

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
Form 10-Q**

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2019

OR
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ___ to ___
Commission file number **001-32876**

WYNDHAM DESTINATIONS, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

*(State or Other Jurisdiction
of Incorporation or Organization)*

6277 Sea Harbor Drive

Orlando, Florida

(Address of Principal Executive Offices)

20-0052541

*(I.R.S. Employer
Identification No.)*

32821

(Zip Code)

(407) 626-5200

(Registrant's Telephone Number, Including Area Code)

None

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

Title of each class

Trading Symbol

Name of each exchange on which registered

Common Stock

WYND

New York Stock Exchange

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the last practicable date:

90,704,218 shares of common stock outstanding as of September 30, 2019.

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GLOSSARY OF TERMS

The following terms and acronyms appear in the text of this report and have the definitions indicated below:

Adjusted EBITDA	A non-GAAP measure, defined by the Company as Net income before Depreciation and amortization, Interest expense (excluding Consumer financing interest), Early extinguishment of debt, Interest income (excluding Consumer financing revenues) and Income taxes. Adjusted EBITDA also excludes stock-based compensation costs, separation and restructuring costs, transaction costs, impairments, and items that meet the conditions of unusual and/or infrequent.
AOCL	Accumulated Other Comprehensive Loss
ARN	Alliance Reservation Network
AUD	Australian Dollar
Board	Board of Directors
Buyer	Compass IV Limited, an affiliate of Platinum Equity, LLC
Company	Wyndham Destinations, Inc. and its subsidiaries
EBITDA	Earnings Before Interest, Income Taxes and Depreciation/Amortization
EPS	Earnings Per Share
Exchange Act	Securities Exchange Act of 1934
FASB	Financial Accounting Standards Board
FICO	Fair Isaac Corporation
GAAP	Generally Accepted Accounting Principles in the United States
La Quinta	La Quinta Holdings, Inc.
LIBOR	London Interbank Offered Rate
NQ	Non-Qualified stock options
NZD	New Zealand Dollar
PCAOB	Public Company Accounting Oversight Board
PSU	Performance-vested restricted Stock Units
RSU	Restricted Stock Unit
SEC	Securities and Exchange Commission
SPE	Special Purpose Entity
SOFR	Secured Overnight Financing Rate
Spin-off	Spin-off of Wyndham Hotels & Resorts, Inc.
SSAR	Stock-Settled Appreciation Rights
U.S.	United States of America
USD	United States of America Dollar
Vacasa	Vacasa LLC
VIE	Variable Interest Entity
VOI	Vacation Ownership Interest
VPG	Volume Per Guest
Wyndham Hotels	Wyndham Hotels & Resorts, Inc.
Wyndham Destinations	Wyndham Destinations, Inc.
Wyndham Worldwide	Wyndham Worldwide Corporation

PART I — FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements (Unaudited).

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors of
Wyndham Destinations, Inc.

Results of Review of Interim Financial Statements

We have reviewed the accompanying condensed consolidated balance sheet of Wyndham Destinations, Inc. and subsidiaries (the "Company") as of September 30, 2019, the related condensed consolidated statements of income, comprehensive income and (deficit)/equity, for the three-month and nine-month periods ended September 30, 2019 and 2018, and of cash flows for the nine-month periods ended September 30, 2019 and 2018, and the related notes (collectively referred to as the "interim financial statements"). Based on our reviews, we are not aware of any material modifications that should be made to the accompanying interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheet of the Company as of December 31, 2018, and the related consolidated statements of income, comprehensive income, cash flows and equity for the year then ended (not presented herein); and in our report dated February 26, 2019, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2018, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Basis for Review Results

The interim financial statements are the responsibility of the Company's management. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our reviews in accordance with standards of the PCAOB. A review of interim financial statements consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the PCAOB, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

/s/ Deloitte & Touche LLP
Tampa, FL
October 30, 2019

WYNDHAM DESTINATIONS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In millions, except per share amounts)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net revenues				
Vacation ownership interest sales	\$ 528	\$ 503	\$ 1,384	\$ 1,323
Service and membership fees	426	417	1,241	1,245
Consumer financing	132	126	385	363
Other	19	16	52	45
Net revenues	<u>1,105</u>	<u>1,062</u>	<u>3,062</u>	<u>2,976</u>
Expenses				
Operating	450	431	1,269	1,252
Cost of vacation ownership interests	60	53	141	131
Consumer financing interest	26	23	78	62
Marketing	188	179	505	465
General and administrative	129	116	379	402
Separation and related costs	7	35	44	198
Asset impairments	—	(4)	—	(4)
Restructuring	—	—	4	—
Depreciation and amortization	31	32	90	105
Total expenses	<u>891</u>	<u>865</u>	<u>2,510</u>	<u>2,611</u>
Operating income	214	197	552	365
Other (income), net	(6)	(22)	(18)	(33)
Interest expense	40	37	122	129
Interest (income)	(1)	—	(6)	(3)
Income before income taxes	181	182	454	272
Provision for income taxes	46	51	120	112
Net income from continuing operations	135	131	334	160
Loss from operations of discontinued businesses, net of income taxes	—	(3)	—	(52)
Gain on disposal of discontinued businesses, net of income taxes	—	20	5	452
Net income attributable to Wyndham Destinations shareholders	<u>\$ 135</u>	<u>\$ 148</u>	<u>\$ 339</u>	<u>\$ 560</u>
Basic earnings per share				
Continuing operations	\$ 1.48	\$ 1.32	\$ 3.59	\$ 1.61
Discontinued operations	—	0.17	0.05	4.01
	<u>\$ 1.48</u>	<u>\$ 1.49</u>	<u>\$ 3.64</u>	<u>\$ 5.62</u>
Diluted earnings per share				
Continuing operations	\$ 1.47	\$ 1.31	\$ 3.58	\$ 1.60
Discontinued operations	—	0.18	0.06	4.00
	<u>\$ 1.47</u>	<u>\$ 1.49</u>	<u>\$ 3.64</u>	<u>\$ 5.60</u>

See Notes to Condensed Consolidated Financial Statements.

WYNDHAM DESTINATIONS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In millions)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2019	2018	2019	2018
Net income attributable to Wyndham Destinations shareholders	\$ 135	\$ 148	\$ 339	\$ 560
Other comprehensive (loss), net of tax				
Foreign currency translation adjustments	(26)	(5)	(25)	(24)
Defined benefit pension plans	—	—	—	4
Other comprehensive (loss), net of tax	(26)	(5)	(25)	(20)
Comprehensive income	<u>\$ 109</u>	<u>\$ 143</u>	<u>\$ 314</u>	<u>\$ 540</u>

See Notes to Condensed Consolidated Financial Statements.

WYNDHAM DESTINATIONS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In millions, except share data)
(Unaudited)

	September 30, 2019	December 31, 2018
Assets		
Cash and cash equivalents	\$ 250	\$ 218
Restricted cash (VIE - \$114 as of 2019 and \$120 as of 2018)	148	155
Trade receivables, net	137	121
Vacation ownership contract receivables, net (VIE - \$2,988 as of 2019 and \$2,883 as of 2018)	3,118	3,037
Inventory	1,209	1,224
Prepaid expenses	198	153
Property and equipment, net	723	712
Goodwill	971	922
Other intangibles, net	137	109
Other assets	458	304
Assets of held-for-sale business	214	203
Total assets	\$ 7,563	\$ 7,158
Liabilities and (deficit)		
Accounts payable	\$ 86	\$ 66
Accrued expenses and other liabilities	1,018	1,004
Deferred income	553	518
Non-recourse vacation ownership debt (VIE)	2,494	2,357
Debt	3,047	2,881
Deferred income taxes	772	736
Liabilities of held-for-sale business	163	165
Total liabilities	8,133	7,727
Commitments and contingencies (Note 17)		
Stockholders' (deficit):		
Preferred stock, \$.01 par value, authorized 6,000,000 shares, none issued and outstanding	—	—
Common stock, \$.01 par value, 600,000,000 shares authorized, 220,767,128 issued as of 2019 and 220,120,808 as of 2018	2	2
Treasury stock, at cost – 130,119,470 shares as of 2019 and 125,137,857 shares as of 2018	(6,258)	(6,043)
Additional paid-in capital	4,106	4,077
Retained earnings	1,651	1,442
Accumulated other comprehensive loss	(77)	(52)
Total stockholders' (deficit)	(576)	(574)
Noncontrolling interest	6	5
Total (deficit)	(570)	(569)
Total liabilities and (deficit)	\$ 7,563	\$ 7,158

See Notes to Condensed Consolidated Financial Statements.

WYNDHAM DESTINATIONS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)
(Unaudited)

	Nine Months Ended	
	September 30,	
	2019	2018
Operating activities		
Net income	\$ 339	\$ 560
Loss from operations of discontinued businesses, net of income taxes	—	52
Gain on disposal of discontinued businesses, net of income taxes	(5)	(452)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	90	105
Provision for loan losses	373	350
Deferred income taxes	36	84
Stock-based compensation	17	121
Asset impairments	12	6
Non-cash lease expense	24	—
Non-cash interest	16	13
Net change in assets and liabilities, excluding the impact of acquisitions and dispositions:		
Trade receivables	(7)	(21)
Vacation ownership contract receivables	(464)	(457)
Inventory	(18)	(48)
Deferred income	18	12
Accounts payable, accrued expenses, prepaid expenses, other assets and other liabilities	(128)	(122)
Other, net	18	2
Net cash provided by operating activities - continuing operations	321	205
Net cash (used in)/provided by operating activities - discontinued operations	(1)	150
Net cash provided by operating activities	320	355
Investing activities		
Property and equipment additions	(75)	(63)
Acquisition of business, net of cash acquired	(51)	(5)
Proceeds from asset sales	6	11
Other, net	5	(7)
Net cash used in investing activities - continuing operations	(115)	(64)
Net cash used in investing activities - discontinued operations	(22)	(672)
Net cash used in investing activities	(137)	(736)
Financing activities		
Proceeds from non-recourse vacation ownership debt	1,671	1,821
Principal payments on non-recourse vacation ownership debt	(1,532)	(1,727)
Proceeds from debt	2,149	2,800
Principal payments on debt	(2,007)	(3,018)
Repayments of commercial paper, net	—	(147)
Proceeds from notes issued and term loan	—	300
Repayment of notes	(2)	(789)
Repayments of vacation ownership inventory arrangement	(12)	(12)
Dividends to shareholders	(125)	(154)
Cash transferred to Wyndham Hotels related to spin-off	(69)	(495)
Proceeds from issuance of common stock	6	—
Repurchase of common stock	(215)	(226)
Debt issuance costs	(15)	(13)
Net share settlement of incentive equity awards	(4)	(56)
Other, net	(1)	(2)
Net cash used in financing activities - continuing operations	(156)	(1,718)
Net cash provided by financing activities - discontinued operations	—	2,066
Net cash (used in)/provided by financing activities	(156)	348
Effect of changes in exchange rates on cash, cash equivalents and restricted cash	(4)	(6)
Net change in cash, cash equivalents and restricted cash	23	(39)
Cash, cash equivalents and restricted cash, beginning of period	404	416
Cash, cash equivalents and restricted cash, end of period	427	377
Less: Restricted cash	148	213
Less: Cash and restricted cash included in assets of discontinued operations and held-for-sale business	29	—
Cash and cash equivalents	\$ 250	\$ 164

WYNDHAM DESTINATIONS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF (DEFICIT)/EQUITY
(In millions)
(Unaudited)

	Common Shares Outstanding	Common Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss)/Income	Non-controlling Interest	Total (Deficit)
Balance as of December 31, 2018	95	\$ 2	\$ (6,043)	\$ 4,077	\$ 1,442	\$ (52)	\$ 5	\$ (569)
Net income	—	—	—	—	80	—	—	80
Other comprehensive income	—	—	—	—	—	2	—	2
Change in stock-based compensation	—	—	—	5	—	—	—	5
Repurchase of common stock	(1)	—	(60)	—	—	—	—	(60)
Dividends (\$0.45 per share)	—	—	—	—	(42)	—	—	(42)
Balance as of March 31, 2019	94	2	(6,103)	4,082	1,480	(50)	5	(584)
Net income	—	—	—	—	124	—	—	124
Other comprehensive loss	—	—	—	—	—	(1)	—	(1)
Net share settlement of stock-based compensation	—	—	—	(1)	—	—	—	(1)
Employee stock purchase program issuances	—	—	—	6	—	—	—	6
Change in stock-based compensation	—	—	—	7	—	—	—	7
Repurchase of common stock	(2)	—	(65)	—	—	—	—	(65)
Dividends (\$0.45 per share)	—	—	—	—	(43)	—	—	(43)
Distribution for separation of Wyndham Hotels and adjustments related to discontinued business	—	—	—	—	(3)	—	—	(3)
Balance as of June 30, 2019	92	2	(6,168)	4,094	1,558	(51)	5	(560)
Net income	—	—	—	—	135	—	—	135
Other comprehensive loss	—	—	—	—	—	(26)	—	(26)
Issuance of shares for RSU vesting	1	—	—	—	—	—	—	—
Net share settlement of stock-based compensation	—	—	—	(3)	—	—	—	(3)
Change in stock-based compensation	—	—	—	5	—	—	—	5
Repurchase of common stock	(2)	—	(90)	—	—	—	—	(90)
Dividends (\$0.45 per share)	—	—	—	—	(42)	—	—	(42)
Acquisition of a business	—	—	—	10	—	—	—	10
Non-controlling interest ownership change	—	—	—	—	—	—	1	1
Balance as of September 30, 2019	91	\$ 2	\$ (6,258)	\$ 4,106	\$ 1,651	\$ (77)	\$ 6	\$ (570)

See Notes to Condensed Consolidated Financial Statements.

WYNDHAM DESTINATIONS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF (DEFICIT)/EQUITY
(In millions)
(Unaudited)

	Common Shares Outstanding	Common Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss)/Income	Non-controlling Interest	Total Equity/(Deficit)
Balance as of December 31, 2017	100	\$ 2	\$ (5,719)	\$ 3,996	\$ 2,501	\$ (11)	\$ 5	\$ 774
Beginning balance adjustment due to change in accounting principle	—	—	—	—	(17)	—	—	(17)
Net income	—	—	—	—	34	—	—	34
Other comprehensive income	—	—	—	—	—	14	—	14
Issuance of shares for RSU vesting	1	—	—	—	—	—	—	—
Net share settlement of stock-based compensation	—	—	—	(32)	—	—	—	(32)
Change in stock-based compensation	—	—	—	21	—	—	—	21
Change in stock-based compensation for Board of Directors	—	—	—	1	—	—	—	1
Repurchase of common stock	(1)	—	(76)	—	—	—	—	(76)
Dividends (\$0.66 per share) ^(a)	—	—	—	—	(67)	—	—	(67)
Balance as of March 31, 2018	100	2	(5,795)	3,986	2,451	3	5	652
Net income	—	—	—	—	378	—	—	378
Other comprehensive loss	—	—	—	—	—	(29)	—	(29)
Issuance of shares for RSU vesting	1	—	—	—	—	—	—	—
Net share settlement of stock-based compensation	—	—	—	(35)	—	—	—	(35)
Change in stock-based compensation	—	—	—	109	—	—	—	109
Change in stock-based compensation for Board of Directors	—	—	—	(9)	—	—	—	(9)
Repurchase of common stock	(1)	—	(42)	—	—	—	—	(42)
Dividends (\$0.41 per share)	—	—	—	—	(43)	—	—	(43)
Distribution for separation of Wyndham Hotels and adjustments related to discontinued business	—	—	—	—	(1,499)	—	—	(1,499)
Balance as of June 30, 2018	100	2	(5,837)	4,051	1,287	(26)	5	(518)
Net income	—	—	—	—	148	—	—	148
Other comprehensive loss	—	—	—	—	—	(5)	—	(5)
Net share settlement of stock-based compensation	—	—	—	11	—	—	—	11
Change in stock-based compensation	—	—	—	11	—	—	—	11
Change in stock-based compensation for Board of Directors	—	—	—	1	—	—	—	1
Repurchase of common stock	(3)	—	(106)	—	—	—	—	(106)
Dividends (\$0.41 per share)	—	—	—	—	(41)	—	—	(41)
Distribution for separation of Wyndham Hotels and adjustments related to discontinued business	—	—	—	—	(8)	—	—	(8)
Balance as of September 30, 2018	97	\$ 2	\$ (5,943)	\$ 4,074	\$ 1,386	\$ (31)	\$ 5	\$ (507)

(a) Represents dividends declared by Wyndham Worldwide Corporation prior to the spin-off of Wyndham Hotels & Resorts, Inc.

See Notes to Condensed Consolidated Financial Statements.

WYNDHAM DESTINATIONS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unless otherwise noted, all amounts are in millions, except share and per share amounts)
(Unaudited)

1. Background and Basis of Presentation

Background

Wyndham Destinations, Inc. and its subsidiaries (collectively, “Wyndham Destinations” or the “Company”), is a global provider of hospitality services and products. The Company operates in two segments: Vacation Ownership and Exchange & Rentals. The Vacation Ownership segment develops, markets and sells vacation ownership interests (“VOIs”) to individual consumers, provides consumer financing in connection with the sale of VOIs and provides property management services at resorts. The Exchange & Rentals segment provides vacation exchange services and products to owners of VOIs and manages and markets vacation rental properties primarily on behalf of independent owners.

On August 7, 2019, the Company acquired Alliance Reservation Network (“ARN”). The results of this business are reflected in the Company’s Condensed Consolidated Financial Statements from the date of acquisition. See Note 5—*Acquisitions* for additional details.

During the fourth quarter of 2018, the Company decided to explore strategic alternatives for its North American vacation rentals business and on July 30, 2019, entered into an agreement for the sale of this business. The assets and liabilities of this business have been classified as held-for-sale as of September 30, 2019 and December 31, 2018. See Note 7—*Held-for-Sale Business* for further details. This business does not meet the criteria to be classified as a discontinued operation; therefore, the results are reflected within continuing operations on the Condensed Consolidated Statements of Income. On October 22, 2019, the Company completed the sale of this business. See Note 26—*Subsequent Events* for additional details.

During 2018, the Company completed the spin-off of Wyndham Hotels & Resorts, Inc. (“Spin-off”) and the sale of its European vacation rentals business. The prior period Condensed Consolidated Financial Statements have been reclassified to reflect the results of the hotel business and European vacation rentals business as discontinued operations. See further detail in Note 6—*Discontinued Operations*.

Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q include the accounts and transactions of Wyndham Destinations, as well as the entities in which Wyndham Destinations directly or indirectly has a controlling financial interest. The accompanying Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S.”). All intercompany balances and transactions have been eliminated in the Condensed Consolidated Financial Statements. In addition, certain prior period amounts have been reclassified to comply with newly adopted accounting standards. See further detail in Note 2—*New Accounting Pronouncements*.

