MARRIOTT VACATIONS WORLDWIDE Corp
Form 10-Q
November 08, 2018

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2018

OR

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

For the transition period from __________ to __________

Commission file 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)

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 x 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 x No ¨

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

Large accelerated filer	x	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 x

The number of shares outstanding of the issuer's common stock, par value $0.01 per share, as of November 2, 2018 was 47,037,330.

MARRIOTT VACATIONS WORLDWIDE CORPORATION
FORM 10-Q TABLE OF CONTENTS

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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 trademarks, service marks or 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.

"Hyatt Vacation Ownership" business refers to the group of businesses using the Hyatt® brand in the shared ownership business pursuant to an exclusive, global master license agreement with a subsidiary of Hyatt Hotels Corporation

(“Hyatt”). Our subsidiary, Vistana Signature Experiences, Inc. (“Vistana”), uses the Westin® and Sheraton® brands (and to a limited extent the St. Regis® and The Luxury Collection® brands) in vacation ownership pursuant to an exclusive global license agreement with Starwood Hotels and Resort Worldwide, LLC (“Starwood”). Brand names, trademarks, service marks and trade names that we own or license from Marriott International, Inc. (“Marriott International”) or its affiliates include Marriott Vacation Club®, Marriott Vacation Club Destinations™, Marriott Vacation Club Pulse℠, Marriott Grand Residence Club®, Grand Residences by Marriott®, and The Ritz-Carlton Club®. We also refer to Marriott International’s Marriott Rewards® customer loyalty program.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements
MARRIOTT VACATIONS WORLDWIDE CORPORATION
INTERIM CONSOLIDATED STATEMENTS OF INCOME
(In millions, except per share amounts)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
REVENUES				
Sale of vacation ownership products	$252	$ 183	$632	$ 549
Management and exchange	126	70	274	209
Rental	90	66	239	203
Financing	48	34	119	99
Cost reimbursements	234	177	652	561
TOTAL REVENUES	750	530	1,916	1,621
EXPENSES				
Cost of vacation ownership products	64	46	167	141
Marketing and sales	135	94	346	287
Management and exchange	65	38	140	111
Rental	74	57	191	168
Financing	19	11	40	30
General and administrative	53	26	114	81
Depreciation and amortization	18	6	29	16
Litigation settlement	17	2	33	2
Royalty fee	19	15	50	47
Cost reimbursements	234	177	652	561
TOTAL EXPENSES	698	472	1,762	1,444
Gains (losses) and other income (expense), net	2	7	(4)	7
Interest expense	(14)	(2)	(23)	(5)
ILG acquisition-related costs	(108)	—	(128)	(1)
Other	—	—	(3)	—
(LOSS) INCOME BEFORE INCOME TAXES AND NONCONTROLLING INTERESTS	(68)	63	(4)	178
Benefit (provision) for income taxes	10	(23)	(7)	(62)
NET (LOSS) INCOME	(58)	40	(11)	116
Net income attributable to noncontrolling interests	—	—	—	—
NET (LOSS) INCOME ATTRIBUTABLE TO COMMON SHAREHOLDERS	$(58)	$ 40	$(11)	$ 116
(LOSSES) EARNINGS PER SHARE ATTRIBUTABLE TO COMMON SHAREHOLDERS				
Basic	$(1.75)	$ 1.49	$(0.37)	$ 4.27
Diluted	$(1.75)	$ 1.45	$(0.37)	$ 4.18
CASH DIVIDENDS DECLARED PER SHARE	$0.40	$ 0.35	$1.20	$ 1.05

See Notes to Interim Consolidated Financial Statements

1

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

	Three Months Ended		Nine Months Ended	
	September 30, 2018	**September 30, 2017**	**September 30, 2018**	**September 30, 2017**
Net (loss) income	$(58)	$ 40	$(11)	$ 116
Other comprehensive income (loss):				
Foreign currency translation adjustments	—	5	—	12
Derivative instrument adjustment, net of tax	—	—	(1)	—
Total other comprehensive income (loss), net of tax	—	5	(1)	12
TOTAL COMPREHENSIVE (LOSS) INCOME, NET OF TAX	(58)	45	(12)	128
Less: Net income attributable to noncontrolling interests	—	—	—	—
Less: Other comprehensive income attributable to noncontrolling interests	—	—	—	—
Total comprehensive income attributable to noncontrolling interests	—	—	—	—
COMPREHENSIVE (LOSS) INCOME ATTRIBUTABLE TO COMMON SHAREHOLDERS	$(58)	$ 45	$(12)	$ 128

