MARRIOTT VACATIONS WORLDWIDE Corp
Form 10-Q
August 02, 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 June 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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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	¨ (Do not check if a smaller reporting company)	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 July 27, 2018 was 26,572,516.

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 from Marriott International, Inc. ("Marriott International") or its affiliates, as our brands. Brand names, trademarks, service marks and trade names that we own or license from Marriott International 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. We may also refer to brand names, trademarks, service marks and trade names of other companies and organizations, and these brand names, trademarks, service marks and trade names are the property of their respective owners.

PART I. FINANCIAL INFORMATION

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

	Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
REVENUES				
Sale of vacation ownership products	$205,168	$201,856	$379,957	$365,733
Resort management and other services	77,642	71,940	147,822	139,359
Financing	35,851	32,530	71,333	64,641
Rental	74,561	69,290	148,771	136,969
Cost reimbursements	201,470	186,820	417,658	384,034
TOTAL REVENUES	594,692	562,436	1,165,541	1,090,736
EXPENSES				
Cost of vacation ownership products	56,863	51,025	103,226	94,796
Marketing and sales	109,315	99,168	215,249	196,666
Resort management and other services	41,079	39,413	78,857	76,884
Financing	3,788	3,449	8,036	7,466
Rental	62,739	57,756	118,638	111,464
General and administrative	32,992	29,534	62,427	57,073
Litigation settlement	16,312	183	16,209	183
Consumer financing interest	6,172	5,654	12,778	11,592
Royalty fee	16,198	16,307	31,022	32,377
Cost reimbursements	201,470	186,820	417,658	384,034
TOTAL EXPENSES	546,928	489,309	1,064,100	972,535
Losses and other expense, net	(6,586)	(166)	(6,140)	(225)
Interest expense	(4,112)	(1,757)	(8,429)	(2,538)
Other	(19,686)	(100)	(22,802)	(469)
INCOME BEFORE INCOME TAXES	17,380	71,104	64,070	114,969
Provision for income taxes	(6,619)	(22,918)	(17,328)	(38,893)
NET INCOME	$10,761	$48,186	$46,742	$76,076
EARNINGS PER SHARE				
Earnings per share - Basic	$0.40	$1.76	$1.75	$2.79
Earnings per share - Diluted	$0.39	$1.72	$1.71	$2.72
CASH DIVIDENDS DECLARED PER SHARE	$0.40	$0.35	$0.80	$0.70

See Notes to Interim Consolidated Financial Statements

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

	Three Months Ended		Year to Date Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Net income	$10,761	$48,186	$46,742	$76,076
Other comprehensive (loss) income:				
Foreign currency translation adjustments	(7,233)	2,465	(1,008)	6,681
Derivative instrument adjustment, net of tax	18	23	37	48
Total other comprehensive (loss) income, net of tax	(7,215)	2,488	(971)	6,729
COMPREHENSIVE INCOME	$3,546	$50,674	$45,771	$82,805

See Notes to the Interim Consolidated Financial Statements

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

	June 30, 2018	December 31, 2017
ASSETS		
Cash and cash equivalents	$547,667	$409,059
Restricted cash (including $144,816 and $32,321 from VIEs, respectively)	170,536	81,553
Accounts receivable, net (including $6,039 and $5,639 from VIEs, respectively)	67,619	91,659
Vacation ownership notes receivable, net (including $964,510 and $814,011 from VIEs, respectively)	1,167,779	1,114,552
Inventory	690,154	728,379
Property and equipment	246,940	252,727
Other (including $25,688 and $13,708 from VIEs, respectively)	166,875	166,653
TOTAL ASSETS	$3,057,570	$2,844,582
LIABILITIES AND EQUITY		
Accounts payable	$84,331	$145,405
Advance deposits	95,816	84,087
Accrued liabilities (including $685 and $701 from VIEs, respectively)	99,469	119,810
Deferred revenue	98,500	69,058
Payroll and benefits liability	85,216	111,885
Deferred compensation liability	82,624	74,851
Debt, net (including $1,113,860 and $845,131 from VIEs, respectively)	1,332,276	1,095,213
Other	11,937	13,471
Deferred taxes	101,760	89,987
TOTAL LIABILITIES	1,991,929	1,803,767
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; 36,981,204 and 36,861,843 shares issued, respectively	370	369
Treasury stock — at cost; 10,408,996 and 10,400,547 shares, respectively	(695,746)	(694,233)
Additional paid-in capital	1,190,448	1,188,538
Accumulated other comprehensive income	15,774	16,745
Retained earnings	554,795	529,396
TOTAL EQUITY	1,065,641	1,040,815
TOTAL LIABILITIES AND EQUITY	$3,057,570	$2,844,582

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 thousands)
(Unaudited)

	Six Months Ended	
	June 30, 2018	June 30, 2017
OPERATING ACTIVITIES		
Net income	$46,742	$76,076
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	11,371	10,192
Amortization of debt discount and issuance costs	7,563	2,726
Vacation ownership notes receivable reserve	23,970	27,051
Share-based compensation	9,718	8,451
Deferred income taxes	12,199	12,810
Net change in assets and liabilities:		
Accounts receivable	24,499	23,970
Vacation ownership notes receivable originations	(233,061)	(228,048)
Vacation ownership notes receivable collections	155,257	136,731
Inventory	36,840	15,006
Purchase of vacation ownership units for future transfer to inventory	—	(33,594)
Other assets	11,523	4,475
Accounts payable, advance deposits and accrued liabilities	(59,365)	(68,228)
Deferred revenue	29,493	25,163
Payroll and benefit liabilities	(26,699)	(8,698)
Deferred compensation liability	7,773	7,053
Other liabilities	(134)	(292)
Other, net	764	3,286
Net cash provided by operating activities	58,453	14,130
INVESTING ACTIVITIES		
Capital expenditures for property and equipment (excluding inventory)	(7,490)	(11,344)
Purchase of company owned life insurance	(11,562)	(10,092)
Dispositions, net	120	11
Net cash used in investing activities	(18,932)	(21,425)

