additional $9 million of other income relating to the final settlement of these business interruption insurance claims, which was recorded in the Gains (losses) and other income (expense), net line on our Income Statement for the six months ended June 30, 2019.

12. LEASES

We account for leases in accordance with ASC 842, which we adopted using the optional transition method in the period of adoption as of January 1, 2019, without retrospective application to comparative periods. See Footnote 2 “Significant Accounting Policies and Recent Accounting Standards” for additional information.

Operating leases include lease arrangements for various land, corporate facilities, real estate and equipment. 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 various equipment supporting our operations, with varying terms and renewal option periods.

Finance leases (analogous to capital leases under ASC 840) include lease arrangements for ancillary and operations space for which it is reasonably certain we will exercise the option to purchase the underlying assets in connection with the commitment to purchase the associated operating property. See Footnote 11 “Contingencies and Commitments” for additional information regarding these transactions. In addition, we also lease various equipment supporting our operations and classify these leases as finance leases in accordance with ASC 842. The depreciable life of these assets are limited to the expected lease term, unless there is a transfer of title or purchase option reasonably certain of exercise.

Right-of-use assets and lease liabilities are recognized based on the present value of lease payments over the lease term at commencement date. For purposes of calculating lease liabilities, lease terms may be deemed to include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Macro-economic conditions are the primary factor used to estimate whether an option to extend a lease term will be exercised or not. For existing leases that commenced prior to the adoption of ASC 842, we made an accounting policy election to use our incremental borrowing rate, considering the remaining lease term and remaining minimum rental payments during transition, in establishing our lease liabilities. For new leases entered into after the adoption of ASC 842, we will use an incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. Certain of our lease agreements include variable rental payments that are based on a percentage of retail sales over contractual levels and others include rental payments adjusted periodically for inflation.

The following table presents the carrying values of our leases and the classification on our Balance Sheet as of June 30, 2019.

($ in millions)	**Balance Sheet Classification**	**At June 30, 2019**
Operating lease assets	Other assets	$ 121
Finance lease assets	Property and equipment	22
		$ 143
Operating lease liabilities	Accrued liabilities	$ 134
Finance lease liabilities	Debt	22
		$ 156

The following table presents the lease costs and the classification on our Income Statement for the three and six months ended June 30, 2019.

($ in millions)	**Income Statement Classification**	**Three Months Ended June 30, 2019**	**Six Months Ended June 30, 2019**
Operating lease cost	Marketing and sales expense General and administrative expense	$ 9	$ 17
Finance lease cost			
Amortization of right-of-use assets	Depreciation and amortization	1	2
Interest on lease liabilities	Interest expense	1	1
Variable lease cost	Marketing and sales expense	1	2
		$ 12	$ 22

The following table presents the maturity of our operating and financing lease liabilities as of June 30, 2019.

($ in millions)	Operating Leases	Finance Leases[1]	Total
2019, remaining	$ 15	$ 11	$ 26
2020	29	10	39
2021	21	2	23
2022	18	—	18
2023	16	—	16
Thereafter	103	—	103
Total lease payments	202	23	225
Less: Imputed interest	(68)	(1)	(69)
	$ 134	$ 22	$ 156

(1) Finance lease payments include $17 million related to residual value guarantees associated with purchase commitments for operating properties in San Francisco, California and New York, New York. See Footnote 11 “Contingencies and Commitments” for additional information regarding these transactions.

Lease Term and Discount Rate

	At June 30, 2019
Weighted-average remaining lease term (in years)	
Operating leases	11.4 years
Finance leases	0.7 years
Weighted-average discount rate	
Operating leases	6.1%
Finance leases	4.8%

Other Information

($ in millions)	Six Months Ended June 30, 2019
Cash paid for amounts included in measurement of lease liabilities	
Operating cash flows for finance leases	$ —
Operating cash flows for operating leases	17
Financing cash flows for finance leases	2
	$ 19

13. SECURITIZED DEBT

The following table provides detail on our securitized debt, net of unamortized debt issuance costs.

($ in millions)	At June 30, 2019	At December 31, 2018
Vacation ownership notes receivable securitizations, gross[1]	$ 1,787	$ 1,590
Unamortized debt discount and issuance costs	(15)	(11)
	1,772	1,579
Warehouse Credit Facility, gross	—	116
Unamortized debt issuance costs[2]	—	(1)
	—	115
Other[3]	20	20
	$ 1,792	$ 1,714

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(1) Interest rates as of June 30, 2019 range from 2.2% to 6.3%, with a weighted average interest rate of 2.9%

(2) Excludes $1 million of unamortized debt issuance costs as of June 30, 2019, as no cash borrowings were outstanding on the Warehouse Credit Facility at that time

(3) Non-recourse

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

On May 23, 2019, we completed the securitization of a pool of $459 million of vacation ownership notes receivable. Approximately $367 million of the vacation ownership notes receivable were purchased on May 23, 2019 by MVW 2019-1 LLC (the “2019-1 LLC”), and an additional $85 million of the vacation ownership notes receivable were purchased prior to June 30, 2019. As of June 30, 2019, the 2019-1 LLC held $6 million of the proceeds, which were released as the remaining vacation ownership notes receivable were purchased. On July 12, 2019, subsequent to the end of the second quarter of 2019, the 2019-1 LLC purchased the remaining $7 million of vacation ownership notes receivable and $6 million was released from restricted cash. In connection with the securitization, investors purchased in a private placement $450 million in vacation ownership loan backed notes from the 2019-1 LLC. Three classes of vacation ownership loan backed notes were issued by the 2019-1 LLC: $350 million of Class A Notes, $67 million of Class B Notes and $33 million of Class C Notes. The Class A Notes have an interest rate of 2.89 percent, the Class B Notes have an interest rate of 3.00 percent and the Class C Notes have an interest rate of 3.33 percent, for an overall weighted average interest rate of 2.94 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 the second quarter of 2019, and as of June 30, 2019, no securitized vacation ownership notes receivable pools were out of compliance with their respective established parameters. As of June 30, 2019, we had 12 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 securitized debt as of June 30, 2019.

($ in millions)	**Vacation Ownership Notes Receivable Securitizations**	**Other**	**Total**
Payments Year			
2019, remaining	$ 128	$ 1	$ 129
2020	225	2	227
2021	202	2	204
2022	191	3	194
2023	185	3	188
Thereafter	856	9	865
	$ 1,787	$ 20	$ 1,807

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. During the first quarter of 2019, we securitized vacation ownership notes receivable under our Warehouse Credit Facility. The carrying amount of the vacation ownership notes receivable securitized was $146 million. The advance rate was 85 percent, which resulted in gross proceeds of $124 million. Net proceeds were $123 million due to the funding of reserve accounts of $1 million.

As of June 30, 2019, there were no cash borrowings outstanding under our Warehouse Credit Facility. All outstanding amounts were repaid with proceeds from our vacation ownership notes receivable securitization transaction during the second quarter of 2019.

14. DEBT

The following table provides detail on our debt balances, net of unamortized debt discount and issuance costs.

($ in millions)	At June 30, 2019	At December 31, 2018
Senior Notes		
Exchange Notes	$ 89	$ 89
Unamortized debt issuance costs	(1)	(1)
	88	88
Senior Unsecured Notes	750	750
Unamortized debt issuance costs	(8)	(9)
	742	741
IAC Notes	141	141
Corporate Credit Facility		
Term Loan	895	900
Unamortized debt discount and issuance costs	(11)	(12)
	884	888
Revolving Corporate Credit Facility	80	—
Unamortized debt issuance costs[1]	(4)	—
	76	—
Convertible notes, gross	230	230
Unamortized debt discount and issuance costs	(27)	(31)
	203	199
Non-Interest bearing note payable	—	31
Unamortized debt discount	—	(1)
	—	30
Finance leases	23	17
	$ 2,157	$ 2,104

(1) Excludes $4 million of unamortized debt issuance costs as of December 31, 2018, as no cash borrowings were outstanding on the Revolving Corporate Credit Facility at that time.

The following table shows scheduled future principal payments for our debt, excluding finance leases, as of June 30, 2019.

	Payments Year						
($ in millions)	Remaining 2019	2020	2021	2022	2023	Thereafter	Total
Exchange Notes	$ —	$ —	$ —	$ —	$ 89	$ —	$ 89
Senior Unsecured Notes	—	—	—	—	—	750	750
IAC Notes	—	—	—	—	141	—	141
Term Loan	4	9	9	9	9	855	895
Revolving Corporate Credit Facility	—	—	—	—	80	—	80
Convertible Notes	—	—	—	230	—	—	230
	$ 4	$ 9	$ 9	$ 239	$ 319	$ 1,605	$ 2,185

Senior Notes

Our Senior Notes include the following: $750 million aggregate principal amount of 6.500% senior unsecured notes due 2026 issued in the third quarter of 2018 (the "Senior Unsecured Notes"); $350 million in aggregate principal amount of outstanding 5.625% Senior Unsecured Notes due 2023 assumed in connection with the ILG Acquisition (the "IAC Notes"); and 5.625% Senior Unsecured Notes due 2023 offered in exchange for the IAC Notes during the third quarter of 2018 (the "Exchange Notes").

Corporate Credit Facility

Our corporate credit facility ("Corporate Credit Facility"), which provides support for our business, including ongoing liquidity and letters of credit, includes a $900 million term loan facility (the "Term Loan") which matures on August 31, 2025, and a Revolving Corporate Credit Facility with a borrowing capacity of $600 million that terminates on August 31, 2023. The Term Loan bears interest at LIBOR plus 2.25 percent. 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 to 40 basis points per annum, also depending on our credit rating. The Revolving Corporate Credit Facility also includes a letter of credit sub-facility of $75 million. As of June 30, 2019, we were in compliance with the applicable financial and operating covenants under the Corporate Credit Facility.

We entered into $250 million of interest rate swaps under which we pay a fixed rate of 2.9625 percent and receive a floating interest rate through September 2023 and $200 million of interest rate swaps under which we pay a fixed rate of 2.2480 percent and receive a floating interest rate through April 2024, in each case to hedge a portion of our interest rate risk on the Term Loan. We also entered into a $100 million interest rate collar with a cap strike rate of 2.5000% and a floor strike rate of 1.8810% through April 2024 to further hedge our interest rate risk on the Term Loan. Both the interest rate swaps and the interest rate collar have been designated and qualify as cash flow hedges of interest rate risk and recorded in Other liabilities on our Balance Sheet as of June 30, 2019. We characterize payments we make in connection with these derivative instruments as interest expense and a reclassification of accumulated other comprehensive income for presentation purposes.

The following table reflects the activity in accumulated other comprehensive loss related to our derivative instruments during the first half of 2019:

($ in millions)	**Derivative Instrument Adjustments**
Balance at December 31, 2018	$ (6)
Other comprehensive loss before reclassifications	(3)
Reclassification to Income Statement	—
Net other comprehensive loss	(3)
Balance at March 31, 2019	(9)
Other comprehensive loss before reclassifications	(13)
Reclassification to Income Statement	—
Net other comprehensive loss	(13)
Balance at June 30, 2019	$ (22)

Convertible Notes

Our $230 million of 1.50% Convertible Senior Notes due 2022 (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 second quarter of 2019 to 6.7825 shares of common stock per $1,000 principal amount of Convertible Notes (equivalent to a conversion price of approximately $147.44 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. As of June 30, 2019, the effective interest rate was 4.7% and the remaining discount amortization period was 3.2 years.

The following table shows the net carrying value of the Convertible Notes.

($ in millions)	**At June 30, 2019**	**At December 31, 2018**
Liability component		
Principal amount	$ 230	$ 230
Unamortized debt discount	(23)	(26)
Unamortized debt issuance costs	(4)	(5)
Net carrying amount of the liability component	$ 203	$ 199
Carrying amount of equity component, net of issuance costs	$ 33	$ 33

The following table shows interest expense information related to the Convertible Notes.

	Three Months Ended		**Six Months Ended**	
($ in millions)	**June 30, 2019**	**June 30, 2018**	**June 30, 2019**	**June 30, 2018**
Contractual interest expense	$ —	$ 1	$ 1	$ 2
Amortization of debt discount	1	2	3	3
Amortization of debt issuance costs	1	—	1	—
	$ 2	$ 3	$ 5	$ 5

Convertible Note Hedges and Warrants

In connection with the offering of the Convertible Notes, we concurrently entered into the following privately-negotiated separate transactions: 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, and warrant transactions (“Warrants”), whereby we sold to the counterparties to the Convertible Note Hedges warrants to acquire approximately 1.55 million shares of our common stock at an initial strike price of $176.68 per share. The strike price was subject to adjustment during the second quarter of 2019 to $175.79 per share when we declared a quarterly dividend of $0.45 per share. As of June 30, 2019, no Convertible Note Hedges or Warrants have been exercised.

Finance Leases

See Footnote 12 “Leases” for information on our finance leases accounted for under ASC 842.

