

**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, 2020

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:

<i>Title of each class</i>	<i>Trading Symbol</i>	<i>Name of each exchange on which registered</i>
Common Stock, \$0.01 par value per share	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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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:
85,861,306 shares of common stock outstanding as of September 30, 2020.

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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/(loss) 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, gains and losses on sale/disposition of business, and items that meet the conditions of unusual and/or infrequent.
AOCL	Accumulated Other Comprehensive Loss
ARN	Alliance Reservations Network
AUD	Australian Dollar
Awaze	Awaze Limited, formerly Compass IV Limited, an affiliate of Platinum Equity, LLC
Board	Board of Directors
CARES Act	Coronavirus Aid, Relief, and Economic Security Act
Company	Wyndham Destinations, Inc. and its subsidiaries
COVID-19	Novel coronavirus global pandemic
Credit Agreement Amendment	An amendment to the Company's credit agreement for its revolving credit facility
EPS	Earnings/(loss) 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
LIBOR	London Interbank Offered Rate
Moody's	Moody's Investors Service, Inc.
NQ	Non-Qualified stock options
NZD	New Zealand Dollar
PCAOB	Public Company Accounting Oversight Board
PSU	Performance-vested restricted Stock Units
Relief Period	Relief period of the Credit Agreement Amendment
RSU	Restricted Stock Unit
S&P	Standard & Poor's Rating Services
SEC	Securities and Exchange Commission
SPE	Special Purpose Entity
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
VOCR	Vacation Ownership Contract Receivable
VOI	Vacation Ownership Interest
VPG	Volume Per Guest
Wyndham Hotels	Wyndham Hotels & Resorts, Inc.
Wyndham Destinations	Wyndham Destinations, Inc.
WVC	Wyndham Vacation Clubs
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, 2020, the related condensed consolidated statements of income/(loss), comprehensive income/(loss) and (deficit) for the three-month and nine-month periods ended September 30, 2020 and 2019, and of cash flows for the nine-month periods ended September 30, 2020 and 2019, 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, 2019, and the related consolidated statements of income, comprehensive income, cash flows and equity/(deficit) for the year then ended (not presented herein); and in our report dated February 26, 2020, 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, 2019, 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 28, 2020

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net revenues				
Service and membership fees	\$ 291	\$ 426	\$ 845	\$ 1,241
Consumer financing	115	132	360	385
Vacation ownership interest sales	196	528	273	1,384
Other	12	19	37	52
Net revenues	614	1,105	1,515	3,062
Expenses				
Operating	263	450	861	1,269
Consumer financing interest	26	26	76	78
Cost/(recovery) of vacation ownership interests	22	60	(26)	141
General and administrative	101	129	295	379
Marketing	84	188	247	505
COVID-19 related costs	14	—	81	—
Asset impairments	6	—	50	—
Restructuring	2	—	27	4
Separation and related costs	—	7	—	44
Depreciation and amortization	32	31	94	90
Total expenses	550	891	1,705	2,510
Operating income/(loss)	64	214	(190)	552
Other (income), net	(5)	(6)	(11)	(18)
Interest expense	52	40	138	122
Interest (income)	(2)	(1)	(5)	(6)
Income/(loss) before income taxes	19	181	(312)	454
(Benefit)/provision for income taxes	(21)	46	(54)	120
Net income/(loss) from continuing operations	40	135	(258)	334
Gain on disposal of discontinued businesses, net of income taxes	—	—	—	5
Net income/(loss) attributable to Wyndham Destinations shareholders	\$ 40	\$ 135	\$ (258)	\$ 339
Basic earnings/(loss) per share				
Continuing operations	\$ 0.47	\$ 1.48	\$ (3.00)	\$ 3.59
Discontinued operations	—	—	—	0.05
	\$ 0.47	\$ 1.48	\$ (3.00)	\$ 3.64
Diluted earnings/(loss) per share				
Continuing operations	\$ 0.47	\$ 1.47	\$ (3.00)	\$ 3.58
Discontinued operations	—	—	—	0.06
	\$ 0.47	\$ 1.47	\$ (3.00)	\$ 3.64

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2020	2019	2020	2019
Net income/(loss) attributable to Wyndham Destinations shareholders	\$ 40	\$ 135	\$ (258)	\$ 339
Other comprehensive income/(loss), net of tax				
Foreign currency translation adjustments	21	(26)	(4)	(25)
Other comprehensive income/(loss), net of tax	21	(26)	(4)	(25)
Comprehensive income/(loss)	<u>\$ 61</u>	<u>\$ 109</u>	<u>\$ (262)</u>	<u>\$ 314</u>

See Notes to Condensed Consolidated Financial Statements.

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

	September 30, 2020	December 31, 2019
Assets		
Cash and cash equivalents	\$ 1,276	\$ 355
Restricted cash (VIE - \$88 as of 2020 and \$110 as of 2019)	122	147
Trade receivables, net	122	144
Vacation ownership contract receivables, net (VIE - \$2,737 as of 2020 and \$2,984 as of 2019)	2,521	3,120
Inventory	1,331	1,199
Prepaid expenses	202	221
Property and equipment, net	679	680
Goodwill	958	970
Other intangibles, net	132	143
Other assets	479	474
Total assets	\$ 7,822	\$ 7,453
Liabilities and (deficit)		
Accounts payable	\$ 57	\$ 73
Accrued expenses and other liabilities	953	973
Deferred income	481	541
Non-recourse vacation ownership debt (VIE)	2,457	2,541
Debt	4,184	3,034
Deferred income taxes	683	815
Total liabilities	8,815	7,977
Commitments and contingencies (Note 17)		
Stockholders' (deficit):		
Preferred stock, \$0.01 par value, authorized 6,000,000 shares, none issued and outstanding	—	—
Common stock, \$0.01 par value, 600,000,000 shares authorized, 221,689,353 issued as of 2020 and 220,863,070 as of 2019	2	2
Treasury stock, at cost – 135,824,676 shares as of 2020 and 132,759,876 shares as of 2019	(6,508)	(6,383)
Additional paid-in capital	4,148	4,118
Retained earnings	1,414	1,785
Accumulated other comprehensive loss	(56)	(52)
Total stockholders' (deficit)	(1,000)	(530)
Noncontrolling interest	7	6
Total (deficit)	(993)	(524)
Total liabilities and (deficit)	\$ 7,822	\$ 7,453

See Notes to Condensed Consolidated Financial Statements.