Continued

See Notes to Interim Consolidated Financial Statements

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

	Six Months Ended	
	June 30, 2018	June 30, 2017
FINANCING ACTIVITIES		
Borrowings from securitization transactions	423,000	50,260
Repayment of debt related to securitization transactions	(154,271)	(117,400)
Borrowings from Revolving Corporate Credit Facility	—	60,000
Repayment of Revolving Corporate Credit Facility	—	(12,500)
Repayment of non-interest bearing note payable	(32,680)	—
Debt issuance costs	(6,578)	(1,219)
Repurchase of common stock	(1,882)	(3,868)
Payment of dividends	(31,927)	(28,552)
Payment of withholding taxes on vesting of restricted stock units	(8,312)	(9,962)
Other, net	13	(624)
Net cash provided by (used in) financing activities	187,363	(63,865)
Effect of changes in exchange rates on cash, cash equivalents and restricted cash	707	1,962
Increase (decrease) in cash, cash equivalents and restricted cash	227,591	(69,198)
Cash, cash equivalents and restricted cash, beginning of period	490,612	213,102
Cash, cash equivalents and restricted cash, end of period	$718,203	$143,904
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Non-cash issuance of debt in connection with acquisition of vacation ownership units	$—	$63,558

See Notes to Interim Consolidated Financial Statements

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

Our Business

Marriott Vacations Worldwide Corporation ("we," "us," "Marriott Vacations Worldwide" or the "Company," which includes our consolidated subsidiaries except where the context of the reference is to a single corporate entity) is the exclusive worldwide developer, marketer, seller and manager of vacation ownership and related products under the Marriott Vacation Club and Grand Residences by Marriott brands, as well as under Marriott Vacation Club Pulse, an extension of 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, and we have the non-exclusive right to develop, market and sell whole ownership residential products under The Ritz-Carlton Residences brand. The Ritz-Carlton Hotel Company, L.L.C., a subsidiary of Marriott International, provides on-site management for Ritz-Carlton branded properties.

Our business is grouped into three reportable segments: North America, Asia Pacific and Europe. As of June 30, 2018, our portfolio consisted of over 65 properties in the United States and nine other countries and territories. We generate most of our revenues from four primary sources: selling vacation ownership products; managing our resorts; financing consumer purchases of vacation ownership products; and renting vacation ownership inventory.

Principles of Consolidation and Basis of Presentation

The interim consolidated 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. Intercompany accounts and transactions between consolidated companies have been eliminated in consolidation. The interim consolidated 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 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.

We adopted Accounting Standards Update ("ASU") 2014-09 "*Revenue from Contracts with Customers (Topic 606),*" as amended ("ASU 2014-09"), on January 1, 2018, the first day of our 2018 fiscal year, and refer to it as the new "Revenue Standard" throughout these Financial Statements. We restated our previously reported historical results to conform with the adoption of the new Revenue Standard. See "*New Accounting Standards*" below for additional information on ASU 2014-09 and Footnote 15 "Adoption Impact of New Revenue Standard" for further discussion of the adoption and the impact on our previously reported historical results.

In our opinion, our Financial Statements reflect all normal and recurring adjustments necessary to present fairly our financial position and 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, 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 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, cost of vacation ownership products, inventory valuation, property and equipment valuation, vacation ownership notes receivable reserves, income taxes and loss contingencies. Accordingly,

actual amounts may differ from these estimated amounts.

We have reclassified certain prior year amounts to conform to our current quarter presentation.

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 3 "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, creates ASC Topic 606, "*Revenue from Contracts with Customers*" ("ASC 606"), and supersedes the revenue recognition requirements in ASC Topic 605, "*Revenue Recognition,*" including most industry-specific guidance, and significantly enhances comparability of revenue recognition practices across entities and industries by providing a principle-based, comprehensive framework for addressing revenue recognition issues. In order for a provider of promised goods or services to recognize as revenue the consideration that it expects to receive in exchange for the promised goods or services, the provider should apply the following five steps: (1) identify the contract with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09, as amended, is effective for annual reporting periods, and interim periods within those reporting periods, beginning after December 15, 2017. The new standard may be applied retrospectively or on a modified retrospective basis with the cumulative effect recognized on the date of adoption. We adopted ASU 2014-09, as amended, effective January 1, 2018, on a retrospective basis and restated our previously reported historical results. See Footnote 15 "Adoption Impact of New Revenue Standard" for further discussion of adoption and the impact on our previously reported historical results. See Footnote 2 "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 amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. Originally, entities were required to adopt ASU 2016-02 using a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application. However, in July 2018, the FASB issued ASU 2018-11, "*Leases (Topic 842): Targeted Improvements,*" which now allows entities the option of recognizing the cumulative effect of applying the new standard as an adjustment to the opening balance of retained earnings in the year of adoption while continuing to present all prior periods under previous lease accounting guidance. In July 2018, the FASB also issued ASU 2018-10, "*Codification Improvements to Topic 842, Leases,*" which clarifies how to apply certain aspects of ASU 2016-02. We expect to adopt ASU 2016-02, ASU 2018-10 and ASU 2018-11 commencing in fiscal year 2019 and are continuing our implementation efforts. We continue to evaluate the impact that adoption of these updates 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 that these updates will have a material effect on our balance sheets.