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 MVWC 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. The IAC Notes are guaranteed by MVWC, ILG and certain other subsidiaries whose voting securities are wholly owned directly or indirectly by ILG. The Senior Unsecured Notes are guaranteed by MVWC and certain of its subsidiaries whose voting securities are wholly owned directly or indirectly by MVWC. The Exchange Notes are guaranteed by MVWC and its domestic subsidiaries that guarantee the Corporate Credit Facility. See Footnote 19 “Supplemental Guarantor Information” for additional information.

15. SHAREHOLDERS' EQUITY

Marriott Vacations Worldwide has 100,000,000 authorized shares of common stock, par value of $0.01 per share. At June 30, 2019, there were 57,862,278 shares of Marriott Vacations Worldwide common stock issued, of which 43,882,669 shares were outstanding and 13,979,609 shares were held as treasury stock. 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. 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 June 30, 2019 or December 31, 2018.

Share Repurchase Program

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

($ in millions, except per share amounts)	**Number of Shares Repurchased**	**Cost of Shares Repurchased**	**Average Price Paid per Share**
As of December 31, 2018	11,687,774	$ 793	$ 67.85
For the first half of 2019	2,358,808	215	91.12
As of June 30, 2019	14,046,582	$ 1,008	$ 71.76

As of June 30, 2019, 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. Subsequent to the end of the second quarter of 2019, our Board of Directors authorized the extension of the duration of our existing share repurchase program to December 31, 2020, as well as the repurchase of up to 4.5 million additional shares of our common stock. 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 June 30, 2019, 0.6 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 first half of 2019 as follows:

Declaration Date	**Shareholder Record Date**	**Distribution Date**	**Dividend per Share**
February 15, 2019	February 28, 2019	March 14, 2019	$0.45
May 9, 2019	May 23, 2019	June 6, 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 June 30, 2019, this noncontrolling interest amounts to $10 million and is included on our Balance Sheet as a component of equity.

16. SHARE-BASED COMPENSATION

We maintain the Marriott Vacations Worldwide Corporation Stock and Cash Incentive Plan (the "MVW Stock Plan") for the benefit of our officers, directors and employees. Under the MVW Stock Plan, we are authorized to award: (1) restricted stock units ("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 June 30, 2019, 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. As of June 30, 2019, 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:

	Three Months Ended		Six Months Ended	
($ in millions)	**June 30, 2019**	**June 30, 2018**	**June 30, 2019**	**June 30, 2018**
Service-based RSUs	$ 6	$ 4	$ 9	$ 6
Performance-based RSUs	2	2	3	3
ILG Acquisition Converted RSUs	2	—	6	—
	10	6	18	9
SARs	1	—	2	1
Stock options	—	—	—	—
	$ 11	$ 6	$ 20	$ 10

The following table details our deferred compensation costs related to unvested awards:

($ in millions)	**At June 30, 2019**	**At December 31, 2018**
Service-based RSUs	$ 25	$ 16
Performance-based RSUs	16	7
ILG Acquisition Converted RSUs	7	15
	48	38
SARs	3	1
Stock options	—	—
	$ 51	$ 39

Restricted Stock Units

We granted 189,300 service-based RSUs, which are subject to time-based vesting conditions, with a weighted average grant-date fair value of $96.25, to our employees and non-employee directors during the first half of 2019. During the first half of 2019, we also granted performance-based RSUs, which are subject to performance-based vesting conditions, to members of management. A maximum of 287,876 RSUs may be earned under the performance-based RSU awards granted during the first half of 2019.

Stock Appreciation Rights

We granted 111,111 SARs, with a weighted average grant-date fair value of $28.89 and a weighted average exercise price of $100.52, to members of management during the first half of 2019. 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 of our stock price. The average expected life was calculated using the simplified method, as we have insufficient historical information to provide a basis for estimating average expected life. 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 during the first half of 2019:

Expected volatility	31.10%
Dividend yield	1.76%
Risk-free rate	2.59%
Expected term (in years)	6.25

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 ILG DSUs and related cash-based awards were paid in full during the first quarter of 2019 and there is no remaining obligation as of June 30, 2019.

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 June 30, 2019:

($ in millions)	Vacation Ownership Notes Receivable Securitizations		Warehouse Credit Facility		Total	
Consolidated Assets						
Vacation ownership notes receivable, net of reserves	$	1,681	$	—	$	1,681
Interest receivable		12		—		12
Restricted cash[(1)]		80		—		80
Total	$	1,773	$	—	$	1,773
Consolidated Liabilities						
Interest payable	$	3	$	—	$	3
Debt		1,787		—		1,787
Total	$	1,790	$	—	$	1,790

(1) Includes $6 million of the proceeds from the securitization transaction completed during the second quarter of 2019, which were released when the remaining vacation ownership notes receivable were purchased by the 2019-1 LLC subsequent to the end of the second quarter. Refer to Footnote 13 "Securitized Debt" for a discussion of the terms of this securitization transaction and the purchase of additional vacation ownership notes receivable by the 2019-1 LLC subsequent to June 30, 2019.

The following table shows the interest income and expense recognized as a result of our involvement with these variable interest entities during the second quarter of 2019:

($ in millions)	Vacation Ownership Notes Receivable Securitizations		Warehouse Credit Facility		Total	
Interest income	$	55	$	4	$	59
Interest expense to investors	$	13	$	1	$	14
Debt issuance cost amortization	$	1	$	1	$	2
Administrative expenses	$	1	$	—	$	1

The following table shows the interest income and expense recognized as a result of our involvement with these variable interest entities during the first half of 2019:

($ in millions)	Vacation Ownership Notes Receivable Securitizations		Warehouse Credit Facility		Total	
Interest income	$	107	$	11	$	118
Interest expense to investors	$	26	$	3	$	29
Debt issuance cost amortization	$	2	$	1	$	3
Administrative expenses	$	1	$	—	$	1

The following table shows cash flows between us and the vacation ownership notes receivable securitization variable interest entities:

($ in millions)	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Cash Inflows		
Net proceeds from vacation ownership notes receivable securitizations	$ 445	$ 419
Principal receipts	237	127
Interest receipts	101	52
Reserve release[(1)]	99	1
Total	882	599
Cash Outflows		
Principal to investors	(233)	(117)
Voluntary repurchases of defaulted vacation ownership notes receivable	(23)	(15)
Voluntary clean-up call	—	(22)
Interest to investors	(22)	(10)
Funding of restricted cash[(2)(3)]	(93)	(110)
Total	(371)	(274)
Net Cash Flows	$ 511	$ 325

(1) Includes the release of $84 million related to the securitization transaction completed during the second quarter of 2019, which was released as the remaining vacation ownership notes receivable were purchased by the 2019-1 LLC. Refer to Footnote 13 "Securitized Debt" for a discussion of the terms of this securitization transaction and the purchase of additional vacation ownership notes receivable by the 2019-1 LLC subsequent to June 30, 2019.

(2) Includes $90 million of the proceeds from the securitization transaction completed during the second quarter of 2019, of which $84 million was released during the second quarter of 2019, as a portion of the remaining vacation ownership notes receivable were purchased by the 2019-1 LLC. The remaining $6 million was released when the remaining vacation ownership notes receivable were purchased by the 2019-1 LLC subsequent to the end of the second quarter of 2019.

(3) 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. 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:

	Six Months Ended	
($ in millions)	**June 30, 2019**	**June 30, 2018**
Cash Inflows		
Proceeds from vacation ownership notes receivable securitizations	$ 124	$ —
Principal receipts	12	—
Interest receipts	12	—
Reserve release	2	—
Total	150	—
Cash Outflows		
Principal to investors	(12)	—
Repayment of Warehouse Credit Facility	(228)	—
Interest to investors	(4)	(1)
Funding of restricted cash	(1)	—
Total	(245)	(1)
Net Cash Flows	$ (95)	$ (1)

Other Variable Interest Entities

We have a commitment to purchase an operating property located in San Francisco, California, that we currently manage as Marriott Vacation Club Pulse, San Francisco. 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 June 30, 2019, our Balance Sheet reflected $14 million in Property and equipment related to a finance lease and leasehold improvements, $1 million in Accrued liabilities and $9 million in Debt related to the finance 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 $5 million as of June 30, 2019.

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 June 30, 2019, our Balance Sheet reflected $8 million in Property and equipment related to a finance lease and leasehold improvements, $1 million in Accrued liabilities and $7 million in Debt related to the finance 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 June 30, 2019. We believe that our maximum exposure to loss as a result of our involvement with this variable interest entity is less than $1 million as of June 30, 2019.

Deferred Compensation Plan

We consolidate the liabilities of the Marriott Vacations Worldwide Deferred Compensation Plan and the related assets, which consist of the COLI policies held in the rabbi trust. The rabbi trust is considered a variable interest entity. 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 June 30, 2019, the value of the assets held in the rabbi trust was $34 million, which is included in the Other line within assets on our Balance Sheets.

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 operating and reportable business segments:

- Vacation Ownership includes a diverse portfolio of resorts 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 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, includes exchange networks and membership programs, as well as management of 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. 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 or 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

	Three Months Ended		Six Months Ended	
($ in millions)	**June 30, 2019**	**June 30, 2018**	**June 30, 2019**	**June 30, 2018**
Vacation Ownership	$ 951	$ 595	$ 1,882	$ 1,166
Exchange & Third-Party Management	115	—	239	—
Total segment revenues	1,066	595	2,121	1,166
Corporate and other	2	—	7	—
	$ 1,068	$ 595	$ 2,128	$ 1,166

Adjusted EBITDA and Reconciliation to Net Income Attributable to Common Shareholders

($ in millions)	**Three Months Ended**		**Six Months Ended**	
	June 30, 2019	**June 30, 2018**	**June 30, 2019**	**June 30, 2018**
Adjusted EBITDA Vacation Ownership	$ 208	$ 104	$ 379	$ 192
Adjusted EBITDA Exchange & Third-Party Management	58	—	124	—
Reconciling items:				
Corporate and other	(71)	(28)	(142)	(53)
Interest expense	(35)	(5)	(69)	(9)
Tax provision	(25)	(6)	(40)	(17)
Depreciation and amortization	(36)	(5)	(73)	(11)
Share-based compensation expense	(11)	(6)	(20)	(10)
Certain items	(39)	(43)	(86)	(45)
Net income attributable to common shareholders	$ 49	$ 11	$ 73	$ 47

Assets

($ in millions)	**At June 30, 2019**	**At December 31, 2018**
Vacation Ownership	$ 7,358	$ 7,275
Exchange & Third-Party Management	1,124	1,182
Total segment assets	8,482	8,457
Corporate and other	541	561
	$ 9,023	$ 9,018

We conduct business globally, and our operations outside the United States represented approximately 13 percent and 12 percent of our revenues, excluding cost reimbursements, for the three months ended June 30, 2019 and June 30, 2018, respectively, and 14 percent and 12 percent of our revenues, excluding cost reimbursements, for the six months ended June 30, 2019 and June 30, 2018, respectively.

19. SUPPLEMENTAL GUARANTOR INFORMATION

IAC Notes

The IAC Notes are guaranteed by MVWC, ILG and certain other subsidiaries whose voting securities are wholly owned directly or indirectly by ILG (such subsidiaries collectively, the “IAC Notes Guarantors”). These guarantees are full and unconditional and joint and several. The guarantees of the IAC Notes Guarantors 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 IAC Notes Guarantors to pay dividends to us or make distributions, loans or advances to us.

The following tables present consolidating financial information as of June 30, 2019 and December 31, 2018, and for the three and six months ended June 30, 2019 and June 30, 2018 for MVWC and ILG on a stand-alone basis, the Issuer on a stand-alone basis, the IAC Notes Guarantors, the combined non-guarantor subsidiaries of MVW and MVW on a consolidated basis.