See Notes to the Interim Consolidated Financial Statements

2

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

	September 30, 2018	December 31, 2017
ASSETS		
Cash and cash equivalents	$ 441	$ 409
Restricted cash (including $130 and $32 from VIEs, respectively)	365	82
Accounts receivable, net (including $10 and $6 from VIEs, respectively)	236	92
Vacation ownership notes receivable, net (including $1,557 and $814 from VIEs, respectively)	1,959	1,115
Inventory	829	398
Property and equipment	952	583
Goodwill	2,747	—
Intangibles, net	1,216	—
Other (including $28 and $14 from VIEs, respectively)	268	166
TOTAL ASSETS	$ 9,013	$ 2,845
LIABILITIES AND EQUITY		
Accounts payable	$ 181	$ 145
Advance deposits	124	84
Accrued liabilities (including $2 and $1 from VIEs, respectively)	370	120
Deferred revenue	325	69
Payroll and benefits liability	194	112
Deferred compensation liability	94	75
Securitized debt, net (including $1,701 and $845 from VIEs, respectively)	1,688	835
Debt, net	2,235	260
Other	15	14
Deferred taxes	266	90
TOTAL LIABILITIES	5,492	1,804
Contingencies and Commitments (Note 9)		
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; 57,611,046 and 36,861,843 shares issued, respectively	1	—
Treasury stock — at cost; 10,405,594 and 10,400,547 shares, respectively	(696)	(694)
Additional paid-in capital	3,697	1,189
Accumulated other comprehensive income	16	17
Retained earnings	478	529
TOTAL MVW SHAREHOLDERS' EQUITY	3,496	1,041
Noncontrolling interests	25	—
TOTAL EQUITY	3,521	1,041
TOTAL LIABILITIES AND EQUITY	$ 9,013	$ 2,845

The abbreviation VIEs above means Variable Interest Entities.

See Notes to Interim Consolidated Financial Statements

3

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

	Nine Months Ended	
	September 30, 2018	September 30, 2017
OPERATING ACTIVITIES		
Net (loss) income	$(11)	$ 116
Adjustments to reconcile net (loss) income to net cash and restricted cash provided by operating activities:		
Depreciation and amortization of intangibles	29	16
Amortization of debt discount and issuance costs	12	6
Accretion of acquired vacation ownership notes receivable	(1)	—
Vacation ownership notes receivable reserve	42	40
Share-based compensation	19	12
Deferred income taxes	2	23
Net change in assets and liabilities, net of the effects of acquisition:		
Accounts receivable	(9)	23
Vacation ownership notes receivable originations	(395)	(345)
Vacation ownership notes receivable collections	244	204
Inventory	68	26
Purchase of vacation ownership units for future transfer to inventory	—	(34)
Other assets	53	34
Accounts payable, advance deposits and accrued liabilities	(13)	(78)
Deferred revenue	38	10
Payroll and benefit liabilities	(29)	1
Deferred compensation liability	11	10
Other liabilities	1	—
Other, net	6	7
Net cash and restricted cash provided by operating activities	67	71
INVESTING ACTIVITIES		
Acquisition of a business, net of cash and restricted cash acquired	(1,393)	—
Capital expenditures for property and equipment (excluding inventory)	(17)	(21)
Purchase of company owned life insurance	(13)	(12)
Net cash and restricted cash used in investing activities	(1,423)	(33)

Continued

See Notes to Interim Consolidated Financial Statements

4

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

	Nine Months Ended September 30, 2018	September 30, 2017
FINANCING ACTIVITIES		
Borrowings from securitization transactions	423	400
Repayment of debt related to securitization transactions	(264)	(232)
Proceeds from debt	1,650	318
Repayments of debt	(53)	(88)
Purchase of Convertible Note Hedges	—	(33)
Proceeds from issuance of Warrants	—	20
Debt issuance costs	(34)	(14)
Repurchase of common stock	(2)	(83)
Payment of dividends	(32)	(29)
Payment of withholding taxes on vesting of restricted stock units	(17)	(11)
Net cash and restricted cash provided by financing activities	1,671	248
Effect of changes in exchange rates on cash, cash equivalents and restricted cash	—	3
Increase in cash, cash equivalents and restricted cash	315	289
Cash, cash equivalents and restricted cash, beginning of period	491	213
Cash, cash equivalents and restricted cash, end of period	$806	$ 502
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Non-cash issuance of debt in connection with acquisition of vacation ownership units	$—	$ 64
Non-cash issuance of stock in connection with ILG Acquisition	2,505	—
Dividends payable	19	9
SUPPLEMENTAL DISCLOSURES		
Interest paid, net of amounts capitalized	28	16
Income taxes paid, net of refunds	18	38

See Notes to Interim Consolidated Financial Statements

5

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	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 loss	—	—	—	—	(11)	(11)	—	(11)
20.5	ILG Acquisition	1	—	2,440	—	—	2,441	25	2,466
—	Derivative instrument adjustment	—	—	—	(1)	—	(1)	—	(1)
0.2	Amounts related to share-based compensation	—	—	68	—	—	68	—	68
—	Repurchase of common stock	—	(2)	—	—	—	(2)	—	(2)
—	Dividends	—	—	—	—	(40)	(40)	—	(40)
57.6	Balance at September 30, 2018	$ 1	$ (696)	$ 3,697	$ 16	$ 478	$ 3,496	$ 25	$ 3,521

See Notes to Interim Consolidated Financial Statements

MARRIOTT VACATIONS WORLDWIDE CORPORATION
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Interim Consolidated Financial Statements present the results of operations, financial position and cash flows of Marriott Vacations Worldwide Corporation ("we," "us," "Marriott Vacations Worldwide," "MVW" or the "Company," which includes our consolidated subsidiaries except where the context of the reference is to a single corporate entity). In order to make this report easier to read, we refer throughout to (i) our 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. 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").