In presenting the Condensed Consolidated Financial Statements, management makes estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures. Estimates, by their nature, are based on judgment and available information. Accordingly, actual results could differ from those estimates. In management’s opinion, the Condensed Consolidated Financial Statements contain all normal recurring adjustments necessary for a fair presentation of interim results reported. The results of operations reported for interim periods are not necessarily indicative of the results of operations for the entire year or any subsequent interim period. These Condensed Consolidated Financial Statements should be read in conjunction with the Company’s 2018 Consolidated Financial Statements included in its Annual Report filed on Form 10-K with the Securities and Exchange Commission (SEC) on February 26, 2019.

2. New Accounting Pronouncements

Recently Issued Accounting Pronouncements

Financial Instruments - Credit Losses. In June 2016, the Financial Accounting Standards Board (“FASB”) issued guidance which amends the guidance on measuring credit losses on financial assets held at amortized cost. The guidance requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. This guidance is effective for fiscal years beginning after

December 15, 2019, including interim periods within those fiscal years. The Company is currently evaluating the impact of the adoption of this guidance on its financial statements and related disclosures.

Simplifying the Test for Goodwill Impairment. In January 2017, the FASB issued guidance which simplifies the current two-step goodwill impairment test by eliminating Step 2 of the test. The guidance requires a one-step impairment test in which an entity compares the fair value of a reporting unit with its carrying amount and recognizes an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, if any. This guidance is effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years, and should be applied on a prospective basis. Early adoption is permitted for the interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company does not believe the adoption of this guidance will have a material impact on the Company's financial statements and related disclosures.

Recently Adopted Accounting Pronouncements

Leases. In February 2016, the FASB issued guidance for lease accounting. The guidance requires a lessee to recognize right-of-use assets and lease liabilities on the balance sheet for all lease obligations and disclose key information about leasing arrangements, such as the amount, timing, and uncertainty of cash flows arising from leases. The Company adopted this standard using the modified retrospective approach; therefore, the Company used the transition method practical expedient under ASU 2018-11 and prior year financial statements were not recast. As a result of the adoption, on January 1, 2019 the Company recognized \$158 million of right-of-use assets and \$200 million of related lease liabilities. Right-of-use assets were decreased by \$42 million of tenant improvement allowances and deferred rent balances reclassified from other liabilities. Both the right-of-use assets and related lease liabilities recognized upon adoption included \$21 million associated with the Company's held-for-sale business. Right-of-use assets are included within Other assets and the related lease liabilities are included within Accrued expenses and other liabilities on the Condensed Consolidated Balance Sheets. The adoption of this standard did not have a material impact to the income statement related to existing leases; therefore a cumulative-effect adjustment was not recorded. The adoption of this standard did not materially impact consolidated net income, liquidity or compliance with our debt covenants under our current agreements. See Note 16— *Leases* for more information.

Implementation Costs in Cloud Computing Arrangements. In August 2018, the FASB issued guidance on implementation costs incurred in a cloud computing arrangement that is a service contract. This guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the guidance on capitalizing costs associated with developing or obtaining internal-use software and also adds certain disclosure requirements related to implementation costs incurred for internal-use software and cloud computing arrangements. This guidance is effective for fiscal years beginning after December 15, 2019 and for interim periods within those fiscal years, with early adoption permitted. The Company early adopted this guidance as of January 1, 2019 on a prospective basis. The adoption of this guidance did not have a material impact on the Company's financial statements and related disclosures.

Stock Compensation - Improvements to Nonemployee Share-Based Payment Accounting. In June 2018, the FASB issued guidance intended to simplify nonemployee share-based payment accounting. This new guidance more closely aligns the accounting for share-based payment awards issued to employees and nonemployees. The Company adopted this guidance as of January 1, 2019 with no material impact to its Condensed Consolidated Financial Statements and related disclosures.

3. Revenue Recognition

Vacation Ownership

The Company develops, markets and sells VOIs to individual consumers, provides consumer financing in connection with the sale of VOIs and provides property management services at resorts. The Company's sales of VOIs are either cash sales or developer-financed sales. Developer financed sales are typically collateralized by the underlying VOI. Revenue is recognized on VOI sales upon transfer of control, which is defined as the point in time when a binding sales contract has been executed, the financing contract has been executed for the remaining transaction price, the statutory rescission period has expired and the transaction price has been deemed to be collectible.

For developer-financed sales, the Company reduces the VOI sales transaction price by an estimate of uncollectible consideration at the time of the sale. The Company's estimates of uncollectible amounts are based largely on the results of the Company's static pool analysis which relies on historical payment data by customer class.

In connection with entering into a VOI sale, the Company may provide its customers with certain non-cash incentives, such as credits for future stays at its resorts. For those VOI sales, the Company bifurcates the sale and allocates the sales price

between the VOI sale and the non-cash incentive. Non-cash incentives generally have expiration periods of 18 months or less and are recognized at a point in time upon transfer of control.

The Company provides day-to-day property management services including oversight of housekeeping services, maintenance and certain accounting and administrative services for property owners' associations and clubs. These services may also include reservation and resort renovation activities. Such agreements are generally for terms of one year or less, and are renewed automatically on an annual basis. The Company's management agreements contain cancellation clauses, which allow for either party to cancel the agreement, by either a majority board vote or a majority vote of non-developer interests. The Company receives fees for such property management services which are collected monthly in advance and are based upon total costs to operate such resorts (or as services are provided in the case of resort renovation activities). Fees for property management services typically approximate 10% of budgeted operating expenses. The Company is entitled to consideration for reimbursement of costs incurred on behalf of the property owners' association in providing the management services ("reimbursable revenue"). These reimbursable costs principally relate to the payroll costs for management of the associations, club and resort properties where the Company is the employer and are reflected as a component of Operating expenses on the Condensed Consolidated Statements of Income. The Company reduces its management fees for amounts it has paid to the property owners' association that reflect maintenance fees for VOIs for which it retains ownership, as the Company has concluded that such payments are consideration payable to a customer.

Property management fee revenues are recognized when the services are performed and are recorded as a component of Service and membership fees on the Condensed Consolidated Statements of Income. Property management revenues, which are comprised of management fee revenue and reimbursable revenue, were \$178 million and \$172 million during the three months ended September 30, 2019 and 2018, respectively, and \$519 million and \$497 million during the nine months ended September 30, 2019 and 2018.

Exchange & Rentals

As a provider of vacation exchange services, the Company enters into affiliation agreements with developers of vacation ownership properties to allow owners of VOIs to trade their intervals for intervals at other properties affiliated with the Company's vacation exchange brands and, for some members, for other leisure-related services and products. Additionally, as a marketer of vacation rental properties, generally the Company enters into contracts for exclusive periods of time with property owners to market the rental of such properties to rental customers.

The Company's vacation exchange brands derive a majority of revenues from membership dues and fees for facilitating members' trading of their intervals. Revenues from membership dues represent the fees paid by members or affiliated clubs on their behalf. The Company recognizes revenues from membership dues paid by the member on a straight-line basis over the membership period as the performance obligations are fulfilled through delivery of publications, if applicable, and by providing access to other travel-related products and services. Estimated net contract consideration payable by affiliated clubs for memberships is recognized as revenue over the term of the contract with the affiliated club in proportion to the estimated average monthly member count. Such estimates are adjusted periodically for changes in the actual and forecasted member activity. For additional fees, members have the right to exchange their intervals for intervals at other properties affiliated with the Company's vacation exchange networks and, for certain members, for other leisure-related services and products. The Company also derives revenue from facilitating bookings of travel accommodations for both members and non-members. Revenue is recognized when these transactions have been confirmed, net of expected cancellations.

The Company's vacation exchange brands also derive revenues from: (i) additional services, programs with affiliated resorts, club servicing and loyalty programs and (ii) additional exchange-related products that provide members with the ability to protect trading power or points, extend the life of deposits, and combine two or more deposits for the opportunity to exchange into intervals with higher trading power. Other vacation exchange related product fees are deferred and recognized as revenue upon the occurrence of a future exchange, other related transaction or event.

The Company earns revenue from its RCI Elite Rewards co-branded credit card program which is primarily generated by cardholder spending and the enrollment of new cardholders. The advance payments received under the program are recognized as a contract liability until the Company's performance obligations have been satisfied. The primary performance obligation for the program relates to brand performance services. Total contract consideration is estimated and recognized on a straight-line basis over the contract term.

The Company's vacation rental brands derive revenue from fees associated with the rental of vacation rental properties managed and marketed by the Company on behalf of independent owners. The Company remits the rental fee received from the renter to the independent owner, net of the Company's agreed-upon fee. The related revenue from such fees, net

of expected refunds, is recognized over the renter's stay. The Company's vacation rental brands also derive revenues from additional services delivered to independent owners, vacation rental guests, and property owners' associations that are generally recognized when the service is delivered.

Other Items

The Company records property management services revenues and RCI Elite Rewards revenues for its Vacation Ownership and Exchange & Rentals segments in accordance with the guidance for reporting revenues gross as a principal versus net as an agent, which requires that these revenues be recorded on a gross basis.

Contract Liabilities

Contract liabilities generally represent payments or consideration received in advance for goods or services that the Company has not yet transferred to the customer. Contract liabilities as of September 30, 2019 and December 31, 2018 are as follows:

Contract Liabilities ^(a)	September 30,	
	2019	December 31, 2018
Deferred subscription revenue	\$ 212	\$ 220
Deferred VOI trial package revenue	140	125
Deferred VOI incentive revenue	108	96
Deferred exchange-related revenue ^(b)	56	56
Deferred co-branded credit card programs revenue	20	14
Deferred other revenue	9	8
Total	\$ 545	\$ 519

^(a) There is \$36 million and \$42 million of deferred vacation rental revenue included in Liabilities of held-for-sale business on the Condensed Consolidated Balance Sheets for 2019 and 2018, respectively.

^(b) Balance includes contractual liabilities to accommodate members for cancellations initiated by the Company due to unexpected events. These amounts are included within Accrued expenses and other liabilities on the Condensed Consolidated Balance Sheet.

In the Company's vacation ownership business, deferred VOI trial package revenue represents consideration received in advance for a trial VOI, which allows customers to utilize a vacation package typically within one year of purchase. Deferred VOI incentive revenue represents payments received in advance for additional travel-related services and products at the time of a VOI sale. Revenue is recognized when a customer utilizes the additional services and products, which is typically within one year of the VOI sale.

Within the Company's vacation exchange business, deferred subscription revenue represents billings and payments received in advance from members and affiliated clubs for memberships in the Company's vacation exchange programs which are recognized in future periods. Deferred exchange-related revenue primarily represents payments received in advance from members for the right to exchange their intervals for intervals at other properties affiliated with the Company's vacation exchange networks and for other leisure-related services and products which are generally recognized as revenue within one year. In the Company's vacation rentals business, deferred vacation rental revenue represents billings and payments received in advance of a customer's rental stay which are generally recognized as revenue within one year.

Changes in contract liabilities for the nine months ended September 30, 2019 follow:

	Amount
Contract liabilities as of December 31, 2018	\$ 519
Additions	305
Revenue recognized	(279)
Contract liabilities as of September 30, 2019	\$ 545

Capitalized Contract Costs

The Company's vacation ownership business incurs certain direct and incremental selling costs in connection with VOI trial package and incentive revenues. Such costs are capitalized and subsequently amortized over the utilization period, which is typically within one year of the sale. These capitalized costs were \$52 million as of September 30, 2019 and \$45 million as of December 31, 2018, and are included within Other assets on the Condensed Consolidated Balance Sheets.

The Company’s vacation exchange and vacation rentals businesses incur certain direct and incremental selling costs to obtain contracts with customers in connection with subscription revenues, exchange-related revenues, and vacation rental revenues. Such costs, which are primarily comprised of commissions paid to internal and external parties and credit card processing fees, are deferred at the inception of the contract and recognized when the benefit is transferred to the customer. As of September 30, 2019 and December 31, 2018, these capitalized costs were \$20 million, and \$22 million, respectively. In addition, there were \$2 million of these capitalized costs included within Assets of held-for-sale business on the Condensed Consolidated Balance Sheets as of September 30, 2019.

Practical Expedients

The Company has not adjusted the consideration for the effects of a significant financing component if it expected, at contract inception, that the period between when the Company satisfied the performance obligation and when the customer paid for that good or service was one year or less.

For contracts with customers that were modified prior to 2015, the Company did not retrospectively restate the revenue associated with the contract for those modifications. Instead, it reflected the aggregate effect of all prior modifications in determining (i) the performance obligations and transaction prices and (ii) the allocation of such transaction prices to the performance obligations.

Performance Obligations

A performance obligation is a promise in a contract with a customer to transfer a distinct good or service to the customer. The consideration received from a customer is allocated to each distinct performance obligation and recognized as revenue when, or as, each performance obligation is satisfied. The following table summarizes the Company’s remaining performance obligations for the twelve month periods set forth below:

	10/1/2019 - 9/30/2020	10/1/2020 - 9/30/2021	10/1/2021 - 9/30/2022	Thereafter	Total
Subscription revenue	\$ 122	\$ 49	\$ 22	\$ 19	\$ 212
VOI trial package revenue	140	—	—	—	140
VOI incentive revenue	108	—	—	—	108
Exchange-related revenue	50	4	1	1	56
Co-branded credit card programs revenue	4	3	3	10	20
Other revenue	9	—	—	—	9
Total	\$ 433	\$ 56	\$ 26	\$ 30	\$ 545

Disaggregation of Net Revenues

The table below presents a disaggregation of the Company's net revenues from contracts with customers by major services and products for each of the Company's segments:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Vacation Ownership				
Vacation ownership interest sales	\$ 528	\$ 503	\$ 1,384	\$ 1,323
Property management fees and reimbursable revenues	178	172	519	497
Consumer financing	132	126	385	363
Fee-for-Service commissions	—	4	12	23
Ancillary revenues	20	15	51	45
Total Vacation Ownership	858	820	2,351	2,251
Exchange & Rentals				
Exchange revenues	158	158	498	512
Vacation rental revenues	60	61	146	146
Ancillary revenues	32	24	72	69
Total Exchange & Rentals	250	243	716	727
Corporate and other				
Ancillary revenues	(1)	—	1	—
Eliminations	(2)	(1)	(6)	(2)
Total Corporate and other	(3)	(1)	(5)	(2)
Net revenues	\$ 1,105	\$ 1,062	\$ 3,062	\$ 2,976

4. Earnings Per Share

The computation of basic and diluted earnings per share (“EPS”) is based on net income attributable to Wyndham Destinations shareholders divided by the basic weighted average number of common shares and diluted weighted average number of common shares, respectively. The following table sets forth the computation of basic and diluted EPS (in millions, except per share data):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2019	2018	2019	2018
Net income from continuing operations attributable to Wyndham Destinations shareholders	\$ 135	\$ 131	\$ 334	\$ 160
Loss from operations of discontinued businesses attributable to Wyndham Destinations shareholders, net of tax	—	(3)	—	(52)
Gain on disposal of discontinued businesses attributable to Wyndham Destinations shareholders, net of tax	—	20	5	452
Net income attributable to Wyndham Destinations shareholders	<u>\$ 135</u>	<u>\$ 148</u>	<u>\$ 339</u>	<u>\$ 560</u>
<i>Basic earnings per share</i>				
Continuing operations	\$ 1.48	\$ 1.32	\$ 3.59	\$ 1.61
Discontinued operations	—	0.17	0.05	4.01
	<u>\$ 1.48</u>	<u>\$ 1.49</u>	<u>\$ 3.64</u>	<u>\$ 5.62</u>
<i>Diluted earnings per share</i>				
Continuing operations	\$ 1.47	\$ 1.31	\$ 3.58	\$ 1.60
Discontinued operations	—	0.18	0.06	4.00
	<u>\$ 1.47</u>	<u>\$ 1.49</u>	<u>\$ 3.64</u>	<u>\$ 5.60</u>
Basic weighted average shares outstanding	91.7	99.1	93.0	99.7
Stock-settled appreciation rights (“SSARs”), RSUs ^(a) and PSUs ^(b)	0.3	0.4	0.3	0.4
Diluted weighted average shares outstanding ^{(c)(d)}	<u>92.0</u>	<u>99.5</u>	<u>93.3</u>	<u>100.1</u>
<i>Dividends:</i>				
Aggregate dividends paid to shareholders	\$ 41	\$ 40	\$ 125	\$ 154

(a) Excludes 0.3 million and 0.8 million restricted stock units (“RSUs”) that would have been anti-dilutive to EPS for the three and nine months ended September 30, 2019, but could potentially dilute earnings per share in the future. Excludes 0.6 million and 0.2 million of anti-dilutive RSUs for the three and nine months ended September 30, 2018. Includes unvested dilutive RSUs which are subject to future forfeiture.

(b) Excludes 0.2 million performance-vested restricted stock units (“PSUs”) for both the three and nine months ended September 30, 2019, as the Company has not met the required performance metrics. These PSUs could potentially dilute earnings per share in the future. As a result of the Spin-off of Wyndham Hotels during the second quarter of 2018, the Company accelerated the vesting of outstanding PSUs. There were no outstanding PSUs as of September 30, 2018.

(c) Excludes 1.1 million and 1 million outstanding stock awards that would have been anti-dilutive to EPS for the three and nine months ended September 30, 2019, and 0.8 million and 0.4 million of anti-dilutive outstanding stock options for the three and nine months ended September 30, 2018. These outstanding stock awards could potentially dilute earnings per share in the future.

(d) The dilutive impact of the Company’s potential common stock is computed utilizing the treasury stock method using average market prices during the period.

Stock Repurchase Program

The following table summarizes stock repurchase activity under the current stock repurchase program:

	Shares Repurchased	Cost
As of December 31, 2018	100.6	\$ 5,262
Repurchases	5.0	215
As of September 30, 2019	<u>105.6</u>	<u>\$ 5,477</u>

The Company had \$601 million of remaining availability under its program as of September 30, 2019.

5. Acquisitions

Alliance Reservations Network. On August 7, 2019, the Company acquired all of the equity of ARN, a company that provides private-label travel booking technology solutions. This acquisition was made to accelerate growth at RCI by increasing the offerings available to its members and affiliates. ARN was acquired for a total purchase price of \$102 million (\$97 million net of cash acquired), subject to customary post-closing adjustments based on final valuation information and additional analysis. The fair value of purchase consideration was comprised of (i) \$48 million delivered at closing, (ii) Wyndham Destinations stock valued at \$10 million (253,350 shares at \$39.29 per share) delivered at closing, (iii) \$21 million to be paid over 24 months post-closing, (iv) \$10 million of contingent consideration based on achieving certain financial and operational metrics, and (v) additional shares of Wyndham Destinations stock valued at \$13 million to be paid on August 7, 2020.

The Company has recognized the assets and liabilities of ARN based on estimates of their acquisition date fair values. The determination of the fair values of the acquired assets and assumed liabilities, including goodwill and other intangible assets, requires significant judgment. The preliminary purchase price allocation includes: (i) \$52 million of Goodwill; (ii) \$28 million of definite-lived intangible assets with a weighted average life of 11 years, primarily consisting of customer relationships; (iii) \$21 million of developed software with a weighted average life of 10 years included within Property, plant, and equipment; and (iv) \$4 million of Accounts payable. All of the goodwill and other intangible assets are expected to be deductible for income tax purposes. ARN is reported within the Exchange & Rentals segment.