Condensed Consolidating Balance Sheet

	As of June 30, 2019					
($ in millions)	**MVWC**	**Interval Acquisition Corp.**	**IAC Notes Guarantors**	**Non-Guarantor Subsidiaries**	**Total Eliminations**	**MVW Consolidated**
Cash and cash equivalents	$ —	$ 1	$ 27	$ 151	$ —	$ 179
Restricted cash	—	—	52	285	—	337
Accounts receivable, net	67	2	115	147	(4)	327
Vacation ownership notes receivable, net	—	—	189	1,909	—	2,098
Inventory	—	—	449	439	—	888
Property and equipment	—	—	230	607	—	837
Goodwill	2,824	—	—	—	—	2,824
Intangibles, net	—	—	1,034	41	—	1,075
Due from parent	—	—	—	1,957	(1,957)	—
Investments in subsidiaries	2,520	1,942	1,828	—	(6,290)	—
Other	35	27	245	219	(68)	458
Total assets	$ 5,446	$ 1,972	$ 4,169	$ 5,755	$ (8,319)	$ 9,023
Accounts payable	$ 12	$ —	$ 40	$ 105	$ 7	$ 164
Advance deposits	—	—	81	105	—	186
Accrued liabilities	5	—	170	274	(32)	417
Deferred revenue	—	—	145	215	(4)	356
Payroll and benefits liability	3	—	67	102	—	172
Deferred compensation liability	—	—	7	95	—	102
Securitized debt, net	—	—	—	1,792	—	1,792
Debt, net	203	141	1	1,812	—	2,157
Due to subsidiary	1,957	—	—	—	(1,957)	—
Other	2	—	38	24	—	64
Deferred taxes	—	—	179	164	—	343
MVW shareholders' equity	3,264	1,831	3,445	1,057	(6,333)	3,264
Noncontrolling interests	—	—	(4)	10	—	6
Total liabilities and equity	$ 5,446	$ 1,972	$ 4,169	$ 5,755	$ (8,319)	$ 9,023

($ in millions)	As of December 31, 2018[1] MVWC	Interval Acquisition Corp.	IAC Notes Guarantors	Non-Guarantor Subsidiaries	Total Eliminations	MVW Consolidated
Cash and cash equivalents	$ 1	$ 11	$ 28	$ 191	$ —	$ 231
Restricted cash	—	—	83	300	—	383
Accounts receivable, net	31	2	107	184	—	324
Vacation ownership notes receivable, net	—	—	176	1,863	—	2,039
Inventory	—	—	440	423	—	863
Property and equipment	—	—	272	679	—	951
Goodwill	2,828	—	—	—	—	2,828
Intangibles, net	—	—	1,065	42	—	1,107
Due from parent	—	—	—	1,834	(1,834)	—
Investments in subsidiaries	2,681	1,975	1,875	—	(6,531)	—
Other	27	28	140	172	(75)	292
Total assets	$ 5,568	$ 2,016	$ 4,186	$ 5,688	$ (8,440)	$ 9,018
Accounts payable	$ 50	$ —	$ 72	$ 131	$ —	$ 253
Advance deposits	—	—	81	90	—	171
Accrued liabilities	7	—	79	295	(24)	357
Deferred revenue	—	—	117	206	(4)	319
Payroll and benefits liability	15	—	77	119	—	211
Deferred compensation liability	—	—	7	86	—	93
Securitized debt, net	—	—	—	1,714	—	1,714
Debt, net	199	141	1	1,763	—	2,104
Due to subsidiary	1,834	—	—	—	(1,834)	—
Other	2	—	1	9	—	12
Deferred taxes	—	—	155	159	4	318
MVW shareholders' equity	3,461	1,875	3,599	1,108	(6,582)	3,461
Noncontrolling interests	—	—	(3)	8	—	5
Total liabilities and equity	$ 5,568	$ 2,016	$ 4,186	$ 5,688	$ (8,440)	$ 9,018

(1) Amounts have been revised to correct certain immaterial prior period errors as reported in the 2018 Annual Report and have been reclassified to conform to the current year presentation.

Condensed Consolidating Statement of Income

	Three Months Ended June 30, 2019					
($ in millions)	**MVWC**	**Interval Acquisition Corp.**	**IAC Notes Guarantors**	**Non-Guarantor Subsidiaries**	**Total Eliminations**	**MVW Consolidated**
Revenues	$ —	$ —	$ 398	$ 671	$ (1)	$ 1,068
Expenses	(6)	—	(346)	(574)	1	(925)
Gains (losses) and other income (expense), net	—	—	2	—	—	2
Interest expense	(2)	(2)	(3)	(28)	—	(35)
ILG acquisition-related costs	—	—	(14)	(22)	—	(36)
Other	—	—	—	—	—	—
Equity in earnings from unconsolidated entities	—	—	—	—	—	—
Equity in net income of subsidiaries	54	28	27	—	(109)	—
Provision for income taxes	3	1	(12)	(16)	(1)	(25)
Net income	49	27	52	31	(110)	49
Net income attributable to noncontrolling interests	—	—	—	—	—	—
Net income attributable to common shareholders	$ 49	$ 27	$ 52	$ 31	$ (110)	$ 49

	Three Months Ended June 30, 2018					
($ in millions)	**MVWC**	**Interval Acquisition Corp.**	**IAC Notes Guarantors**	**Non-Guarantor Subsidiaries**	**Total Eliminations**	**MVW Consolidated**
Revenues	$ —	$ —	$ —	$ 595	$ —	$ 595
Expenses	(2)	—	—	(544)	—	(546)
Gains (losses) and other income (expense), net	—	—	—	(7)	—	(7)
Interest expense	(3)	—	—	(2)	—	(5)
ILG acquisition-related costs	—	—	—	(19)	—	(19)
Other	—	—	—	(1)	—	(1)
Provision for income taxes	1	—	—	(7)	—	(6)
Equity in earnings from unconsolidated entities	—	—	—	—	—	—
Equity in net income of subsidiaries	15	—	—	—	(15)	—
Net income	11	—	—	15	(15)	11
Net income attributable to noncontrolling interests	—	—	—	—	—	—
Net income attributable to common shareholders	$ 11	$ —	$ —	$ 15	$ (15)	$ 11

($ in millions)	Six Months Ended June 30, 2019 MVWC	Interval Acquisition Corp.	IAC Notes Guarantors	Non-Guarantor Subsidiaries	Total Eliminations	MVW Consolidated
Revenues	$ —	$ —	$ 797	$ 1,340	$ (9)	$ 2,128
Expenses	(9)	—	(715)	(1,179)	9	(1,894)
Gains (losses) and other income (expense), net	—	—	—	10	—	10
Interest expense	(5)	(3)	(3)	(58)	—	(69)
ILG acquisition-related costs	—	—	(14)	(48)	—	(62)
Other	—	—	—	—	—	—
Provision for income taxes	4	1	(22)	(23)	—	(40)
Equity in earnings from unconsolidated entities	—	—	—	—	—	—
Equity in net income of subsidiaries	83	64	62	—	(209)	—
Net income	73	62	105	42	(209)	73
Net income attributable to noncontrolling interests	—	—	—	—	—	—
Net income attributable to common shareholders	$ 73	$ 62	$ 105	$ 42	$ (209)	$ 73

($ in millions)	Six Months Ended June 30, 2018 MVWC	Interval Acquisition Corp.	IAC Notes Guarantors	Non-Guarantor Subsidiaries	Total Eliminations	MVW Consolidated
Revenues	$ —	$ —	$ —	$ 1,166	$ —	$ 1,166
Expenses	(4)	—	—	(1,060)	—	(1,064)
Gains (losses) and other income (expense), net	—	—	—	(6)	—	(6)
Interest expense	(5)	—	—	(4)	—	(9)
ILG acquisition-related costs	—	—	—	(20)	—	(20)
Other	—	—	—	(3)	—	(3)
Provision for income taxes	2	—	—	(19)	—	(17)
Equity in earnings from unconsolidated entities	—	—	—	—	—	—
Equity in net income of subsidiaries	54	—	—	—	(54)	—
Net income	47	—	—	54	(54)	47
Net income attributable to noncontrolling interests	—	—	—	—	—	—
Net income attributable to common shareholders	$ 47	$ —	$ —	$ 54	$ (54)	$ 47

Condensed Consolidating Statement of Cash Flows

	Six Months Ended June 30, 2019					
($ in millions)	**MVWC**	**Interval Acquisition Corp.**	**IAC Notes Guarantors**	**Non-Guarantor Subsidiaries**	**Total Eliminations**	**MVW Consolidated**
Net cash, cash equivalents and restricted cash provided by (used in) operating activities	$ (71)	$ (2)	$ 106	$ 315	$ (292)	$ 56
Net cash, cash equivalents and restricted cash (used in) provided by investing activities	(4)	—	22	(3)	—	15
Net cash, cash equivalents and restricted cash (used in) provided by financing activities	74	(8)	(160)	(368)	292	(170)
Effect of changes in exchange rates on cash, cash equivalents and restricted cash	—	—	—	1	—	1
Cash, cash equivalents and restricted cash, beginning of period	1	11	111	491	—	614
Cash, cash equivalents and restricted cash, end of period	$ —	$ 1	$ 79	$ 436	$ —	$ 516

	Six Months Ended June 30, 2018					
($ in millions)	**MVWC**	**Interval Acquisition Corp.**	**IAC Notes Guarantors**	**Non-Guarantor Subsidiaries**	**Total Eliminations**	**MVW Consolidated**
Net cash, cash equivalents and restricted cash provided by (used in) operating activities	$ (45)	$ —	$ —	$ 101	$ 2	$ 58
Net cash, cash equivalents and restricted cash (used in) provided by investing activities	(12)	—	—	(7)	—	(19)
Net cash, cash equivalents and restricted cash (used in) provided by financing activities	57	—	—	132	(2)	187
Effect of changes in exchange rates on cash, cash equivalents and restricted cash	—	—	—	1	—	1
Cash, cash equivalents and restricted cash, beginning of period	—	—	—	491	—	491
Cash, cash equivalents and restricted cash, end of period	$ —	$ —	$ —	$ 718	$ —	$ 718

Senior Unsecured Notes and Exchange Notes

The Senior Unsecured Notes and Exchanges Notes (collectively referred to as the “Senior MVW Notes”) are guaranteed by MVWC, Marriott Ownership Resorts, Inc. (“MORI”), ILG and certain other subsidiaries whose voting securities are wholly owned directly or indirectly by MORI or ILG (such subsidiaries collectively, the “Senior Notes Guarantors”). These guarantees are full and unconditional and joint and several. The guarantees of the Senior Notes Guarantors are subject to release in limited circumstances only upon the occurrence of certain customary conditions.

The following tables present consolidating financial information as of June 30, 2019 and December 31, 2018, and for the three and six months ended June 30, 2019 and June 30, 2018 for MVWC on a stand-alone basis, each of MORI and ILG on a stand-alone basis (collectively, the “Issuers” and each individually, an “Issuer”), the Senior Notes Guarantors, the combined non-guarantor subsidiaries of MVW and MVW on a consolidated basis.

Condensed Consolidating Balance Sheet

	As of June 30, 2019						
		Issuers					
($ in millions)	**MVWC**	**MORI**	**ILG**	**Senior Notes Guarantors**	**Non-Guarantor Subsidiaries**	**Total Eliminations**	**MVW Consolidated**
Cash and cash equivalents	$ —	$ 44	$ —	$ 29	$ 106	$ —	$ 179
Restricted cash	—	20	—	54	263	—	337
Accounts receivable, net	67	28	—	131	105	(4)	327
Vacation ownership notes receivable, net	—	108	—	196	1,794	—	2,098
Inventory	—	304	—	489	95	—	888
Property and equipment	—	274	1	272	290	—	837
Goodwill	2,824	—	—	—	—	—	2,824
Intangibles, net	—	—	—	1,034	41	—	1,075
Due from parent	—	1,957	—	—	—	(1,957)	—
Investments in subsidiaries	2,520	21	1,828	—	—	(4,369)	—
Other	35	53	—	359	79	(68)	458
Total assets	$ 5,446	$ 2,809	$ 1,829	$ 2,564	$ 2,773	$ (6,398)	$ 9,023
Accounts payable	$ 12	$ 44	$ —	$ 74	$ 26	$ 8	$ 164
Advance deposits	—	76	—	90	20	—	186
Accrued liabilities	5	71	7	177	189	(32)	417
Deferred revenue	—	4	—	239	117	(4)	356
Payroll and benefits liability	3	77	—	76	16	—	172
Deferred compensation liability	—	86	—	15	1	—	102
Securitized debt, net	—	—	—	—	1,792	—	1,792
Debt, net	203	1,805	—	149	—	—	2,157
Due to subsidiary	1,957	—	—	—	—	(1,957)	—
Other	2	22	—	38	2	—	64
Deferred taxes	—	138	—	181	24	—	343
MVW shareholders' equity	3,264	486	1,822	1,529	576	(4,413)	3,264
Noncontrolling interests	—	—	—	(4)	10	—	6
Total liabilities and equity	$ 5,446	$ 2,809	$ 1,829	$ 2,564	$ 2,773	$ (6,398)	$ 9,023

($ in millions)	As of December 31, 2018[1]						
		Issuers					
	MVWC	MORI	ILG	Senior Notes Guarantors	Non-Guarantor Subsidiaries	Total Eliminations	MVW Consolidated
Cash and cash equivalents	$ 1	$ 62	$ 2	$ 39	$ 127	$ —	$ 231
Restricted cash	—	19	—	122	242	—	383
Accounts receivable, net	31	20	—	169	104	—	324
Vacation ownership notes receivable, net	—	121	—	183	1,735	—	2,039
Inventory	—	212	—	475	176	—	863
Property and equipment	—	439	1	308	203	—	951
Goodwill	2,828	—	—	—	—	—	2,828
Intangibles, net	—	—	—	1,065	42	—	1,107
Due from parent	—	1,834	—	—	—	(1,834)	—
Investments in subsidiaries	2,681	93	1,875	—	—	(4,649)	—
Other	27	53	—	251	36	(75)	292
Total assets	$ 5,568	$ 2,853	$ 1,878	$ 2,612	$ 2,665	$ (6,558)	$ 9,018
Accounts payable	$ 50	$ 13	$ —	$ 165	$ 25	$ —	$ 253
Advance deposits	—	65	—	89	17	—	171
Accrued liabilities	7	96	7	121	150	(24)	357
Deferred revenue	—	6	—	189	128	(4)	319
Payroll and benefits liability	15	96	—	84	16	—	211
Deferred compensation liability	—	79	—	13	1	—	93
Securitized debt, net	—	—	—	—	1,714	—	1,714
Debt, net	199	1,726	—	179	—	—	2,104
Due to subsidiary	1,834	—	—	—	—	(1,834)	—
Other	2	6	—	1	3	—	12
Deferred taxes	—	133	—	157	24	4	318
MVW shareholders' equity	3,461	633	1,871	1,617	579	(4,700)	3,461
Noncontrolling interests	—	—	—	(3)	8	—	5
Total liabilities and equity	$ 5,568	$ 2,853	$ 1,878	$ 2,612	$ 2,665	$ (6,558)	$ 9,018

(1) Amounts have been revised to correct certain immaterial prior period errors as reported in the 2018 Annual Report and have been reclassified to conform to the current year presentation.