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

	Nine Months Ended	
	September 30,	
	2020	2019
Operating activities		
Net (loss)/income	\$ (258)	\$ 339
Gain on disposal of discontinued businesses, net of income taxes	—	(5)
Adjustments to reconcile net (loss)/income to net cash provided by operating activities:		
Depreciation and amortization	94	90
Provision for loan losses	391	373
Deferred income taxes	(134)	36
Stock-based compensation	14	17
Asset impairments	50	12
Non-cash lease expense	19	24
Non-cash interest	16	16
Net change in assets and liabilities, excluding the impact of acquisitions and dispositions:		
Trade receivables	24	(7)
Vacation ownership contract receivables	205	(464)
Inventory	(107)	(18)
Deferred income	(60)	18
Accounts payable, accrued expenses, prepaid expenses, other assets and other liabilities	(28)	(128)
Other, net	(2)	18
Net cash provided by operating activities - continuing operations	224	321
Net cash used in operating activities - discontinued operations	—	(1)
Net cash provided by operating activities	224	320
Investing activities		
Property and equipment additions	(56)	(75)
Acquisition of businesses, net of cash acquired	—	(51)
Purchase of investments	(50)	—
Proceeds from asset sales	—	6
Other, net	8	5
Net cash used in investing activities - continuing operations	(98)	(115)
Net cash used in investing activities - discontinued operations	—	(22)
Net cash used in investing activities	(98)	(137)
Financing activities		
Proceeds from non-recourse vacation ownership debt	1,462	1,671
Principal payments on non-recourse vacation ownership debt	(1,556)	(1,532)
Proceeds from debt	1,065	2,149
Principal payments on debt	(521)	(2,007)
Proceeds from notes issued	643	—
Repayment of notes	(42)	(2)
Repayments of vacation ownership inventory arrangement	(10)	(12)
Cash transferred to Wyndham Hotels related to Spin-off	—	(69)
Payment for deferred consideration liability	(11)	—
Dividends to shareholders	(112)	(125)
Proceeds from issuance of common stock	4	6
Repurchase of common stock	(128)	(215)
Debt issuance/modification costs	(17)	(15)
Net share settlement of incentive equity awards	(2)	(4)
Other, net	—	(1)
Net cash provided by/(used in) financing activities	775	(156)
Effect of changes in exchange rates on cash, cash equivalents and restricted cash	(5)	(4)
Net change in cash, cash equivalents and restricted cash	896	23
Cash, cash equivalents and restricted cash, beginning of period	502	404
Cash, cash equivalents and restricted cash, end of period	1,398	427
Less: Restricted cash	122	148
Less: Cash and restricted cash included in assets of discontinued operations and held-for-sale business	—	29
Cash and cash equivalents	\$ 1,276	\$ 250

See Notes to Condensed Consolidated Financial Statements.

WYNDHAM DESTINATIONS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF DEFICIT
(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, 2019	88	\$ 2	\$ (6,383)	\$ 4,118	\$ 1,785	\$ (52)	\$ 6	\$ (524)
Net loss	—	—	—	—	(134)	—	—	(134)
Other comprehensive loss	—	—	—	—	—	(65)	—	(65)
Change in stock-based compensation	—	—	—	1	—	—	—	1
Repurchase of common stock	(3)	—	(125)	—	—	—	—	(125)
Dividends (\$0.50 per share)	—	—	—	—	(44)	—	—	(44)
Balance as of March 31, 2020	85	2	(6,508)	4,119	1,607	(117)	6	(891)
Net loss	—	—	—	—	(164)	—	—	(164)
Other comprehensive income	—	—	—	—	—	40	—	40
Net share settlement of stock-based compensation	—	—	—	(2)	—	—	—	(2)
Employee stock purchase program issuances	—	—	—	4	—	—	—	4
Change in stock-based compensation	—	—	—	7	—	—	—	7
Dividends (\$0.50 per share)	—	—	—	—	(44)	—	—	(44)
Balance as of June 30, 2020	85	2	(6,508)	4,128	1,399	(77)	6	(1,050)
Net income	—	—	—	—	40	—	—	40
Other comprehensive income	—	—	—	—	—	21	—	21
Issuance of shares	1	—	—	—	—	—	—	—
Change in stock-based compensation	—	—	—	6	—	—	—	6
Dividends (\$0.30 per share)	—	—	—	—	(26)	—	—	(26)
Acquisition of a business	—	—	—	14	—	—	—	14
Non-controlling interest ownership change	—	—	—	—	—	—	1	1
Other	—	—	—	—	1	—	—	1
Balance as of September 30, 2020	86	\$ 2	\$ (6,508)	\$ 4,148	\$ 1,414	\$ (56)	\$ 7	\$ (993)

See Notes to Condensed Consolidated Financial Statements.

WYNDHAM DESTINATIONS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF DEFICIT
(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.
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: Wyndham Vacation Clubs (“WVC”, formerly Vacation Ownership) and Panorama (formerly Vacation Exchange). The Company elected to update the segment names to better align with how the segments are referred to internally and externally.