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), 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 recast for the adoption of Accounting Standards Update ("ASU") 2014-09 "*Revenue from Contracts with Customers (Topic 606),*" as amended ("ASU 2014-09") included in our Current Report on Form 8-K, filed with the U.S. Securities and Exchange Commission on June 5, 2018.

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 mortgages receivable, vacation ownership notes receivable reserves, income taxes and loss contingencies. Accordingly, actual amounts may differ from these estimated amounts.

Acquisition of ILG

On September 1, 2018, we completed the previously announced acquisition of ILG, LLC, formerly known as ILG, Inc. ("ILG") through a series of transactions, after which ILG became our indirect wholly-owned subsidiary (the "ILG Acquisition"). The Financial Statements in this report include ILG's results of operations for the 30 days ended September 30, 2018 and reflect the financial position of our combined company at September 30, 2018. We refer to our business associated with brands that existed prior to the ILG Acquisition as "Legacy-MVW" and to ILG's business and brands that we acquired as "Legacy-ILG." See Footnote 2 "Acquisitions and Dispositions" for more information on the ILG Acquisition.

Business Combinations

We allocate the purchase price of an acquisition to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values at the acquisition date. We recognize as goodwill the amount by which the purchase price of an acquired entity exceeds the net of the fair values assigned to the assets acquired and liabilities assumed. In determining the fair values of assets acquired and liabilities assumed, we use various recognized valuation methods including the income, cost and market approaches. Further, we make assumptions within certain valuation techniques, including discount rates, royalty rates, and the amount and timing of future cash flows. We record the net assets and results of operations of an acquired entity in our Financial Statements from the acquisition date. We initially perform these valuations based upon preliminary estimates and assumptions by management or independent valuation specialists under our supervision, where appropriate, and make revisions as estimates and assumptions are finalized. We expense acquisition-related costs as we incur them. See Footnote 2 “Acquisitions and Dispositions” for additional information.

Goodwill

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

Intangibles and Long-Lived Assets

We assess indefinite-lived intangible assets for potential impairment and continued indefinite use annually, or more frequently if an event or other circumstance indicates that we may not be able to recover the carrying amount of the asset. We may first assess qualitative factors to determine whether it is more likely than not that the fair value of the indefinite-lived intangible is less than its carrying amount. If the carrying value of the asset exceeds the fair value, we recognize an impairment loss in the amount of that excess.We test definite-lived intangibles and long-lived asset groups for recoverability when changes in circumstances indicate that we may not be able to recover the carrying value; for example, when there are material adverse changes in projected revenues or expenses, significant underperformance relative to historical or projected operating results, or significant negative industry or economic trends. We also test recoverability when management has committed to a plan to sell or otherwise dispose of an asset group and we expect to complete the plan within a year. We evaluate recoverability of an asset group by comparing its carrying value to the future net undiscounted cash flows that we expect the asset group will generate. If the comparison indicates that we will not be able to recover the carrying value of an asset group, we recognize an impairment loss for the amount by which the carrying value exceeds the estimated fair value. When we recognize an impairment loss for assets to be held and used, we depreciate the adjusted carrying amount of those assets over their remaining useful life.We calculate the estimated fair value of an intangible asset or asset group using the income approach. For the income approach, we use internally developed discounted cash flow models that include the following assumptions, among others: projections of revenues, expenses, and related cash flows based on assumed long-term growth rates and demand trends; expected future investments to grow; and estimated discount rates.

Restricted Cash

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

Reclassifications

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

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

New Accounting Standards

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

In March 2018, the Financial Accounting Standards Board ("FASB") issued ASU 2018-05, which updates the income tax accounting in GAAP to reflect the interpretive guidance in Staff Accounting Bulletin ("SAB") 118 ("SAB 118"), that was issued by the staff of the Securities and Exchange Commission in December 2017 in order to address the application of GAAP in situations where a registrant does not have all the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Cuts and Jobs Act ("the "Tax Act"). SAB 118 provides for a provisional one year measurement period for registrants to finalize their accounting for certain income tax effects related to the Tax Act. ASU 2018-05 was effective upon issuance. We expect to finalize our provisional amounts related to the Tax Act by the fourth quarter of 2018. See Footnote 4 "Income Taxes" for additional information.