2. 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 15 "Adoption of New Revenue Standard" for further discussion of the adoption and the impact on our previously reported historical results.

We generate most of our revenues from four primary sources: selling vacation ownership products; managing our resorts; financing consumer purchases of vacation ownership products; and renting vacation ownership inventory. The following series of tables present our revenue disaggregated by several categories.

Sources of Revenue by Segment

	Three Months Ended June 30, 2018			
($ in thousands)	**North America**	**Asia Pacific**	**Europe**	**Total**
Sale of vacation ownership products	$188,624	$11,654	$4,890	$205,168
Ancillary revenues	29,716	96	5,600	35,412
Management fee revenues	22,760	742	1,814	25,316
Other services revenues	15,953	499	462	16,914
Resort management and other services	68,429	1,337	7,876	77,642
Rental	67,083	2,059	5,419	74,561
Cost reimbursements	186,734	1,931	12,805	201,470
Revenue from contracts with customers	$510,870	$16,981	$30,990	$558,841
Financing	33,912	1,238	701	35,851
Total Revenues	$544,782	$18,219	$31,691	$594,692

	Three Months Ended June 30, 2017			
($ in thousands)	**North America**	**Asia Pacific**	**Europe**	**Total**
Sale of vacation ownership products	$184,880	$10,282	$6,694	$201,856
Ancillary revenues	27,910	—	5,130	33,040
Management fee revenues	19,711	694	1,623	22,028
Other services revenues	16,295	287	290	16,872
Resort management and other services	63,916	981	7,043	71,940
Rental	62,021	2,046	5,223	69,290
Cost reimbursements	176,236	1,607	8,977	186,820
Revenue from contracts with customers	$487,053	$14,916	$27,937	$529,906
Financing	30,719	1,105	706	32,530
Total Revenues	$517,772	$16,021	$28,643	$562,436

	Six Months Ended June 30, 2018			
($ in thousands)	**North America**	**Asia Pacific**	**Europe**	**Total**
Sale of vacation ownership products	$349,320	$22,900	$7,737	$379,957
Ancillary revenues	55,113	141	8,657	63,911
Management fee revenues	44,323	1,514	3,653	49,490
Other services revenues	32,524	995	902	34,421
Resort management and other services	131,960	2,650	13,212	147,822
Rental	135,158	5,384	8,229	148,771
Cost reimbursements	389,360	3,697	24,601	417,658
Revenue from contracts with customers	$1,005,798	$34,631	$53,779	$1,094,208
Financing	67,441	2,452	1,440	71,333
Total Revenues	$1,073,239	$37,083	$55,219	$1,165,541

	Six Months Ended June 30, 2017			
($ in thousands)	**North America**	**Asia Pacific**	**Europe**	**Total**
Sale of vacation ownership products	$336,589	$19,437	$9,707	$365,733
Ancillary revenues	52,598	—	7,711	60,309
Management fee revenues	39,627	1,386	3,130	44,143
Other services revenues	33,764	537	606	34,907
Resort management and other services	125,989	1,923	11,447	139,359
Rental	124,506	4,950	7,513	136,969
Cost reimbursements	357,802	2,717	23,515	384,034
Revenue from contracts with customers	$944,886	$29,027	$52,182	$1,026,095
Financing	60,958	2,228	1,455	64,641
Total Revenues	$1,005,844	$31,255	$53,637	$1,090,736

Timing of Revenue from Contracts with Customers by Segment

	Three Months Ended June 30, 2018			
($ in thousands)	**North America**	**Asia Pacific**	**Europe**	**Total**
Services transferred over time	$289,368	$5,015	$20,420	$314,803
Goods or services transferred at a point in time	221,502	11,966	10,570	244,038
Revenue from contracts with customers	$510,870	$16,981	$30,990	$558,841

	Three Months Ended June 30, 2017			
($ in thousands)	**North America**	**Asia Pacific**	**Europe**	**Total**
Services transferred over time	$269,806	$4,410	$16,080	$290,296
Goods or services transferred at a point in time	217,247	10,506	11,857	239,610
Revenue from contracts with customers	$487,053	$14,916	$27,937	$529,906

	Six Months Ended June 30, 2018			
($ in thousands)	North America	Asia Pacific	Europe	Total
Services transferred over time	$594,157	$11,139	$37,214	$642,510
Goods or services transferred at a point in time	411,641	23,492	16,565	451,698
Revenue from contracts with customers	$1,005,798	$34,631	$53,779	$1,094,208

	Six Months Ended June 30, 2017			
($ in thousands)	North America	Asia Pacific	Europe	Total
Services transferred over time	$545,371	$9,164	$34,640	$589,175
Goods or services transferred at a point in time	399,515	19,863	17,542	436,920
Revenue from contracts with customers	$944,886	$29,027	$52,182	$1,026,095

Sale of Vacation Ownership Products

We market and sell vacation ownership products in our three reportable segments. 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 and deeded whole ownership units in residential buildings (collectively “vacation ownership products”). 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. Non-cash incentives typically include Marriott Rewards 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. We compared the lending terms against the terms of similar notes in the market and concluded that certain contracts within our Asia Pacific and Europe segments contain below market interest rates and as such have adjusted the transaction price for these contracts to reflect a market rate of interest. The lending terms of financed contracts within our North America segment reflect market terms.