The WVC 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 Panorama segment provides leisure travelers with flexibility and access to a wide variety of global travel options through its membership platforms, including timeshare exchange, closed user group, and home exchange.

The results of operations for 2020 include impacts related to the novel coronavirus global pandemic (“COVID-19”), which have been significantly negative for the travel industry, the Company, its customers, and employees. In response to COVID-19, the Company temporarily closed its resorts in mid-March across the globe and suspended its sales and marketing operations. As a result, the Company significantly reduced its workforce and furloughed thousands of employees. Given these significant events, the Company’s revenues were negatively impacted and it incurred \$31 million and \$377 million of charges related to COVID-19 during the three and nine months ended September 30, 2020, which are discussed in further detail in Note 22—*COVID-19 Related Items*. As a precautionary measure to enhance liquidity, the Company drew down its \$1.0 billion revolving credit facility at the end of the first quarter, and suspended its share repurchase activity. As of September 30, 2020, the Company has reopened 85% of its United States of America (“U.S.”) resorts 07% as of the date of this filing) and restarted 77% of its U.S. sales and marketing operations (79% as of the date of this filing). The Company estimates that the remaining suspended operations will resume in early 2021.

On August 7, 2019, the Company acquired Alliance Reservations Network (“ARN”) for \$102 million (\$97 million net of cash acquired). ARN provides private-label travel booking technology solutions. This acquisition was undertaken for the purpose of accelerating growth at RCI by increasing the offerings available to its members and affiliates. The Company has recognized the assets and liabilities of ARN based on estimates of their acquisition date fair values. ARN is reported within the Panorama segment. See Note 5—*Acquisitions* for additional details.

During 2018, the Company decided to explore strategic alternatives for its North American vacation rentals business and on October 22, 2019, completed the sale of this business for \$162 million. The assets and liabilities of this business were classified as held-for-sale as of September 30, 2019. This business did not meet the criteria to be classified as a discontinued operation; therefore, the results of operations through the date of sale were reflected within continuing operations on the Condensed Consolidated Statements of Income/(Loss). See Note 7—*Held-for-Sale Business* for further details.

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 U.S. All intercompany balances and transactions have been eliminated in the Condensed Consolidated Financial Statements.

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 and assumptions. 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 2019 Consolidated Financial Statements included in its Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 26, 2020.

2. New Accounting Pronouncements

Recently Issued Accounting Pronouncements

Simplifying the Accounting for Income Taxes. In December 2019, the Financial Accounting Standards Board (“FASB”) issued guidance to simplify the accounting for income taxes and clarifies the financial statement presentation for tax benefits related to tax deductible dividends. This guidance is effective for fiscal years beginning after December 15, 2020, 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.

Reference Rate Reform. In March 2020, the FASB issued guidance which provides optional expedients and exceptions for applying generally accepted accounting principles to contract modifications and hedging relationships, subject to meeting certain criteria that reference the London Interbank Offered Rate (“LIBOR”) or another reference rate expected to be discontinued. This guidance is effective as of March 12, 2020, and will apply through December 31, 2022. The transition from LIBOR as an interest rate benchmark is estimated to take place after 2021. The Company is currently evaluating the impact of the transition from LIBOR on its financial statements and related disclosures and the related impact of this guidance on the transition. On October 27, 2020 the Company closed on the renewal of its U.S. Dollar (“USD”) bank conduit facility (see Note 27—*Subsequent Events* for additional details) and adopted appropriate LIBOR disclosures for asset-backed securities (“ABS”) financing structures as part of the renewal. The Company intends to adopt such language, as appropriate, in its other relevant agreements prior to the end 2021.

Recently Adopted Accounting Pronouncements

Financial Instruments - Credit Losses. In June 2016, the 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 was effective for the Company on January 1, 2020, including interim periods within the fiscal year. The adoption of this guidance did not have a material impact on the Company’s financial statements and related disclosures as the Company’s prior approach in estimating the allowance for loan losses generally aligned with the expected credit loss model required upon adoption of this guidance. The Company has included additional disclosures in accordance with the adoption of this guidance, which are included in Note 8—*Vacation Ownership Contract Receivables*.

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 two 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 was effective for the Company on January 1, 2020, including interim periods within the fiscal year, and was applied on a prospective basis. The adoption of this guidance did not have a material impact on the Company’s financial statements and related disclosures.

3. Revenue Recognition

Wyndham Vacation Clubs

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 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/(Loss). 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/(Loss). Property management revenues, which are comprised of management fee revenue and reimbursable revenue, were \$149 million and \$178 million during the three months ended September 30, 2020 and 2019, and \$447 million and \$519 million during the nine months ended September 30, 2020 and 2019. Management fee revenues were \$86 million and \$100 million during the three months ended September 30, 2020 and 2019, and \$258 million and \$294 million during the nine months ended September 30, 2020 and 2019. Reimbursable revenues were \$63 million and \$78 million during the three months ended September 30, 2020 and 2019, and \$189 million and \$225 million during the nine months ended September 30, 2020 and 2019. One of the associations that the Company manages paid its Panorama segment \$7 million and \$8 million for exchange services during the three months ended September 30, 2020 and 2019, and \$20 million and \$22 million during the nine months ended September 30, 2020 and 2019.

Panorama

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 network and, for some members, for other leisure-related services and products.

Panorama derives 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 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 business also derives revenues from programs with affiliated resorts, club servicing, and loyalty programs; and 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, event, or other related transaction.

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.

Prior to the sale of the vacation rental businesses, the Company's vacation rental brands derived revenue from fees associated with the rental of vacation properties managed and marketed by the Company on behalf of independent owners.