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

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

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

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

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

In May 2014, the FASB issued ASU 2014-09, which, as amended, created Accounting Standards Codification ("ASC") Topic 606, "*Revenue from Contracts with Customers*" ("ASC 606"), and supersedes the revenue recognition requirements in ASC Topic 605, "*Revenue Recognition,*" including most industry-specific guidance, and significantly enhances comparability of revenue recognition practices across entities and industries by providing a principle-based, comprehensive framework for addressing revenue recognition issues. In order for a provider of promised goods or services to recognize as revenue the consideration that it expects to receive in exchange for the promised goods or services, the provider should apply the following five steps: (1) identify the contract with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09, as amended, is effective for annual reporting periods, and interim periods within those reporting periods, beginning after December 15, 2017. The new standard may be applied retrospectively or on a modified retrospective basis with the cumulative effect recognized on the date of adoption. We adopted ASU 2014-09, as amended (the new "Revenue Standard"), effective January 1, 2018, the first day of our 2018 fiscal year, on a retrospective basis and restated our previously reported historical results. See Footnote 16 "Adoption Impact of New Revenue Standard" for further discussion of adoption and the impact on our previously reported historical results. See Footnote 3 "Revenue" for additional information on how we recognize revenue.

Future Adoption of Accounting Standards

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

In August 2017, the FASB issued ASU 2017-12, which amends and simplifies existing guidance in order to allow companies to better portray the economic effects of risk management activities in the financial statements and enhance the transparency and understandability of the results of hedging activities. ASU 2017-12 eliminates the requirement to separately measure and report hedge ineffectiveness and generally requires the entire change in the fair value of a hedging instrument to be presented in the same income statement line as the hedged item. The guidance also eases certain documentation and assessment requirements. This update is effective for public companies for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. We expect to adopt ASU 2017-12 commencing in fiscal year 2019 and are continuing to evaluate the impact that adoption of this update will have on our financial statements and disclosures.

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

In June 2016, the FASB issued ASU 2016-13, which 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 2019 and are continuing to evaluate the impact that adoption of this update will have on our financial statements and disclosures.

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

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

Upon adoption of ASU 2016-02, as amended, leases will be classified as either finance or operating, with classification affecting the geography of expense recognition in the income statement. Additionally, enhanced quantitative and qualitative disclosures regarding leases are required. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. As permitted by the amended guidance, we intend to elect to retain the original lease classification and historical accounting for existing or expired contracts of lessees and lessors so that we will not be required to reassess whether such contracts contain leases, the lease classification, or the initial direct costs. Additionally, with respect to our real estate leases, we intend to elect an accounting policy by class of underlying asset to combine lease and non-lease components. We do not intend to utilize the practical expedient which allows the use of hindsight by lessees and lessors in determining the lease term and in assessing impairment of its right-of-use assets.

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

We are continuing our implementation efforts and evaluating the impact that adoption of ASU 2016-02, as amended, will have on our financial statements and disclosures, including for example, any potential changes to and investments in policies, processes, systems and internal controls over financial reporting that may be required to comply with the new guidance related to identifying and measuring right-of-use assets and lease liabilities.

We expect the adoption of ASU 2016-02 will have a material effect on our balance sheets as a result of recognizing a lease obligation and right-of-use asset for our operating leases, primarily those related to leases of real estate and other assets. We do not expect the adoption of ASU 2016-02 to have a material effect on our statements of income or cash flows.

2. 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 and the exclusive global licensee for the Hyatt, Sheraton and Westin brands in vacation ownership. The combination of our brands creates a leading global provider of upper-upscale vacation ownership, exchange networks and management services with access to world-class loyalty programs and an expanded portfolio of highly demanded vacation destinations.

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

(in millions, except per share amounts)

Equivalent shares of Marriott Vacations Worldwide common stock issued in exchange for ILG outstanding shares	20.5
Marriott Vacations Worldwide common stock price 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	25
	$4,210

Preliminary Fair Values of Assets Acquired and Liabilities Assumed

We accounted for the ILG Acquisition as a business combination, which requires us to record the assets acquired and liabilities assumed at fair value as of the Acquisition Date. We commenced the appraisals necessary to assess the fair values of the tangible and intangible assets acquired and liabilities assumed and the amount of goodwill to be recognized 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. The final determination of the fair values of certain assets and liabilities will be completed within the measurement period of up to one year from the Acquisition Date, as permitted under GAAP. The size and breadth of the ILG Acquisition could necessitate the need to use the full one year measurement period to adequately analyze and assess a number of the factors used in establishing the asset and liability fair values as of the Acquisition Date. The final values may also result in changes to amortization expense related to intangible assets and depreciation expense related to property and equipment. Any potential adjustments made 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 in connection with the business combination.

($ in millions)

Vacation ownership notes receivable	$736
Inventory	494
Property and equipment	384
Intangible assets	1,223
Other assets	581
Deferred revenue	(217)
Deferred taxes	(174)
Debt	(392)
Securitized debt from VIEs	(696)
Other liabilities	(476)
Net assets acquired	1,463
Goodwill[1]	2,747
	$4,210

(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. We have not completed the assignment of goodwill to our reporting units as of the date of this report, and it is not deductible for tax purposes.