Condensed Consolidating Statement of Income

	Three Months Ended June 30, 2019						
		Issuers					
($ in millions)	**MVWC**	**MORI**	**ILG**	**Senior Notes Guarantors**	**Non-Guarantor Subsidiaries**	**Total Eliminations**	**MVW Consolidated**
Revenues	$ —	$ 191	$ —	$ 695	$ 183	$ (1)	$ 1,068
Expenses	(6)	(200)	—	(583)	(137)	1	(925)
Gains (losses) and other income (expense), net	—	2	—	—	—	—	2
Interest expense	(2)	(24)	—	(5)	(4)	—	(35)
ILG acquisition-related costs	—	(22)	—	(14)	—	—	(36)
Other	—	—	—	—	—	—	—
Provision for income taxes	3	16	—	(35)	(9)	—	(25)
Equity in earnings from unconsolidated entities	—	—	—	—	—	—	—
Equity in net income of subsidiaries	54	62	27	—	—	(143)	—
Net income	49	25	27	58	33	(143)	49
Net income attributable to noncontrolling interests	—	—	—	—	—	—	—
Net income attributable to common shareholders	$ 49	$ 25	$ 27	$ 58	$ 33	$ (143)	$ 49

	Three Months Ended June 30, 2018						
		Issuers					
($ in millions)	**MVWC**	**MORI**	**ILG**	**Senior Notes Guarantors**	**Non-Guarantor Subsidiaries**	**Total Eliminations**	**MVW Consolidated**
Revenues	$ —	$ 194	$ —	$ 286	$ 115	$ —	$ 595
Expenses	(2)	(189)	—	(257)	(98)	—	(546)
Gains (losses) and other income (expense), net	—	(7)	—	—	—	—	(7)
Interest expense	(3)	(1)	—	(1)	—	—	(5)
ILG acquisition-related costs	—	(19)	—	—	—	—	(19)
Other	—	(1)	—	—	—	—	(1)
Provision for income taxes	1	7	—	(12)	(2)	—	(6)
Equity in earnings from unconsolidated entities	—	—	—	—	—	—	—
Equity in net income of subsidiaries	15	16	—	—	—	(31)	—
Net income	11	—	—	16	15	(31)	11
Net income attributable to noncontrolling interests	—	—	—	—	—	—	—
Net income attributable to common shareholders	$ 11	$ —	$ —	$ 16	$ 15	$ (31)	$ 11

($ in millions)	Six Months Ended June 30, 2019						
		Issuers					
	MVWC	MORI	ILG	Senior Notes Guarantors	Non-Guarantor Subsidiaries	Total Eliminations	MVW Consolidated
Revenues	$ —	$ 350	$ —	$ 1,406	$ 381	$ (9)	$ 2,128
Expenses	(9)	(392)	—	(1,214)	(288)	9	(1,894)
Gains (losses) and other income (expense), net	—	11	—	(1)	—	—	10
Interest expense	(5)	(54)	—	(6)	(4)	—	(69)
ILG acquisition-related costs	—	(48)	—	(14)	—	—	(62)
Other	—	—	—	—	—	—	—
Provision for income taxes	4	40	—	(70)	(14)	—	(40)
Equity in earnings from unconsolidated entities	—	—	—	—	—	—	—
Equity in net income of subsidiaries	83	115	62	—	—	(260)	—
Net income	73	22	62	101	75	(260)	73
Net income attributable to noncontrolling interests	—	—	—	—	—	—	—
Net income attributable to common shareholders	$ 73	$ 22	$ 62	$ 101	$ 75	$ (260)	$ 73

($ in millions)	Six Months Ended June 30, 2018						
		Issuers					
	MVWC	MORI	ILG	Senior Notes Guarantors	Non-Guarantor Subsidiaries	Total Eliminations	MVW Consolidated
Revenues	$ —	$ 363	$ —	$ 585	$ 218	$ —	$ 1,166
Expenses	(4)	(362)	—	(510)	(188)	—	(1,064)
Gains (losses) and other income (expense), net	—	(6)	—	—	—	—	(6)
Interest expense	(5)	(2)	—	(2)	—	—	(9)
ILG acquisition-related costs	—	(20)	—	—	—	—	(20)
Other	—	(3)	—	—	—	—	(3)
Provision for income taxes	2	11	—	(27)	(3)	—	(17)
Equity in earnings from unconsolidated entities	—	—	—	—	—	—	—
Equity in net income of subsidiaries	54	46	—	—	—	(100)	—
Net income	47	27	—	46	27	(100)	47
Net income attributable to noncontrolling interests	—	—	—	—	—	—	—
Net income attributable to common shareholders	$ 47	$ 27	$ —	$ 46	$ 27	$ (100)	$ 47

Condensed Consolidating Statement of Cash Flows

	Six Months Ended June 30, 2019						
		Issuers					
($ in millions)	MVWC	MORI	ILG	Senior Notes Guarantors	Non-Guarantor Subsidiaries	Total Eliminations	MVW Consolidated
Net cash, cash equivalents and restricted cash provided by (used in) operating activities	$ (71)	$ (31)	$ —	$ 151	$ 19	$ (12)	$ 56
Net cash, cash equivalents and restricted cash (used in) provided by investing activities	(4)	(14)	—	26	7	—	15
Net cash, cash equivalents and restricted cash (used in) provided by financing activities	74	28	(2)	(255)	(27)	12	(170)
Effect of changes in exchange rates on cash, cash equivalents and restricted cash	—	—	—	—	1	—	1
Cash, cash equivalents and restricted cash, beginning of period	1	81	2	161	369	—	614
Cash, cash equivalents and restricted cash, end of period	$ —	$ 64	$ —	$ 83	$ 369	$ —	$ 516

	Six Months Ended June 30, 2018						
		Issuers					
($ in millions)	MVWC	MORI	ILG	Senior Notes Guarantors	Non-Guarantor Subsidiaries	Total Eliminations	MVW Consolidated
Net cash, cash equivalents and restricted cash provided by (used in) operating activities	$ (45)	$ 111	$ —	$ (2)	$ (8)	$ 2	$ 58
Net cash, cash equivalents and restricted cash (used in) provided by investing activities	(12)	(4)	—	—	(3)	—	(19)
Net cash, cash equivalents and restricted cash (used in) provided by financing activities	57	49	—	(22)	105	(2)	187
Effect of changes in exchange rates on cash, cash equivalents and restricted cash	—	—	—	—	1	—	1
Cash, cash equivalents and restricted cash, beginning of period	—	377	—	30	84	—	491
Cash, cash equivalents and restricted cash, end of period	$ —	$ 533	$ —	$ 6	$ 179	$ —	$ 718

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

We make forward-looking statements in Management's Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this Quarterly Report on Form 10-Q 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 Quarterly Report. We do not have any intention or obligation to update forward-looking statements after the date of this Quarterly Report on Form 10-Q, except as required by law.

The risk factors discussed in "Risk Factors" in our most recent Annual Report on Form 10-K, and which may be discussed in subsequent Quarterly Reports on Form 10-Q or other filings with the Securities and Exchange Commission ("SEC"), 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.

Our Financial Statements (as defined below), which we discuss below, reflect our historical financial condition, results of operations and cash flows. The financial information discussed below and included in this Quarterly Report on Form 10-Q may not necessarily reflect what our financial condition, results of operations or cash flows may be in the future. In order to make this report easier to read, we refer to (i) our Interim Consolidated Financial Statements as our "Financial Statements," (ii) our Interim Consolidated Statements of Income as our "Income Statements," (iii) our Interim Consolidated Balance Sheets as our "Balance Sheets" and (iv) our Interim Consolidated Statements of Cash Flows as our "Cash Flows." In addition, references throughout to numbered "Footnotes" refer to the numbered Notes to our Financial Statements that we include in the Financial Statements of this Quarterly Report on Form 10-Q.

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 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 previously existing corporate credit facility with a new senior secured corporate credit agreement, our Corporate Credit Facility, that provides for a term loan and revolving loans.

We refer to our business associated with the brands that existed prior to the ILG Acquisition as "Legacy-MVW" and to ILG's business and brands that we acquired as "Legacy-ILG."

Our Vacation Ownership segment 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 Vacation Club, Westin Vacation Club, 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 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.

Our Exchange & Third-Party Management segment includes exchange networks and membership programs, as well as management of 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. 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 and two Legacy-ILG properties were negatively impacted by one or both of Hurricane Irma and Hurricane Maria (collectively, the "2017 Hurricanes"). All of the Legacy-MVW properties reopened prior to the end of 2018. The Legacy-ILG property in St. John partially reopened in the first quarter of 2019 and the Legacy-ILG resort in Puerto Rico is expected to open in 2020.

We received $29 million and $9 million of net insurance proceeds in 2018 and 2019, respectively, 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. We received an initial $25 million advance of insurance proceeds related to the business interruption losses at the Legacy-ILG St. John property in 2018, we received $7 million of insurance proceeds related to the business interruption losses at the other Legacy-ILG properties in 2019 and we received advances of $108 million of insurance proceeds related to the Legacy-ILG property damage experienced by the related property owners' associations as of the second quarter of 2019. Repairs are underway at the Legacy-ILG resort in Puerto Rico and the related insurance claim is expected to be submitted in 2020 upon the completion of construction. However, we cannot quantify the extent of any additional payments under such claims at this time.

During the third quarter of 2018, our Legacy-MVW properties in South Carolina and Florida were negatively impacted by Hurricane Florence and Hurricane Michael, respectively (collectively, the "2018 Hurricanes"). We expect to submit insurance claims for our business interruption losses as well as property damage experienced by both us and associated property owners' associations from these 2018 Hurricanes. However, we cannot quantify the extent of any payments under such claims at this time.

Significant Accounting Policies Used in Describing Results of Operations

Sale of Vacation Ownership Products

We recognize revenues from the sale of vacation ownership products ("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 Accounting Standards Codification ("ASC") Topic 606, "*Revenue from Contracts with Customers*" ("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:

	Six Months Ended	
	June 30, 2019	**June 30, 2018**
Average FICO score	739	739

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" 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 finance contracts originated in the period divided by contract sales volume of all contracts originated in the period. We do not include resales contract sales in the financing propensity calculation. Financing propensity was 63 percent in the second quarter of 2018 and 62 percent in the second quarter of 2019. We expect to continue to offer financing incentive programs 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:

	Six Months Ended	
	June 30, 2019	**June 30, 2018**
Historical default rates	2.1%	1.7%

Financing expenses include consumer financing interest expense, which represents interest expense associated with 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 other third-party offerings. 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 transient 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 third-party offerings, 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, which is included with Financing 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 contract sales from the sale of vacation ownership products for non-consolidated 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)	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
REVENUES				
Sale of vacation ownership products	$ 350	$ 205	$ 651	$ 380
Management and exchange	239	78	478	148
Rental	158	74	323	149
Financing	69	36	137	71
Cost reimbursements	252	202	539	418
TOTAL REVENUES	1,068	595	2,128	1,166
EXPENSES				
Cost of vacation ownership products	91	57	171	103
Marketing and sales	193	106	381	211
Management and exchange	118	39	234	75
Rental	104	62	212	117
Financing	25	10	47	21
General and administrative	79	33	157	61
Depreciation and amortization	36	5	73	11
Litigation charges	1	16	2	16
Royalty fee	26	16	52	31
Impairment	—	—	26	—
Cost reimbursements	252	202	539	418
TOTAL EXPENSES	925	546	1,894	1,064
Gains (losses) and other income (expense), net	2	(7)	10	(6)
Interest expense	(35)	(5)	(69)	(9)
ILG acquisition-related costs	(36)	(19)	(62)	(20)
Other	—	(1)	—	(3)
INCOME BEFORE INCOME TAXES AND NONCONTROLLING INTERESTS	74	17	113	64
Provision for income taxes	(25)	(6)	(40)	(17)
NET INCOME	49	11	73	47
Net income attributable to noncontrolling interests	—	—	—	—
NET INCOME ATTRIBUTABLE TO COMMON SHAREHOLDERS	$ 49	$ 11	$ 73	$ 47

Operating Statistics

2019 Second Quarter

(Contract sales $ in millions)	Three Months Ended		Change	Change due to Legacy-ILG	Change Excluding Legacy-ILG Impact	
	June 30, 2019	June 30, 2018				
Vacation Ownership						
Total contract sales	$ 398	$ 232	$ 166	$ 152	$ 14	6%
Consolidated contract sales	$ 386	$ 232	$ 154	$ 140	$ 14	6%
Legacy-MVW North America						
Consolidated contract sales	$ 219	$ 211	$ 8	$ —	$ 8	4%
VPG	$ 3,700	$ 3,672	$ 28	$ —	$ 28	1%
Tour flow	54,532	52,787	1,745	$ —	1,745	3%
Exchange & Third-Party Management						
Total active members at end of period (000's)	1,691	—				

2019 First Half

(Contract sales $ in millions)	Six Months Ended		Change	Change due to Legacy-ILG	Change Excluding Legacy-ILG Impact	
	June 30, 2019	June 30, 2018				
Vacation Ownership						
Total contract sales	$ 763	$ 436	$ 327	$ 294	$ 33	8%
Consolidated contract sales	$ 740	$ 436	$ 304	$ 271	$ 33	8%
Legacy-MVW North America						
Consolidated contract sales	$ 420	$ 399	$ 21		$ 21	5%
VPG	$ 3,736	$ 3,698	$ 38		$ 38	1%
Tour flow	103,510	98,842	4,668		4,668	5%
Exchange & Third-Party Management						
Total active members at end of period (000's)	1,691	—				

Revenues

2019 Second Quarter

The following table presents our revenues for the second quarter of 2019 compared to the second quarter of 2018 and, as a result of the ILG Acquisition on September 1, 2018, includes results for Legacy-ILG for the second quarter of 2019.