Other. During the third quarter of 2019, the Company completed a business acquisition at its Vacation Ownership segment for a total purchase price of \$13 million, (\$10 million net of cash acquired). The acquisition resulted in the recognition of (i) \$7 million of definite-lived intangible assets, (ii) \$4 million of Inventory, and (iii) \$1 million of Accrued expenses and other liabilities.

6. Discontinued Operations

During 2018, the Company completed the Spin-off of its hotel business and the sale of its European vacation rentals business. As a result, the Company has classified the results of operations for these businesses as discontinued operations in its prior period Condensed Consolidated Financial Statements and related notes. Discontinued operations include direct expenses clearly identifiable to the businesses being discontinued. The Company does not expect to incur significant ongoing expenses classified as discontinued operations except for certain tax adjustments that may be required as final tax returns are completed. Discontinued operations exclude the allocation of corporate overhead and interest.

Prior to its classification as a discontinued operation, the hotel business comprised the Hotel Group segment and the European vacation rentals business was part of the former Destination Network segment, now known as Exchange & Rentals.

The following table presents information regarding certain components of income from discontinued operations, net of income taxes:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2019	2018	2019	2018
Net revenues	\$ —	\$ —	\$ —	\$ 720
Expenses:				
Operating	—	3	—	343
Marketing	—	—	—	200
General and administrative	—	—	—	89
Separation and related costs	—	—	—	93
Depreciation and amortization	—	—	—	52
Total expenses	—	3	—	777
(Benefit) for income taxes	—	—	—	(5)
Loss from operations of discontinued businesses, net of income taxes	—	(3)	—	(52)
Gain on disposal of discontinued businesses, net of income taxes	—	20	5	452
Income from discontinued operations, net of income taxes	\$ —	\$ 17	\$ 5	\$ 400

The following table presents information regarding certain components of cash flows from discontinued operations:

	Nine Months Ended September 30,	
	2019	2018
Cash flows (used in)/provided by operating activities	\$ (1)	\$ 150
Cash flows used in investing activities	(22)	(672)
Cash flows provided by financing activities	—	2,066
Non-cash items:		
Forgiveness of intercompany debt from Wyndham Hotels	—	197
Depreciation and amortization	—	52
Stock-based compensation	—	22
Deferred income taxes	—	(23)
Property and equipment additions	—	(38)
Net assets of business acquired, net of cash acquired	—	(1,696)
Proceeds from sale of businesses and asset sales	—	1,052

7. Held-for-Sale Business

During the fourth quarter of 2018, the Company decided to explore strategic alternatives for its North American vacation rentals business and on July 30, 2019 entered into an agreement to sell this business to Vacasa LLC (“Vacasa”) for \$162 million. On October 22, 2019, the Company closed on the sale of this business. See Note 26—*Subsequent Events* for additional details.

The assets and liabilities of this business have been classified as held-for-sale as of September 30, 2019 and December 31, 2018. The business does not meet the criteria to be classified as a discontinued operation; therefore, the results are reflected within continuing operations on the Condensed Consolidated Statements of Income. This business is reported within the Exchange & Rentals segment.

Total assets of this business at September 30, 2019 were \$214 million including \$29 million Restricted cash, \$74 million Trade receivables, net, \$36 million Property & equipment, net, \$43 million Goodwill and Other intangibles, net, and \$28 million Other assets. Total liabilities of this business at September 30, 2019 were \$163 million including \$74 million Accounts payable, \$46 million Accrued expenses and other liabilities, and \$36 million Deferred income.

Total assets of this business at December 31, 2018 were \$203 million including \$31 million Restricted cash, \$82 million Trade receivables, net, \$35 million Property & equipment, net, \$42 million Goodwill and Other intangibles, net, and \$8 million Other Assets. Total liabilities of this business at December 31, 2018 were \$165 million including \$87 million Accounts payable, \$27 million Accrued expenses and other liabilities, and \$42 million Deferred income.

8. Vacation Ownership Contract Receivables

The Company generates vacation ownership contract receivables by extending financing to the purchasers of its VOIs. Vacation ownership contract receivables, net consisted of:

	September 30, 2019	December 31, 2018
<i>Vacation ownership contract receivables:</i>		
Securitized	\$ 2,988	\$ 2,883
Non-securitized	897	888
Vacation ownership contract receivables, gross	3,885	3,771
Less: Allowance for loan losses	767	734
Vacation ownership contract receivables, net	\$ 3,118	\$ 3,037

The Company’s securitized vacation ownership contract receivables generated interest income of \$103 million and \$303 million during the three and nine months ended September 30, 2019, respectively, and \$93 million and \$268 million during

the three and nine months ended September 30, 2018, respectively. Such interest income is included within Consumer financing revenue on the Condensed Consolidated Statements of Income.

During the nine months ended September 30, 2019 and 2018, the Company originated vacation ownership contract receivables of \$1.16 billion and \$1.13 billion, respectively, and received principal collections of \$696 million and \$674 million, respectively. The weighted average interest rate on outstanding vacation ownership contract receivables was 14.3% and 14.1% as of September 30, 2019 and December 31, 2018, respectively.

The activity in the allowance for loan losses on vacation ownership contract receivables was as follows:

	Amount
Allowance for loan losses as of December 31, 2018	\$ 734
Provision for loan losses	373
Contract receivables write-offs, net	(340)
Allowance for loan losses as of September 30, 2019	<u>\$ 767</u>
	Amount
Allowance for loan losses as of December 31, 2017	\$ 691
Provision for loan losses	350
Contract receivables write-offs, net	(298)
Allowance for loan losses as of September 30, 2018	<u>\$ 743</u>

The Company recorded a provision for loan losses of \$135 million and \$373 million as a reduction of net revenues during the three and nine months ended September 30, 2019 and \$132 million and \$350 million for the three and nine months ended September 30, 2018, respectively.

Credit Quality for Financed Receivables and the Allowance for Credit Losses

The basis of the differentiation within the identified class of financed VOI contract receivables is the consumer's Fair Isaac Corporation ("FICO") score. A FICO score is a branded version of a consumer credit score widely used in the United States by the largest banks and lending institutions. FICO scores range from 300 to 850 and are calculated based on information obtained from one or more of the three major U.S. credit reporting agencies that compile and report on a consumer's credit history. The Company updates its records for all active VOI contract receivables with a balance due on a rolling monthly basis to ensure that all VOI contract receivables are scored at least every six months. The Company groups all VOI contract receivables into five different categories: FICO scores ranging from 700 to 850, from 600 to 699, below 600, no score (primarily comprised of consumers for whom a score is not readily available, including consumers declining access to FICO scores and non-U.S. residents) and Asia Pacific (comprised of receivables in the Company's Wyndham Vacation Club Asia Pacific business for which scores are not readily available).

The following table details an aging analysis of financing receivables using the most recently updated FICO scores (based on the policy described above):

As of September 30, 2019						
	700+	600-699	<600	No Score	Asia Pacific	Total
Current	\$ 2,049	\$ 1,085	\$ 188	\$ 138	\$ 241	\$ 3,701
31 - 60 days	23	35	20	4	2	84
61 - 90 days	13	21	16	3	1	54
91 - 120 days	11	16	16	3	—	46
Total	\$ 2,096	\$ 1,157	\$ 240	\$ 148	\$ 244	\$ 3,885

As of December 31, 2018						
	700+	600-699	<600	No Score	Asia Pacific	Total
Current	\$ 1,996	\$ 1,041	\$ 166	\$ 135	\$ 246	\$ 3,584
31 - 60 days	22	35	18	6	2	83
61 - 90 days	15	22	13	3	1	54
91 - 120 days	12	17	16	4	1	50
Total	\$ 2,045	\$ 1,115	\$ 213	\$ 148	\$ 250	\$ 3,771

The Company ceases to accrue interest on VOI contract receivables once the contract has remained delinquent for greater than 90 days. At greater than 120 days, the VOI contract receivable is written off to the allowance for loan losses. In accordance with its policy, the Company assesses the allowance for loan losses using a static pool methodology and thus does not assess individual loans for impairment separate from the pool.

9. Inventory

Inventory consisted of:

	September 30, 2019	December 31, 2018
Land held for VOI development	\$ 3	\$ 4
VOI construction in process	33	45
Inventory sold subject to repurchase	29	33
Completed VOI inventory	791	797
Estimated VOI recoveries	289	286
Exchange & Rentals vacation credits and other	64	59
Total inventory	\$ 1,209	\$ 1,224

During the nine months ended September 30, 2019, the Company had net transfers of less than \$1 million of VOI inventory from property and equipment and \$59 million net transfers of VOI inventory to property and equipment during the same period in 2018.

Inventory Sale Transactions

During 2013, the Company sold real property located in Las Vegas, Nevada and Avon, Colorado to a third-party developer, consisting of vacation ownership inventory and property and equipment.

The Company recognized no gain or loss on these sales transactions. In accordance with these agreements with third-party developers, the Company has conditional rights and conditional obligations to repurchase the completed properties from the developers subject to the properties conforming to the Company's vacation ownership resort standards and provided that the third-party developers have not sold the properties to another party. The Company's conditional rights and obligations constitute continuing involvement therefore prohibiting the Company from accounting for these transactions as sales.

During 2017, the Company acquired property located in Austin, Texas from a third-party developer for vacation ownership inventory and property and equipment.

Inventory Obligations

The following table summarizes the activity related to the Company's inventory obligations:

	Avon ^(a)	Las Vegas ^(a)	Austin ^(a)	Other ^(b)	Total
December 31, 2017	\$ 22	\$ 60	\$ 62	\$ 6	\$ 150
Purchases	—	12	—	113	125
Payments	(11)	(33)	(31)	(110)	(185)
September 30, 2018	\$ 11	\$ 39	\$ 31	\$ 9	\$ 90
December 31, 2018	\$ 11	\$ 52	\$ 31	\$ 6	\$ 100
Purchases	—	13	1	93	107
Payments	(11)	(36)	(32)	(86)	(165)
September 30, 2019	\$ —	\$ 29	\$ —	\$ 13	\$ 42

(a) Included in Accrued expenses and other liabilities on the Condensed Consolidated Balance Sheets.

(b) Included in Accounts payable on the Condensed Consolidated Balance Sheets.

The Company has committed to repurchase the completed property located in Las Vegas, Nevada from a third-party developer subject to the property meeting the Company's vacation ownership resort standards and provided that the third-party developer has not sold the property to another party. The maximum potential future payments that the Company may be required to make under these commitments was \$124 million as of September 30, 2019.

10. Property and Equipment

Property and equipment, net, consisted of:

	September 30, 2019	December 31, 2018
Land	\$ 31	\$ 30
Building and leasehold improvements	615	588
Furniture, fixtures and equipment	240	250
Capitalized software	667	604
Finance leases	13	12
Construction in progress	46	81
Total property and equipment	1,612	1,565
Less: Accumulated depreciation and amortization	889	853
Property and equipment, net	\$ 723	\$ 712

11. Debt

The Company's indebtedness consisted of:

	September 30, 2019	December 31, 2018
<i>Non-recourse vacation ownership debt.</i> ^(a)		
Term notes ^(b)	\$ 1,938	\$ 1,839
\$800 million bank conduit facility (due August 2021) ^(c)	556	518
Total	\$ 2,494	\$ 2,357
<i>Debt:</i> ^(d)		
\$1.0 billion secured revolving credit facility (due May 2023) ^(e)	\$ 357	\$ 181
\$300 million secured term loan B (due May 2025)	294	296
\$40 million 7.375% secured notes (due March 2020)	40	40
\$250 million 5.625% secured notes (due March 2021)	249	249
\$650 million 4.25% secured notes (due March 2022) ^(f)	649	649
\$400 million 3.90% secured notes (due March 2023) ^(g)	404	405
\$300 million 5.40% secured notes (due April 2024)	298	297
\$350 million 6.35% secured notes (due October 2025) ^(h)	342	341
\$400 million 5.75% secured notes (due April 2027) ⁽ⁱ⁾	410	388
Finance leases	4	3
Other	—	32
Total	\$ 3,047	\$ 2,881

^(a) Represents non-recourse debt that is securitized through bankruptcy-remote special purpose entities, the creditors of which have no recourse to the Company for principal and interest. These outstanding borrowings (which legally are not liabilities of the Company) are collateralized by \$3.13 billion and \$3.03 billion of underlying gross vacation ownership contract receivables and related assets (which legally are not assets of the Company) as of September 30, 2019 and December 31, 2018, respectively.

^(b) The carrying amounts of the term notes are net of debt issuance costs aggregating \$23 million and \$21 million as of September 30, 2019 and December 31, 2018, respectively.

^(c) The Company has borrowing capability under the Sierra Receivable Funding Conduit II 2008-A facility through August 2021. Borrowings under this facility are required to be repaid as the collateralized receivables amortize but no later than September 2022.

^(d) The carrying amounts of the secured notes and term loan are net of unamortized discounts of \$9 million and \$11 million as of September 30, 2019 and December 31, 2018, respectively, and net of unamortized debt financing costs of \$5 million and \$6 million as of September 30, 2019 and December 31, 2018, respectively.

^(e) For the nine months ended September 30, 2019, the weighted average effective interest rate on borrowings from this facility was 5.44%.

^(f) Includes \$1 million of unamortized gains from the settlement of a derivative as of September 30, 2019 and December 31, 2018.

^(g) Includes \$5 million and \$6 million of unamortized gains from the settlement of a derivative as of September 30, 2019 and December 31, 2018.

^(h) Includes \$6 million and \$7 million of unamortized losses from the settlement of a derivative as of September 30, 2019 and December 31, 2018.

⁽ⁱ⁾ Includes \$13 million of unamortized gains from the settlement of a derivative as of September 30, 2019, and \$8 million decrease in the carrying value resulting from a fair value hedge derivative as of December 31, 2018.

Sierra Timeshare 2019-1 Receivables Funding LLC

On March 20, 2019, the Company closed on a private placement of a series of term notes payable, issued by Sierra Timeshare 2019-1 Receivables Fundings LLC, with an initial principal amount of \$400 million, which are secured by vacation ownership contract receivables and bear interest at a weighted average coupon rate of 8.57%. The advance rate for this transaction was 98.00%.

Sierra Timeshare 2019-2 Receivables Funding LLC

On July 24, 2019, the Company closed on a placement of a series of term notes payable, issued by Sierra Timeshare 2019-2 Receivables Fundings LLC, with an initial principal amount of \$450 million, which are secured by vacation ownership contract receivables and bear interest at a weighted average coupon rate of 8.96%. The advance rate for this transaction was 98.00%.

Sierra Timeshare Conduit Renewal

On April 24, 2019, the Company renewed its \$800 million non-recourse vacation ownership conduit facility, extending the end of the commitment period from April 6, 2020 to August 30, 2021.

Fair Value Hedges

During the first quarter of 2017, the Company entered into pay-variable/receive-fixed interest rate swap agreements on its 5.75% secured notes with notional amounts of \$400 million. The fixed interest rates on these notes were effectively modified to a variable London Interbank Offered Rate (“LIBOR”) based index. During 2019, the Company terminated these swap agreements resulting in a gain of \$13 million which will be amortized over the remaining life of the secured notes as a reduction to Interest expense on the Condensed Consolidated Statements of Income. The Company had \$13 million of deferred gains associated with this transaction as of September 30, 2019, which are included within Debt on the Condensed Consolidated Balance Sheets.

Maturities and Capacity

The Company’s outstanding debt as of September 30, 2019 matures as follows:

	Non-recourse Vacation Ownership Debt	Debt	Total
Within 1 year	\$ 203	\$ 41	\$ 244
Between 1 and 2 years	241	251	492
Between 2 and 3 years	687	650	1,337
Between 3 and 4 years	221	761	982
Between 4 and 5 years	235	298	533
Thereafter	907	1,046	1,953
	\$ 2,494	\$ 3,047	\$ 5,541

Required principal payments on the non-recourse vacation ownership debt are based on the contractual repayment terms of the underlying vacation ownership contract receivables. Actual maturities may differ as a result of prepayments by the vacation ownership contract receivable obligors.

As of September 30, 2019, available capacity under the Company’s borrowing arrangements was as follows:

	Non-recourse Conduit Facilities (a)	Revolving Credit Facilities (b)
Total capacity	\$ 800	\$ 1,000
Less: Outstanding borrowings	556	357
Less: Letters of credit	—	20
Available capacity	\$ 244	\$ 623

(a) Consists of the Company’s Sierra Receivable Funding Conduit II 2008-A facility. The capacity of this facility is subject to the Company’s ability to provide additional assets to collateralize additional non-recourse borrowings.

(b) Consists of the Company’s \$1.0 billion revolving credit facility.

Debt Covenants

The revolving credit facilities and term loan B are subject to covenants including the maintenance of specific financial ratios as defined in the credit agreement. The financial ratio covenants consist of a minimum interest coverage ratio of at least 2.5 to 1.0 as of the measurement date and a maximum first lien leverage ratio not to exceed 4.25 to 1.0 as of the measurement date. The interest coverage ratio is calculated by dividing consolidated EBITDA (as defined in the credit agreement) by consolidated interest expense (as defined in the credit agreement), both as measured on a trailing 12-month basis preceding the measurement date. As of September 30, 2019, our interest coverage ratio was 7.5 to 1.0. The first lien leverage ratio is calculated by dividing consolidated first lien debt (as defined in the credit agreement) as of the measurement date by consolidated EBITDA (as defined in the credit agreement) as measured on a trailing 12-month basis preceding the measurement date. As of September 30, 2019, our first lien leverage ratio was 2.9 to 1.0. These ratios do not include interest expense or indebtedness related to any qualified securitization financing (as defined in the credit agreement). As of September 30, 2019, we were in compliance with all of the financial covenants described above.

Each of our non-recourse, securitized term notes, and the bank conduit facilities contain various triggers relating to the performance of the applicable loan pools. If the vacation ownership contract receivables pool that collateralizes one of our securitization notes fails to perform within the parameters established by the contractual triggers (such as higher default or delinquency rates), there are provisions pursuant to which the cash flows for that pool will be maintained in the securitization as extra collateral for the note holders or applied to accelerate the repayment of outstanding principal to the note holders. As of September 30, 2019, all of our securitized loan pools were in compliance with applicable contractual triggers.

Interest Expense

During the three and nine months ended September 30, 2019, the Company incurred interest expense of \$40 million and \$122 million, respectively, on debt excluding non-recourse vacation ownership debt, including an offset of \$1 million and \$2 million of capitalized interest. Such amounts are included within Interest expense on the Condensed Consolidated Statements of Income. Cash paid related to such interest was \$119 million during the nine months ended September 30, 2019.

During the three and nine months ended September 30, 2018, the Company incurred interest expense of \$37 million and \$129 million, respectively, on debt excluding non-recourse vacation ownership debt, including an offset of less than \$1 million and \$1 million of capitalized interest. Such amounts are included within Interest expense on the Condensed Consolidated Statements of Income. Cash paid related to such interest was \$128 million during the nine months ended September 30, 2018.