The Company remitted 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, was recognized over the renter's stay. The Company's vacation rental brands also derived revenues from additional services delivered to independent owners, vacation rental guests, and property owners' associations which were generally recognized when the service was delivered.

Other Items

The Company records property management services revenues and RCI Elite Rewards revenues for its WVC and Panorama 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, 2020 and December 31, 2019, were as follows (in millions):

Contract Liabilities	September 30, 2020	December 31, 2019
Deferred subscription revenue	\$ 180	\$ 206
Deferred VOI trial package revenue	126	145
Deferred VOI incentive revenue	89	107
Deferred exchange-related revenue ^(a)	64	58
Deferred co-branded credit card programs revenue	17	19
Deferred other revenue	8	4
Total	\$ 484	\$ 539

^(a) 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 Sheets.

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.

Changes in contract liabilities for the nine months ended September 30, 2020 and 2019, follow (in millions):

	Amount
Contract liabilities as of December 31, 2019	\$ 539
Additions	180
Revenue recognized	(235)
Contract liabilities as of September 30, 2020	<u>\$ 484</u>

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

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. As of September 30, 2020 and December 31, 2019, these capitalized costs were \$47 million and \$53 million and are included within Other assets on the Condensed Consolidated Balance Sheets.

The Company’s vacation exchange business incurs certain direct and incremental selling costs to obtain contracts with customers in connection with subscription revenues and exchange-related 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, 2020 and December 31, 2019, these capitalized costs were \$17 million and \$20 million; and are included within Other assets on the Condensed Consolidated Balance Sheets.

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 12-month periods set forth below (in millions):

	10/1/2020 - 9/30/2021	10/1/2021 - 9/30/2022	10/1/2022 - 9/30/2023	Thereafter	Total
Subscription revenue	\$ 111	\$ 39	\$ 16	\$ 14	\$ 180
VOI trial package revenue	126	—	—	—	126
VOI incentive revenue	89	—	—	—	89
Exchange-related revenue	58	4	1	1	64
Co-branded credit card programs revenue	4	3	6	4	17
Other revenue	8	—	—	—	8
Total	\$ 396	\$ 46	\$ 23	\$ 19	\$ 484

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 (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Wyndham Vacation Clubs				
Property management fees and reimbursable revenues	\$ 149	\$ 178	\$ 447	\$ 519
Consumer financing	114	132	360	385
Vacation ownership interest sales ^(a)	196	528	273	1,384
Fee-for-Service commissions	6	—	10	12
Ancillary revenues	12	20	35	51
Total Wyndham Vacation Clubs	477	858	1,125	2,351
Panorama				
Exchange revenues	122	158	352	498
Vacation rental revenues	—	60	—	146
Ancillary revenues	16	32	41	72
Total Panorama	138	250	393	716
Corporate and other				
Ancillary revenues	—	(1)	—	1
Eliminations	(1)	(2)	(3)	(6)
Total Corporate and other	(1)	(3)	(3)	(5)
Net revenues	\$ 614	\$ 1,105	\$ 1,515	\$ 3,062

^(a) The Company increased its loan loss allowance by \$225 million in the first quarter of 2020, due to an expected increase in defaults driven by higher unemployment associated with COVID-19, which is reflected as a reduction to Vacation ownership interest sales on the Condensed Consolidated Statements of Income/(Loss).

4. Earnings/(Loss) Per Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net income/(loss) from continuing operations attributable to Wyndham Destinations shareholders	\$ 40	\$ 135	\$ (258)	\$ 334
Gain on disposal of discontinued businesses attributable to Wyndham Destinations shareholders, net of tax	—	—	—	5
Net income/(loss) attributable to Wyndham Destinations shareholders	<u>\$ 40</u>	<u>\$ 135</u>	<u>\$ (258)</u>	<u>\$ 339</u>
<i>Basic earnings/(loss) per share</i>				
Continuing operations	\$ 0.47	\$ 1.48	\$ (3.00)	\$ 3.59
Discontinued operations	—	—	—	0.05
	<u>\$ 0.47</u>	<u>\$ 1.48</u>	<u>\$ (3.00)</u>	<u>\$ 3.64</u>
<i>Diluted earnings/(loss) per share</i>				
Continuing operations	\$ 0.47	\$ 1.47	\$ (3.00)	\$ 3.58
Discontinued operations	—	—	—	0.06
	<u>\$ 0.47</u>	<u>\$ 1.47</u>	<u>\$ (3.00)</u>	<u>\$ 3.64</u>
Basic weighted average shares outstanding	85.9	91.7	86.1	93.0
Stock-settled appreciation rights (“SSARs”), RSUs ^(a) and PSUs ^(b)	0.2	0.3	—	0.3
Diluted weighted average shares outstanding ^{(c)(d)}	<u>86.1</u>	<u>92.0</u>	<u>86.1</u>	<u>93.3</u>
<i>Dividends:</i>				
Aggregate dividends paid to shareholders	\$ 26	\$ 41	\$ 112	\$ 125

(a) Excludes 1.0 million and 1.1 million restricted stock units (“RSUs”) that would have been anti-dilutive to EPS for the three and nine months ended September 30, 2020, of which 0.1 million would have been dilutive for the nine months ended September 30, 2020 had the Company not been in a net loss position during this period. Excludes 0.3 million and 0.8 million of anti-dilutive RSUs for the three and nine months ended September 30, 2019. These shares could potentially dilute EPS in the future.

(b) Excludes 0.3 million performance-vested restricted stock units (“PSUs”) for the three and nine months ended September 30, 2020, as the Company has not met the required performance metrics. Excludes 0.2 million PSUs for the three and nine months ended September 30, 2019, as the Company has not met the required performance metrics. These PSUs could potentially dilute EPS in the future.