In determining the consideration to which we expect to be entitled for financed contracts, we include estimated variable consideration in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. Our estimates of variable consideration and determination of whether to include estimated amounts in the transaction price are based largely on the customer class and the results of our static pool analysis, which relies 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 second quarter and first half of 2018 by $3.7 million and $2.0 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 recognize revenue on the sale of vacation ownership products at closing, when control is transferred to the customer. We evaluated our business practices, and the underlying risks and rewards associated with vacation ownership products, and the respective timing that such risk 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.

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 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.

Resort Management and Other Services 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 evaluated 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. We generate revenue from fees we earn for managing each of our resorts. 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 ("Management fee revenues") and reimbursement of costs incurred on behalf of the property owners' associations ("Cost reimbursements revenues"). 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. Cost reimbursements consist of actual expenses with no added margin.

Management fees are typically 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 variable. We evaluated the nature of the services provided to property owners' associations 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 management fee revenues, which is consistent with the pattern of transfer to the property owners' associations who receive and consume the benefits as services are provided each day. 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 include additional fees for services we provide to owners and property owners' associations. We receive club dues for exchange services as well as certain transaction-based fees from owners and other third parties, including external exchange service providers with which we are associated. 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. Transaction-based fees from owners are typically received at the time of the transaction and transaction-based fees from other third parties are typically received 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 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 evaluated 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.

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 or inventory that we control because our owners have elected alternative usage options permitted under our vacation ownership programs. We receive payments for rentals primarily through credit card charges. We recognize rental revenues when occupancy has occurred, which is consistent with the period in which the customer benefits from such service. We recognize rental revenue from the utilization of plus points issued in connection with the sale of vacation ownership products as described in "*Sale of Vacation Ownership Products*" above.

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

Arrangements with Multiple Performance Obligations

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

Receivables, Contract Assets & Contract Liabilities

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

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

($ in thousands)	**At June 30, 2018**	**At December 31, 2017**
Receivables		
Accounts receivable	$42,369	$72,905
Vacation ownership notes receivable, net	1,167,779	1,114,552
	$1,210,148	$1,187,457
Contract Liabilities		
Advance deposits	$95,816	$84,087
Deferred revenue	98,500	69,058
	$194,316	$153,145

Revenue recognized in the second quarter and first half of 2018 that was included in our contract liabilities balance at December 31, 2017 was $47.3 million and $94.4 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, 2018, over 90 percent of this amount is expected to be recognized as revenue over the next two years.

3. 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 $2.2 million and $2.1 million at June 30, 2018 and December 31, 2017, respectively.

Our interim effective tax rate was 27.05 percent and 33.83 percent for the six months ended June 30, 2018 and June 30, 2017, respectively, and our annual effective tax rate is expected to be approximately 25.69 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 $65.2 million decrease in our income tax expense for the year ended December 31, 2017 and a corresponding $65.2 million decrease in our net deferred tax liability as of December 31, 2017. As of June 30, 2018, these amounts remain provisional and additional work is necessary to perform a more 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 June 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. 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.

4. VACATION OWNERSHIP NOTES RECEIVABLE

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

($ in thousands)	**At June 30, 2018**	**At December 31, 2017**
Vacation ownership notes receivable — securitized	$964,510	$814,011
Vacation ownership notes receivable — non-securitized		
Eligible for securitization[(1) (2)]	37,073	141,324
Not eligible for securitization[(1)]	166,196	159,217
Subtotal	203,269	300,541
Total vacation ownership notes receivable	$1,167,779	$1,114,552

(1) Refer to Footnote 5 “Financial Instruments” for a discussion of eligibility of our vacation ownership notes receivable for securitization.

(2) We expect that these vacation ownership notes receivable will be purchased by the MVW Owner Trust 2018-1 (the “2018-1 Trust”) in accordance with the terms of the securitization transaction completed in the second quarter of 2018. Refer to Footnote 10 “Debt” for a discussion of the terms of this securitization transaction and the purchase of additional vacation ownership notes receivable by the 2018-1 Trust.

The following table shows future principal payments, net of reserves, as well as interest rates for our non-securitized and securitized vacation ownership notes receivable at June 30, 2018:

($ in thousands)	**Non-Securitized Vacation Ownership Notes Receivable**	**Securitized Vacation Ownership Notes Receivable**	**Total**
2018, remaining	$ 23,628	$48,321	$71,949
2019	34,696	98,564	133,260
2020	26,458	102,267	128,725
2021	20,280	105,452	125,732
2022	16,586	106,653	123,239
Thereafter	81,621	503,253	584,874
Balance at June 30, 2018	$ 203,269	$964,510	$1,167,779
Weighted average stated interest rate at June 30, 2018	11.2%	12.5%	12.2%
Range of stated interest rates at June 30, 2018	0.0% to 18.0%	4.9% to 18.0%	0.0% to 18.0%

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 thousands)	**June 30, 2018**	**June 30, 2017**	**June 30, 2018**	**June 30, 2017**
Interest income associated with vacation ownership notes receivable — securitized	$27,209	$22,948	$52,580	$46,294
Interest income associated with vacation ownership notes receivable — non-securitized	6,920	7,855	15,247	14,865
Total interest income associated with vacation ownership notes receivable	$34,129	$30,803	$67,827	$61,159

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 2 “Revenue” for further information.

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

($ in thousands)	**Non-Securitized Vacation Ownership Notes Receivable**	**Securitized Vacation Ownership Notes Receivable**	**Total**
Balance at December 31, 2017	$ 58,292	$ 60,828	$ 119,120
Increase in vacation ownership notes receivable reserve	19,440	4,471	23,911
Securitizations	(22,367)	22,367	—
Clean-up call[1]	1,368	(1,368)	—
Write-offs	(21,064)	—	(21,064)
Defaulted vacation ownership notes receivable repurchase activity[2]	15,137	(15,137)	—
Balance at June 30, 2018	$ 50,806	$ 71,161	$ 121,967

(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.