($ in millions)	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Change	Change due to Legacy-ILG	Change Excluding Legacy-ILG Impact	
Vacation Ownership	$ 951	$ 595	$ 356	$ 338	$ 18	3%
Exchange & Third-Party Management	115	—	115	115	—	—%
Total Segment Revenues	1,066	595	471	453	18	
Consolidated Property Owners' Associations	2	—	2	2	—	—%
Total Revenues	$ 1,068	$ 595	$ 473	$ 455	$ 18	3%

2019 First Half

The following table presents our revenues for the first half of 2019 compared to the first half of 2018 and, as a result of the ILG Acquisition on September 1, 2018, includes results for Legacy-ILG for the first half of 2019.

($ in millions)	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018	Change	Change due to Legacy-ILG	Change Excluding Legacy-ILG Impact	
Vacation Ownership	$ 1,882	$ 1,166	$ 716	$ 667	$ 49	4%
Exchange & Third-Party Management	239	—	239	239	—	—%
Total Segment Revenues	2,121	1,166	955	906	49	
Consolidated Property Owners' Associations	7	—	7	7	—	—%
Total Revenues	$ 2,128	$ 1,166	$ 962	$ 913	$ 49	4%

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 ownership 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.

2019 Second Quarter

	Three Months Ended				
($ in millions)	**June 30, 2019**	**June 30, 2018**	**Change**	**Change due to Legacy-ILG**	**Change Excluding Legacy-ILG Impact**
Net income attributable to common shareholders	$ 49	$ 11	$ 38	$ 34	$ 4
Interest expense	35	5	30	2	28
Tax provision	25	6	19	16	3
Depreciation and amortization	36	5	31	29	2
EBITDA	145	27	118	81	37
Share-based compensation expense	11	6	5	4	1
Certain items	39	43	(4)	10	(14)
Adjusted EBITDA	$ 195	$ 76	$ 119	$ 95	$ 24

Certain items for the second quarter of 2019 consisted of $36 million of ILG acquisition-related costs, $4 million of purchase accounting adjustments and $1 million of litigation charges, partially offset by $2 million of gains and other income.

Certain items for the second quarter of 2018 consisted of $20 million of acquisition costs (including $19 million of ILG acquisition-related costs and $1 million of acquisition costs associated with the then anticipated capital efficient acquisition of the operating property in San Francisco), $16 million of litigation charges (including $11 million related to a project in San Francisco and $5 million related to a project in Lake Tahoe), and $7 million of losses and other expenses primarily resulting from fraudulently induced electronic payment disbursements made to third parties.

2019 First Half

($ in millions)	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018	Change	Change due to Legacy-ILG	Change Excluding Legacy-ILG Impact
Net income attributable to common shareholders	$ 73	$ 47	$ 26	$ 66	$ (40)
Interest expense	69	9	60	4	56
Tax provision	40	17	23	33	(10)
Depreciation and amortization	73	11	62	58	4
EBITDA	255	84	171	161	10
Share-based compensation expense	20	10	10	8	2
Certain items	86	45	41	19	22
Adjusted EBITDA	$ 361	$ 139	$ 222	$ 188	$ 34

Certain items for the first half of 2019 consisted of $62 million of ILG acquisition-related costs, $26 million of asset impairments, $5 million of purchase accounting adjustments, $2 million of litigation charges and $1 million of other severance costs, partially offset by $10 million of gains and other income.

Certain items for the first half of 2018 consisted of $23 million of acquisition costs (including $20 million of ILG acquisition-related costs and $3 million of acquisition costs associated with the then anticipated capital efficient acquisition of the operating property in San Francisco), $16 million of litigation charges (including $11 million related to a project in San Francisco and $5 million related to a project in Lake Tahoe), and $7 million of losses and other expenses primarily resulting from fraudulently induced electronic payment disbursements made to third parties, partially offset by a $1 million favorable true up of previously recorded costs associated with the 2017 Hurricanes (recorded in Gains and other income).

Segment Adjusted EBITDA

2019 Second Quarter

($ in millions)	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Change	Change due to Legacy-ILG	Change Excluding Legacy-ILG Impact
Vacation Ownership	$ 208	$ 104	$ 104	$ 79	$ 25
Exchange & Third-Party Management	58	—	58	58	—
Segment adjusted EBITDA	266	104	162	137	25
General and administrative	(71)	(28)	(43)	(42)	(1)
Consolidated property owners' associations	—	—	—	—	—
Adjusted EBITDA	$ 195	$ 76	$ 119	$ 95	$ 24

2019 First Half

($ in millions)	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018	Change	Change due to Legacy-ILG	Change Excluding ILG Impact
Vacation Ownership	$ 379	$ 192	$ 187	$ 150	$ 37
Exchange & Third-Party Management	124	—	124	124	—
Segment adjusted EBITDA	503	192	311	274	37
General and administrative	(143)	(53)	(90)	(87)	(3)
Consolidated property owners' associations	1	—	1	1	—
Adjusted EBITDA	$ 361	$ 139	$ 222	$ 188	$ 34

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

Vacation Ownership

2019 Second Quarter

($ in millions)	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Change	Change due to Legacy-ILG	Change Excluding Legacy-ILG Impact
Segment adjusted EBITDA	$ 208	$ 104	$ 104	$ 79	$ 25
Depreciation and amortization	(17)	(4)	(13)	(12)	(1)
Share-based compensation expense	(2)	(1)	(1)	(1)	—
Certain items	(6)	(17)	11	(4)	15
Segment financial results	$ 183	$ 82	$ 101	$ 62	$ 39

Certain items in the Vacation Ownership segment for the second quarter of 2019 consisted of $4 million of purchase accounting adjustments, $1 million of litigation charges and $1 million of gains and other income.

Certain items in the Vacation Ownership segment for the second quarter of 2018 consisted of $16 million of litigation charges (including $11 million related to a project in San Francisco and $5 million related to a project in Lake Tahoe) and $1 million of acquisition costs associated with the then anticipated capital efficient acquisition of the operating property in San Francisco.

2019 First Half

($ in millions)	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018	Change	Change due to Legacy-ILG	Change Excluding Legacy-ILG Impact
Segment adjusted EBITDA	$ 379	$ 192	$ 187	$ 150	$ 37
Depreciation and amortization	(34)	(9)	(25)	(23)	(2)
Share-based compensation expense	(4)	(2)	(2)	(2)	—
Certain items	(25)	(18)	(7)	(5)	(2)
Segment financial results	$ 316	$ 163	$ 153	$ 120	$ 33

Certain items in the Vacation Ownership segment for the first half of 2019 consisted of $26 million of asset impairments, $5 million of purchase accounting adjustments and $2 million of litigation charges, partially offset by $8 million of gains and other income.

Certain items in the Vacation Ownership segment for the first half of 2018 consisted of $16 million of litigation charges (including $11 million related to a project in San Francisco and $5 million related to a project in Lake Tahoe) and $3 million of acquisition costs associated with the then anticipated capital efficient acquisition of the operating property in San Francisco, partially offset by a $1 million favorable true up of previously recorded costs associated with Hurricane Irma and Hurricane Maria (recorded in Gains and other income).

Exchange & Third-Party Management

2019 Second Quarter

($ in millions)	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Change
Segment adjusted EBITDA	$ 58	$ —	$ 58
Depreciation and amortization	(12)	—	(12)
Share-based compensation expense	(1)	—	(1)
Certain items	—	—	—
Segment financial results	$ 45	$ —	$ 45

2019 First Half

($ in millions)	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018	Change
Segment adjusted EBITDA	$ 124	$ —	$ 124
Depreciation and amortization	(24)	—	(24)
Non-cash share-based compensation expense	(2)	—	(2)
Certain items	(1)	—	(1)
Segment financial results	$ 97	$ —	$ 97

Certain items in the Exchange & Third-Party Management segment for the first half of 2019 consisted of $1 million of purchase accounting adjustments.

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

	Three Months Ended		Six Months Ended	
($ in millions)	**June 30, 2019**	**June 30, 2018**	**June 30, 2019**	**June 30, 2018**
REVENUES				
Sale of vacation ownership products	$ 350	$ 205	$ 651	$ 380
Resort management and other services	134	78	259	148
Rental	141	74	288	149
Financing	68	36	135	71
Cost reimbursements	258	202	549	418
TOTAL REVENUES	951	595	1,882	1,166
EXPENSES				
Cost of vacation ownership products	91	57	171	103
Marketing and sales	181	106	358	211
Resort management and other services	70	39	136	75
Rental	99	62	201	117
Financing	24	10	46	21
Depreciation and amortization	17	4	34	9
Litigation charges	1	16	2	16
Royalty fee	26	16	52	31
Impairment	—	—	26	—
Cost reimbursements	258	202	549	418
TOTAL EXPENSES	767	512	1,575	1,001
(Losses) gains and other (expense) income, net	(1)	—	8	1
Other	—	(1)	—	(3)
SEGMENT FINANCIAL RESULTS BEFORE NONCONTROLLING INTERESTS	183	82	315	163
Net loss attributable to noncontrolling interests	—	—	1	—
SEGMENT FINANCIAL RESULTS ATTRIBUTABLE TO COMMON SHAREHOLDERS	$ 183	$ 82	$ 316	$ 163

Contract Sales

2019 Second Quarter

($ in millions)	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Change	Change due to Legacy-ILG	Change Excluding Legacy-ILG Impact	
Legacy-MVW North America consolidated contract sales	$ 219	$ 211	$ 8	$ —	$ 8	4%
Other consolidated contract sales	167	21	146	140	6	28%
Total consolidated contract sales	386	232	154	140	14	6%
Joint venture contract sales	12	—	12	12	—	NM
Total contract sales	$ 398	$ 232	$ 166	$ 152	$ 14	6%

The increase in Legacy-MVW North America consolidated contract sales reflected a 3 percent increase in the number of North America tours and a 1 percent increase in North America VPG to $3,700 in the second quarter of 2019 from $3,672 in the second quarter of 2018. The 3 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 Legacy-MVW other consolidated contract sales reflected an increase in the Asia Pacific region due to increases in tours at existing and new sales locations.

2019 First Half

($ in millions)	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018	Change	Change due to Legacy-ILG	Change Excluding Legacy-ILG Impact	
Legacy-MVW North America consolidated contract sales	$ 420	$ 399	$ 21	$ —	$ 21	5%
Other consolidated contract sales	320	37	283	271	12	30%
Total consolidated contract sales	740	436	304	271	33	8%
Joint venture contract sales	23	—	23	23	—	—%
Total contract sales	$ 763	$ 436	$ 327	$ 294	$ 33	8%

The increase in Legacy-MVW North America consolidated contract sales reflected a 5 percent increase in the number of North America tours and a 1 percent increase in North America VPG to $3,736 in the first half of 2019 from $3,698 in the first half of 2018. The 5 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 Legacy-MVW other consolidated contract sales reflected an increase in the Asia Pacific region due to increases in tours at existing and new sales locations.

Sale of Vacation Ownership Products

2019 Second Quarter

($ in millions)	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Change	Change due to Legacy-ILG	Change Excluding Legacy-ILG Impact	
Total contract sales	$ 398	$ 232	$ 166	$ 152	$ 14	6%
Less resales contract sales	(8)	(7)	(1)	—	(1)	
Less joint venture contract sales	(12)	—	(12)	(12)	—	
Consolidated contract sales, net of resales	378	225	153	140	13	
Plus:						
Settlement revenue[1]	11	4	7	7	—	
Resales revenue[1]	4	3	1	—	1	
Revenue recognition adjustments:						
Reportability	(8)	(4)	(4)	—	(4)	
Sales reserve	(27)	(15)	(12)	(10)	(2)	
Other[2]	(8)	(8)	—	(2)	2	
Sale of vacation ownership products	$ 350	$ 205	$ 145	$ 135	$ 10	5%

(1) Previously included in Resort management and other services revenue prior to the adoption of ASC 606.