(c) Excludes 2.3 million and 2.1 million of outstanding stock option awards that would have been anti-dilutive to EPS for the three and nine months ended September 30, 2020. Excludes 1.1 million and 1.0 million of outstanding stock option awards that would have been anti-dilutive to EPS for the three and nine months ended September 30, 2019. These outstanding stock option awards could potentially dilute EPS 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 (in millions):

	Shares Repurchased	Cost
As of December 31, 2019	108.2	\$ 5,602
Repurchases	3.1	125
As of September 30, 2020	<u>111.3</u>	<u>\$ 5,727</u>

The Company had \$351 million of remaining availability under its program as of September 30, 2020. In March 2020, the Company suspended its share repurchase activity due to the uncertainty resulting from COVID-19. On July 15, 2020, the Company amended the credit agreement for its revolving credit facility and term loan B. Among other changes, the

amendment places the Company into a relief period from July 15, 2020 through April 1, 2022 that prohibits the use of cash for share repurchases unless the first lien leverage ratio is below 4.25 to 1.0 after the share repurchase.

5. Acquisitions

Alliance Reservations Network. On August 7, 2019, the Company acquired all of the equity of ARN. ARN provides private-label travel booking technology solutions. This acquisition was undertaken for the purpose of accelerating growth at RCI by increasing the offerings available to its members and affiliates. ARN was acquired for \$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 (\$11 million of which was paid on August 7, 2020); (iv) \$10 million of contingent consideration based on achieving certain financial and operational metrics; and (v) additional shares of Wyndham Destinations stock valued at \$14 million (468,100 shares at \$28.84 per share) delivered 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 purchase price allocation, including the impacts of certain post-closing adjustments, consists of: (i) \$27 million of developed software with a weighted average life of 10 years included within Property and equipment, net; (ii) \$38 million of Goodwill; (iii) \$35 million of definite-lived intangible assets with a weighted average life of 12 years primarily consisting of customer relationships; 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 Panorama segment.

The Company completed purchase accounting for this transaction during the third quarter of 2020. The details above reflect the following final purchase accounting adjustments: \$7 million increase in developed software and \$7 million decrease in Goodwill.

Given the significant impact of COVID-19 on the travel industry, the Company performed a quantitative assessment of the goodwill acquired as part of the ARN acquisition during the third quarter of 2020. The quantitative assessment resulted in a fair value that exceeded the carrying amount by approximately 18%; therefore, the Company determined that the goodwill of ARN is not impaired.

Although the Company has determined that the goodwill of ARN is not impaired at this time, to the extent estimated discounted cash flows are revised downward, whether as a result of continued and worsening COVID-19 impacts or if management's current negotiations to expand ARN programs both internally and externally do not materialize as expected, the Company may be required to write-down all or a portion of this goodwill, which would negatively impact earnings.

As a result of the impacts of COVID-19, the Company also performed an interim impairment analysis of ARN's property and equipment and other intangible assets during the third quarter of 2020, and determined that it is more likely than not that these assets were not impaired.

6. Discontinued Operations

During 2018, the Company completed the spin-off of its hotel business ("Spin-off") Wyndham Hotels & Resorts, Inc. ("Wyndham Hotels") 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 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 their classification as discontinued operations, 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 Panorama.

The following table presents information regarding certain components of income from discontinued operations, net of income taxes (in millions) for the nine months ended September 30, 2020 and 2019, as there were no such amounts for the quarterly periods ended September 30, 2020 and 2019:

	Nine Months Ended September 30,	
	2020	2019
Gain on disposal of discontinued businesses, net of income taxes	\$ —	\$ 5
Net income/(loss) attributable to Wyndham Destinations shareholders	\$ —	\$ 5

The following table presents information regarding certain components of cash flows from discontinued operations (in millions):

	Nine Months Ended September 30,	
	2020	2019
Net cash used in operating activities	\$ —	\$ (1)
Net cash used in investing activities	—	(22)
Net cash provided by/(used in) financing activities	—	—

7. Held-for-Sale Business

During 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”). On October 22, 2019, the Company closed on the sale of this business for \$162 million. After customary closing adjustments, the Company received \$156 million in cash and \$10 million in Vacasa equity, resulting in a gain of \$68 million. The purchase agreement contains customary post-closing adjustments.

The assets and liabilities of this business were classified as held-for-sale as of September 30, 2019. The business did not meet the criteria to be classified as a discontinued operation; therefore, the results of operations through the date of sale were reflected within continuing operations during the three and nine months ended September 30, 2019, on the Condensed Consolidated Statements of Income/(Loss). Prior to its sale, this business was reported within the Panorama segment.

8. Vacation Ownership Contract Receivables

The Company generates vacation ownership contract receivables (“VOCRs”) by extending financing to the purchasers of its VOIs. Vacation ownership contract receivables, net consisted of (in millions):

	September 30, 2020	December 31, 2019
<i>Vacation ownership contract receivables:</i>		
Securitized	\$ 2,737	\$ 2,984
Non-securitized	572	883
Vacation ownership contract receivables, gross	3,309	3,867
Less: Allowance for loan losses	788	747
Vacation ownership contract receivables, net	\$ 2,521	\$ 3,120

During the three and nine months ended September 30, 2020, the Company’s securitized VOCRs generated interest income of \$92 million and \$303 million. During the three and nine months ended September 30, 2019, the Company’s securitized VOCRs generated interest income of \$103 million and \$303 million. Such interest income is included within Consumer financing revenue on the Condensed Consolidated Statements of Income/(Loss).

During the nine months ended September 30, 2020 and 2019, the Company originated VOCRs of \$338 million and \$1.16 billion, and received principal collections of \$543 million and \$696 million. The weighted average interest rate on outstanding VOCRs was 14.4% as of September 30, 2020 and December 31, 2019.