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 non-securitized and securitized vacation ownership notes receivable, we estimated average remaining default rates of 7.05 percent and 7.16 percent as of June 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 $6.2 million and $6.0 million as of June 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:

($ in thousands)	**Non-Securitized Vacation Ownership Notes Receivable**	**Securitized Vacation Ownership Notes Receivable**	**Total**
Investment in vacation ownership notes receivable on non-accrual status at June 30, 2018	$ 39,526	$ 6,611	$ 46,137
Investment in vacation ownership notes receivable on non-accrual status at December 31, 2017	$ 38,786	$ 7,428	$ 46,214
Average investment in vacation ownership notes receivable on non-accrual status during the second quarter of 2018	$ 39,090	$ 7,642	$ 46,732
Average investment in vacation ownership notes receivable on non-accrual status during the second quarter of 2017	$ 38,179	$ 7,484	$ 45,663
Average investment in vacation ownership notes receivable on non-accrual status during the first half of 2018	$ 39,156	$ 7,020	$ 46,176
Average investment in vacation ownership notes receivable on non-accrual status during the first half of 2017	$ 41,135	$ 6,839	$ 47,974

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

($ in thousands)	**Non-Securitized Vacation Ownership Notes Receivable**	**Securitized Vacation Ownership Notes Receivable**	**Total**
31 – 90 days past due	$ 7,350	$ 15,199	$ 22,549
91 – 150 days past due	5,015	6,611	11,626
Greater than 150 days past due	34,511	—	34,511
Total past due	46,876	21,810	68,686
Current	207,199	1,013,861	1,221,060
Total vacation ownership notes receivable	$ 254,075	$ 1,035,671	$ 1,289,746

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

($ in thousands)	**Non-Securitized Vacation Ownership Notes Receivable**	**Securitized Vacation Ownership Notes Receivable**	**Total**
31 – 90 days past due	$ 7,109	$ 18,553	$ 25,662
91 – 150 days past due	4,341	7,428	11,769
Greater than 150 days past due	34,445	—	34,445
Total past due	45,895	25,981	71,876
Current	312,938	848,858	1,161,796
Total vacation ownership notes receivable	$ 358,833	$ 874,839	$ 1,233,672

5. 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.

	At June 30, 2018		**At December 31, 2017**	
($ in thousands)	**Carrying Amount**	**Fair Value**[(1)]	**Carrying Amount**	**Fair Value**[(1)]
Vacation ownership notes receivable — securitized	$ 964,510	$ 1,101,984	$ 814,011	$ 954,743
Vacation ownership notes receivable — non-securitized	203,269	207,950	300,541	320,767
Other assets	25,688	25,688	13,708	13,708
Total financial assets	$ 1,193,467	$ 1,335,622	$ 1,128,260	$ 1,289,218
Non-recourse debt associated with vacation ownership notes receivable securitizations, net	$ (1,099,877)	$ (1,095,811)	$ (834,889)	$ (836,028)
Convertible notes, net	(195,805)	(232,760)	(192,518)	(259,884)
Non-interest bearing note payable, net	(29,373)	(29,373)	(60,560)	(60,560)
Total financial liabilities	$ (1,325,055)	$ (1,357,944)	$ (1,087,967)	$ (1,156,472)

(1) Fair value of financial instruments, with the exception of other assets and convertible notes, has been determined using Level 3 inputs. Fair value of other assets and convertible notes that are financial instruments has been determined using Level 2 inputs.

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Vacation Ownership Notes Receivable

We estimate the fair value of our securitized vacation ownership notes receivable 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 that, when applied in combination with pricing parameters, determine the fair value of the underlying vacation ownership notes receivable.

Due to factors that impact the general marketability of our non-securitized vacation ownership notes receivable, as well as current market conditions, we bifurcate our vacation ownership notes receivable at each balance sheet date into those eligible and not eligible for securitization using criteria applicable to current securitization transactions in the asset-backed securities ("ABS") market. Generally, vacation ownership notes receivable are considered not eligible for securitization if any of the following attributes are present: (1) payments are greater than 30 days past due; (2) the first payment has not been received; or (3) the collateral is located in Asia or Europe. In some cases, eligibility may also be determined based on the credit score of the borrower, the remaining term of the loans and other similar factors that may reflect investor demand in a securitization transaction or the cost to effectively securitize the vacation ownership notes receivable.

The following table shows the bifurcation of our non-securitized vacation ownership notes receivable into those eligible and not eligible for securitization based upon the aforementioned eligibility criteria:

	At June 30, 2018		**At December 31, 2017**	
($ in thousands)	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Vacation ownership notes receivable				
Eligible for securitization[1]	$37,073	$41,754	$141,324	$161,550
Not eligible for securitization	166,196	166,196	159,217	159,217
Total non-securitized	$203,269	$207,950	$300,541	$320,767

(1) We expect that these vacation ownership notes receivable will be purchased by the 2018-1 Trust in accordance with the terms of the securitization transaction completed in the second quarter of 2018. Refer to Footnote 10 "Debt" for discussion of the terms of this securitization transaction and the purchase of additional vacation ownership notes receivable by the 2018-1 Trust.

We estimate the fair value of the portion of our non-securitized vacation ownership notes receivable that we believe will ultimately be securitized in the same manner as securitized vacation ownership notes receivable. We value the remaining non-securitized vacation ownership notes receivable 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.

Other Assets

We estimate the fair value of our other assets that are financial instruments using Level 2 inputs. These assets consist 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.