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 5 "Vacation Ownership Notes Receivable" for additional information.

Inventory

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

Property and Equipment

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

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.

	Estimated Fair Value ($ in millions)	**Estimated Useful Life (in years)**
Member relationships	$ 754	10 to 15
Management contracts	354	15 to 25
Management contracts (1)	33	indefinite
Trade names and trademarks	82	indefinite
	$ 1,223	

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

We provisionally estimated the value of ILG's 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 ILG's contracts and historical performance in addition to evaluating the inputs, including the discount rates and renewal and growth assumptions, which could result in changes to these provisional values.

Deferred Revenue
Deferred revenue primarily relates to membership fees, which are deferred and recognized over the terms of the applicable memberships, typically 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 ILG's deferred revenue utilizing Level 3 inputs based on a review of existing deferred revenue balances against ILG's legal performance obligations. We continue to review ILG's contracts in addition to evaluating the inputs, including the discount rates, which could result in changes to the provisional estimate.
Deferred Income Taxes
Deferred income taxes primarily relate to the fair value of assets and liabilities acquired from ILG, 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 12 "Debt") using a quoted market price, which is considered a Level 2 input as it is observable in the market; however these notes have only a limited trading volume and as such this fair value estimate is not necessarily indicative of the value at which the IAC Notes could be retired or transferred.The carrying value of the ILG Revolving Credit Facility (as defined in Footnote 12 "Debt") approximated fair value, as the contractual interest rate was variable plus an applicable margin based credit rating (Level 3 input). The ILG Revolving Credit Facility was extinguished and all amounts due were repaid in full subsequent to the 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.
Lease Obligations
The following table presents the future minimum lease obligations that we assumed in the ILG Acquisition and for which we are the primary obligor as of September 30, 2018:

($ in millions)	**Operating Leases**
2018, remaining	$ 5
2019	19
2020	17
2021	12
2022	9
Thereafter	76
Total minimum lease payments	$ 138

Most leases have initial terms of up to 5 years, with some containing one or more renewals at our option, generally for 1 or 3 year periods, and generally contain fixed and in some cases variable components, which are primarily based on the operating performance of the leased property.

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)	**Nine Months Ended September 30, 2018**	**Nine Months Ended September 30, 2017**
Revenues	$3,172	$ 2,946
Net income (loss)	$78	$ (17)
Net income (loss) attributable to common stockholders	$76	$ (19)
(LOSSES) EARNINGS PER SHARE ATTRIBUTABLE TO COMMON SHAREHOLDERS		
Basic	$1.54	$ (0.39)
Diluted	$1.50	$ (0.38)

The unaudited pro forma results include $34 million and $169 million of ILG acquisition-related costs for the nine months ended September 30, 2018 and September 30, 2017, respectively.

ILG Results of Operations

The following table presents the results of ILG operations included in our Income Statement for the 30 days from the Acquisition Date through the end of the third quarter of 2018.

($ in millions)	**September 1, 2018 to September 30, 2018**
Revenue	$ 135
Net loss	$ (25)

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. The transaction was accounted for as an asset acquisition with all of the purchase price allocated to Inventory. See Footnote 9 “Contingencies and Commitments” for information on our remaining commitment related to this property.

During the second quarter of 2017, we acquired 36 completed vacation ownership units located at our resort in Marco Island, Florida for $34 million. The transaction was accounted for as an asset acquisition with all of the purchase price allocated to Property and equipment. To ensure consistency with the expected related future cash flow presentation, the cash purchase price was included as an operating activity in the Purchase of vacation ownership units for future transfer to inventory line on our Cash Flows for the nine months ended September 30, 2017.

Big Island of Hawaii

During the second quarter of 2017, we acquired 112 completed vacation ownership units located on the Big Island of Hawaii. The transaction was accounted for as an asset acquisition with all of the purchase price allocated to Inventory. As consideration for the acquisition, we paid $27 million in cash, settled a note receivable from the seller of less than $1 million on a noncash basis, and issued a non-interest bearing note payable for $64 million. See Footnote 11 “Debt” for information on the non-interest bearing note payable.

3. REVENUE

We account for revenue in accordance with ASC 606, "*Revenue from Contracts with Customers*," which we adopted on January 1, 2018, using the retrospective method. See Footnote 1 "Summary of Significant Accounting Policies" for additional information and Footnote 16 "Adoption Impact of New Revenue Standard" for further discussion of the adoption and the impact on our previously reported historical results.