The activity in the allowance for loan losses on VOCRs was as follows (in millions):

	Amount
Allowance for loan losses as of December 31, 2019	\$ 747
Provision for loan losses	391
Contract receivables write-offs, net	(350)
Allowance for loan losses as of September 30, 2020	<u>\$ 788</u>
	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>

The Company recorded a provision for loan losses of \$45 million and \$391 million as a reduction of net revenues during the three and nine months ended September 30, 2020, and \$135 million and \$373 million for the three and nine months ended September 30, 2019. Due to the current economic downturn resulting from COVID-19, the Company evaluated the potential impact of COVID-19 on its owners' ability to repay their contract receivables and as a result of current and projected unemployment rates, the Company increased its loan loss allowance. This was reflected as a \$225 million reduction to Vacation ownership interest sales and a \$55 million reduction to Cost/(recovery) of vacation ownership interests on the Condensed Consolidated Statements of Income/(Loss) recorded during the first quarter of 2020.

Estimating the amount of the additional loan loss allowance for COVID-19 involved the use of significant estimates and assumptions. Management based its estimates on the Company's historical data during the most recent recession in 2008 utilizing the relationship between unemployment rates and net new defaults. Specifically, historical data indicated that net new defaults did not return to prior levels until 15-20 months after the peak in unemployment. Given the significant amount of government assistance provided to consumers in the early stages of the pandemic, the Company expects defaults to remain elevated at or just beyond the later end of that range. The Company will continue to monitor this reserve as more information becomes available.

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 within the U.S. 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 (in millions):

As of September 30, 2020						
	700+	600-699	<600	No Score	Asia Pacific	Total
Current	\$ 1,749	\$ 902	\$ 195	\$ 104	\$ 213	\$ 3,163
31 - 60 days	19	23	13	4	1	60
61 - 90 days	14	16	13	3	1	47
91 - 120 days	10	14	11	3	1	39
Total ^(a)	\$ 1,792	\$ 955	\$ 232	\$ 114	\$ 216	\$ 3,309

As of December 31, 2019						
	700+	600-699	<600	No Score	Asia Pacific	Total
Current	\$ 2,019	\$ 1,049	\$ 196	\$ 134	\$ 250	\$ 3,648
31 - 60 days	25	37	21	5	2	90
61 - 90 days	18	28	17	3	1	67
91 - 120 days	13	21	24	3	1	62
Total ^(a)	\$ 2,075	\$ 1,135	\$ 258	\$ 145	\$ 254	\$ 3,867

^(a) Includes contracts under temporary deferment (up to 180 days). As of September 30, 2020 and December 31, 2019, contracts under deferment total \$86 million and \$8 million.

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.

The following table details the year of origination of financing receivables using the most recently updated FICO scores, based on the policy described above (in millions):

As of September 30, 2020						
	700+	600-699	<600	No Score	Asia Pacific	Total
2020	\$ 336	\$ 142	\$ 12	\$ 16	\$ 41	\$ 547
2019	530	314	75	30	73	1,022
2018	369	202	59	23	37	690
2017	238	125	38	17	22	440
2016	137	70	19	11	16	253
Prior	182	102	29	17	27	357
Total	\$ 1,792	\$ 955	\$ 232	\$ 114	\$ 216	\$ 3,309

As of December 31, 2019						
	700+	600-699	<600	No Score	Asia Pacific	Total
2019	\$ 866	\$ 454	\$ 54	\$ 53	\$ 119	\$ 1,546
2018	486	285	80	32	49	932
2017	303	166	51	23	29	572
2016	173	89	29	14	20	325
2015	99	56	17	9	14	195
Prior	148	85	27	14	23	297
Total	\$ 2,075	\$ 1,135	\$ 258	\$ 145	\$ 254	\$ 3,867

9. Inventory

Inventory consisted of (in millions):

	September 30, 2020	December 31, 2019
Land held for VOI development	\$ 1	\$ 3
VOI construction in process	26	24
Inventory sold subject to repurchase	19	24
Completed VOI inventory	997	802
Estimated VOI recoveries	278	281
Vacation exchange credits and other	10	65
Total inventory	\$ 1,331	\$ 1,199

The Company had net transfers of VOI inventory to property and equipment of \$28 million and less than \$1 million during the nine months ended September 30, 2020 and 2019.

In the first quarter of 2020, as a result of resort closures and cancellations surrounding COVID-19, the Company recorded a \$38 million reduction of exchange inventory consisting of costs previously incurred by RCI to provide enhanced out-of-network travel options to members. During the third quarter of 2020, the Company recorded an additional \$10 million reduction to exchange inventory. These write-offs are included within Operating expenses on the Condensed Consolidated Statements of Income/(Loss). The Company anticipates that remaining inventory will be fully utilized to maximize exchange supply for its members in 2020 and beyond.

Inventory Sale Transactions

During the third quarter of 2020, the Company acquired properties located in Orlando, Florida, and Moab, Utah, from third-party developers for vacation ownership inventory and property and equipment.

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

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 sale transactions.

In accordance with the 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. Under the sale of real estate accounting guidance, the conditional rights and obligations of the Company constitute continuing involvement and thus the Company was unable to account for these transactions as sales.