Interest expense incurred in connection with the Company's non-recourse vacation ownership debt during the three and nine months ended September 30, 2019 was \$26 million and \$78 million, respectively, and \$23 million and \$62 million during the three and nine months ended September 30, 2018, respectively, and is recorded within Consumer financing interest on the Condensed Consolidated Statements of Income. Cash paid related to such interest was \$61 million and \$41 million for the nine months ended September 30, 2019 and 2018.

Transition from LIBOR

The Company is currently evaluating the impact of the transition from LIBOR as an interest rate benchmark to other potential alternative reference rates, including but not limited to the Secured Overnight Financing Rate ("SOFR"). Currently the Company has debt and derivative instruments in place that reference LIBOR-based rates. The transition from LIBOR is estimated to take place in 2021 and management will continue to actively assess the related opportunities and risks involved in this transition.

12. Variable Interest Entities

In accordance with the applicable accounting guidance for the consolidation of a variable interest entity ("VIE"), the Company analyzes its variable interests, including loans, guarantees, special purpose entities ("SPEs") and equity investments, to determine if an entity in which the Company has a variable interest is a VIE. If the entity is considered to be a VIE, the Company determines whether it would be considered the entity's primary beneficiary. The Company consolidates into its financial statements those VIEs for which it has determined that it is the primary beneficiary.

Vacation Ownership Contract Receivables Securitizations

The Company pools qualifying vacation ownership contract receivables and sells them to bankruptcy-remote entities. Vacation ownership contract receivables qualify for securitization based primarily on the credit strength of the VOI purchaser to whom financing has been extended. Vacation ownership contract receivables are securitized through bankruptcy-remote SPEs that are consolidated within the Company's financial statements. As a result, the Company does not recognize gains or losses resulting from these securitizations at the time of sale to the SPEs. Interest income is recognized when earned over the contractual life of the vacation ownership contract receivables. The Company services the securitized vacation ownership contract receivables pursuant to servicing agreements negotiated on an arm's-length basis based on market conditions. The activities of these SPEs are limited to (i) purchasing vacation ownership contract receivables from the Company's vacation ownership subsidiaries, (ii) issuing debt securities and/or borrowing under a conduit facility to fund such purchases and (iii) entering into derivatives to hedge interest rate exposure. The bankruptcy-remote SPEs are legally separate from the Company. The receivables held by the bankruptcy-remote SPEs are not available to creditors of the Company and legally are not assets of the Company. Additionally, the non-recourse debt that is securitized through the SPEs is legally not a liability of the Company and thus, the creditors have no recourse to the Company for principal and interest.

The assets and liabilities of these vacation ownership SPEs are as follows:

	September 30, 2019	December 31, 2018
Securitized contract receivables, gross ^(a)	\$ 2,988	\$ 2,883
Securitized restricted cash ^(b)	114	120
Interest receivables on securitized contract receivables ^(c)	25	23
Other assets ^(d)	3	3
Total SPE assets	3,130	3,029
Non-recourse term notes ^{(e) (f)}	1,938	1,839
Non-recourse conduit facilities ^(e)	556	518
Other liabilities ^(g)	7	3
Total SPE liabilities	2,501	2,360
SPE assets in excess of SPE liabilities	\$ 629	\$ 669

^(a) Included in Vacation ownership contract receivables, net on the Condensed Consolidated Balance Sheets.

^(b) Included in Restricted cash on the Condensed Consolidated Balance Sheets.

^(c) Included in Trade receivables, net on the Condensed Consolidated Balance Sheets.

^(d) Primarily includes deferred financing costs for the bank conduit facility and a security investment asset, which is included in Other assets on the Condensed Consolidated Balance Sheets.

^(e) Included in Non-recourse vacation ownership debt on the Condensed Consolidated Balance Sheets.

^(f) Includes deferred financing costs of \$23 million and \$21 million as of September 30, 2019 and December 31, 2018, respectively, related to non-recourse debt.

^(g) Primarily includes accrued interest on non-recourse debt, which is included in Accrued expenses and other liabilities on the Condensed Consolidated Balance Sheets.

In addition, the Company has vacation ownership contract receivables that have not been securitized through bankruptcy-remote SPEs. Such gross receivables were \$897 million and \$888 million as of September 30, 2019 and December 31, 2018, respectively.

A summary of total vacation ownership contract receivables and other securitized assets, net of non-recourse liabilities and the allowance for loan losses, is as follows:

	September 30, 2019	December 31, 2018
SPE assets in excess of SPE liabilities	\$ 629	\$ 669
Non-securitized contract receivables	897	888
Less: Allowance for loan losses	767	734
Total, net	\$ 759	\$ 823

Saint Thomas, U.S. Virgin Islands Property

During 2015, the Company sold real property located in Saint Thomas, U.S. Virgin Islands to a third-party developer to construct VOI inventory through an SPE. In accordance with the agreements with the third-party developer, the Company has conditional rights and conditional obligations to repurchase the completed property from the developer subject to the property conforming to the Company's vacation ownership resort standards and provided that the third-party developer has not sold the property to another party.

As a result of a disruption to VOI sales caused by the impact of the hurricanes on Saint Thomas, U.S. Virgin Islands in 2017, there was a change in the economics of the transaction due to a reduction in the fair value of the assets of the SPE. As such, the Company is now considered the primary beneficiary for specified assets and liabilities of the SPE, and therefore consolidated this SPE. During the first quarter of 2019, the Company made its final purchase of VOI inventory from the SPE, and the debt was extinguished.

The assets and liabilities of the Saint Thomas Property SPE were as follows:

	December 31, 2018
Property and equipment, net	\$ 23
Total SPE assets	23
Debt ^(a)	32
Total SPE liabilities	32
SPE equity (deficit)	\$ (9)

^(a) Included \$32 million relating to mortgage notes, which are included in Debt on the Condensed Consolidated Balance Sheets as of December 31, 2018.

During the nine months ended September 30, 2019 and 2018, the SPE conveyed \$23 million and \$17 million, respectively, of property and equipment to the Company.

13. Fair Value

The Company measures its financial assets and liabilities at fair value on a recurring basis and utilizes the fair value hierarchy to determine such fair values. Financial assets and liabilities carried at fair value are classified and disclosed in one of the following three categories:

Level 1: Quoted prices for identical instruments in active markets.

Level 2: Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value driver is observable.

Level 3: Unobservable inputs used when little or no market data is available. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement falls has been determined based on the lowest level input (closest to Level 3) that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

The Company's derivative instruments currently consist of interest rate caps and foreign exchange forward contracts.

As of September 30, 2019, the Company had foreign exchange contracts of \$1 million which are included within Accrued expenses and other liabilities on the Condensed Consolidated Balance Sheets. On a recurring basis, such assets and liabilities are remeasured at estimated fair value (all of which are Level 2) and thus are equal to the carrying value.

For assets and liabilities that are measured using quoted prices in active markets, the fair value is the published market price per unit multiplied by the number of units held without consideration of transaction costs. Assets and liabilities that are measured using other significant observable inputs are valued by reference to similar assets and liabilities. For these items, a significant portion of fair value is derived by reference to quoted prices of similar assets and liabilities in active markets. For assets and liabilities that are measured using significant unobservable inputs, fair value is primarily derived using a fair value model, such as a discounted cash flow model.

The fair value of financial instruments is generally determined by reference to market values resulting from trading on a national securities exchange or in an over-the-counter market. In cases where quoted market prices are not available, fair value is based on estimates using present value or other valuation techniques, as appropriate. The carrying amounts of cash and cash equivalents, restricted cash, trade receivables, accounts payable and accrued expenses and other current liabilities approximate fair value due to the short-term maturities of these assets and liabilities.

The carrying amounts and estimated fair values of all other financial instruments are as follows:

	September 30, 2019		December 31, 2018	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets				
Vacation ownership contract receivables, net	\$ 3,118	\$ 3,924	\$ 3,037	\$ 3,662
Liabilities				
Debt	\$ 5,541	\$ 5,663	\$ 5,238	\$ 4,604

The Company estimates the fair value of its vacation ownership contract receivables using a discounted cash flow model which it believes is comparable to the model that an independent third-party would use in the current market. The model uses Level 3 inputs consisting of default rates, prepayment rates, coupon rates and loan terms for the contract receivables portfolio as key drivers of risk and relative value that, when applied in combination with pricing parameters, determines the fair value of the underlying contract receivables.

The Company estimates the fair value of its non-recourse vacation ownership debt by obtaining Level 2 inputs comprised of indicative bids from investment banks that actively issue and facilitate the secondary market for timeshare securities. The Company estimates the fair value of its debt, excluding finance leases, using Level 2 inputs based on indicative bids from investment banks and determines the fair value of its secured notes using quoted market prices (such secured notes are not actively traded).

14. Derivative Instruments and Hedging

Activities

Foreign Currency Risk

The Company has foreign currency rate exposure to exchange rate fluctuations worldwide with particular exposure to the British pound, Euro, the Canadian and Australian dollars and the Mexican peso. The Company uses freestanding foreign currency forward contracts to manage a portion of its exposure to changes in foreign currency exchange rates associated with its foreign currency denominated receivables, payables and forecasted earnings of foreign subsidiaries. Additionally, the Company has used foreign currency forward contracts designated as cash flow hedges to manage a portion of its exposure to changes in forecasted foreign currency denominated vendor payments. The amount of gains or losses relating to contracts designated as cash flow hedges that the Company expects to reclassify from Accumulated other comprehensive loss ("AOCL") to earnings over the next 12 months is not material.

Interest Rate Risk

A portion of the debt used to finance the Company's operations is exposed to interest rate fluctuations. The Company periodically uses financial derivatives to strategically adjust its mix of fixed to floating rate debt. The derivative instruments utilized include interest rate swaps which convert fixed-rate debt into variable-rate debt (i.e. fair value hedges) to manage the overall interest cost. For relationships designated as fair value hedges, changes in fair value of the derivatives are recorded in income, with offsetting adjustments to the carrying amount of the hedged debt. As of September 30, 2019 the company does not have any fair value interest rate hedges.

Losses on derivatives recognized in AOCL for the three and nine months ended September 30, 2019 and 2018 were not material.

15. Income

Taxes

The Company files income tax returns in the U.S. federal and state jurisdictions, as well as in foreign jurisdictions. The Company is no longer subject to U.S. federal income tax examinations for years prior to 2015. In addition, with few exceptions, the Company is no longer subject to state, local or foreign income tax examinations for years prior to 2010.

The Company's effective tax rate decreased from 28.0% during the three months ended September 30, 2018 to 25.4% during the three months ended September 30, 2019 primarily due to lower state income taxes and a tax benefit resulting from a post-separation internal restructuring.

The Company's effective tax rate decreased from 41.2% during the nine months ended September 30, 2018 to 26.4% during the nine months ended September 30, 2019 primarily due to the absence of non-cash tax charges in 2018 related to

the sale of the European vacation rentals business and the separation of the hotel business, as well as, lower state income taxes in 2019.

The Company made cash income tax payments, net of tax refunds, of \$82 million and \$101 million during the nine months ended September 30, 2019 and 2018, respectively. The Company also made cash income tax payments of \$39 million during the nine months ended September 30, 2019 resulting from the sale of the Company's European vacation rentals business. In addition, the Company made cash income tax payments, net of refunds, of \$10 million during the nine months ended September 30, 2018 related to discontinued operations.

16. Leases

The Company adopted the new Leases accounting standard as of January 1, 2019, resulting in the recognition of \$158 million of right-of-use assets and \$200 million of related lease liabilities. Right-of-use assets were decreased by \$42 million of tenant improvement allowances and deferred rent balances reclassified from other liabilities. Both the right-of-use assets and related lease liabilities recognized upon adoption included \$21 million associated with the Company's held-for-sale business. The new standard requires a lessee to recognize right-of-use assets and lease liabilities on the balance sheet for all lease obligations and disclose key information about leasing arrangements, such as the amount, timing, and uncertainty of cash flows arising from leases. We adopted the standard using the modified retrospective approach; therefore, prior year financial statements were not recast. We elected the package of transition provisions available for expired or existing contracts, which allowed us to carryforward our historical assessments of (i) whether contracts are leases or contain leases, (ii) lease classification and (iii) initial direct costs.

We lease property and equipment under finance and operating leases for our corporate headquarters, administrative functions, marketing and sales offices, and various other facilities and equipment. For leases with terms greater than 12 months, we record the related asset and obligation at the present value of lease payments over the term. Many of our leases include rental escalation clauses, lease incentives, renewal options and/or termination options that are factored into our determination of lease payments. The Company elected the hindsight practical expedient to determine the reasonably certain lease term for existing leases. The Company also made an accounting policy election to keep leases with an initial term of 12 months or less off the balance sheet and recognize the associated lease payments on a straight-line basis over the lease term in the statement of income.

When available, we use the rate implicit in the lease to discount lease payments to present value; however, most of our leases do not provide a readily determinable implicit rate. Therefore, we must estimate our incremental borrowing rate to discount the lease payments based on information available at lease commencement. The majority of our leases have remaining lease terms of one year to 20 years, some of which include options to extend the leases for up to 15 years, and some of which include options to terminate the leases within one year.

As of September 30, 2019, the Company had right-of-use assets of \$151 million and related lease liabilities of \$198 million. Right-of-use assets are included within Other assets, and the related lease liabilities are included within Accrued expenses and other liabilities on the Condensed Consolidated Balance Sheets.

The table below presents certain information related to the lease costs for finance and operating leases:

	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
Operating lease cost	\$ 9	\$ 28
Short-term lease cost	\$ 6	\$ 18
Finance lease cost:		
Amortization of right-of-use assets	\$ —	\$ 1
Interest on lease liabilities	—	—
Total finance lease cost	<u>\$ —</u>	<u>\$ 1</u>

The table below presents supplemental cash flow information related to leases:

	Nine Months Ended September 30, 2019	
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$	35
Operating cash flows from finance leases	\$	—
Financing cash flows from finance leases	\$	2
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	\$	17
Finance leases	\$	2

The table below presents the lease-related assets and liabilities recorded on the balance sheet:

	Balance Sheet Classification	September 30, 2019
Operating Leases:		
Operating lease right-of-use assets	Other assets	\$ 151
Operating lease liabilities	Accrued expenses and other liabilities	\$ 198
Finance Leases:		
Finance lease assets ^(a)	Property and equipment, net	\$ 5
Finance lease liabilities	Debt	\$ 4
Weighted Average Remaining Lease Term:		
Operating leases		9.4 years
Finance leases		2.9 years
Weighted Average Discount Rate:		
Operating leases ^(b)		6.5%
Finance leases		4.2%

(a) Presented net of accumulated depreciation.

(b) Upon adoption of the new lease standard, discount rates used for existing leases were established at January 1, 2019.

The table below presents maturities of lease liabilities as of September 30, 2019:

	Operating Leases	Finance Leases
Three months ending December 31, 2019	\$ 9	\$ —
2020	37	2
2021	34	1
2022	30	1
2023	28	—
Thereafter	126	—
Total minimum lease payments	264	4
Less: Amount of lease payments representing interest	(66)	—
Present value of future minimum lease payments	<u>\$ 198</u>	<u>\$ 4</u>

The table below presents future minimum lease payments required under non-cancelable operating leases as reported in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2018, filed with the SEC on February 26, 2019:

	December 31, 2018
2019	\$ 34
2020	30
2021	26
2022	24
2023	22
Thereafter	99
Future minimum lease payments	<u>\$ 235</u>

During 2018, the Company incurred total rental expense of \$61 million for continuing operations and \$9 million for discontinued operations.

Subsequent to the spin-off of Wyndham Hotels and in accordance with the Company's decision to further reduce its corporate footprint, the Company focused on rationalizing existing facilities which included abandoning portions of its administrative offices in New Jersey. As a result, during the nine months ended September 2019, the Company recorded \$12 million of non-cash impairment charges associated with the write-off of right-of-use assets and furniture, fixtures and equipment. These impairment charges are included within Separation and related costs on the Condensed Consolidated Statements of Income.

17. Commitments and Contingencies

The Company is involved in claims, legal and regulatory proceedings, and governmental inquiries related to the Company's business, none of which, in the opinion of management, is expected to have a material effect on our results of operations or financial condition.

Wyndham Destinations Litigation

The Company may be from time to time involved in claims, legal and regulatory proceedings, and governmental inquiries arising in the ordinary course of its business including but not limited to: for its vacation ownership business—breach of contract, bad faith, conflict of interest, fraud, consumer protection and other statutory claims by property owners' associations, owners and prospective owners in connection with the sale or use of VOIs or land, or the management of vacation ownership resorts, construction defect claims relating to vacation ownership units or resorts or in relation to guest reservations and bookings; and negligence, breach of contract, fraud, consumer protection and other statutory claims by guests and other consumers for alleged injuries sustained at or acts or occurrences related to vacation ownership units or resorts or in relation to guest reservations and bookings; for its exchange and rentals business—breach of contract, fraud and bad faith claims by affiliates and customers in connection with their respective agreements, negligence, breach of contract, fraud, consumer protection and other statutory claims asserted by members, guests and other consumers for alleged injuries sustained at or acts or occurrences related to affiliated resorts and vacation rental properties, or in relation to guest reservations and bookings; and for each of its businesses, bankruptcy proceedings involving efforts to collect receivables from a debtor in bankruptcy, employment matters including but not limited to, claims of wrongful termination, retaliation, discrimination, harassment and wage and hour claims, whistleblower claims, claims of infringement upon third parties' intellectual property rights, claims relating to information security, privacy and consumer protection, fiduciary duty/trust claims, tax claims, environmental claims and landlord/tenant disputes.

The Company records an accrual for legal contingencies when it determines, after consultation with outside counsel, that it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. In making such determinations, the Company evaluates, among other things, the degree of probability of an unfavorable outcome and, when it is probable that a liability has been incurred, the Company's ability to make a reasonable estimate of loss. The Company reviews these accruals each reporting period and makes revisions based on changes in facts and circumstances including changes to its strategy in dealing with these matters.

The Company believes that it has adequately accrued for such matters with reserves of \$13 million and \$14 million as of September 30, 2019 and December 31, 2018. Such reserves are exclusive of matters relating to the Company's separation from Cendant, matters relating to the Spin-off of Wyndham Hotels and matters relating to the sale of the European vacations rentals business, which are discussed in Note 24—*Transactions with Former Parent and Former Subsidiaries*.

For matters not requiring accrual, the Company believes that such matters will not have a material effect on its results of operations, financial position or cash flows based on information currently available. However, litigation is inherently unpredictable and, although the Company believes that its accruals are adequate and/or that it has valid defenses in these matters, unfavorable results could occur. As such, an adverse outcome from such proceedings for which claims are awarded in excess of the amounts accrued, if any, could be material to the Company with respect to earnings and/or cash flows in any given reporting period. As of September 30, 2019, the potential exposure resulting from adverse outcomes of such legal proceedings could, in the aggregate, range up to \$46 million in excess of recorded accruals. However, the Company does not believe that the impact of such litigation should result in a material liability to the Company in relation to its consolidated financial position and/or liquidity.

Other Guarantees and Indemnifications

Vacation Ownership

The Company has committed to repurchase completed property located in Las Vegas, Nevada from a third-party developer subject to such property meeting the Company's vacation ownership resort standards and provided that the third-party developer has not sold such property to another party. See Note 9—*Inventory* for additional details.