(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 increased $10 million, driven by the increase in contract sales. Revenue reportability had a negative impact in the second quarter of 2019 and the second quarter of 2018 due to a net increase in unclosed contracts during the respective quarters.

The higher Legacy-MVW sales reserve reflected a higher required reserve in the second quarter of 2019 due to the increase in financing propensity and slightly higher default activity as compared to the second quarter of 2018.

2019 First Half

($ in millions)	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018	Change	Change due to Legacy-ILG	Change Excluding Legacy-ILG Impact	
Total contract sales	$ 763	$ 436	$ 327	$ 294	$ 33	8%
Less resales contract sales	(16)	(15)	(1)	—	(1)	
Less joint venture contract sales	(23)	—	(23)	(23)	—	
Consolidated contract sales, net of resales	724	421	303	271	32	
Plus:						
Settlement revenue[1]	20	8	12	12	—	
Resales revenue[1]	7	5	2	—	2	
Revenue recognition adjustments:						
Reportability	(38)	(16)	(22)	—	(22)	
Sales reserve	(46)	(24)	(22)	(18)	(4)	
Other[2]	(16)	(14)	(2)	(5)	3	
Sale of vacation ownership products	$ 651	$ 380	$ 271	$ 260	$ 11	3%

(1) Previously included in Resort management and other services revenue prior to the adoption of ASC 606.

(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 increased $11 million, driven by the increase in contract sales. Revenue reportability had a negative impact in the first half of 2019 and the first half of 2018 due to an increase in unclosed contracts during the respective quarters.

The higher Legacy-MVW sales reserve reflected a higher required reserve in the first half of 2019 due to the increase in financing propensity and slightly higher default activity as compared to the first half of 2018.

Development Margin

2019 Second Quarter

($ in millions)	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Change	Change due to Legacy-ILG	Change Excluding Legacy-ILG Impact	
Sale of vacation ownership products	$ 350	$ 205	$ 145	$ 135	$ 10	5%
Cost of vacation ownership products	(91)	(57)	(34)	(38)	4	7%
Marketing and sales	(181)	(106)	(75)	(71)	(4)	(2%)
Development margin	$ 78	$ 42	$ 36	$ 26	$ 10	26%
Development margin percentage	22.2%	19.9%	2.3 pts			

Excluding the impact of the ILG Acquisition, development margin increased $10 million year-over-year. The change in Legacy-MVW development margin reflected $7 million from a favorable mix of inventory being sold, $4 million related to more efficient marketing and sales spending, and $2 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 $3 million decline due to unfavorable revenue reportability compared to the second quarter of 2018.

The increase in the development margin percentage reflected a 4.1 percentage point improvement from Legacy-MVW results, partially offset by a negative 1.8 percentage point impact from the inclusion of Legacy-ILG results for the second quarter of 2019. The Legacy-MVW results included a 3.2 percentage point increase due to a favorable mix of lower cost vacation ownership real estate inventory being sold and a 2.1 percentage point improvement in marketing and sales costs due to leveraging fixed costs on the increase in contract sales, partially offset by a 0.8 percentage point decline due to the unfavorable revenue reportability and a 0.4 percentage point decline related to sales reserve and other activity year-over-year. Legacy-MVW development margin percentage was 24.0 percent in the second quarter of 2019.

2019 First Half

($ in millions)	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018	Change	Change due to Legacy-ILG	Change Excluding Legacy-ILG Impact	
Sale of vacation ownership products	$ 651	$ 380	$ 271	$ 260	$ 11	3%
Cost of vacation ownership products	(171)	(103)	(68)	(74)	6	6%
Marketing and sales	(358)	(211)	(147)	(140)	(7)	(3)%
Development margin	$ 122	$ 66	$ 56	$ 46	$ 10	15%
Development margin percentage	18.7%	17.2%	1.5 pts			

Excluding the impact of the ILG Acquisition, development margin increased $10 million year-over-year. The change in Legacy-MVW development margin reflected $11 million related to more efficient marketing and sales spending, $9 million from a favorable mix of inventory being sold, $6 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 $3 million from favorable product cost true-up activity year-over-year, partially offset by a $16 million decline due to unfavorable revenue reportability and $3 million related to sales reserve and other activity compared to the first half of 2018.

The increase in the development margin percentage reflected a 2.0 percentage point improvement from Legacy-MVW results, partially offset by a negative 0.5 percentage point impact from the inclusion of Legacy-ILG results for the first half of 2019. The Legacy-MVW results included a 2.9 percentage point improvement in marketing and sales costs due to leveraging fixed costs on the increase in contract sales, a 2.2 percentage point increase due to a favorable mix of higher cost vacation ownership real estate inventory being sold, and a 0.7 percentage point increase from favorable product cost true-up activity. These increases were partially offset by a 2.7 percentage point decline due to the unfavorable revenue reportability and a 1.1

percentage point decline related to sales reserve and other activity year-over-year. Legacy-MVW development margin percentage was 19.2 percent in the first half of 2019.

Resort Management and Other Services Revenues, Expenses and Margin

2019 Second Quarter

($ in millions)	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Change	Change due to Legacy-ILG	Change Excluding Legacy-ILG Impact	
Management fee revenues	$ 38	$ 26	$ 12	$ 13	$ (1)	(1%)
Ancillary revenues	66	36	30	29	1	5%
Other management and exchange revenues	30	16	14	10	4	3%
Resort management and other services revenues	134	78	56	52	4	5%
Resort management and other services expenses	(70)	(39)	(31)	(29)	(2)	(4%)
Resort management and other services margin	$ 64	$ 39	$ 25	$ 23	$ 2	7%
Resort management and other services margin percentage	47.3%	49.1%	(1.8 pts)			

2019 First Half

($ in millions)	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018	Change	Change due to Legacy-ILG	Change Excluding Legacy-ILG Impact	
Management fee revenues	75	50	$ 25	$ 25	$ —	2%
Ancillary revenues	$ 123	$ 64	59	55	4	7%
Other management and exchange revenues	61	34	27	20	7	18%
Resort management and other services revenues	259	148	111	100	11	8%
Resort management and other services expenses	(136)	(75)	(61)	(57)	(4)	(5)%
Resort management and other services margin	$ 123	$ 73	$ 50	$ 43	$ 7	11%
Resort management and other services margin percentage	47.4%	48.8%	(1.4 pts)			

Rental Revenues, Expenses and Margin

2019 Second Quarter

($ in millions)	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Change	Change due to Legacy-ILG	Change Excluding Legacy-ILG Impact	
Rental revenues	$ 141	$ 74	$ 67	$ 61	$ 6	8%
Rental expenses	(99)	(62)	(37)	(41)	4	8%
Rental margin	$ 42	$ 12	$ 30	$ 20	$ 10	85%
Rental margin percentage	29.0%	16.7%	12.3 pts			

	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018		Change due to Legacy-ILG	Change Excluding Legacy-ILG Impact	
Transient keys rented[(1)]	619,212	336,892	282,320	265,179	17,141	5%
Average transient key rate	$ 224.76	$ 216.53	$ 8.23	$ 2.33	$ 5.90	3%
Resort occupancy	88.6%	92.0%	(3.4 pts)	(3.5 pts)	0.1 pts	

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

2019 First Half

($ in millions)	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018	Change	Change due to Legacy-ILG	Change Excluding Legacy-ILG Impact	
Rental revenues	$ 288	$ 149	$ 139	$ 128	$ 11	8%
Rental expenses	(201)	(117)	(84)	(86)	2	2%
Rental margin	$ 87	$ 32	$ 55	$ 42	$ 13	46%
Rental margin percentage	29.9%	21.0%	8.9 pts			

	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018	Change	Change due to Legacy-ILG	Change Excluding Legacy-ILG Impact	
Transient keys rented[(1)]	1,230,966	669,800	561,166	540,500	20,666	3%
Average transient key rate	$ 234.71	$ 225.78	$ 8.93	$ 3.51	$ 5.42	2%
Resort occupancy	88.6%	90.0%	(1.4 pts)	(3.0 pts)	1.6 pts	

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

Financing Revenues, Expenses and Margin

2019 Second Quarter

($ in millions)	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Change	Change due to Legacy-ILG	Change Excluding Legacy-ILG Impact	
Interest income	$ 67	$ 34	$ 33	$ 26	$ 7	19%
Other financing revenues	1	2	(1)	—	(1)	—%
Financing revenues	68	36	32	26	6	18%
Financing expenses	(10)	(4)	(6)	(5)	(1)	(14%)
Consumer financing interest expense	(14)	(6)	(8)	(5)	(3)	(43%)
Financing margin	$ 44	$ 26	$ 18	$ 16	$ 2	12%
Financing propensity	61.9%	62.7%				

Legacy-MVW financing revenues increased due to a $169 million increase in the average gross vacation ownership notes receivable balance ($5 million), slightly lower financing program incentive costs, and favorable late and service fees. The higher consumer financing interest expense was due to a higher average outstanding debt balance and slightly higher average debt interest rate.

2019 First Half

($ in millions)	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018	Change	Change due to Legacy-ILG	Change Excluding Legacy-ILG Impact	
Interest income	$ 132	$ 68	$ 64	$ 52	$ 12	18%
Other financing revenues	3	3	—	—	—	—%
Financing revenues	135	71	64	52	12	17%
Financing expenses	(18)	(8)	(10)	(9)	(1)	(8%)
Consumer financing interest expense	(28)	(13)	(15)	(11)	(4)	(30%)
Financing margin	$ 89	$ 50	$ 39	$ 32	$ 7	15%
Financing propensity	62.0%	62.2%				

Legacy-MVW financing revenues increased due to a $169 million increase in the average gross vacation ownership notes receivable balance ($10 million). The higher consumer financing interest expense was due to a higher average outstanding debt balance and slightly higher average debt interest rate.

Litigation Charges

2019 Second Quarter

($ in millions)	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Change	Change due to Legacy-ILG	Change Excluding Legacy-ILG Impact	
Litigation charges	$ 1	$ 16	$ (15)	$ —	$ (15)	(95%)

In the second quarter of 2019, we incurred $1 million of litigation charges. In the second quarter of 2018, we incurred $16 million of litigation charges, including $11 million related to a project in San Francisco and $5 million related to a project in Lake Tahoe.

2019 First Half

($ in millions)	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018	Change	Change due to Legacy-ILG	Change Excluding Legacy-ILG Impact	
Litigation charges	$ 2	$ 16	$ (14)	$ —	$ (14)	(89%)

In the first half of 2019, we incurred $2 million of litigation charges. In the first half of 2018, we incurred $16 million of litigation charges, including $11 million related to a project in San Francisco and $5 million related to a project in Lake Tahoe.

Royalty Fee

2019 Second Quarter

($ in millions)	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Change	Change due to Legacy-ILG	Change Excluding Legacy-ILG Impact	
Royalty fee	$ 26	$ 16	$ 10	$ 11	$ (1)	(4%)

Excluding the impact of the ILG Acquisition, Legacy-MVW royalty fee expense decreased $1 million in the second quarter of 2019 due to an increase in the mix of sales of pre-owned inventory, which carry a lower royalty fee as compared to initial sales of our inventory (one percent versus two percent), partially offset by an increase in the dollar volume of closings and an increase in the fixed portion of the royalty fee. The prior year period benefited from a contractual decrease in the fixed portion of the royalty fee owed to Marriott International 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 on September 1, 2018.

2019 First Half

($ in millions)	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018	Change	Change due to Legacy-ILG	Change Excluding Legacy-ILG Impact	
Royalty fee	$ 52	$ 31	$ 21	$ 21	$ —	—%

Excluding the impact of the ILG Acquisition, Legacy-MVW royalty fee expense remained flat year-over-year due to an increase in the mix of sales of pre-owned inventory, which carry a lower royalty fee as compared to initial sales of our inventory (one percent versus two percent), partially offset by an increase in the dollar volume of closings and an increase in the fixed portion of the royalty fee. The prior year period benefited from a contractual decrease in the fixed portion of the royalty fee owed to Marriott International 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 on September 1, 2018.

Depreciation

2019 Second Quarter

($ in millions)	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Change	Change due to Legacy-ILG	Change Excluding Legacy-ILG Impact	
Depreciation and amortization	$ 17	$ 4	$ 13	$ 12	$ 1	34%

2019 First Half

($ in millions)	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018	Change	Change due to Legacy-ILG	Change Excluding Legacy-ILG Impact	
Depreciation and amortization	$ 34	$ 28	$ 6	$ 4	$ 2	37%

Impairment

2019 First Half

($ in millions)	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018	Change	Change due to Legacy-ILG	Change Excluding Legacy-ILG Impact	
Impairment	$ 26	$ —	$ 26	$ —	$ 26	NM

During the second quarter of 2019, we entered into a contract to sell land and land improvements associated with a future phase of an existing resort located in Orlando, Florida for $10 million, which was less than the carrying value of the land and land improvements. As a result, we recorded a non-cash impairment of $26 million in the first half of 2019. The impairment is primarily attributable to the fact that the book value of the assets to be sold exceeds the sales price because the book value includes allocations of common costs incurred when we built the infrastructure for the resort, including future phases.