Inventory Obligations

The following table summarizes the activity related to the Company's inventory obligations (in millions):

	Avon ^(a)	Las Vegas ^(a)	Austin ^(a)	Orlando ^(a)	Moab ^(a)	Other ^(b)	Total
December 31, 2019	\$ —	\$ 43	\$ —	\$ —	\$ —	\$ 6	\$ 49
Purchases	—	15	—	44	37	87	183
Payments	—	(39)	—	(22)	—	(83)	(144)
September 30, 2020	\$ —	\$ 19	\$ —	\$ 22	\$ 37	\$ 10	\$ 88
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 third-party developers subject to the property meeting the Company’s vacation ownership resort standards and provided that the third-party developers have not sold the property to another party. The maximum potential future payments that the Company may be required to make under this commitment was \$86 million as of September 30, 2020.

10. Property and Equipment

Property and equipment, net, consisted of (in millions):

	September 30, 2020	December 31, 2019
Land	\$ 30	\$ 28
Building and leasehold improvements	591	572
Furniture, fixtures and equipment	229	218
Capitalized software	685	652
Finance leases	14	14
Construction in progress	36	40
Total property and equipment	1,585	1,524
Less: Accumulated depreciation and amortization	906	844
Property and equipment, net	\$ 679	\$ 680

11. Debt

The Company’s indebtedness consisted of (in millions):

	September 30, 2020	December 31, 2019
<i>Non-recourse vacation ownership debt:</i> ^(a)		
Term notes ^(b)	\$ 2,190	\$ 1,969
USD bank conduit facility (due August 2021) ^(c)	106	508
AUD/NZD bank conduit facility (due September 2021) ^(d)	161	64
Total	\$ 2,457	\$ 2,541
<i>Debt:</i> ^(e)		
\$1.0 billion secured revolving credit facility (due May 2023) ^(f)	\$ 547	\$ —
\$300 million secured term loan B (due May 2025)	292	293
\$40 million 7.375% secured notes (due March 2020)	—	40
\$250 million 5.625% secured notes (due March 2021)	250	249
\$650 million 4.25% secured notes (due March 2022) ^(g)	649	649
\$400 million 3.90% secured notes (due March 2023) ^(h)	403	404
\$300 million 5.40% secured notes (due April 2024)	298	298
\$350 million 6.35% secured notes (due October 2025) ⁽ⁱ⁾	343	342
\$650 million 6.625% secured notes (due July 2026)	641	—
\$400 million 5.75% secured notes (due April 2027) ⁽ⁱ⁾	408	409
\$350 million 4.625% secured notes (due March 2030)	345	345
Finance leases	8	5
Total	\$ 4,184	\$ 3,034

^(a) Represents non-recourse debt that is securitized through bankruptcy-remote special purpose entities (“SPEs”), 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 \$2.85 billion and \$3.12 billion of underlying gross VOCRs and related assets (which legally are not assets of the Company) as of September 30, 2020 and December 31, 2019.

^(b) The carrying amounts of the term notes are net of deferred financing costs of \$25 million and \$23 million as of September 30, 2020 and December 31, 2019.

^(c) The Company has a borrowing capability of \$800 million under the USD bank conduit facility through August 2021. Borrowings under this facility are required to be repaid as the collateralized receivables amortize but no later than September 2022. On October 27, 2020 the Company renewed this facility, extending the end of the commitment period from August 30, 2021 to October 31, 2022. See Note 27—*Subsequent Events* for additional details.

- (d) The Company has a borrowing capability of 255 million Australian dollars (“AUD”) and 48 million New Zealand dollars (“NZD”) under the AUD/NZD bank conduit facility through September 2021. Borrowings under this facility are required to be repaid no later than September 2023.
- (e) The carrying amounts of the secured notes and term loan are net of unamortized discounts of \$17 million and \$12 million as of September 30, 2020 and December 31, 2019, and net of unamortized debt financing costs of \$8 million and \$7 million as of September 30, 2020 and December 31, 2019.
- (f) The weighted average effective interest rate on borrowings from this facility were 3.01% and 5.19% as of September 30, 2020 and December 31, 2019. In late March 2020, the Company drew down its \$1.0 billion secured revolving credit facility as a precautionary measure due to COVID-19. The Company had \$1.28 billion in Cash and cash equivalents on the Condensed Consolidated Balance Sheet at September 30, 2020.
- (g) Includes \$1 million of unamortized gains from the settlement of a derivative as of September 30, 2020 and December 31, 2019.
- (h) Includes \$4 million and \$5 million of unamortized gains from the settlement of a derivative as of September 30, 2020 and December 31, 2019.
- (i) Includes \$5 million and \$6 million of unamortized losses from the settlement of a derivative as of September 30, 2020 and December 31, 2019.
- (j) Includes \$11 million and \$13 million of unamortized gains from the settlement of a derivative as of September 30, 2020 and December 31, 2019.

Sierra Timeshare 2020-1 Receivables Funding LLC

On April 29, 2020, the Company closed a private securitization financing, issued by Sierra Timeshare 2020-1 Receivables Fundings LLC, with an initial principal amount of \$325 million, secured by VOCRs and bearing a floating interest rate of 3.50% as of September 30, 2020. The advance rate for this transaction was 85%.

Sierra Timeshare 2020-2 Receivables Funding LLC

On August 13, 2020, the Company closed on a placement of a series of term notes payable, issued by Sierra Timeshare 2020-2 Receivables Fundings LLC, with an initial principal amount of \$575 million, which are secured by VOCRs and bear interest at a weighted average coupon rate of 2.81%. The advance rate for this transaction was 90%.

Debt

On May 6, 2020, the Company’s corporate notes were downgraded by Moody’s Investors Service, Inc. (“Moody’s”). As a result of such notes being downgraded, pursuant to the terms of the indentures governing the Company’s 5.40% notes due 2024, the 6.35% notes due 2025, and the 5.75% notes due 2027, the interest rates applicable to such series of notes were all increased by 0.25% per annum, effective October 1, 2020. Pursuant to the terms of the indentures governing such series of notes, the interest rate on each such series of notes may be subject to future increases or decreases, as a result of future downgrades or upgrades to the credit ratings of such notes by Standard & Poor’s Rating Services (“S&P”), Moody’s, or a substitute rating agency.