Non-Recourse Debt Associated with Securitized Vacation Ownership Notes Receivable

We generate cash flow estimates by modeling all bond tranches for our active vacation ownership notes receivable securitization transactions, with consideration for the collateral specific to each tranche. The key drivers in our analysis include default rates, prepayment rates, bond interest rates and other structural factors, which we use to estimate the projected cash flows. In order to estimate market credit spreads by rating, we obtain indicative credit spreads from investment banks that actively issue and facilitate the market for vacation ownership securities and determine an average credit spread by rating level of the different tranches. We then apply those estimated market spreads to swap rates in order to estimate an underlying discount rate for calculating the fair value of the active bonds

payable.

Convertible Notes

We estimate the fair value of our Convertible Notes (as defined in Footnote 10 “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.

Non-Interest Bearing Note Payable

The carrying value of our non-interest bearing note payable issued in connection with the acquisition of vacation ownership units located on the Big Island of Hawaii approximates fair value, because the imputed interest rate used to discount this note payable is consistent with current market rates.

6. ACQUISITIONS AND DISPOSITIONS

Planned Acquisition

On April 30, 2018, we entered into an Agreement and Plan of Merger (the “Merger Agreement”) under which we agreed to acquire, in a series of transactions, all of the outstanding shares of ILG, Inc. (“ILG”) in a cash and stock transaction with an implied equity value of approximately $4.7 billion as of that date. Under the Merger Agreement, shareholders of ILG will receive 0.165 shares of our common stock, par value $0.01 per share, and $14.75 in cash, without interest, for each share of ILG common stock, par value $0.01 per share, that they own immediately before these transactions close. Consummation of these transactions is subject to customary conditions, including approval from shareholders of both MVW and ILG and other customary closing conditions.

We intend to finance the transaction through a combination of cash on hand and debt financing, and concurrently with the signing of the Merger Agreement, entered into a bridge facility commitment letter to provide for such financing. We expect to close the transaction by August 31, 2018.

Acquisitions

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 $23.9 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 $33.6 million. The transaction was accounted for as an asset acquisition with all of the purchase price allocated to Property and equipment as we did not intend to make the vacation ownership units available for sale for more than one year. 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.

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 $27.3 million in cash, settled a $0.5 million note receivable from the seller on a noncash basis, and issued a non-interest bearing note payable for $63.6 million. See Footnote 10 “Debt” for information on the non-interest bearing note payable.

7. EARNINGS PER SHARE

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

Our calculation of diluted earnings per share reflects our intent to settle conversions of the Convertible Notes through a combination settlement, which contemplates repayment in cash of the principal amount and repayment in shares of our common stock of any excess of the conversion value over the principal amount (the "conversion premium"). Therefore, we include only the shares that may be issued with respect to any conversion premium in total dilutive weighted average shares outstanding, which we calculate using the treasury stock method. As no conversion premium existed as of June 30, 2018, there was no dilutive impact from the Convertible Notes for either the second quarter or the first half of 2018.

The shares issuable on exercise of the Warrants (as defined in Footnote 10 "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 adjusted during the second quarter of 2018 to $176.48, as described in Footnote 10 "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 10 "Debt") purchased in connection with the issuance of the Convertible Notes are considered to be anti-dilutive and will not impact our calculation of diluted earnings per share.

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

	Three Months Ended		**Six Months Ended**	
(in thousands, except per share amounts)	**June 30, 2018[(1)]**	**June 30, 2017[(1)]**	**June 30, 2018[(1)]**	**June 30, 2017[(1)]**
Computation of Basic Earnings Per Share				
Net income	$10,761	$48,186	$46,742	$76,076
Shares for basic earnings per share	26,728	27,319	26,707	27,285
Basic earnings per share	$0.40	$1.76	$1.75	$2.79
Computation of Diluted Earnings Per Share				
Net income	$10,761	$48,186	$46,742	$76,076
Shares for basic earnings per share	26,728	27,319	26,707	27,285
Effect of dilutive shares outstanding				
Employee stock options and SARs	396	464	414	457
Restricted stock units	129	182	160	187
Shares for diluted earnings per share	27,253	27,965	27,281	27,929
Diluted earnings per share	$0.39	$1.72	$1.71	$2.72

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(1) The computations of diluted earnings per share exclude approximately 307,000 and 306,000 shares of common stock, the maximum number of shares issuable as of June 30, 2018 and June 30, 2017, 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 and first half of 2018, we excluded from our calculation of diluted earnings per share 56,649 shares underlying stock appreciation rights ("SARs") that may be settled in shares of common stock because the exercise price of $143.38 of such SARs was greater than the average market price for the applicable period.

For the second quarter and first half of 2017, our calculation of diluted earnings per share included shares underlying

SARs that may be settled in shares of common stock, because the exercise prices of such SARs were less than or equal to the average market prices for the applicable period.

8. INVENTORY

The following table shows the composition of our inventory balances:

($ in thousands)	**At June 30, 2018**	**At December 31, 2017**
Finished goods[(1)]	$325,374	$ 391,040
Work-in-progress	113	2,315
Land and infrastructure[(2)]	359,992	330,002
Real estate inventory	685,479	723,357
Operating supplies and retail inventory	4,675	5,022
	$690,154	$ 728,379

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(1) Represents completed inventory that is either registered for sale as vacation ownership interests, or unregistered and available for sale in its current form.

(2) Includes $69.5 million of inventory related to estimated future foreclosures at June 30, 2018.

We value vacation ownership and residential 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 less than $1.0 million and decreased carrying values of inventory by less than $1.0 million during the first half of 2018 and the first half of 2017, respectively.