For information on guarantees and indemnifications related to the Company's former parent and subsidiaries see Note 24—*Transactions with Former Parent and Former Subsidiaries*.

18. Accumulated Other Comprehensive (Loss)/Income

The components of Accumulated Other Comprehensive (Loss)/Income are as follows:

	Foreign Currency Translation Adjustments	Unrealized (Losses) on Cash Flow Hedges	Defined Benefit Pension Plans	Accumulated Other Comprehensive (Loss)/Income
Pretax				
Balance, December 31, 2018	\$ (147)	\$ (2)	\$ 2	\$ (147)
Other comprehensive (loss) before reclassifications	(26)	—	—	(26)
Amount reclassified to earnings	—	1	—	1
Balance, September 30, 2019	\$ (173)	\$ (1)	\$ 2	\$ (172)
Tax				
Balance, December 31, 2018 ^(a)	\$ 94	\$ 2	\$ (1)	\$ 95
Other comprehensive (loss) before reclassifications	1	(1)	—	—
Amount reclassified to earnings	—	—	—	—
Balance, September 30, 2019	\$ 95	\$ 1	\$ (1)	\$ 95
Net of Tax				
Balance, December 31, 2018	\$ (53)	\$ —	\$ 1	\$ (52)
Other comprehensive (loss) before reclassifications	(25)	(1)	—	(26)
Amount reclassified to earnings	—	1	—	1
Balance, September 30, 2019	\$ (78)	\$ —	\$ 1	\$ (77)

^(a) Includes impact of the Company's early adoption of new accounting guidance in the fourth quarter of 2018 which allows for the reclassification of the stranded tax effects resulting from the implementation of the Tax Cuts and Jobs Act of 2017. This adoption resulted in an \$8 million reclassification of tax benefit from AOCL to Retained Earnings.

	Foreign Currency Translation Adjustments	Unrealized (Losses) on Cash Flow Hedges	Defined Benefit Pension Plans	Accumulated Other Comprehensive (Loss)/Income
Pretax				
Balance, December 31, 2017	\$ (96)	\$ (2)	\$ (5)	\$ (103)
Other comprehensive (loss)	(52)	—	—	(52)
Amount reclassified to earnings	24	1	5	30
Balance, September 30, 2018	<u>\$ (124)</u>	<u>\$ (1)</u>	<u>\$ —</u>	<u>\$ (125)</u>
Tax				
Balance, December 31, 2017	\$ 89	\$ 2	\$ 1	\$ 92
Other comprehensive income	4	—	—	4
Amount reclassified to earnings	—	(1)	(1)	(2)
Balance, September 30, 2018	<u>\$ 93</u>	<u>\$ 1</u>	<u>\$ —</u>	<u>\$ 94</u>
Net of Tax				
Balance, December 31, 2017	\$ (7)	\$ —	\$ (4)	\$ (11)
Other comprehensive (loss)	(48)	—	—	(48)
Amount reclassified to earnings	24	—	4	28
Balance, September 30, 2018	<u>\$ (31)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (31)</u>

Currency translation adjustments exclude income taxes related to investments in foreign subsidiaries where the Company intends to reinvest the undistributed earnings indefinitely in those foreign operations.

Reclassifications out of accumulated other comprehensive (loss)/income are presented in the following table. Amounts in parenthesis indicate debits to the Condensed Consolidated Statements of Income:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Foreign currency translation adjustments, net				
Gain on disposal of discontinued businesses, net of income taxes	\$ —	\$ —	\$ —	\$ (24)
Net income attributable to Wyndham Destinations shareholders	\$ —	\$ —	\$ —	\$ (24)
Unrealized losses on cash flow hedge, net				
Gain on disposal of discontinued businesses, net of income taxes	\$ —	\$ —	\$ (1)	\$ —
Net income attributable to Wyndham Destinations shareholders	\$ —	\$ —	\$ (1)	\$ —
Defined benefit pension plans, net				
Gain on disposal of discontinued businesses, net of income taxes	\$ —	\$ —	\$ —	\$ (4)
Net income attributable to Wyndham Destinations shareholders	\$ —	\$ —	\$ —	\$ (4)

19. Stock-Based Compensation

The Company has a stock-based compensation plan available to grant RSUs, PSUs, SSARs, non-qualified stock options (“NQs”) and other stock-based awards to key employees, non-employee directors, advisors and consultants.

The Wyndham Worldwide Corporation 2006 Equity and Incentive Plan was originally adopted in 2006 and was amended and restated in its entirety and approved by shareholders on May 17, 2018 (the “Amended and Restated Equity Incentive Plan”). Under the Amended and Restated Equity Incentive Plan, a maximum of 15.7 million shares of common stock may be awarded. As of September 30, 2019, 13.8 million shares remain available.

Incentive Equity Awards Granted by the Company

During the nine months ended September 30, 2019, the Company granted incentive equity awards to key employees and senior officers totaling \$26 million in the form of RSUs, \$7 million in the form of PSUs and \$5 million in the form of stock options. Of these awards, the NQs and majority of RSUs will vest ratably over a period of four years, and the PSUs will cliff vest on the third anniversary of the grant date; contingent upon the Company achieving certain performance metrics.

The activity related to incentive equity awards granted to the Company's key employees and senior officers by the Company for the nine months ended September 30, 2019 consisted of the following:

	Balance, December 31, 2018	Granted	Vested/Exercised	Forfeitures^(a)	Balance, September 30, 2019
RSUs					
Number of RSUs	0.9	0.5	(0.3)	(0.1)	1.0 ^(b)
Weighted average grant price	\$ 50.54	\$ 44.30	\$ 53.65	\$ 47.52	\$ 46.32
PSUs					
Number of PSUs	—	0.2	—		0.2 ^(c)
Weighted average grant price	\$ —	\$ 44.38	\$ —		\$ 44.38
SSARs					
Number of SSARs	0.2	—	—		0.2 ^(d)
Weighted average grant price	\$ 34.24	\$ —	\$ —		\$ 34.24
NQs					
Number of NQs	0.8	0.6	—		1.4 ^(e)
Weighted average grant price	\$ 48.71	\$ 44.38	\$ —		\$ 46.84

(a) The Company recognizes forfeitures as they occur.

(b) Aggregate unrecognized compensation expense related to RSUs was \$42 million as of September 30, 2019, which is expected to be recognized over a weighted average period of 3.1 years.

(c) Maximum aggregate unrecognized compensation expense related to PSUs was \$6 million as of September 30, 2019, which is expected to be recognized over a weighted average period of 3.4 years.

(d) There were 0.2 million SSARs that were exercisable as of September 30, 2019. There was no unrecognized compensation expense related to SSARs as of September 30, 2019 as all SSARs were vested.

(e) Unrecognized compensation expense for NQs was \$9 million as of September 30, 2019, which is expected to be recognized over a weighted average period of 3.0 years.

The fair value of stock options granted by the Company during 2019 was estimated on the date of this grant using the Black-Scholes option-pricing model with the relevant weighted average assumptions outlined in the table below. Expected volatility was based on both historical and implied volatilities of the Company's stock and the stock of comparable companies over the estimated expected life for options. The expected life represents the period of time these awards are expected to be outstanding. The risk-free interest rate is based on yields on U.S. Treasury strips with a maturity similar to the estimated expected life of the options. The projected dividend yield was based on the Company's anticipated annual dividend divided by the price of the Company's stock on the date of the grant.

	2019
Grant date fair value	\$ 8.98
Grant date strike price	\$ 44.38
Expected volatility	29.97%
Expected life	6.3 years
Risk-free interest rate	2.59%

Stock-Based Compensation Expense

The Company recorded stock-based compensation expense of \$5 million and \$17 million during the three and nine months ended September 30, 2019 and \$12 million and \$142 million during the three and nine months ended September 30, 2018.

related to incentive equity awards granted to key employees, senior officers and non-employee directors. Such stock-based compensation expense included expense related to discontinued operations of \$22 million for the nine months ended September 30, 2018. Stock-based compensation expense of \$4 million for the nine months ended September 30, 2019, and \$9 million and \$100 million for the three and nine months ended September 30, 2018, respectively, have been classified within Separation and related costs within continuing operations.

The Company paid \$4 million and \$56 million of taxes for the net share settlement of incentive equity awards that vested during the nine months ended September 30, 2019 and 2018, respectively.

Employee Stock Purchase Plan

During 2019, the Company implemented an employee stock purchase plan. This plan allows eligible employees to purchase common shares of company stock through payroll deductions at a ten percent discount off the fair market value at the grant date. The Company issued 0.1 million shares and recognized less than \$1 million of compensation expense related to the first grant under this plan in June 2019.

20. Segment Information

The Company has two operating segments: Vacation Ownership and Exchange & Rentals. The Vacation Ownership segment develops, markets and sells VOIs to individual consumers, provides consumer financing in connection with the sale of VOIs and provides property management services at resorts. The Exchange & Rentals segment provides vacation exchange services and products to owners of VOIs and manages and markets vacation rental properties primarily on behalf of independent owners. During 2018, the Company decided to explore strategic alternatives for its North American vacation rentals business, which is currently part of its Exchange & Rentals segment and during the third quarter of 2019 the Company entered into an agreement for the sale of this business, which closed on October 22, 2019. The assets and liabilities of this business have been classified as held-for-sale. The reportable segments presented below represent the Company's operating segments for which discrete financial information is available and which are utilized on a regular basis by its chief operating decision maker to assess performance and to allocate resources. In identifying its reportable segments, the Company also considers the nature of services provided by its operating segments. Management uses net revenues and Adjusted EBITDA to assess the performance of the reportable segments. Adjusted EBITDA is defined by the Company as Net income before Depreciation and amortization, Interest expense (excluding Consumer financing interest), Early extinguishment of debt, Interest income (excluding Consumer financing revenues) and Income taxes. Adjusted EBITDA also excludes stock-based compensation costs, separation and restructuring costs, transaction costs, impairments, and items that meet the conditions of unusual and/or infrequent. The Company believes that Adjusted EBITDA is a useful measure of performance for its segments which, when considered with GAAP measures, the Company believes gives a more complete understanding of its operating performance. The Company's presentation of Adjusted EBITDA may not be comparable to similarly-titled measures used by other companies.

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
Net revenues	2019	2018	2019	2018
Vacation Ownership	\$ 858	\$ 820	\$ 2,351	\$ 2,251
Exchange & Rentals	250	243	716	727
Total reportable segments	1,108	1,063	3,067	2,978
Corporate and other ^(a)	(3)	(1)	(5)	(2)
Total Company	\$ 1,105	\$ 1,062	\$ 3,062	\$ 2,976

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
Reconciliation of Net income to Adjusted EBITDA	2019	2018	2019	2018
Net income attributable to Wyndham Destinations shareholders	\$ 135	\$ 148	\$ 339	\$ 560
Loss from operations of discontinued businesses, net of income taxes	—	3	—	52
Gain on disposal of discontinued businesses, net of income taxes	—	(20)	(5)	(452)
Provision for income taxes	46	51	120	112
Depreciation and amortization	31	32	90	105
Interest expense	40	37	122	129
Interest (income)	(1)	—	(6)	(3)
Separation and related costs ^(b)	7	35	44	198
Restructuring	—	—	4	—
Asset impairments	—	(4)	—	(4)
Legacy items	—	—	1	—
Acquisition and divestiture related costs	4	—	4	—
Stock-based compensation	5	3	13	21
Value-added tax refund	—	(16)	—	(16)
Adjusted EBITDA	\$ 267	\$ 269	\$ 726	\$ 702

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
Adjusted EBITDA	2019	2018	2019	2018
Vacation Ownership	\$ 203	\$ 203	\$ 534	\$ 530
Exchange & Rentals	83	79	234	228
Total reportable segments	286	282	768	758
Corporate and other ^(a)	(19)	(13)	(42)	(56)
Total Company	\$ 267	\$ 269	\$ 726	\$ 702

^(a) Includes the elimination of transactions between segments.

^(b) Includes \$4 million of stock based compensation expenses for the nine months ended September 30, 2019 and \$9 million and \$100 million for the three and nine months ended September 30, 2018.

Segment Assets ^(a)	September 30,	
	2019	December 31, 2018
Vacation Ownership	\$ 5,603	\$ 5,421
Exchange & Rentals	1,487	1,376
Total reportable segments	7,090	6,797
Corporate and other	259	158
Assets held-for-sale	214	203
Total Company	\$ 7,563	\$ 7,158

^(a) Excludes investment in consolidated subsidiaries.

21. Separation and Transaction

Costs

During the three and nine months ended September 30, 2019, the Company incurred \$7 million and \$44 million of expenses in connection with the Spin-off completed on May 31, 2018 which are reflected within continuing operations. These Spin-off related costs were related to stock compensation modification, severance and other employee costs, as well as impairment charges due to the write-off of right-of-use assets and furniture, fixtures, and equipment as a result of the Company abandoning portions of its administrative offices in New Jersey. This decision was part of the Company’s continued focus on rationalizing existing facilities in order to reduce its corporate footprint.

During the three and nine months ended September 30, 2018, the Company incurred \$35 million and \$198 million of expenses, respectively, in connection with the Spin-off which are reflected in continuing operations. These costs were comprised of stock compensation modification expense, severance and other employee costs offset, in part, by favorable foreign currency. In addition, these costs include certain impairment charges related to the separation including property sold to Wyndham Hotels.

Additionally, during the nine months ended September 30, 2018, the Company incurred \$93 million of separation-related expenses in connection with the Spin-off and sale of the European vacation rentals business which are reflected within discontinued operations. These expenses include legal, consulting and auditing fees, stock compensation modification expense, severance, and other employee-related costs.

22. Impairments

During the third quarter of 2018, the Company sold a property located in Las Vegas, Nevada which was previously impaired by \$27 million. The Company received net proceeds of \$11 million resulting in a gain on sale of \$8 million, which is included within Asset impairments on the Condensed Consolidated Statements of Income.

Also during the third quarter of 2018, the Company updated its long-term development goals as a result of changes in market conditions which resulted in \$4 million of additional impairment charges on previously impaired properties. This additional impairment expense and the Las Vegas impairment reversal, resulted in a net impairment reversal of \$4 million for the three and nine months ended September 30, 2018.

Refer to Note 21—*Separation and Transaction Costs*, for discussion of the additional impairments associated with the spin-off of Wyndham Hotels.

23. Restructuring

2018 Restructuring Plans

During 2018, the Company recorded \$16 million of charges related to restructuring initiatives, all of which are personnel-related resulting from a reduction of approximately 500 employees. This action was primarily focused on enhancing organizational efficiency and rationalizing operations. The charges consisted of (i) \$11 million at the Vacation Ownership segment, (ii) \$4 million at the Exchange & Rentals segment, and (iii) \$1 million at the Company’s corporate operations. During 2018, the Company reduced its restructuring liability by \$4 million of cash payments. During the nine months ended September 30, 2019, the Company incurred an additional \$2 million of restructuring expenses at its corporate operations and an additional \$2 million at its Vacation Ownership segment. The Company reduced its restructuring liability by \$11 million of cash payments during the nine months ended September 30, 2019. The remaining 2018 restructuring liability of \$5 million is expected to be paid by the end of 2021.

The Company has additional restructuring plans which were implemented prior to 2018. The remaining liability of less than \$1 million as of September 30, 2019 is related to leased facilities and is expected to be paid by 2020.

The activity associated with the Company’s restructuring plans is summarized as follows:

	Liability as of December 31, 2018	Costs Recognized	Cash Payments	Liability as of September 30, 2019
Personnel-related	\$ 12	\$ 4	\$ (11)	\$ 5
	<u>\$ 12</u>	<u>\$ 4</u>	<u>\$ (11)</u>	<u>\$ 5</u>

24. Transactions with Former Parent and Former Subsidiaries

Matters Related to Cendant

Pursuant to the Cendant Separation and Distribution Agreement, the Company entered into certain guarantee commitments with Cendant and Cendant's former subsidiary, Realogy. These guarantee arrangements primarily relate to certain contingent litigation liabilities, contingent tax liabilities, and Cendant contingent and other corporate liabilities, of which Wyndham Worldwide Corporation ("Wyndham Worldwide") assumed 37.5% of the responsibility while Cendant's former subsidiary, Realogy, is responsible for the remaining 62.5%. As a result of the Wyndham Worldwide separation, Wyndham Hotels agreed to retain one-third of Cendant's contingent and other corporate liabilities and associated costs; therefore, Wyndham Destinations is effectively responsible for 25% of such matters subsequent to the separation. Since Cendant's separation, Cendant settled the majority of the lawsuits pending on the date of the separation.

As of September 30, 2019, the Cendant separation and related liabilities of \$14 million are comprised of \$12 million for tax liabilities and \$2 million for other contingent and corporate liabilities. These liabilities were recorded within Accrued expenses and other liabilities on the Condensed Consolidated Balance Sheets. As of December 31, 2018, the Company had \$18 million of Cendant separation-related liabilities, which were recorded within Accrued expenses and other liabilities on the Condensed Consolidated Balance Sheets.

Matters Related to Wyndham Hotels

In connection with the Spin-off on May 31, 2018, Wyndham Destinations entered into several agreements with Wyndham Hotels that govern the relationship of the parties following the distribution including the Separation and Distribution Agreement, the Employee Matters Agreements, the Tax Matters Agreement, the Transition Services Agreement and the License, Development and Noncompetition Agreement.

In accordance with these agreements, Wyndham Destinations assumed two-thirds and Wyndham Hotels assumed one-third of certain contingent corporate liabilities of the Company incurred prior to the distribution, including liabilities of the Company related to certain terminated or divested businesses, certain general corporate matters, and any actions with respect to the separation plan. Likewise, Wyndham Destinations is entitled to receive two-thirds and Wyndham Hotels is entitled to receive one-third of the proceeds from certain contingent corporate assets of the Company arising or accrued prior to the distribution.

Wyndham Destinations entered into a transition service agreement with Wyndham Hotels, pursuant to which the companies agreed to provide each other certain transitional services including human resources, facilities, payroll, tax, information technology, information management and related services, treasury, finance, sourcing, and employee benefits administration on an interim, transitional basis. During the three and nine months ended September 30, 2019, transition service agreement expenses of \$1 million and \$2 million were included in General and administrative expense, and less than \$1 million and \$2 million were included in Separation and related costs on the Condensed Consolidated Statements of Income. Transition service agreement income during the nine months ended September 30, 2019 was \$1 million, included in Other revenue on the Condensed Consolidated Statements of Income. For the three and nine months ended September 30, 2018, transition service agreement expenses were \$3 million and \$4 million, respectively, transition service agreement income was \$2 million and \$3 million.

Matters Related to the European Vacation Rentals Business

In connection with the sale of the Company's European vacation rentals business, the Company and Wyndham Hotels agreed to certain post-closing credit support for the benefit of certain credit card service providers, a British travel association, and certain regulatory authorities to allow them to continue providing services or regulatory approval to the business. Post-closing credit support may be called if the business fails to meet its primary obligation to pay amounts when due. Compass IV Limited, an affiliate of Platinum Equity, LLC ("Buyer") has provided an indemnification to Wyndham Destinations in the event that the post-closing credit support is enforced or called upon. Such post-closing credit support included a guarantee of up to \$180 million which expired on June 30, 2019.