Cost Reimbursements

2019 Second Quarter

($ in millions)	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Change	Change due to Legacy-ILG	Change Excluding Legacy-ILG Impact	
Cost reimbursements	$ 258	$ 202	$ 56	$ 64	$ (8)	(4%)

2019 First Half

($ in millions)	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018	Change	Change due to Legacy-ILG	Change Excluding Legacy-ILG Impact	
Cost reimbursements	$ 549	$ 418	$ 131	$ 127	$ 4	1%

Other

2019 Second Quarter

($ in millions)	Six Months Ended									
	June 30, 2019		June 30, 2018		Change		Change due to Legacy-ILG		Change Excluding Legacy-ILG Impact	
Other	$	—	$	(1)	$	1	$	—	$ 1	100%

2019 First Half

($ in millions)	Six Months Ended									
	June 30, 2019		June 30, 2018		Change		Change due to Legacy-ILG		Change Excluding Legacy-ILG Impact	
Other	$	—	$	(3)	$	3	$	—	$ 3	100%

In the first half of 2018, we incurred $3 million of other expenses associated with the then anticipated capital efficient acquisition of an operating property in San Francisco.

(Losses) Gains and Other (Expense) Income

2019 Second Quarter

($ in millions)	Three Months Ended									
	June 30, 2019		June 30, 2018		Change		Change due to Legacy-ILG		Change Excluding Legacy-ILG Impact	
Losses and other expense, net	$	(1)	$	—	$	(1)	$	—	$ (1)	NM

2019 First Half

($ in millions)	Six Months Ended									
	June 30, 2019		June 30, 2018		Change		Change due to Legacy-ILG		Change Excluding Legacy-ILG Impact	
Gains and other income, net	$	8	$	1	$	7	$	—	$ 7	NM

In the first half of 2019, we recorded $9 million of gains and other income related to net insurance proceeds from the settlement of Legacy-MVW business interruption insurance claims arising from the 2017 Hurricanes, partially offset by $1 million of miscellaneous losses and other expense.

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 periods subsequent to that date.

	Three Months Ended		Six Months Ended	
($ in millions)	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
REVENUES				
Management and exchange	$ 75	$ —	$ 157	$ —
Rental	17	—	34	—
Financing	1	—	2	—
Cost reimbursements	22	—	46	—
TOTAL REVENUES	115	—	239	—
EXPENSES				
Marketing and sales	12	—	23	—
Management and exchange	16	—	33	—
Rental	7	—	15	—
Financing	1	—	1	—
Depreciation and amortization	12	—	24	—
Cost reimbursements	22	—	46	—
TOTAL EXPENSES	70	—	142	—
SEGMENT FINANCIAL RESULTS ATTRIBUTABLE TO COMMON SHAREHOLDERS	$ 45	$ —	$ 97	$ —

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 revenues and expenses from the Consolidated Property Owners' Associations.

	Three Months Ended		Six Months Ended	
($ in millions)	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
REVENUES				
Resort management and other services	$ 30	$ —	$ 62	$ —
Rental	—	—	1	—
Cost reimbursements	(28)	—	(56)	—
TOTAL REVENUES	2	—	7	—
EXPENSES				
Resort management and other services	32	—	65	—
Rental	(2)	—	(4)	—
General and administrative	79	33	157	61
Depreciation	7	1	15	2
Cost reimbursements	(28)	—	(56)	—
TOTAL EXPENSES	88	34	177	63
Gains (losses) and other income (expense), net	3	(7)	2	(7)
Interest expense	(35)	(5)	(69)	(9)
ILG acquisition-related costs	(36)	(19)	(62)	(20)
FINANCIAL RESULTS BEFORE INCOME TAXES AND NONCONTROLLING INTERESTS	(154)	(65)	(299)	(99)
Provision for income taxes	(25)	(6)	(40)	(17)
FINANCIAL RESULTS BEFORE NONCONTROLLING INTERESTS	(179)	(71)	(339)	(116)
Net income attributable to noncontrolling interests	—	—	(1)	—
FINANCIAL RESULTS ATTRIBUTABLE TO COMMON SHAREHOLDERS	$ (179)	$ (71)	$ (340)	$ (116)

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.

($ in millions)	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
REVENUES				
Resort management and other services	$ 30	$ —	$ 62	$ —
Rental	—	—	1	—
Cost reimbursements	(28)	—	(56)	—
TOTAL REVENUES	2	—	7	—
EXPENSES				
Resort management and other services	32	—	65	—
Rental	(2)	—	(4)	—
Cost reimbursements	(28)	—	(56)	—
TOTAL EXPENSES	2	—	5	—
FINANCIAL RESULTS BEFORE NONCONTROLLING INTERESTS	—	—	2	—
Net income attributable to noncontrolling interests	—	—	(1)	—
FINANCIAL RESULTS ATTRIBUTABLE TO COMMON SHAREHOLDERS	$ —	$ —	$ 1	$ —

General and Administrative

2019 Second Quarter

($ in millions)	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Change	Change due to Legacy-ILG	Change Excluding Legacy-ILG Impact	
General and administrative	$ 79	$ 33	$ 46	$ 44	$ 2	15%

Excluding the impact of the ILG Acquisition, general and administrative expenses increased $2 million due to higher personnel related and other expenses, partially offset by savings from synergy initiatives. The personnel related and other expenses included annual merit, bonus and inflationary cost increases.

2019 First Half

($ in millions)	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018	Change	Change due to Legacy-ILG	Change Excluding Legacy-ILG Impact	
General and administrative	$ 157	$ 61	$ 96	$ 90	$ 6	14%

Excluding the impact of the ILG Acquisition, general and administrative expenses increased $6 million due to higher personnel related and other expenses, partially offset by savings from synergy initiatives. The personnel related and other expenses included annual merit, bonus and inflationary cost increases.

Depreciation

2019 Second Quarter

($ in millions)	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Change	Change due to Legacy-ILG	Change Excluding Legacy-ILG Impact	
Depreciation and amortization	$ 7	$ 1	$ 6	$ 5	$ 1	10%

2019 First Half

($ in millions)	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018	Change	Change due to Legacy-ILG	Change Excluding Legacy-ILG Impact	
Depreciation and amortization	$ 15	$ 2	$ 13	$ 11	$ 2	27%

Gains (Losses) and Other Income (Expense)

2019 Second Quarter

($ in millions)	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Change	Change due to Legacy-ILG	Change Excluding Legacy-ILG Impact	
Gains (losses) and other income (expense), net	$ 3	$ (7)	$ 10	$ 1	$ 9	121%

In the second quarter of 2019, we recorded $3 million of gains and other income resulting from the recovery of a portion of the fraudulently induced electronic payment disbursements made in the second quarter of 2018. In the second quarter of 2018, we recorded $7 million of losses and other expenses primarily resulting from fraudulently induced electronic payment disbursements made to third parties.

2019 First Half

($ in millions)	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018	Change	Change due to Legacy-ILG	Change Excluding Legacy-ILG Impact	
Gains (losses) and other income (expense), net	$ 2	$ (7)	$ 9	$ 1	$ 8	112%

In the first half of 2019, we recorded $3 million of gains and other income resulting from the recovery of a portion of the fraudulently induced electronic payment disbursements made in the second quarter of 2018, partially offset by $1 million of losses and other expenses. In the first half of 2018, we recorded $7 million of losses and other expenses primarily resulting from fraudulently induced electronic payment disbursements made to third parties.

Interest Expense

2019 Second Quarter

($ in millions)	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Change	Change due to Legacy-ILG	Change Excluding Legacy-ILG Impact	
Interest expense	$ (35)	$ (5)	$ (30)	$ (2)	$ (28)	NM

Interest expense increased $30 million due to $27 million of interest expense associated with the new debt issued in the third quarter of 2018 in connection with the ILG Acquisition, $2 million of interest expense associated with assumed Legacy-ILG debt in the second quarter of 2019 and $1 million of higher interest expense associated with the Warehouse Credit Facility due to higher usage in the second quarter of 2019.

2019 First Half

($ in millions)	Six Months Ended										
	June 30, 2019		June 30, 2018		Change		Change due to Legacy-ILG		Change Excluding Legacy-ILG Impact		
Interest expense	$	(69)	$	(9)	$	(60)	$	(4)	$	(56)	NM

Interest expense increased $60 million due to $53 million of interest expense associated with the new debt issued in the third quarter of 2018 in connection with the ILG Acquisition, $4 million of interest expense associated with assumed Legacy-ILG debt in the first half of 2019 and $3 million of higher interest expense associated with the Warehouse Credit Facility due to higher usage in the first half of 2019.

ILG Acquisition-Related Costs

2019 Second Quarter

($ in millions)	Three Months Ended										
	June 30, 2019		June 30, 2018		Change		Change due to Legacy-ILG		Change Excluding Legacy-ILG Impact		
ILG acquisition-related costs	$	(36)	$	(19)	$	(17)	$	(7)	$	(10)	(50%)

2019 First Half

($ in millions)	Six Months Ended										
	June 30, 2019		June 30, 2018		Change		Change due to Legacy-ILG		Change Excluding Legacy-ILG Impact		
ILG acquisition-related costs	$	(62)	$	(20)	$	(42)	$	(15)	$	(27)	(132%)

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.

Income Tax

2019 Second Quarter

($ in millions)	Three Months Ended					
	June 30, 2019		June 30, 2018		Change	
Provision for income taxes	$	(25)	$	(6)	$	(19)

The increase in the provision for income taxes was primarily due to increases in U.S. and foreign earnings as a result of the ILG Acquisition during the third quarter of 2018.

2019 First Half

($ in millions)	Six Months Ended					
	June 30, 2019		June 30, 2018		Change	
Provision for income taxes	$	(40)	$	(17)	$	(23)

The increase in the provision for income taxes was primarily due to increases in U.S. and foreign earnings as a result of the ILG Acquisition during the third quarter of 2018.

Recent Accounting Pronouncements

See Footnote 2 “Significant Accounting Policies and Recent Accounting Standards” to our Financial Statements for a discussion of recently issued accounting pronouncements, including information on new accounting standards and the future adoption of such standards.

Liquidity and Capital Resources

Our capital needs are supported by cash on hand ($179 million at the end of the second quarter of 2019), 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 June 30, 2019, we had $4.0 billion of total gross debt outstanding, which included $1.8 billion of non-recourse debt associated with vacation ownership notes receivable securitizations, $1.0 billion of Senior Notes, $1.0 billion on our Corporate Credit Facility, $230 million of Convertible Notes and $23 million related to financed lease obligations.

At the end of the second quarter of 2019, we had $876 million of real estate inventory on hand, comprised of $828 million of finished goods and $48 million of work in progress. In addition, we had $48 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 and held for sale as vacation ownership products.

Our Vacation Ownership segment product offerings allow us to utilize our 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 construction 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 inventory acquisitions with the pace of sales of vacation ownership products. We are continuing 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 our Vacation Ownership segment by targeting high-quality inventory that allows us to add desirable new destinations to our systems 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 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.

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

	Six Months Ended	
($ in millions)	**June 30, 2019**	**June 30, 2018**
Cash, cash equivalents and restricted cash provided by (used in):		
Operating activities	$ 56	$ 58
Investing activities	15	(19)
Financing activities	(170)	187
Effect of change in exchange rates on cash, cash equivalents and restricted cash	1	1
Net change in cash, cash equivalents and restricted cash	$ (98)	$ 227

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 of resorts and related technology infrastructure 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 inventory acquisition and development.

In the first half of 2019, we generated $56 million of cash flows from operating activities, compared to $58 million in the first half of 2018. Excluding the impact of changes in net income and adjustments for non-cash items, the change in cash flows from operations reflected higher originations of vacation ownership notes receivable driven by higher contract sales, timing of maintenance fee payments on unsold inventory, higher inventory spending and payments related to employee benefits programs, partially offset by higher collections due to an increasing portfolio of outstanding vacation ownership notes receivable, and timing of collections of maintenance fees, management fees and exchange club dues.

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 Cost of Sales

	Six Months Ended	
($ in millions)	**June 30, 2019**	**June 30, 2018**
Inventory spending	$ (67)	$ (52)
Inventory costs	144	89
Inventory spending less than cost of sales	$ 77	$ 37

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 our points programs and capital efficient transactions, our spending for real estate inventory remained below the amount of real estate inventory costs in both the first half of 2019 and the first half of 2018. We expect our 2019 full year inventory spending to be lower than our inventory costs, even including payments to satisfy our remaining commitments to purchase vacation ownership units. We entered into 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 11 “Contingencies and Commitments” to our Financial Statements for additional information regarding our remaining commitments.

Our inventory spending was less than inventory costs in the first half of 2018, even including payments to satisfy a portion of our then remaining commitment to purchase vacation ownership units located at our resort in Marco Island, Florida. During the first half of 2018, inventory spending included $24 million for the acquisition of 20 completed vacation ownership units at our resort in Marco Island, Florida, as well as a deposit of $2 million for the purchase of completed vacation ownership units located in Bali, Indonesia.