In addition to the above, at June 30, 2018, we had $47.6 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. Furthermore, at June 30, 2018, we also had $454.9 million of commitments to acquire completed vacation ownership units as discussed below in Footnote 9 “Contingencies and Commitments.”

9. CONTINGENCIES AND COMMITMENTS

Commitments and Letters of Credit

As of June 30, 2018, we had the following commitments outstanding:

- We have various contracts for the use of information technology hardware and software that we use in the normal course of business. Our aggregate commitments under these contracts were $35.4 million, of which we expect $7.9 million, $12.4 million, $8.0 million, $3.1 million, $2.5 million and $1.5 million will be paid in 2018, 2019, 2020, 2021, 2022 and thereafter, respectively.
- We have a commitment to purchase an operating property located in New York, New York for $170.2 million, of which $7.2 million is attributed to a related capital lease arrangement and recorded in Debt. We expect to acquire the units in the property in their current form, over time, and we are committed to make payments for these units of $108.5 million and $61.7 million in 2019 and 2020, respectively. We currently manage this property, which we have rebranded as Marriott Vacation Club Pulse, New York City. See Footnote 13 “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 Asia Pacific segment, contingent upon completion of construction to agreed-upon standards within specified timeframes. We expect to complete the acquisition in 2019 and to make payments with respect to these units when specific construction milestones are completed, as follows: $3.9 million in 2018, $30.9 million in 2019 and $1.9 million in 2020.
- We have a remaining commitment to purchase vacation ownership units located at our resort in Marco Island, Florida for $84.5 million, which we expect will be paid in 2019. See Footnote 6 “Acquisitions and Dispositions” and Footnote 13 “Variable Interest Entities” for additional information on this transaction and our activities relating to the variable interest entity involved in this transaction.
- During the first quarter of 2018, we assigned a commitment to purchase an operating property located in San Francisco, California to a third-party developer in a capital efficient inventory arrangement. We expect to acquire the operating property in 2020 and to pay the purchase price of $163.5 million as follows: $100.0 million in 2020 and $63.5 million in 2021. See Footnote 13 “Variable Interest Entities” for additional information on this transaction and our

activities relating to the variable interest entity involved in this transaction.

Surety bonds issued as of June 30, 2018 totaled $34.5 million, the majority of which were requested by federal, state or local governments in connection with our operations.

Additionally, as of June 30, 2018, we had $2.2 million of letters of credit outstanding under our $250.0 million revolving credit facility (the "Revolving Corporate Credit Facility").

Loss Contingencies

In April 2013, Krishna and Sherrie Narayan and other owners of 12 residential units (owners of two of which subsequently agreed to release their claims) at the resort formerly known as The Ritz-Carlton Club & Residences, Kapalua Bay ("Kapalua Bay") filed an amended complaint in Circuit Court for Maui County, Hawaii against us, certain of our subsidiaries, Marriott International, certain of its subsidiaries, and the joint venture in which we have an equity investment that developed and marketed vacation ownership and residential products at Kapalua Bay (the "Joint Venture"). In the original complaint, the plaintiffs alleged that defendants mismanaged funds of the residential owners association (the "Kapalua Bay Association"), created a conflict of interest by permitting their employees to serve on the Kapalua Bay Association's board, and failed to disclose documents to which the plaintiffs were allegedly entitled. The amended complaint alleges breach of fiduciary duty, violations of the Hawaii Unfair and Deceptive Trade Practices Act and the Hawaii condominium statute, intentional misrepresentation and concealment, unjust enrichment and civil conspiracy. The relief sought in the amended complaint includes injunctive relief, repayment of all sums paid to us and our subsidiaries and Marriott International and its subsidiaries, compensatory and punitive damages, and treble damages under the Hawaii Unfair and Deceptive Trade Practices Act. Trial is scheduled for September 2018. We dispute the material allegations in the amended complaint and continue to defend against the action vigorously. Given the inherent uncertainties of litigation, we cannot estimate a range of the potential liability, if any, at this time.

In June 2013, Earl C. and Patricia A. Charles, owners of a fractional interest at Kapalua Bay, together with owners of 38 other fractional interests (owners of two of which subsequently agreed to release their claims) at Kapalua Bay, filed an amended complaint in the Circuit Court of the Second Circuit for the State of Hawaii against us, certain of our subsidiaries, Marriott International, certain of its subsidiaries, the Joint Venture, and other entities that have equity investments in the Joint Venture. The plaintiffs allege that the defendants failed to disclose the financial condition of the Joint Venture and the commitment of the defendants to the Joint Venture, and that defendants' actions constituted fraud and violated the Hawaii Unfair and Deceptive Trade Practices Act, the Hawaii Condominium Property Act and the Hawaii Time Sharing Plans statute. The relief sought includes compensatory and punitive damages, attorneys' fees, pre-judgment interest, declaratory relief, rescission and treble damages under the Hawaii Unfair and Deceptive Trade Practices Act. The complaint was subsequently further amended to add owners of two additional fractional interests as plaintiffs. The Circuit Court set the case for trial beginning in January 2019. We dispute the material allegations in the amended complaint and continue to defend against the action vigorously. Given the inherent uncertainties of litigation, we cannot estimate a range of the potential liability, if any, at this time.