At closing, the Company agreed to provide additional post-closing credit support to a British travel association and regulatory authority. An escrow was established at closing, of which \$46 million was subsequently released in exchange for a secured bonding facility and a perpetual guarantee of \$46 million. The estimated fair value of the guarantee was \$22 million as of September 30, 2019. The Company established a \$7 million receivable from Wyndham Hotels for its portion of the guarantee.

In January 2019, the Company reached an agreement with the Buyer on certain post-closing adjustments, resulting in a reduction of proceeds by \$27 million. In accordance with the separation agreement, the Company and Wyndham Hotels agreed to share two-thirds and one-third, respectively, in the European vacation rentals business' final net proceeds (as defined by the sales agreement), adjusted for certain items including the return of the escrow, post-closing adjustments, transaction expenses and estimated taxes. The Company paid \$40 million to Wyndham Hotels in the second quarter of 2019.

The Company also deposited \$5 million into an escrow account for which all obligations ceased to exist on May 9, 2019. The escrow was returned to the Company in May 2019.

In addition, the Company agreed to indemnify the Buyer against certain claims and assessments, including income tax, value-added tax and other tax matters, related to the operations of the European vacation rentals business for the periods prior to the transaction. The estimated fair value of the indemnifications increased by \$2 million to a total of \$45 million at September 30, 2019. The Company has a \$15 million receivable from Wyndham Hotels for its portion of the guarantee.

Wyndham Hotels provided certain post-closing credit support primarily for the benefit of a British travel association in the form of guarantees which are primarily denominated in pound sterling of up to an approximate \$81 million on a perpetual basis. The estimated fair value of such guarantees was \$39 million at September 30, 2019. Wyndham Destinations is responsible for two-thirds of these guarantees. Wyndham Hotels is required to maintain minimum credit ratings of Ba2 for Moody's Investors Service and BB for Standard & Poor's Rating Services. If Wyndham Hotels drops below these minimum credit ratings, Wyndham Destinations would be required to post a letter of credit (or equivalent support) for the amount of the Wyndham Hotels guarantee.

The estimated fair value of the guarantees and indemnifications for which Wyndham Destinations is responsible related to the sale of the European vacation rentals business, including the two-thirds portion related to guarantees provided by Wyndham Hotels, totaled \$95 million and was recorded in Accrued expenses and other liabilities at September 30, 2019. Total receivables of \$23 million were included in Other assets on the Condensed Consolidated Balance Sheets at September 30, 2019, representing the portion of these guarantees and indemnifications for which Wyndham Hotels is responsible. The total change in expired guarantees and returned escrow offset by increased tax liabilities increased the gain on sale of the European vacation rentals business by \$6 million during the second quarter of 2019.

During the second quarter of 2019, the Buyer proposed certain post-closing adjustments of approximately \$44 million which could serve to reduce the net consideration received from the sale of the European vacation rentals business. While the Company intends to vigorously dispute these proposed adjustments, at this time we cannot reasonably estimate the probability or amount of the potential liability owed to the Buyer, if any. Any actual liability would be split two-thirds and one-third between the Company and Wyndham Hotels, respectively, and the impact would be included in discontinued operations.

Wyndham Destinations entered into a transition service agreement with the European vacation business, pursuant to which the companies agreed to provide each other certain transitional services including human resources, facilities, payroll, tax, information technology, information management and related services, treasury, finance, and sourcing on an interim, transitional basis. During the three and nine months ended September 30, 2019, transition service agreement expenses were \$1 million and \$2 million and transition service agreement income was \$1 million and \$2 million, respectively. During the three and nine months ended September 30, 2018, transition service agreement expenses were \$1 million and \$3 million, respectively, and transition service agreement income was \$1 million and \$3 million, respectively. Transition service agreement expenses were included in General and administrative expense and transition service income was included in Net revenue on the Condensed Consolidated Statements of Income.

25. Related Party Transactions

In March 2019, the Company entered into an agreement with a former executive of the Company whereby the former executive through an SPE would develop and construct VOI inventory located in Orlando, FL. Subject to the property meeting the Company's vacation ownership resort standards and provided that the property has not been sold to another party, the maximum potential future payments that the Company may be required to make under this commitment is \$45 million.

26. Subsequent Events

Timeshare Conduit

On October 2, 2019, the Company closed on a non-recourse timeshare receivables conduit facility for a two year term through September 30, 2021, issued by JP Morgan and Bank of America. This conduit is denominated in AUD and NZD with an initial USD equivalent principal amount of \$200 million, which is secured by vacation ownership contract receivables and bears interest at variable rates based on the representative variable rate plus 1.50%. The advance rate for this transaction was 88.00%.

North American Vacation Rentals Business

On October 22, 2019, the Company completed the previously announced sale of its North American vacation rentals business to Vacasa for a purchase price of \$162 million. After customary closing adjustments, the Company received \$156 million in cash and \$10 million in Vacasa equity. The purchase agreement contains customary post-closing adjustments.

Sierra Timeshare 2019-3 Receivables Funding LLC

On October 23, 2019, the Company closed on a placement of a series of term notes payable, issued by Sierra Timeshare 2019-3 Receivables Fundings LLC, with an initial principal amount of \$300 million, which are secured by vacation ownership contract receivables and bear interest at a weighted average coupon rate of 2.76%. The advance rate for this transaction was 98.00%.

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

FORWARD-LOOKING STATEMENTS

This report includes “forward-looking statements” as that term is defined by the Securities and Exchange Commission (“SEC”). Forward-looking statements are any statements other than statements of historical fact, including statements regarding our expectations, beliefs, hopes, intentions or strategies regarding the future. In some cases, forward-looking statements can be identified by the use of words such as “may,” “will,” “expects,” “should,” “believes,” “plans,” “anticipates,” “estimates,” “predicts,” “potential,” “continue,” “future” or other words of similar meaning. Forward-looking statements are subject to risks and uncertainties that could cause actual results of Wyndham Destinations, Inc. (“Wyndham Destinations” or the “Company”) to differ materially from those discussed in, or implied by, the forward-looking statements. Factors that might cause such a difference include, but are not limited to, general economic conditions, the performance of the financial and credit markets, the competition in and the economic environment for the timeshare industry, the impact of war, terrorist activity or political strife, operating risks associated with the vacation ownership and vacation exchange and rentals businesses, uncertainties related to our ability to realize the anticipated benefits of the spin-off of the hotel business (“Spin-off”) Wyndham Hotels & Resorts, Inc. (“Wyndham Hotels”) or the divestiture of our European vacation rentals business, unanticipated developments related to the impact of the Spin-off, the divestiture of our European vacation rentals business and related transactions on our relationships with our customers, suppliers, employees and others with whom we have relationships, unanticipated developments resulting from possible disruption to our operations resulting from the Spin-off and the divestiture of our European vacation rentals business, our ability to execute on our strategy, the divestiture of Wyndham Vacation Rentals or the acquisition of Alliance Reservations Network may not prove successful and could result in operating difficulties, the timing and amount of future dividends and share repurchases and those disclosed as risks under “Risk Factors” in documents we have filed with the SEC, including in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2018, filed with the SEC on February 26, 2019. We caution readers that any such statements are based on currently available operational, financial and competitive information, and they should not place undue reliance on these forward-looking statements, which reflect management’s opinion only as of the date on which they were made. Except as required by law, we undertake no obligation to review or update these forward-looking statements to reflect events or circumstances as they occur.

BUSINESS AND OVERVIEW

We are a global provider of hospitality services and products and operate our business in the following two segments:

- **Vacation Ownership**—develops, markets and sells vacation ownership interests (“VOIs”) to individual consumers, provides consumer financing in connection with the sale of VOIs and provides property management services at resorts.
- **Exchange & Rentals**—provides vacation exchange services and products to owners of VOIs and manages and markets vacation rental properties primarily on behalf of independent owners.

North American Vacation Rentals Business

During 2018, we decided to explore strategic alternatives for our North American vacation rentals business. On July 30, 2019, we entered into an agreement for the sale of our North American vacation rentals business. The assets and liabilities of this business have been classified as held-for-sale as of September 30, 2019 and December 31, 2018. This business does not meet the criteria to be classified as a discontinued operation; therefore, the results are reflected within continuing operations on the Condensed Consolidated Statements of Income. On October 22, 2019, we closed on the sale of this business. For further details see Note 7—*Held-for-Sale Business* and Note 26—*Subsequent Events* to the Condensed Consolidated Financial Statements included in Item 1 of this Quarterly Report on Form 10-Q.

Discontinued Operations

During 2018, we completed the Spin-off of our hotel business and the sale of our European vacation rentals business. As a result, the Company has classified the results of operations for these businesses as discontinued operations in its prior period Condensed Consolidated Financial Statements and related notes. For further details see Note 6—*Discontinued Operations* to the Condensed Consolidated Financial Statements included in Item 1 of this Quarterly Report on Form 10-Q.

RESULTS OF OPERATIONS

The reportable segments presented below represent the Company’s operating segments for which discrete financial information is available and which are utilized on a regular basis by its chief operating decision maker to assess performance and to allocate resources. In identifying its reportable segments, the Company also considers the nature of services provided by its operating segments. Management uses net revenues and Adjusted EBITDA to assess the performance of the reportable segments. Adjusted EBITDA is defined by the Company as Net income before Depreciation and amortization, Interest expense (excluding

Consumer financing interest), Early extinguishment of debt, Interest income (excluding Consumer financing revenues) and Income taxes. Adjusted EBITDA also excludes stock-based compensation costs, separation and restructuring costs, transaction costs, impairments, and items that meet the conditions of unusual and/or infrequent. The Company believes that Adjusted EBITDA is a useful measure of performance for its segments which, when considered with GAAP measures, the Company believes gives a more complete understanding of its operating performance. The Company's presentation of Adjusted EBITDA may not be comparable to similarly-titled measures used by other companies.

OPERATING STATISTICS

The table below presents our operating statistics for the three months ended September 30, 2019 and 2018. These operating statistics are the drivers of our revenues and therefore provide an enhanced understanding of our businesses. Refer to the Results of Operations section for a discussion on how these operating statistics affected our business for the periods presented.

	Three Months Ended September 30,		
	2019	2018	% Change ^(g)
Vacation Ownership			
Gross VOI sales (in millions) ^{(a) (b)}	\$ 663	\$ 640	3.6
Tours (in 000s) ^(b)	269	259	3.8
Volume Per Guest ("VPG") ^(c)	\$ 2,332	\$ 2,350	(0.7)
Exchange & Rentals ^(d)			
Average number of members (in 000s) ^(e)	3,895	3,857	1.0
Exchange revenue per member ^(f)	\$ 162.47	\$ 163.84	(0.8)

(a) Represents total sales of VOIs, including sales under the Fee-for-Service program before the effect of loan loss provisions. We believe that Gross VOI sales provide an enhanced understanding of the performance of our vacation ownership business because it directly measures the sales volume of this business during a given reporting period.

(b) Represents the number of tours taken by guests in our efforts to sell VOIs.

(c) VPG is calculated by dividing Gross VOI sales (excluding tele-sales upgrades, which are non-tour upgrade sales) by the number of tours. Tele-sales upgrades were \$35 million and \$31 million during the three months ended September 30, 2019 and 2018, respectively. We have excluded tele-sales upgrades in the calculation of VPG because tele-sales upgrades are generated by a different marketing channel. We believe that VPG provides an enhanced understanding of the performance of our vacation ownership business because it directly measures the efficiency of this business's tour selling efforts during a given reporting period.

(d) Includes the impact from acquisitions from the acquisition dates forward.

(e) Represents members in our vacation exchange programs who paid annual membership dues as of the end of the period or who are within the allowed grace period.

(f) Represents total annualized revenues generated from fees associated with memberships, exchange transactions, member-related rentals and other servicing for the period divided by the average number of vacation exchange members during the period.

(g) Change percentages may not calculate due to rounding.

(h) The following table provides a reconciliation of Gross VOI sales to net Vacation ownership interest sales for the three months ended September 30, 2019 and 2018 (in millions):

	2019	2018
Vacation ownership interest sales, net	\$ 528	\$ 503
Loan loss provision	135	132
Gross VOI sales, net of Fee-for-Service sales	663	635
Fee-for-Service sales ⁽¹⁾	—	5
Gross VOI sales	\$ 663	\$ 640

(1) Represents total sales of VOIs through our Fee-for-Service program designed to offer turn-key solutions for developers or banks in possession of newly developed inventory, which we will sell for a commission fee through our extensive sales and marketing channels. There were no Fee-for-Service commission revenues for the three months ended September 30, 2019 and \$4 million for the three months ended September 30, 2018. These commissions are reported within Service and membership fees on the Condensed Consolidated Statements of Income.

THREE MONTHS ENDED SEPTEMBER 30, 2019 VS. THREE MONTHS ENDED SEPTEMBER 30, 2018

Our consolidated results are as follows:

	Three Months Ended September 30,		
	2019	2018	Favorable/(Unfavorable)
Net revenues	\$ 1,105	\$ 1,062	\$ 43
Expenses	891	865	(26)
Operating income	214	197	17
Other (income), net	(6)	(22)	(16)
Interest expense	40	37	(3)
Interest (income)	(1)	—	1
Income before income taxes	181	182	(1)
Provision for income taxes	46	51	5
Net income from continuing operations	135	131	4
Loss from operations of discontinued businesses, net of income taxes	—	(3)	3
Gain on disposal of discontinued businesses, net of income taxes	—	20	(20)
Net income attributable to Wyndham Destinations shareholders	\$ 135	\$ 148	\$ (13)

Net revenues increased \$43 million for the three months ended September 30, 2019 compared with the same period last year. Revenue growth of \$47 million (4.4%) was offset by unfavorable foreign currency of \$4 million (0.4%). Excluding foreign currency, the increase in net revenues was primarily the result of:

- \$41 million of higher revenues at our Vacation Ownership segment primarily resulting from an increase in net VOI sales, property management revenues, and consumer financing revenues; and
- \$8 million of increased revenues at our Exchange & Rentals segment primarily driven by an increase in ancillary revenues as a result of the acquisition of Alliance Reservation Network, LLC (“ARN”), partially offset by the loss of Wyndham Hotels and Resorts servicing revenues as a result of the Spin-off.

Expenses increased \$26 million for the three months ended September 30, 2019 compared with the same period last year. The increase in expenses of \$29 million (3.4%) was favorably impacted by foreign currency of \$3 million (0.3%). Excluding the foreign currency impact, the increase in expenses was primarily the result of:

- \$30 million increase in expenses from operating activities driven by higher revenues at our Vacation Ownership segment and \$11 million at our newly acquired ARN business;
- \$13 million increase in general and administrative expenses driven by our Corporate and Vacation Ownership segments;
- and
- \$12 million increase in marketing costs driven by our Vacation Ownership segment due to our emphasis on adding new owners; partially offset by
- \$28 million decrease in separation costs.

Other income, net of other expenses decreased by \$16 million for the three months ended September 30, 2019 compared with the same period last year, primarily due to value-added tax refunds in 2018.

Interest expense increased \$3 million for the three months ended September 30, 2019 compared with the same period last year primarily due to an increase in the average outstanding revolving credit facility balances.

Our effective tax rates were 25.4% and 28.0% for the three months ended September 30, 2019 and 2018, respectively. The decrease was primarily due to lower state income taxes and a tax benefit resulting from a post-separation internal restructuring.

Our results of operations reflect a negative impact from hurricane Dorian in September 2019. We estimate that the hurricane reduced our revenues, Adjusted EBITDA and net income by \$16 million, \$9 million and \$7 million, respectively. Our results of operations for the three months ended September 30, 2018 reflect the negative impact of hurricane Florence. We estimate that hurricane Florence reduced our revenues, Adjusted EBITDA, and net income by \$13 million, \$10 million, and \$7 million, respectively.

Gain on disposal of discontinued businesses, net of income taxes was \$20 million for the three months ended September 30, 2018, due to the release of escrow related to the sale of the European vacation rentals business, partially offset by the fair value of a related guarantee provided by the Company.

As a result of these items, net income attributable to Wyndham Destinations shareholders decreased by \$13 million for the three months ended September 30, 2019 as compared to the same period last year.

Our segment results are as follows:

	Three Months Ended	
	September 30,	
Net revenues	2019	2018
Vacation Ownership	\$ 858	\$ 820
Exchange & Rentals	250	243
Total reportable segments	1,108	1,063
Corporate and other ^(a)	(3)	(1)
Total Company	\$ 1,105	\$ 1,062

	Three Months Ended	
	September 30,	
Reconciliation of Net income to Adjusted EBITDA	2019	2018
Net income attributable to Wyndham Destinations shareholders	\$ 135	\$ 148
Loss from operations of discontinued businesses, net of income taxes	—	3
Gain on disposal of discontinued businesses, net of income taxes	—	(20)
Provision for income taxes	46	51
Depreciation and amortization	31	32
Interest expense	40	37
Interest (income)	(1)	—
Separation and related costs ^(b)	7	35
Asset impairments	—	(4)
Acquisition and divestiture related costs	4	—
Stock-based compensation	5	3
Value-added tax refund	—	(16)
Adjusted EBITDA	\$ 267	\$ 269

	Three Months Ended	
	September 30,	
Adjusted EBITDA	2019	2018
Vacation Ownership	\$ 203	\$ 203
Exchange & Rentals	83	79
Total reportable segments	286	282
Corporate and other ^(a)	(19)	(13)
Total Company	\$ 267	\$ 269

^(a) Includes the elimination of transactions between segments.

^(b) Includes \$9 million of stock based compensation expenses for the three months ended September 30, 2018.

Vacation Ownership

Net revenues increased \$38 million and Adjusted EBITDA was flat during the three months ended September 30, 2019 compared with the same period of 2018. Revenue growth of \$41 million (5.0%) was offset by unfavorable foreign currency of \$3 million (0.4%). Adjusted EBITDA growth of \$1 million (0.5%) was offset by unfavorable foreign currency of \$1 million (0.5%).

Increases in net revenues excluding the impact of currency were primarily driven by:

- \$30 million increase in gross VOI sales, net of Fee-for-Service sales, primarily driven by a 3.8% increase in tours, reflecting our continued focus on new owner generation; partially offset by a \$2 million increase in our provision for loan losses associated with higher gross VOI sales;
- \$7 million increase in property management revenues primarily due to higher management fees;
- \$7 million increase in consumer financing revenues primarily due to a higher weighted average interest rate earned on a larger average portfolio balance; and
- \$2 million increase in ancillary revenues; partially offset by
- \$3 million decrease in commission revenues as a result of lower Fee-for-Service VOI sales.