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

	Six Months Ended	
($ in millions)	**June 30, 2019**	**June 30, 2018**
Vacation ownership notes receivable collections — non-securitized	$ 88	$ 50
Vacation ownership notes receivable collections — securitized	221	105
Vacation ownership notes receivable originations	(423)	(233)
Vacation ownership notes receivable collections less than originations	$ (114)	$ (78)

Vacation ownership notes receivable collections include principal from non-securitized and securitized vacation ownership notes receivable. Vacation ownership notes receivable collections increased during the first half of 2019, as compared to the first half of 2018, due to an increase in the portfolio of outstanding vacation ownership notes receivable, including vacation ownership notes receivable acquired as part of the ILG acquisition. Vacation ownership notes receivable originations in the first half of 2019 increased due to higher Legacy-MVW contract sales and the inclusion of Legacy-ILG contract sales in 2019. Financing propensity was stable at 62 percent for the first half of 2019 and for the first half of 2018.

Cash from Investing Activities

($ in millions)	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Capital expenditures for property and equipment (excluding inventory)	$ (19)	$ (7)
Proceeds from collection of notes receivable	38	—
Purchase of company owned life insurance	(4)	(12)
Net cash, cash equivalents and restricted cash provided by (used in) investing activities	$ 15	$ (19)

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 the first half of 2019, capital expenditures for property and equipment of $19 million included $7 million to support business operations (including $4 million for ancillary and other operations assets and $3 million for sales locations) and $12 million for technology spending.

In the first half of 2018, capital expenditures for property and equipment of $7 million included $5 million to support business operations (including $2 million for ancillary and other operations assets and $3 million for sales locations) and $2 million for technology spending.

Proceeds from Collection of Notes Receivable

During the first half of 2019, we collected $23 million of notes receivable related to the disposition of our interest in VRI Europe in the fourth quarter of 2018. In addition, we collected a $15 million note receivable acquired in the ILG Acquisition.

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. During the first half of 2019, we paid $4 million to acquire these policies as compared to $12 million during the first half of 2018.

Cash from Financing Activities

($ in millions)	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Borrowings from securitization transactions	$ 574	$ 423
Repayment of debt related to securitization transactions	(496)	(154)
Proceeds from debt	310	—
Repayments of debt	(266)	(33)
Debt issuance costs	(6)	(7)
Repurchase of common stock	(215)	(2)
Payment of dividends	(61)	(32)
Payment of withholding taxes on vesting of restricted stock units	(10)	(8)
Net cash, cash equivalents and restricted cash (used in) provided by financing activities	$ (170)	$ 187

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."

As of June 30, 2019, $104 million of gross vacation ownership notes receivable were eligible for securitization.

During the second quarter of 2019, we completed the securitization of a pool of $459 million of vacation ownership notes receivable. In connection with the securitization, investors purchased in a private placement $450 million in vacation ownership loan backed notes from the 2019-1 LLC. Three classes of vacation ownership loan backed notes were issued by the 2019-1 LLC: $350 million of Class A Notes, $67 million of Class B Notes and $33 million of Class C Notes. The Class A Notes have an interest rate of 2.89 percent, the Class B Notes have an interest rate of 3.00 percent and the Class C Notes have an interest rate of 3.33 percent, for an overall weighted average interest rate of 2.94 percent.

During the first quarter of 2019, we securitized vacation ownership notes receivable under our Warehouse Credit Facility. The carrying amount of the vacation ownership notes receivable securitized was $146 million. The advance rate was 85 percent, which resulted in gross proceeds of $124 million. Net proceeds were $123 million due to the funding of reserve accounts of $1 million. There were no amounts outstanding under our Warehouse Credit Facility as of June 30, 2019. See Footnote 13 “Securitized Debt” to our Financial Statements for additional information regarding our Warehouse Credit Facility.

Proceeds from / Repayments of Debt

Borrowings from / Repayment of Corporate Credit Facility

During the first half of 2019, we borrowed $310 million under our Revolving Corporate Credit Facility to facilitate the funding of our short-term working capital needs, $230 million of which has been repaid, and had $80 million outstanding as of June 30, 2019. During the first half of 2019, we also repaid $5 million of the amount outstanding under the Term Loan, which is part of our Corporate Credit Facility. See Footnote 14 “Debt” to our Financial Statements for additional information regarding our Corporate Credit Facility that includes our Revolving Corporate Credit Facility and the Term Loan.

Debt Issuance Costs

During the first half of 2019, we paid $6 million of debt issuance costs associated with the 2019-1 vacation ownership notes receivable securitization.

During the first half of 2018, we paid $7 million of debt issuance costs, which included $6 million associated with the 2018 vacation ownership notes receivable securitization and $1 million associated with the amendment and extension of our Warehouse Credit Facility.

Repayment of Other Debt

During the second quarter of 2019, we paid the remaining balance of $31 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.

Share Repurchase Program

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

($ in millions, except per share amounts)	**Number of Shares Repurchased**	**Cost of Shares Repurchased**	**Average Price Paid per Share**
As of December 31, 2018	11,687,774	$ 793	$ 67.85
For the first half of 2019	2,358,808	215	91.12
As of June 30, 2019	14,046,582	$ 1,008	$ 71.76

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

Dividends

We distributed cash dividends to holders of common stock during the first half of 2019 as follows:

Declaration Date	**Shareholder Record Date**	**Distribution Date**	**Dividend per Share**
December 6, 2018	December 20, 2018	January 3, 2019	$0.45
February 15, 2019	February 28, 2019	March 14, 2019	$0.45
May 9, 2019	May 23, 2019	June 6, 2019	$0.45

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 June 30, 2019:

		Payments Due by Period			
($ in millions)	**Total**	**Remainder of 2019**	**Years 2020 - 2021**	**Years 2022 - 2023**	**Thereafter**
Contractual Obligations					
Debt[1]	$ 4,971	$ 219	$ 768	$ 1,219	$ 2,765
Purchase obligations[2]	450	93	349	8	—
Operating lease obligations	202	15	50	34	103
Finance lease obligations[3]	23	11	12	—	—
Other long-term obligations[4]	56	26	20	6	4
Total contractual obligations	$ 5,702	$ 364	$ 1,199	$ 1,267	$ 2,872

(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 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.

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. We have discussed those estimates that we believe are critical and require the use of complex judgment in their application in our most recent Annual Report on Form 10-K. Since the date of our most recent Annual Report on Form 10-K, there have been no material changes to our critical accounting policies or the methodologies or assumptions we apply under them, except those resulting from the following:

- Our adoption of Accounting Standards Update 2016-02, "*Leases (Topic 842)*," as amended, which is discussed in Footnote 2 "Significant Accounting Policies and Recent Accounting Standards" and Footnote 12 "Leases" to our interim consolidated financial statements presented in Part 1, Item 1 of this Quarterly Report on Form 10-Q; and
- Purchase price allocations of business combinations, which is discussed in Footnote 3 "Acquisitions and Dispositions" to our interim consolidated financial statements presented in Part 1, Item 1 of this Quarterly Report on Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our exposure to market risk has not changed materially from that disclosed in Part I, Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2018.

Item 4.   Controls and Procedures

Disclosure Controls and Procedures

As of the end of the period covered by this Quarterly Report on Form 10-Q, 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 Securities Exchange Act of 1934, as amended (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.

Changes in Internal Control Over Financial Reporting

We made no changes in our internal control over financial reporting during the period covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting other than changes in control over financial reporting to integrate the business we acquired in the ILG Acquisition.

Part II. OTHER INFORMATION

Item 1.   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 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 1A. Risk Factors

There have been no material changes from the risk factors disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2018 other than as discussed below.

We may be adversely affected by changes in LIBOR reporting practices or the method in which LIBOR is determined.

As of June 30, 2019, approximately $950 million of our gross aggregate consolidated indebtedness was indexed to the London Interbank Offered Rate ("LIBOR"). Our Warehouse Credit Facility, under which no amounts were outstanding as of June 30, 2019, is also indexed to LIBOR. In addition, as of June 30, 2019, we were party to $550 million of derivative instruments indexed to LIBOR. Central banks around the world, including the Federal Reserve, have commissioned working groups of market participants and official sector representatives with the goal of finding suitable replacements for LIBOR based on observable market transactions. It is expected that a transition away from the widespread use of LIBOR to alternative rates will occur over the course of the next few years. The U.K. Financial Conduct Authority, which regulates LIBOR, has announced that it has commitments from panel banks to continue to contribute to LIBOR through the end of 2021, but that it will not use its powers to compel contributions beyond such date. Accordingly, there is considerable uncertainty regarding the publication of such rates beyond 2021. The Federal Reserve Bank of New York and various other authorities have commenced the publication of reforms and actions relating to alternatives to U.S. dollar LIBOR. Although the full impact of such reforms and actions, together with any transition away from LIBOR, including the potential or actual discontinuance of LIBOR publication, remains unclear, these changes may have a material adverse impact on the availability of financing, including LIBOR-based loans, and on our financing costs.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

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)(2)
April 1, 2019 – April 30, 2019	140,923	$101.40	140,923	1,554,888
May 1, 2019 – May 31, 2019	473,157	$95.85	473,157	1,081,731
June 1, 2019 – June 30, 2019	514,460	$95.45	514,460	567,271
Total	1,128,540	$96.36	1,128,540	567,271

(1) As of June 30, 2019, 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. Subsequent to the end of the second quarter of 2019, our Board of Directors authorized the extension of the duration of our existing share repurchase program to December 31, 2020, as well as the repurchase of up to 4.5 million additional shares of our common stock.

(2) Reflects the decrease of 286,147 shares inadvertently included in this number in the Quarterly Report on Form 10-Q for the quarter ended March 31, 2019 and the Annual Report on Form 10-K for the year ended December 31, 2018.

Item 6. Exhibits

All documents referenced below are being filed as a part of this Quarterly Report on Form 10-Q, unless otherwise noted.

Exhibit Number	Description	Filed Herewith	Incorporation By Reference From		
			Form	Exhibit	Date Filed
2.1	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, Inc., and Volt Merger Sub LLC*		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 as Exhibit A to Exhibit 4.2 above)		10-Q	4.1	11/2/2017
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

Exhibit Number	Description	Filed Herewith	Incorporation By Reference From		
			Form	Exhibit	Date Filed
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(1)	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(1)	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(1)	4.1	7/1/2016
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	The following financial statements from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2019, formatted in Inline XBRL: (i) Interim Consolidated Statements of Income, (ii) Interim Consolidated Statements of Comprehensive Income, (iii) Interim Consolidated Balance Sheets, (iv) Interim Consolidated Statements of Cash Flows, (v) Interim Consolidated Statements of Shareholders' Equity, and (vi) Notes to Interim Consolidated Financial Statements, tagged as blocks of text and including detailed tags				
104	The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2019, formatted in Inline XBRL and contained in Exhibit 101				

* 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.

(1) Filing made by ILG, LLC under SEC File No. 001-34062.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	MARRIOTT VACATIONS WORLDWIDE CORPORATION
August 6, 2019	/s/ Stephen P. Weisz
	Stephen P. Weisz
	President and Chief Executive Officer
	/s/ John E. Geller, Jr.
	John E. Geller, Jr.
	Executive Vice President and Chief Financial and Administrative Officer

Exhibit 31.1

Certificate of Chief Executive Officer
Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934

I, Stephen P. Weisz, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Marriott Vacations Worldwide Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
   (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: August 6, 2019

/s/ Stephen P. Weisz

Stephen P. Weisz
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

Certificate of Chief Financial Officer
Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934

I, John E. Geller, Jr., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Marriott Vacations Worldwide Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
   (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: August 6, 2019

/s/ John E. Geller, Jr.

John E. Geller, Jr.
Executive Vice President and Chief Financial and Administrative Officer
(Principal Financial Officer)

Exhibit 32.1

Certification
Pursuant to Rule 13a-14(b) and Section 906 of the Sarbanes-Oxley Act of 2002
(18 U.S.C. Sections 1350(a) and (b))

I, Stephen P. Weisz, President and Chief Executive Officer of Marriott Vacations Worldwide Corporation (the “Company”) certify that:

1. the Quarterly Report on Form 10-Q of the Company for the period ended June 30, 2019 (the “Quarterly Report”), fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

2. the information contained in the Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

August 6, 2019

/s/ Stephen P. Weisz

Stephen P. Weisz
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 32.2

Certification
Pursuant to Rule 13a-14(b) and Section 906 of the Sarbanes-Oxley Act of 2002
(18 U.S.C. Sections 1350(a) and (b))

I, John E. Geller, Jr., Executive Vice President and Chief Financial Officer of Marriott Vacations Worldwide Corporation (the “Company”) certify that:

1. the Quarterly Report on Form 10-Q of the Company for the period ended June 30, 2019 (the “Quarterly Report”), fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

2. the information contained in the Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

August 6, 2019

/s/ John E. Geller, Jr.

John E. Geller, Jr.
Executive Vice President and Chief Financial and Administrative Officer
(Principal Financial Officer)