Sources of Revenue by Segment

	Three Months Ended September 30, 2018			
($ in millions)	**Vacation Ownership**	**Exchange & Third-Party Management**	**Corporate and Other**	**Total**
Sale of vacation ownership products	$252	$ —	$ —	$252
Ancillary revenues	42	—	—	42
Management fee revenues	28	8	(1)	35
Other services revenues	21	20	8	49
Management and exchange	91	28	7	126
Rental	86	4	—	90
Cost reimbursements	232	8	(6)	234
Revenue from contracts with customers	661	40	1	702
Financing	48	—	—	48
Total Revenues	$709	$ 40	$ 1	$750

	Three Months Ended September 30, 2017			
($ in millions)	**Vacation Ownership**	**Exchange & Third-Party Management**	**Corporate and Other**	**Total**
Sale of vacation ownership products	$183	$ —	$ —	$183
Ancillary revenues	31	—	—	31
Management fee revenues	23	—	—	23
Other services revenues	16	—	—	16
Management and exchange	70	—	—	70
Rental	66	—	—	66
Cost reimbursements	177	—	—	177
Revenue from contracts with customers	496	—	—	496
Financing	34	—	—	34
Total Revenues	$530	$ —	$ —	$530

($ in millions)	Nine Months Ended September 30, 2018 Vacation Ownership	Exchange & Third-Party Management	Corporate and Other	Total
Sale of vacation ownership products	$632	$ —	$ —	$632
Ancillary revenues	106	—	—	106
Management fee revenues	78	8	(1)	85
Other services revenues	55	20	8	83
Management and exchange	239	28	7	274
Rental	235	4	—	239
Cost reimbursements	650	8	(6)	652
Revenue from contracts with customers	1,756	40	1	1,797
Financing	119	—	—	119
Total Revenues	$1,875	$ 40	$ 1	$1,916

($ in millions)	Nine Months Ended September 30, 2017 Vacation Ownership	Exchange & Third-Party Management	Corporate and Other	Total
Sale of vacation ownership products	$549	$ —	$ —	$549
Ancillary revenues	91	—	—	91
Management fee revenues	67	—	—	67
Other services revenues	51	—	—	51
Management and exchange	209	—	—	209
Rental	203	—	—	203
Cost reimbursements	561	—	—	561
Revenue from contracts with customers	1,522	—	—	1,522
Financing	99	—	—	99
Total Revenues	$1,621	$ —	$ —	$1,621

Timing of Revenue from Contracts with Customers by Segment

	Three Months Ended September 30, 2018			
($ in millions)	**Vacation Ownership**	**Exchange & Third-Party Management**	**Corporate and Other**	**Total**
Services transferred over time	$367	$ 23	$ 1	$391
Goods or services transferred at a point in time	294	17	—	311
Revenue from contracts with customers	$661	$ 40	$ 1	$702

	Three Months Ended September 30, 2017			
($ in millions)	**Vacation Ownership**	**Exchange & Third-Party Management**	**Corporate and Other**	**Total**
Services transferred over time	$278	$ —	$ —	$278
Goods or services transferred at a point in time	218	—	—	218
Revenue from contracts with customers	$496	$ —	$ —	$496

	Nine Months Ended September 30, 2018			
($ in millions)	**Vacation Ownership**	**Exchange & Third-Party Management**	**Corporate and Other**	**Total**
Services transferred over time	$1,010	$ 23	$ 1	$1,034
Goods or services transferred at a point in time	746	17	—	763
Revenue from contracts with customers	$1,756	$ 40	$ 1	$1,797

	Nine Months Ended September 30, 2017			
($ in millions)	**Vacation Ownership**	**Exchange & Third-Party Management**	**Corporate and Other**	**Total**
Services transferred over time	$867	$ —	$ —	$867
Goods or services transferred at a point in time	655	—	—	655
Revenue from contracts with customers	$1,522	$ —	$ —	$1,522

Sale of Vacation Ownership Products

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

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

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

Our assessment of collectibility of the transaction price for sales of vacation ownership products is aligned with our credit granting policies for financed contracts. In determining the consideration to which we expect to be entitled for financed contracts, we include estimated variable consideration in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. Our estimates of variable consideration and determination of whether to include estimated amounts in the transaction

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price are based largely on the customer class and the results of our static pool analyses, which rely on historical payment data by customer class. Variable consideration which has not been included within the transaction price is presented as a reserve on vacation ownership notes receivable. Revisions to estimates of variable consideration from the sale of vacation ownership products impact the reserve on vacation ownership notes receivable and can increase or decrease revenue. Revenues were reduced during the third quarter and first three quarters of 2018 by $1 million and $3 million, respectively, due to changes in our estimate of variable consideration for performance obligations that were satisfied in prior periods. In addition, we account for cash incentives provided to customers as a reduction of the transaction price. Refer to "*Arrangements with Multiple Performance Obligations*" below for a description of our methods of allocating transaction price to each performance obligation.