In addition to the drivers mentioned above, Adjusted EBITDA excluding the impact of currency was further impacted by:

- \$11 million increase in marketing costs due to our emphasis on adding new owners, which typically carry a higher cost per tour;
- \$10 million increase in sales and commission expenses primarily due to higher gross VOI sales;
- \$7 million increase in the cost of VOIs sold primarily driven by higher gross VOI sales and higher VOI product costs;
- \$6 million increase in general and administrative expense primarily due to higher legal fees and employee-related costs;
- \$3 million increase in consumer financing interest expense primarily due to a higher average loan balance on our non-recourse debt;
- \$3 million increase in maintenance fees on unsold inventory; partially offset by
- \$2 million decrease in commission expense as a result of lower Fee-for-Service VOI sales.

Exchange & Rentals

Net revenues increased \$7 million and Adjusted EBITDA increased \$4 million during the three months ended September 30, 2019 compared with the same period during 2018. Revenue growth of \$8 million (3.3%) was offset by unfavorable foreign currency of \$1 million (0.4%). Adjusted EBITDA growth of \$4 million (5.1%) was not materially impacted by foreign currency.

Increases in net revenues excluding the impact of currency were primarily driven by:

- \$8 million net increase in ancillary revenues driven by \$12 million at our newly acquired ARN business; partially offset by the loss of Wyndham Hotels and Resorts servicing revenues, which were discontinued as a result of the Spin-off, and lower transitional servicing revenue related to the sale of the European vacation rentals business.

In addition to the drivers mentioned above, Adjusted EBITDA was further impacted by:

- \$5 million decrease in general and administrative expenses primarily related to lower information technology costs; partially offset by
- \$8 million increase in operating costs primarily driven by \$11 million from our newly acquired ARN business, partially offset by \$3 million of lower operating costs at our other businesses.

Corporate and other

Corporate Adjusted EBITDA decreased \$6 million during the three months ended September 30, 2019 compared to 2018. The decrease was primarily due to higher information technology costs and personnel costs.

NINE MONTHS ENDED SEPTEMBER 30, 2019 VS. NINE MONTHS ENDED SEPTEMBER 30, 2018

Our consolidated results are as follows:

	Nine Months Ended September 30,		
	2019	2018	Favorable/(Unfavorable)
Net revenues	\$ 3,062	\$ 2,976	\$ 86
Expenses	2,510	2,611	101
Operating income	552	365	187
Other (income), net	(18)	(33)	(15)
Interest expense	122	129	7
Interest (income)	(6)	(3)	3
Income before income taxes	454	272	182
Provision for income taxes	120	112	(8)
Net income from continuing operations	334	160	174
Loss from operations of discontinued businesses, net of income taxes	—	(52)	52
Gain on disposal of discontinued businesses, net of income taxes	5	452	(447)
Net income attributable to Wyndham Destinations shareholders	\$ 339	\$ 560	\$ (221)

Net revenues increased \$86 million for the nine months ended September 30, 2019 compared with the same period last year. Revenue growth of \$104 million (3.5%) was offset by unfavorable foreign currency of \$18 million (0.6%). Excluding foreign currency, the increase in net revenues was primarily the result of:

- \$111 million of higher revenues at our Vacation Ownership segment primarily resulting from increases in net VOI sales, consumer financing revenues, and property management revenues; partially offset by
- \$4 million of decreased revenues at our Exchange & Rentals segment primarily driven by a change in customer mix, lower other product revenue, lower inventory levels, the loss of Wyndham Hotels and Resorts servicing revenues as a result of the Spin-off, and lower transitional servicing revenue related to the sale of the European vacation rentals business; partially offset by an increase in ancillary revenues related to the acquisition of ARN.

Expenses decreased \$101 million for the nine months ended September 30, 2019 compared with the same period last year. The decrease in expenses of \$87 million (3.3%) was favorably impacted by foreign currency of \$14 million (0.5%). Excluding the foreign currency impact, the decrease in expenses was primarily the result of:

- \$154 million decrease in separation costs;
- \$22 million decrease in general and administrative expenses driven by our Corporate and Exchange & Rentals segments; and
- \$15 million decrease in depreciation and amortization primarily due to the conveyance of Wyndham Worldwide headquarters to Wyndham Hotels at Spin-off and the designation of the North American vacation rentals business as held-for-sale; partially offset by
- \$50 million increased expenses from operating activities driven by higher revenues at our Vacation Ownership segment and \$11 million at our newly acquired ARN business; and
- \$46 million increase in marketing costs driven by our Vacation Ownership segment due to the emphasis on adding new owners and an increase in licensing fees for the use of the Wyndham tradename.

Other income, net of other expenses decreased by \$15 million for the nine months ended September 30, 2019 compared with the same period last year, primarily due to value-added tax refunds in 2018.

Interest expense decreased \$7 million for the nine months ended September 30, 2019 compared with the same period last year primarily due to lower average outstanding revolving credit facility balances.

Our effective tax rates were 26.4% and 41.2% for the nine months ended September 30, 2019 and 2018, respectively. The decrease was primarily due to the absence of non-cash tax charges in 2018 related to the sale of the European vacation rentals business and the separation of the hotel business, as well as, lower state income taxes in 2019.

Our results of operations reflect a negative impact from hurricane Dorian in September 2019. We estimate that the hurricane reduced our revenues, Adjusted EBITDA and net income by \$16 million, \$9 million and \$7 million, respectively. Our results of operations for the nine months ended September 2018 reflect the negative impact of hurricane Florence. We estimate that hurricane Florence reduced our revenues, Adjusted EBITDA, and net income by \$13 million, \$10 million, and \$7 million, respectively.

For the nine months ended September 30, 2018, there was a loss from operations of discontinued businesses, net of income taxes of \$52 million associated with the completion of the Spin-off and the sale of the European vacation rentals business.

Gain on disposal of discontinued businesses, net of income taxes was \$5 million for the nine months ended September 30, 2019 mainly due to the release of funds held in escrow related to the sale of the European vacation rentals business in 2018. The \$452 million recognized for the nine months ended September 30, 2018 represents the gain on sale of the European vacation rentals business.

As a result of these items, net income attributable to Wyndham Destinations shareholders decreased \$221 million for the nine months ended September 30, 2019 as compared to the same period last year.

Our segment results are as follows:

	Nine Months Ended September 30,	
	2019	2018
Net Revenues		
Vacation Ownership	\$ 2,351	\$ 2,251
Exchange & Rentals	716	727
Total reportable segments	3,067	2,978
Corporate and other ^(a)	(5)	(2)
Total Company	\$ 3,062	\$ 2,976

	Nine Months Ended September 30,	
	2019	2018
Reconciliation of Net income to Adjusted EBITDA		
Net income attributable to Wyndham Destinations shareholders	\$ 339	\$ 560
Loss from operations of discontinued businesses, net of income taxes	—	52
Gain on disposal of discontinued businesses, net of income taxes	(5)	(452)
Provision for income taxes	120	112
Depreciation and amortization	90	105
Interest expense	122	129
Interest (income)	(6)	(3)
Separation and related costs ^(b)	44	198
Restructuring	4	—
Asset impairments	—	(4)
Legacy items	1	—
Acquisition and divestiture related costs	4	—
Stock-based compensation	13	21
Value-added tax refund	—	(16)
Adjusted EBITDA	\$ 726	\$ 702

	Nine Months Ended September 30,	
	2019	2018
Adjusted EBITDA		
Vacation Ownership	\$ 534	\$ 530
Exchange & Rentals	234	228
Total reportable segments	768	758
Corporate and other ^(a)	(42)	(56)
Total Company	\$ 726	\$ 702

^(a) Includes the elimination of transactions between segments.

^(b) Includes \$4 million and \$100 million of stock based compensation expenses for the nine months ended September 30, 2019 and 2018.

Vacation Ownership

Net revenues increased \$100 million and Adjusted EBITDA increased \$4 million during the nine months ended September 30, 2019 compared with the same period of 2018. Revenue growth of \$111 million (4.9%) was offset by unfavorable foreign currency of \$11 million (0.5%). Adjusted EBITDA growth of \$8 million (1.5%) was offset by unfavorable foreign currency of \$4 million (0.8%).

Increases in net revenues excluding the impact of currency were primarily driven by:

- \$92 million increase in gross VOI sales, net of Fee-for-Service sales, mainly due to a 5.1% increase in sales driven by a 2.9% increase in tours, reflecting our continued focus on new owner generation, and a 1.1% increase in VPG, partially offset by a \$23 million increase in our provision for loan losses due to higher gross VOI sales and the impact of higher defaults;

- \$24 million increase in property management revenues primarily due to higher management fees;
- \$23 million increase in consumer financing revenues primarily due to a higher weighted average interest rate earned on a larger average portfolio balance; and
- \$4 million increase in ancillary revenues; partially offset by
- \$11 million decrease in commission revenues as a result of lower Fee-for-Service VOI sales.

In addition to the drivers mentioned above, Adjusted EBITDA excluding the impact of currency was further impacted by:

- \$11 million decrease in commission expenses as a result of lower Fee-for-Service VOI sales; partially offset by
- \$44 million increase in marketing costs due to our emphasis on adding new owners, which carry a higher cost per tour, and an increase in licensing fees for the use of the Wyndham tradename;
- \$27 million increase in sales and commission expenses primarily due to higher gross VOI sales;
- \$16 million increase in consumer financing interest expense primarily due to an increase in the weighted average interest rate and a higher average loan balance on our non-recourse debt;
- \$11 million increase in the cost of VOIs sold primarily driven by higher gross VOI sales;
- \$7 million increase in general and administrative expenses; and
- \$6 million increase in maintenance fees on unsold inventory.

Exchange & Rentals

Net revenues decreased \$11 million and Adjusted EBITDA increased \$6 million during the nine months ended September 30, 2019 compared with the same period during 2018. Revenue decrease of \$4 million (0.6%) was impacted by unfavorable foreign currency of \$7 million (1.0%). Adjusted EBITDA growth of \$10 million (4.4%) was offset by unfavorable foreign currency of \$4 million (1.8%).

Decreases in net revenues excluding the impact of currency were primarily driven by:

- \$7 million decrease in exchange and related service revenues driven by a change in customer mix, lower other product revenue, and lower inventory levels; partially offset by
- \$3 million net increase in ancillary revenues driven by \$12 million at our newly-acquired ARN business; partially offset by the loss of Wyndham Hotels and Resorts servicing revenues which were discontinued as a result of the Spin-off, and lower transitional servicing revenue related to the sale of the European vacation rentals business.

In addition to the drivers mentioned above, Adjusted EBITDA excluding the impact of currency was further impacted by:

- \$17 million decrease in general and administrative expenses due to lower information technology costs and employee-related costs;
- \$3 million gain related to sale of a building in the first quarter of 2019; partially offset by
- \$2 million increase in operating costs which includes \$11 million at our newly-acquired ARN business and \$9 million of cost reductions associated with lower exchange and related service revenues; and
- \$2 million negative impact from lower business interruption claims and legal settlement proceeds received compared to the prior year.

Corporate and other

Corporate Adjusted EBITDA increased \$14 million during the nine months ended September 30, 2019 compared to 2018. Adjusted EBITDA growth of \$10 million was favorably impacted by foreign currency of \$4 million. The increase in Adjusted EBITDA was primarily due to lower employee-related costs as a result of a smaller corporate presence after the spin-off of Wyndham Hotels.

RESTRUCTURING PLANS

During 2018, we recorded \$16 million of charges related to restructuring initiatives, all of which are personnel-related resulting from a reduction of approximately 500 employees. This action was primarily focused on enhancing organizational efficiency and rationalizing operations. The charges consisted of (i) \$11 million at our Vacation Ownership segment, (ii) \$4 million at our Exchange & Rentals segment, and (iii) \$1 million at our corporate operations. During 2018, the Company reduced its restructuring liability by \$4 million of cash payments. During the nine months ended September 30, 2019, we incurred an additional \$2 million of restructuring expenses at our corporate operations and an additional \$2 million at our Vacation Ownership segment. We reduced our restructuring liability by \$11 million of cash payments during the nine months ended September 30, 2019. The remaining 2018 restructuring liability of \$5 million is expected to be paid by the end of 2021.

We have additional restructuring plans which were implemented prior to 2018. The remaining liability of less than \$1 million as of September 30, 2019 is related to leased facilities and is expected to be paid by 2020.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Financial Condition

	September 30, 2019	December 31, 2018	Change
Total assets	\$ 7,563	\$ 7,158	\$ 405
Total liabilities	8,133	7,727	406
Total (deficit)	(570)	(569)	(1)

Total assets increased by \$405 million from December 31, 2018 to September 30, 2019 primarily due to:

- \$32 million increase in Cash and cash equivalents;
- \$81 million increase in Vacation ownership contract receivables, net, due to higher gross VOI originations, partially offset by principal payments and higher write-offs;
- \$45 million increase in Prepaid expenses primarily for software implementation and other contractual arrangements;
- \$77 million increase in Goodwill and Other intangibles, net mainly due to the acquisition of ARN;
- and
- \$154 million increase in Other assets primarily due to \$151 million of right-of-use assets recorded in 2019 due to the adoption of the new Leases accounting standard.

Total liabilities increased by \$406 million from December 31, 2018 to September 30, 2019 primarily due to:

- \$35 million increase in Deferred income due to the seasonality of the business, and \$9 million received in advance for the North American vacation rentals business sale;
- \$137 million increase in Non-recourse vacation ownership debt due to \$99 million increase in non-recourse term notes;
- \$166 million increase in Debt due to \$176 million increase in the revolving credit facility;
- \$36 million increase in Deferred income taxes;
- and
- \$14 million increase in Accrued expenses and other liabilities primarily due to \$198 million of lease liabilities recorded in 2019 due to the adoption of the new Leases accounting standard and \$44 million related to future consideration for the ARN purchase; partially offset by \$69 million decrease related to European vacation rentals business purchaser settlements, \$65 million net decrease in inventory obligations, \$42 million of tenant improvement allowances and deferred rent balances reclassified to Other assets in connection with the new Lease standard, and \$24 million decrease in accrued employee costs.

Total deficit increased \$1 million from December 31, 2018 to September 30, 2019 primarily due to \$215 million Treasury stock repurchases and \$127 million of Dividends; partially offset by \$339 million of Net income attributable to Wyndham Destinations shareholders.

Liquidity and capital resources

Currently, our financing needs are supported by cash generated from operations and borrowings under our revolving credit facility as well as issuance of secured debt. In addition, we use our bank conduit facility and non-recourse debt borrowings to finance our vacation ownership contract receivables. We believe that our net cash from operations, cash and cash equivalents, access to our revolving credit facilities, our bank conduit facility and continued access to the debt markets provide us with sufficient liquidity to meet our ongoing cash needs.

Our five-year revolving credit facility, which expires in May 2023, has a total capacity of \$1.0 billion. As of September 30, 2019, we had \$623 million of available capacity, net of letters of credit.

Our two-year non-recourse vacation ownership receivables bank conduit facility, with borrowing capability through August 2021, has a total capacity of \$800 million and available capacity of \$244 million as of September 30, 2019. Borrowings under this facility are required to be repaid as the collateralized receivables amortize, but no later than September 2022.

We may, from time to time, depending on market conditions and other factors, repurchase our outstanding indebtedness, whether or not such indebtedness trades above or below its face amount, for cash and/or in exchange for other securities or other consideration, in each case in open market purchases and/or privately negotiated transactions.

The Company is currently evaluating the impact of the transition from the London Interbank Offered Rate (“LIBOR”) as an interest rate benchmark to other potential alternative reference rates, including but not limited to the Secured Overnight Financing Rate (“SOFR”). Currently the Company has debt and derivative instruments in place that reference LIBOR-based rates. The transition from LIBOR is estimated to take place in 2021 and management will continue to actively assess the related opportunities and risks involved in this transition.

CASH FLOW

The following table summarizes the changes in cash and cash equivalents during the nine months ended September 30, 2019 and 2018:

	Nine Months Ended September 30,		
	2019	2018	Change
Cash provided by/(used in)			
Operating activities:			
Continuing operations	\$ 321	\$ 205	\$ 116
Discontinued operations	(1)	150	(151)
Investing activities:			
Continuing operations	(115)	(64)	(51)
Discontinued operations	(22)	(672)	650
Financing activities:			
Continuing operations	(156)	(1,718)	1,562
Discontinued operations	—	2,066	(2,066)
Effects of changes in exchange rates on cash and cash equivalents	(4)	(6)	2
Net change in cash, cash equivalents and restricted cash	\$ 23	\$ (39)	\$ 62

Operating Activities

Net cash provided by operating activities from continuing operations was \$321 million for the nine months ended September 30, 2019 compared to \$205 million in the prior year. This \$116 million increase was driven by a \$174 million increase in net income from continuing operations; a \$37 million decrease in cash utilized for working capital (cash inflow due to the net change in assets and liabilities); partially offset by a \$95 million decrease in non-cash add-back items mainly due to lower stock-based compensation expense and deferred income taxes.

Net cash used in operating activities from discontinued operations was \$1 million for the nine months ended September 30, 2019 compared to \$150 million of cash provided by operating activities from discontinued operations in the prior year. Prior year cash inflows were driven by \$400 million in net income from discontinued operations, \$174 million of cash provided by working capital (cash inflow due to the net change in assets and liabilities), partially offset by \$424 million of non-cash add-back items mainly due to the gain on disposal of discontinued businesses, net of income taxes.

Investing Activities

Net cash used in investing activities from continuing operations was \$115 million for the nine months ended September 30, 2019 compared to \$64 million in the prior year. The year-over-year increase was due to a \$46 million increase for acquisitions in 2019 driven by the ARN acquisition; \$12 million higher additions of property and equipment, and \$9 million received in advance for the sale of the North American vacation rentals business.

Net cash used in investing activities from discontinued operations was \$22 million for the nine months ended September 30, 2019 compared to \$672 million in the prior year. Cash used in investing activities from discontinued operations in 2019 is related to the sale of the European vacation rentals business. Cash used in investing activities from discontinued operations in the prior year was driven by \$1.7 billion of net cash used to acquire La Quinta Holdings, Inc. (“La Quinta”), partially offset by \$1.03 billion of cash proceeds from the sale of the European vacation rentals business.

Financing Activities

Net cash used in financing activities from continuing operations was \$156 million for the nine months ended September 30, 2019 compared to \$1.72 billion in the prior year. The decrease in 2019 was primarily due to \$1.04 billion of lower net debt payments; \$426 million less cash transferred to Wyndham Hotels relating to the spin-off; \$52 million of lower net share settlement payments; and \$29 million less dividends paid.

Net cash provided by financing activities from discontinued operations for the nine months ended September 30, 2018 was \$2.07 billion, primarily related to borrowings associated with the La Quinta acquisition.

Capital Deployment

We focus on deploying capital for the highest possible returns. Ultimately, our business objective is to grow our business while optimizing cash flow and Adjusted EBITDA. We intend to continue to invest in select capital and technological improvements across our business. We may also seek to strategically grow the business through merger and acquisition activities. Finally, we intend to continue to return value to shareholders through the repurchase of common stock and payment of dividends.

During the nine months ended September 30, 2019, we spent \$150 million on vacation ownership development projects (inventory). We believe that our vacation ownership business currently has adequate finished inventory on our balance sheet to support vacation ownership sales for at least the next year. During 2019, we anticipate spending between \$210 million and \$240 million on vacation ownership development projects. The average inventory spend on vacation ownership development projects for the four-year period 2020 through 2023 is expected to be approximately \$250 million annually. After factoring in the anticipated additional average annual spending, we expect to have adequate inventory to support vacation ownership sales through at least the next four to five years.