In May 2015, we and certain of our subsidiaries were named as defendants in an action filed in the Superior Court of San Francisco County, California, by William and Sharon Petrick and certain other present and former owners of fractional interests at the RCC San Francisco. The plaintiffs alleged that the affiliation of the RCC San Francisco with our points-based Marriott Vacation Club Destinations ("MVCD") program, certain alleged sales practices, and other acts we and the other defendants allegedly took caused an actionable decrease in the value of their fractional interests. The relief sought included, among other things, compensatory and punitive damages, rescission, and pre- and post-judgment interest. In July 2018, following a mediation meeting, the parties reached an agreement in principle to settle the case. The terms of the definitive settlement agreement are currently being finalized. We have recorded an accrual of $10.6 million in conjunction with the settlement. In addition to various terms and conditions, the settlement in principle contemplates our repurchase of fractional interests owned by the plaintiffs.

In March 2017, RCHFU, L.L.C. and other owners of 232 fractional interests at The Ritz-Carlton Club, Aspen Highlands ("RCC Aspen Highlands") served an amended complaint in an action pending in the court against us, certain of our subsidiaries, and other third party defendants. The amended complaint alleges that the plaintiffs' fractional interests were devalued by the affiliation of RCC Aspen Highlands and other Ritz-Carlton Clubs with our points-based MVCD program. The relief sought includes, among other things, unspecified damages, pre- and post-judgment interest, and attorneys' fees. We filed a motion to dismiss the amended complaint, which the Court granted in part and denied in part in March 2018. In February 2018, plaintiffs filed a motion seeking to add a claim for

punitive damages to their complaint, which the Court granted in May 2018. We dispute the plaintiffs' material allegations and continue to defend against the action vigorously. Given the inherent uncertainties of litigation, we cannot estimate a range of the potential liability, if any, at this time.

In May 2016, we, certain of our subsidiaries, and certain third parties were named as defendants in an action filed in the U.S. District Court for the Middle District of Florida by Anthony and Beth Lennen. The case is filed as a putative class action; the plaintiffs seek to represent a class consisting of themselves and all other purchasers of MVCD points, from inception of the MVCD program in June 2010 to the present, as well as all individuals who own or have owned weeks in any resorts for which weeks have been added to the MVCD program. Plaintiffs challenge the characterization of the beneficial interests in the MVCD trust that are sold to customers as real estate interests under Florida law. They also challenge the structure of the trust and associated operational aspects of the trust product. The relief sought includes, among other things, declaratory relief, an unwinding of the MVCD product, and punitive damages. In September 2016, we filed a motion to dismiss the complaint and a motion to stay the case pending referral of certain questions to Florida state regulators, and the Court granted the motion to dismiss and denied the motion to stay. The Court granted leave to plaintiffs to file an amended complaint, which plaintiffs filed in October 2017. In November 2017, we filed a motion to dismiss the amended complaint, which remains pending. We dispute the plaintiffs' material allegations and continue to defend against the action vigorously. Given the early stages of the action and the inherent uncertainties of litigation, we cannot estimate a range of the potential liability, if any, at this time.

In July 2018, a complaint challenging our acquisition of ILG was filed on behalf of alleged stockholders of ILG in the District Court for the District of Delaware, captioned Scarantino v. ILG, Inc., et al. The complaint names as defendants ILG, ILG's directors, Ignite Holdco, Inc., Ignite Holdco Subsidiary, Inc., our company, Volt Merger Sub, Inc. and Volt Merger Sub, LLC. The complaint alleges that (i) ILG and ILG's directors issued a false and misleading registration statement in violation of Section 14(a) of the Exchange Act and Rule 14a-9 promulgated thereunder; and (ii) we and ILG's directors, Volt Merger Sub, Inc. and Volt Merger Sub, LLC violated Section 20(a) of the Exchange Act by allegedly exercising control over ILG and ILG's directors while they issued a false and misleading registration statement. The complaint seeks an injunction preventing the defendants from consummating the transaction and attorneys' fees and costs, as well as other remedies. Also in July 2018, two other complaints challenging the ILG transaction were filed, one on behalf of an alleged stockholder of ILG in the District Court for the Southern District of Florida, captioned Patricia Stephens v. ILG, Inc., et al., and another on behalf of alleged stockholders of ILG in the District Court for the District of Delaware, captioned Hohman v. ILG, Inc., et al. The complaints name ILG and ILG's directors as defendants and allege that (i) ILG and ILG's directors issued a false and misleading registration statement in violation of Section 14(a) of the Exchange Act and Rule 14a-9 promulgated thereunder and (ii) ILG's directors violated Section 20(a) of the Exchange Act by allegedly exercising control over ILG while issuing a false and misleading registration statement. The complaints seek an injunction preventing the defendants from consummating the transaction and attorneys' fees and costs, as well as other remedies. We believe that these lawsuits are without merit and intend to defend ourselves vigorously.

Other

During the second quarter and first half of 2018 we recorded litigation settlement charges of $16.3 million in our Income Statement relating to agreements in principle to settle two actions in our North America segment, consisting of an accrual of $10.6 million in connection with the Petrick action as described above, and an accrual of $4.6 million in connection with an action brought by owners of fractional interests at The Ritz-Carlton, Lake Tahoe, and $1.1 million related to projects in our Europe segment.

During June 2018, we identified fraudulently induced electronic payment disbursements we made to third parties in an aggregate amount of $9.9 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. As a result, we have since recovered $3.2 million and expect to recover a significant portion of the remaining $6.7 million through recovery of the disbursed funds and applicable insurance coverage. However, this recovery process may take up to several months. We recorded a loss of $6.7 million in the Losses and other expense, net line of our Income Statements for the second quarter and first half of 2018. Any recoveries will be recorded in our results in the future.

Our investigation is ongoing. There is no indication at this time that this event involved access to any of our other systems or data and no other misappropriation of assets has been identified.

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10. DEBT