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

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

Management and Exchange Revenues and Cost Reimbursements Revenues

Ancillary Revenues

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

Management Fee Revenues and Cost Reimbursements Revenues

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

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

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

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

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

Other Services Revenues

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

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

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

Financing Revenues

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

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

Rental Revenues

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

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

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

Arrangements with Multiple Performance Obligations

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

Deferred Revenue in a Business Combination

When we acquire a business which records deferred revenue on its historical financial statements, we are required to re-measure that deferred revenue as of the acquisition date pursuant to the rules related to accounting for business combinations. The post-acquisition impact of that re-measurement results in recognizing revenue which solely comprises the cost of the associated legal performance obligation we assumed as part of the acquisition, plus a normal profit margin. This accounting treatment typically results in lower amounts of revenue recognized in a reporting period following an acquisition than would have been recognized on a historical basis.

Receivables, Contract Assets & Contract Liabilities

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

The following table shows the composition of our receivables and contract liabilities. We had no contract assets at either September 30, 2018 or December 31, 2017.

($ in millions)	**At September 30, 2018**	**At December 31, 2017**
Receivables		
Accounts receivable	$ 46	$ 73
Vacation ownership notes receivable, net	1,959	1,115
	$ 2,005	$ 1,188
Contract Liabilities		
Advance deposits	$ 124	$ 84
Deferred revenue	325	69
	$ 449	$ 153

Revenue recognized in the third quarter and first three quarters of 2018 that was included in our contract liabilities balance at December 31, 2017 was $13 million and $107 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 September 30, 2018, 90 percent of this amount is expected to be recognized as revenue over the next two years.

4. INCOME TAXES

We file income tax returns with U.S. federal and state and non-U.S. jurisdictions and are subject to audits in these jurisdictions. Although we do not anticipate that a significant impact to our unrecognized tax benefit balance will occur during the next fiscal year, the amount of our liability for unrecognized tax benefits could change as a result of audits in these jurisdictions. Our total unrecognized tax benefit balance that, if recognized, would impact our effective tax rate, was $2 million at both September 30, 2018 and December 31, 2017.

Our interim effective tax rate was (177.62) percent and 34.76 percent for the nine months ended September 30, 2018 and September 30, 2017, respectively. As our pre-tax net loss for three and nine months ended September 30, 2018 is disproportionate to our estimated fiscal year 2018 pre-tax net income, our effective tax rate for the corresponding periods will vary significantly. This is attributed to the exclusion of tax benefits associated with pre-tax losses generated in jurisdictions that have full valuation allowances and the ILG acquisition-related costs incurred in the third quarter of 2018. Our annual effective tax rate is expected to be approximately 45.98 percent for fiscal year 2018.

During December 2017, the Tax Act was signed into law, effective January 1, 2018, resulting in a significant change in the framework for U.S. corporate taxes, including but not limited to, the reduction of the U.S. corporate tax rate from 35 percent to 21 percent. In accordance with SAB 118, we remeasured our deferred tax assets and liabilities using the new corporate tax rate of 21 percent, rather than the previous corporate tax rate of 35 percent, resulting in a $65 million decrease in our income tax expense for the year ended December 31, 2017 and a corresponding $65 million decrease in our net deferred tax liability as of December 31, 2017. During the third quarter of 2018, the Internal Revenue Service issued additional guidance on the executive compensation portion of the Tax Act and upon application of the new guidance we recorded an adjustment of $2 million to the provisional amount recorded at December 31, 2017. However, other than the adjustment related to executive compensation, as of September 30, 2018, the amounts remain provisional and additional work is necessary to complete our detailed analysis.

The one-time transition tax on certain un-repatriated earnings of foreign subsidiaries is based on total post-1986 earnings and profits that we previously deferred from U.S. income taxes. We performed a preliminary analysis of the transition tax and determined that, due to deficits in foreign earnings and profits, we did not have a one-time transition tax liability to record in 2017. As of September 30, 2018, we have not finalized our calculations of our transition tax liability, if any. As the one-time transition tax is based in part on the amount of those earnings held in cash and other specified assets, we may determine that we have a one-time transition tax liability when we finalize the calculation of post-1986 foreign earnings and profits previously deferred from U.S. federal taxation and finalize the amounts held in cash or other specified assets. No additional income taxes have been provided for any remaining undistributed foreign earnings not subject to the transition tax, or any additional outside basis difference inherent in these entities, as these amounts continue to be indefinitely reinvested in foreign operations.

The re-measurement of our deferred tax balances, any transition tax and interpretation of the new law are provisional subject to clarifications of the new legislation and final calculations. As noted above, during the third quarter of 2018, we made an adjustment to our provisional calculation related to executive compensation. Any future changes to the provisional estimates, related to the Tax Act, will be reflected as a change in estimate in the period in which the change in estimate is made in accordance with SAB 118.