During the nine months ended September 30, 2019, we spent \$75 million on capital expenditures primarily for information technology enhancements and sales center improvement projects. During 2019, we anticipate spending between \$100 million and \$110 million on capital expenditures.

In connection with our focus on optimizing cash flow, we are continuing our asset-light efforts in vacation ownership by seeking opportunities with financial partners whereby they make strategic investments to develop assets on our behalf. We refer to this as Just-in-Time. The partner may invest in new ground-up development projects or purchase from us, for cash, existing in-process inventory which currently resides on our balance sheet. The partner will complete the development of the project and we may purchase finished inventory at a future date as needed or as obligated under the agreement.

We expect that the majority of the expenditures that will be required to pursue our capital spending programs, strategic investments and vacation ownership development projects will be financed with cash flow generated through operations. Additional expenditures are financed with general corporate borrowings, including through the use of available capacity under our revolving credit facility.

Stock Repurchase Program

On August 20, 2007, our Board of Directors ("Board") authorized a stock repurchase program that enables us to purchase our common stock. The Board has since increased the capacity of the program eight times, most recently in October 2017 by \$1.0 billion, bringing the total authorization under the current program to \$6.0 billion. Proceeds received from stock option exercises have increased repurchase capacity by \$78 million since the inception of this program.

Under our current stock repurchase program, we repurchased 5.0 million shares at an average price of \$43.18 for a cost of \$215 million during the nine months ended September 30, 2019.

Dividends

During the quarterly periods ended March 31, June 30, and September 30, 2019, we paid cash dividends of \$0.45 per share (\$125 million in aggregate). During the quarterly periods ended March 31, June 30, and September 30, 2018 we paid cash dividends of \$0.66, \$0.41 and \$0.41 per share, respectively (\$154 million in aggregate). The dividend of \$0.66 per share was declared by Wyndham Worldwide Corporation prior to the Spin-off of Wyndham Hotels.

Our ongoing dividend policy is to grow our dividend at the rate of growth of our earnings at a minimum, with the exception of the adjustment during the second quarter of 2018 as a result of the Spin-off. The declaration and payment of future dividends to holders of our common stock are at the discretion of our Board and depend upon many factors, including our financial condition, earnings, capital requirements of our business, covenants associated with certain debt obligations, legal requirements, regulatory constraints, industry practice and other factors that our Board deems relevant. There is no assurance that a payment of a dividend will occur in the future.

Financial Obligations

Debt Covenants

The revolving credit facilities and term loan B are subject to covenants including the maintenance of specific financial ratios as defined in the credit agreement. The financial ratio covenants consist of a minimum interest coverage ratio of at least 2.5 to 1.0 as of the measurement date and a maximum first lien leverage ratio not to exceed 4.25 to 1.0 as of the measurement date. The interest coverage ratio is calculated by dividing consolidated EBITDA (as defined in the credit agreement) by consolidated interest expense (as defined in the credit agreement), both as measured on a trailing 12-month basis preceding the measurement date. As of September 30, 2019, our interest coverage ratio was 7.5 to 1.0. The first lien leverage ratio is calculated by dividing consolidated first lien debt (as defined in the credit agreement) as of the measurement date by consolidated EBITDA (as defined in the credit agreement) as measured on a trailing 12-month basis preceding the measurement date. As of September 30, 2019, our first lien leverage ratio was 2.9 to 1.0. These ratios do not include interest expense or indebtedness related to any qualified securitization financing (as defined in the credit agreement). As of September 30, 2019, we were in compliance with all of the financial covenants described above.

Each of our non-recourse, securitized term notes, and the bank conduit facilities contain various triggers relating to the performance of the applicable loan pools. If the vacation ownership contract receivables pool that collateralizes one of our securitization notes fails to perform within the parameters established by the contractual triggers (such as higher default or delinquency rates), there are provisions pursuant to which the cash flows for that pool will be maintained in the securitization as extra collateral for the note holders or applied to accelerate the repayment of outstanding principal to the note holders. As of September 30, 2019, all of our securitized loan pools were in compliance with applicable contractual triggers.

LIQUIDITY

The Company finances certain of its vacation ownership contract receivables through (i) an asset-backed bank conduit facility and (ii) term asset-backed securitizations, all of which are non-recourse to the Company with respect to principal and interest.

We believe that our \$800 million bank conduit facility with an extended term through August 2021, combined with our ability to issue term asset-backed securities, should provide sufficient liquidity for our expected sales pace, and we expect to have available liquidity to finance the sale of VOIs. As of September 30, 2019, we had \$244 million of availability under this asset-backed bank conduit facility. Any disruption to the asset-backed securities market could adversely impact our future ability to obtain asset-backed financings.

We primarily utilize surety bonds at our vacation ownership business for sales and development transactions in order to meet regulatory requirements of certain states. In the ordinary course of our business, we have assembled commitments from 13 surety providers in the amount of \$2.4 billion, of which we had \$323 million outstanding as of September 30, 2019. The availability, terms and conditions and pricing of such bonding capacity are dependent on, among other things, continued financial strength and stability of the insurance company affiliates providing the bonding capacity, general availability of such capacity and our corporate credit rating. If bonding capacity is unavailable, or alternatively, if the terms and conditions and pricing of such bonding capacity are unacceptable to us, our vacation ownership business could be negatively impacted.

Our liquidity position may also be negatively affected by unfavorable conditions in the capital markets in which we operate or if our vacation ownership contract receivables portfolios do not meet specified portfolio credit parameters. Our liquidity, as it relates to our vacation ownership contract receivables securitization program, could be adversely affected if we were to fail to renew or replace our conduit facility on its expiration date, or if a particular receivables pool were to fail to meet certain ratios, which could occur in certain instances if the default rates or other credit metrics of the underlying vacation ownership contract receivables deteriorate. Our ability to sell securities backed by our vacation ownership contract receivables depends on the continued ability and willingness of capital market participants to invest in such securities.

Our secured debt is rated Ba2 with a “stable outlook” by Moody’s Investors Service, BB- with a “positive outlook” by Standard and Poor’s, and BB+ with a “stable outlook” by Fitch Rating Agency. A security rating is not a recommendation to buy, sell or hold securities and is subject to revision or withdrawal by the assigning rating organization. Reference in this report to any such credit rating is intended for the limited purpose of discussing or referring to aspects of our liquidity and of our costs of funds. Any reference to a credit rating is not intended to be any guarantee or assurance of, nor should there be any undue reliance upon, any credit rating or change in credit rating, nor is any such reference intended as any inference concerning future performance, future liquidity or any future credit rating.

SEASONALITY

We experience seasonal fluctuations in our net revenues and net income from sales of VOIs, vacation exchange fees and

commission income earned from renting vacation properties. Revenues from sales of VOIs are generally higher in the third quarter than in other quarters due to increased leisure travel. Revenues from vacation exchange fees are generally highest in the first quarter, which is when members of our vacation exchange business book their vacations for the year. Revenues from vacation rentals are generally highest in the third quarter, when vacation arrivals are highest. The seasonality of our business may cause fluctuations in our quarterly operating results. As we expand into new markets and geographical locations, we may experience increased or different seasonality dynamics that create fluctuations in operating results different from the fluctuations we have experienced in the past.

CONTRACTUAL OBLIGATIONS

The following table summarizes our future contractual obligations for the twelve month periods set forth below:

	10/1/19 - 9/30/20	10/1/20 - 9/30/21	10/1/21 - 9/30/22	10/1/22 - 9/30/23	10/1/23 - 9/30/24	Thereafter	Total
Non-recourse debt ^(a)	\$ 203	\$ 241	\$ 687	\$ 221	\$ 235	\$ 907	\$ 2,494
Debt	41	251	650	761	298	1,046	3,047
Interest on debt ^(b)	237	217	178	132	101	102	967
Operating leases	37	34	31	29	28	107	266
Purchase commitments ^(c)	245	184	115	112	113	449	1,218
Inventory sold subject to conditional repurchase ^(d)	38	56	30	—	—	—	124
Separation liabilities ^(e)	1	12	—	—	—	3	16
Other ^(f)	25	21	—	—	—	—	46
Total ^(g)	\$ 827	\$ 1,016	\$ 1,691	\$ 1,255	\$ 775	\$ 2,614	\$ 8,178

^(a) Represents debt that is securitized through bankruptcy-remote special purpose entities the creditors of which have no recourse to us for principal and interest.

^(b) Includes interest on both debt and non-recourse debt; estimated using the stated interest rates on our debt and non-recourse debt.

^(c) Includes (i) \$1.0 billion for marketing-related activities, (ii) \$139 million relating to the development of vacation ownership properties and (iii) \$43 million for information technology activities.

^(d) Represents obligations to repurchase completed vacation ownership properties from third-party developers (See Note 9—*Inventory* to the Condensed Consolidated Financial Statements included in Item 1 of this Quarterly Report on Form 10-Q for further detail) of which \$29 million was included within Accrued expenses and other liabilities, and \$13 million was included within Accounts payable on the Condensed Consolidated Balance Sheets included in Item 1 of this Quarterly Report on Form 10-Q.

^(e) Represents liabilities which we assumed and are responsible for pursuant to the Cendant Separation and Spin-off of the hotel business (See Note 24—*Transactions with Former Parent and Former Subsidiaries* to the Condensed Consolidated Financial Statements included in Item 1 of this Quarterly Report on Form 10-Q for further details).

^(f) Represents future consideration to be paid for the acquisition of ARN (See Note 5—*Acquisitions* to the Condensed Consolidated Financial Statements included in Item 1 of this Quarterly Report on Form 10-Q for further details).

^(g) Excludes a \$36 million liability for unrecognized tax benefits associated with the accounting guidance for uncertainty in income taxes since it is not reasonably estimable to determine the periods in which such liability would be settled with the respective tax authorities.

In addition to amounts shown in the table above, we have \$38 million of contractual obligations related to our held-for-sale business, of which \$12 million is due within one year. Such obligations primarily relate to operating leases and purchase obligations.

COMMITMENTS AND CONTINGENCIES

From time to time, the Company is involved in claims, legal and regulatory proceedings, and governmental inquiries related to the Company's business, none of which, in the opinion of management, is expected to have a material effect on our results of operations or financial condition. For discussion of these matters along with the Company's guarantees and indemnifications see Note 17—*Commitments and Contingencies* to the Condensed Consolidated Financial Statements included in Item 1 of this Quarterly Report on Form 10-Q.

CRITICAL ACCOUNTING POLICIES

In presenting our financial statements in conformity with generally accepted accounting principles, we are required to make estimates and assumptions that affect the amounts reported therein. Several of the estimates and assumptions we are required to make relate to matters that are inherently uncertain as they pertain to future events. However, events that are outside of our control cannot be predicted and, as such, they cannot be contemplated in evaluating such estimates and assumptions. If there is a significant unfavorable change to current conditions, it could result in a material impact to our consolidated results of operations, financial position and liquidity. We believe that the estimates and assumptions we used when preparing our financial statements were the most appropriate at that time. These Condensed Consolidated Financial Statements should be read in

conjunction with the audited Consolidated Financial Statements included in the Annual Report filed on Form 10-K with the SEC on February 26, 2019 which includes a description of our critical accounting policies that involve subjective and complex judgments that could potentially affect reported results.

In addition to the critical accounting policies discussed within our Annual Report on Form 10-K, as part of our adoption of the new Leases accounting standard, we made an accounting policy election to keep leases with an initial term of 12 months or less off the balance sheet and recognize the associated lease payments on a straight-line basis over the lease term in the income statement. Additionally, when available, we use the rate implicit in the lease to discount lease payments to present value; however, most of our leases do not provide a readily determinable implicit rate. Therefore, we must estimate our incremental borrowing rate to discount the lease payments based on information available at lease commencement.

Item 3. Quantitative and Qualitative Disclosures about Market Risks.

We assess our market risks based on changes in interest and foreign currency exchange rates utilizing a sensitivity analysis that measures the potential impact in earnings, fair values and cash flows based on a hypothetical 10% change (increase and decrease) in interest and foreign currency exchange rates. We used September 30, 2019 market rates to perform a sensitivity analysis separately for each of our market risk exposures. The estimates assume instantaneous, parallel shifts in interest rate yield curves and exchange rates. We have determined, through such analyses, that a hypothetical 10% change in the foreign currency exchange rates would have resulted in an approximate increase or decrease to the fair value of our outstanding forward foreign currency exchange contracts of \$4 million, which would generally be offset by an opposite effect on the underlying exposure being economically hedged. As such, we believe that a 10% change in foreign currency exchange rates would not have a material effect on our prices, earnings, fair values and cash flows.

Our variable rate borrowings, which include our term loan, bank conduit facility and revolving credit facility, expose us to risks caused by fluctuations in the applicable interest rates. The total outstanding balance of such variable rate borrowings at September 30, 2019 was approximately \$556 million in non-recourse vacation ownership debt and \$651 million in corporate debt. A 100 basis point change in the underlying interest rates would result in an approximate \$6 million increase or decrease in annual consumer financing interest expense and an approximate \$7 million increase or decrease in our annual debt interest expense.

Item 4. Controls and Procedures.

- (a) *Disclosure Controls and Procedures.* As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our principal executive and principal financial officers, of the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rule 13(a)-15(e) of the Securities Exchange Act of 1934 (the "Exchange Act")). Based on such evaluation, our principal executive and principal financial officers concluded that our disclosure controls and procedures were designed and functioning effectively to provide reasonable assurance that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and to provide reasonable assurance that such information is accumulated and communicated to our management, including our principal executive and principal financial officers, as appropriate, to allow timely decisions regarding required disclosure.
- (b) *Internal Control Over Financial Reporting.* There have been no changes in our internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act) during the period to which this report relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. As of September 30, 2019, we utilized the criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

We are involved in various claims and lawsuits arising in the ordinary course of business, none of which, in the opinion of management, is expected to have a material adverse effect on our results of operations or financial condition. See Note 17—*Commitments and Contingencies* to the Condensed Consolidated Financial Statements for a description of claims and legal actions arising in the ordinary course of our business and Note 24—*Transactions with Former Parent and Former Subsidiaries* to the Condensed Consolidated Financial Statements for a description of our obligations regarding Cendant contingent litigation, matters related to Wyndham Hotels and matters related to the European vacation rentals business. Both notes are included in Part 1 Item 1 of this Quarterly Report on Form 10-Q.

Item 1A. Risk Factors.

The discussion of our business and operations should be read together with the risk factors contained in Item 1A. of our Annual Report on Form 10-K for the fiscal year ended December 31, 2018, filed with the Securities and Exchange Commission, which describe various risks and uncertainties to which we are or may become subject. These risks and uncertainties have the potential to affect our business, financial condition, results of operations, cash flows, strategies or prospects in a material and adverse manner. As of September 30, 2019, there have been no material changes to the risk factors set forth in Item 1A. of our Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

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

- (a) On August 7, 2019, in connection with RCI’s acquisition of Alliance Reservations Network (ARN), 253,350 shares of our common stock were issued to stockholders of ARN (based on the volume-weighted average price per share of our common stock as reported on the New York Stock Exchange for the twenty-trading day period immediately preceding the issuance date, or \$45.39 per share) as a portion of the consideration for all of the outstanding equity of ARN. The issuance of shares of our common stock in the foregoing transaction was made in reliance upon the exemption from the registration requirements set forth in Section 4(a)(2) of the Securities Act of 1933, as amended, and Rule 506 of Regulation D promulgated thereunder. For additional information about this acquisition, see Note 5—*Acquisitions* to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.
- (c) Below is a summary of our common stock repurchases by month for the quarter ended September 30, 2019:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Approximate Dollar Value of Shares that May Yet Be Purchased Under Plan
July 2019	712,919	\$ 46.09	712,919	\$ 658,182,833
August 2019	743,678	\$ 41.42	743,678	\$ 627,383,206
September 2019 ^(a)	569,050	\$ 46.38	569,050	\$ 600,991,805
Total	2,025,647	\$ 44.45	2,025,647	\$ 600,991,805

(a) Includes 56,958 shares purchased for which the trade date occurred during September 2019 while settlement occurred during October 2019.

On August 20, 2007, our Board of Directors authorized a stock repurchase program that enables us to purchase our common stock. The Board has since increased the program eight times, most recently on October 23, 2017 for \$1.0 billion, bringing the total authorization under the current program to \$6.0 billion. Under our current and prior stock repurchase plans, the total authorization is \$6.8 billion.

For a description of limitations on the payment of our dividends, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Dividends,” included in Part I, Item 2 of this Quarterly Report on Form 10-Q.

Item 3. Defaults upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

<u>Exhibit No.</u>	<u>Description</u>
15*	Letter re: Unaudited Interim Financial Information
31.1*	Certification of President and Chief Executive Officer Pursuant to Rule 13a-14(a) Under the Securities and Exchange Act of 1934.
31.2*	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) Under the Securities Exchange Act of 1934
32**	Certification of President and Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed with this report

** Furnished with this report

October 30, 2019

Wyndham Destinations, Inc.
6277 Sea Harbor Drive
Orlando, Florida 32821

We have reviewed, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the unaudited interim condensed consolidated financial information of Wyndham Destinations, Inc. and subsidiaries for the three-month and nine-month periods ended September 30, 2019 and 2018, as indicated in our report dated October 30, 2019. As indicated in such report, because we did not perform an audit, we expressed no opinion on that information.

We are aware that our report referred to above, which is included in your Quarterly Report on Form 10-Q for the quarter ended September 30, 2019, is incorporated by reference in Registration Statement No. 333-136090 and 333-228435 on Forms S-8 and Registration Statement No. 333-223859 on Form S-3ASR.

We also are aware that the aforementioned report, pursuant to Rule 436(c) under the Securities Act of 1933, is not considered a part of the Registration Statement prepared or certified by an accountant or a report prepared or certified by an accountant within the meaning of Sections 7 and 11 of that Act.

/s/ Deloitte & Touche LLP
Tampa, Florida

CERTIFICATION

I, Michael D. Brown, certify that:

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

Date: October 30, 2019

/S/ MICHAEL D. BROWN
PRESIDENT AND CHIEF EXECUTIVE OFFICER

CERTIFICATION

I, Michael A. Hug, certify that:

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

Date: October 30, 2019

/s/ MICHAEL A. HUG

CHIEF FINANCIAL OFFICER

**CERTIFICATION OF PRESIDENT AND CEO AND CFO PURSUANT TO
18 U.S.C. SECTION 1350**

In connection with the Quarterly Report of Wyndham Destinations, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Michael D. Brown, as President and Chief Executive Officer of the Company, and Michael A. Hug, as Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

- (1.) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934;
and
- (2.) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/S/ MICHAEL D. BROWN

MICHAEL D. BROWN
PRESIDENT AND CHIEF EXECUTIVE OFFICER
OCTOBER 30, 2019

/S/ MICHAEL A. HUG

MICHAEL A. HUG
CHIEF FINANCIAL OFFICER
OCTOBER 30, 2019