5. VACATION OWNERSHIP NOTES RECEIVABLE

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

	September 30, 2018			December 31, 2017		
($ in millions)	Originated	Acquired	Total	Originated	Acquired	Total
Securitized	$990	$ 567	$1,557	$814	$ —	$814
Non-securitized						
Eligible for securitization[1]	57	86	143	142	—	142
Not eligible for securitization[1]	207	52	259	159	—	159
Subtotal	264	138	402	301	—	301
	$1,254	$ 705	$1,959	$1,115	$ —	$1,115

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(1) Refer to Footnote 6 "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		Nine Months Ended	
($ in millions)	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Interest income associated with vacation ownership notes receivable — securitized	$42	$ 27	$95	$ 73
Interest income associated with vacation ownership notes receivable — non-securitized	3	6	18	21
Total interest income associated with vacation ownership notes receivable	$45	$ 33	$113	$ 94

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 the Acquisition Date of the accretable yield (interest income) expected to be earned related to our acquired vacation ownership notes receivable, as well as the amount of non-accretable difference at the end of the period. The non-accretable difference represents estimated contractually required payments in excess of estimated cash flows expected to be collected. The accretable yield represents the excess of estimated cash flows expected to be collected over the carrying amount of the acquired vacation ownership notes receivable.

($ in millions)	**30 Days Ended September 30, 2018**
Balance at Acquisition Date	$ —
Acquired accretable yield	373
Accretion	(9)
Reclassification from non-accretable difference	—
Balance at September 30, 2018	$ 364
Non-accretable difference at September 30, 2018	$ 78

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 September 30, 2018:

	Acquired Vacation Ownership Notes Receivable		
($ in millions)	**Non-Securitized**	**Securitized**	**Total**
2018, remaining	$ 5	$ 15	$ 20
2019	10	60	70
2020	11	61	72
2021	12	62	74
2022	12	63	75
Thereafter	88	306	394
Balance at September 30, 2018	$ 138	$ 567	$ 705
Weighted average stated interest rate	13.4%	13.4%	13.4%
Range of stated interest rates	3.5% to 17.9%	6.0% to 17.9%	3.5% 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 September 30, 2018:

	Originated Vacation Ownership Notes Receivable		
($ in millions)	**Non-Securitized**	**Securitized**	**Total**
2018, remaining	$ 15	$ 25	$ 40
2019	42	99	141
2020	32	103	135

2021	26	107	133
2022	23	109	132
Thereafter	126	547	673
Balance at September 30, 2018	$264	$ 990	$1,254
Weighted average stated interest rate	11.5%	12.5%	12.3%
Range of stated interest rates	0.0% to 18.0%	5.2% to 17.5%	0.0% to 18.0%

For originated vacation ownership notes receivable, we record the difference between the vacation ownership note receivable and the variable consideration included in the transaction price for the sale of the related vacation ownership product as a reserve on our vacation ownership notes receivable. See Footnote 3 "Revenue" for further information.

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

	Originated Vacation Ownership Notes Receivable		
($ in millions)	**Non-Securitized**	**Securitized**	**Total**
Balance at December 31, 2017	$58	$ 61	$119
Increase in vacation ownership notes receivable reserve	35	7	42
Securitizations	(30)	30	—
Clean-up call[1]	2	(2)	—
Write-offs	(31)	—	(31)
Defaulted vacation ownership notes receivable repurchase activity[2]	23	(23)	—
Balance at September 30, 2018	$57	$ 73	$130

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

(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 7.07 percent and 7.16 percent as of September 30, 2018 and December 31, 2017, 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 and $6 million as of September 30, 2018 and December 31, 2017, respectively.

The following table shows our recorded investment in non-accrual 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 September 30, 2018	$40	$ 6	$46
Investment in vacation ownership notes receivable on non-accrual status at December 31, 2017	$39	$ 7	$46
Average investment in vacation ownership notes receivable on non-accrual status during the third quarter of 2018	$40	$ 6	$46
Average investment in vacation ownership notes receivable on non-accrual status during the third quarter of 2017	$40	$ 6	$46
Average investment in vacation ownership notes receivable on non-accrual status during the first three quarters of 2018	$39	$ 7	$46

Average investment in vacation ownership notes receivable on non-accrual status during the first three quarters of 2017	$ 42	$ 6	$ 48

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The following table shows the aging of the recorded investment in principal, before reserves, in Legacy-MVW vacation ownership notes receivable as of September 30, 2018:

	Legacy-MVW Vacation Ownership Notes Receivable		
($ in millions)	**Non-Securitized**	**Securitized**	**Total**
31 – 90 days past due	$5	$ 18	$23
91 – 150 days past due	4	6	10
Greater than 150 days past due	36	—	36
Total past due	45	24	69
Current	238	1,039	1,277
Total vacation ownership notes receivable	$283	$ 1,063	$1,346

The following table shows the aging of the recorded investment in principal, before reserves, in Legacy-MVW vacation ownership notes receivable as of December 31, 2017:

	Legacy-MVW Vacation Ownership Notes Receivable		
($ in millions)	**Non-Securitized**	**Securitized**	**Total**
31 – 90 days past due	$7	$ 19	$26
91 – 150 days past due	5	7	12
Greater than 150 days past due	34		