Secured Notes. On July 24, 2020, the Company issued secured notes, with a face value of \$650 million and an interest rate of 6.625%, for net proceeds of \$643 million. Debt discount and deferred financing costs were \$7 million and \$2 million, which will be amortized over the life of the notes. Interest is payable semi-annually in arrears on the notes. The notes will mature on July 31, 2026, and are redeemable at the Company’s option at a redemption price equal to the greater of (i) the sum of the principal being redeemed, and (ii) a “make-whole” price specified in the Indenture and the notes, plus, in each case, accrued and unpaid interest. The proceeds will be used for general corporate purposes, which may include the repayment of outstanding indebtedness under its secured revolving credit facility, the future repayment of the Company’s 5.625% secured notes due March 2021 and the payment of related fees and expenses. In the third quarter, the Company used a portion of the secured notes proceeds to repay \$350 million of its indebtedness under the secured revolving credit facility.

Maturities and Capacity

The Company’s outstanding debt as of September 30, 2020, matures as follows (in millions):

	Non-recourse Vacation Ownership Debt		Debt		Total
Within 1 year	\$	366	\$	253	\$ 619
Between 1 and 2 years		316		652	968
Between 2 and 3 years		254		951	1,205
Between 3 and 4 years		256		299	555
Between 4 and 5 years		270		291	561
Thereafter		995		1,738	2,733
	\$	2,457	\$	4,184	\$ 6,641

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

As of September 30, 2020, available capacity under the Company's borrowing arrangements was as follows (in millions):

	Non-recourse Conduit Facilities (a)	Revolving Credit Facilities (b)
Total capacity	\$ 1,014	\$ 1,000
Less: Outstanding borrowings	267	547
Less: Letters of credit	—	60
Available capacity	\$ 747	\$ 393

(a) Consists of the Company's USD bank conduit facility and AUD/NZD bank conduit facility. The capacity of these facilities 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 secured 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 and a maximum first lien leverage ratio. 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. 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.

On July 15, 2020, the Company entered into an amendment to the Company's credit agreement ("Credit Agreement Amendment"). The Credit Agreement Amendment establishes a relief period with respect to the Company's secured revolving credit facility, which commenced on July 15, 2020, and will end on April 1, 2022, or the termination by the Company of the relief period, subject to certain conditions ("Relief Period"). The Credit Agreement Amendment increases the existing leverage-based financial covenant of 4.25 to 1.0 by varying levels for each applicable quarter during the Relief Period. During the third quarter of 2020, the Credit Agreement Amendment increased the maximum first lien leverage ratio to 6.50 to 1.0. Following the Relief Period, the Credit Agreement Amendment reestablishes the existing leverage-based financial covenant of 4.25 to 1.0, tested on the basis of trailing 12-month consolidated EBITDA (as defined in the credit agreement). In addition, the Credit Agreement Amendment, among other things, increases the interest rate applicable to borrowings under the Company's secured revolving credit facility based on the Company's first lien leverage ratio in any quarter it exceeds 4.25 to 1.0, until the end of the Relief Period; adds a new minimum liquidity covenant, tested quarterly until the end of the Relief Period, of (i) \$250 million plus (ii) 50% of the aggregate amount of dividends paid after the effective date of the Credit Agreement Amendment and on or prior to the last day of the relevant fiscal quarter; and requires the Company and its subsidiaries to maintain an interest coverage ratio (as defined in the Credit Agreement) of not less than 2.00 to 1.0, which shall increase to 2.50 to 1.0 after the Relief Period, the level existing prior to the effective date of the Credit Agreement Amendment. Finally, the Credit Agreement Amendment amends the definition of "Material Adverse Effect" in the Credit Agreement to take into consideration the impacts of the COVID-19 pandemic during the Relief Period, to the extent disclosed prior to July 15, 2020, in the Company's public filings and certain other specified materials. The Relief Period includes certain restrictions on the use of cash including the prohibition of share repurchases unless the first lien leverage ratio is below the original ratio of 4.25 to 1.0 after the share repurchase. The Company has the option to terminate the Relief Period at any time it can demonstrate compliance with the 4.25 to 1.0 first lien leverage ratio.

As of September 30, 2020, the Company's first lien leverage ratio was 4.1 to 1.0 and the Company's interest coverage ratio was 4.2 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, 2020, the Company was in compliance with the financial covenants described above.

Each of the Company's non-recourse, securitized term notes, and the bank conduit facilities contain various triggers relating to the performance of the applicable loan pools. If the VOCRs pool that collateralizes one of the Company's 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, 2020, all of the Company's securitized loan pools were in compliance with applicable contractual triggers.

Interest Expense

The Company incurred interest expense of \$52 million and \$138 million during the three and nine months ended September 30, 2020. Such amounts consisted primarily of interest on debt, excluding non-recourse vacation ownership debt, and included an offset of less than \$1 million and \$1 million of capitalized interest during the three and nine months ended September 30, 2020. Cash paid related to such interest was \$126 million during the nine months ended September 30, 2020.

The Company incurred interest expense of \$40 million and \$122 million during the three and nine months ended September 30, 2019. Such amounts consisted primarily of interest on debt, excluding non-recourse vacation ownership debt, and included an offset of \$1 million and \$2 million of capitalized interest in each period. Cash paid related to such interest was \$119 million during the nine months ended September 30, 2019.

Interest expense incurred in connection with the Company’s non-recourse vacation ownership debt was \$26 million and \$76 million during the three and nine months ended September 30, 2020, \$26 million and \$78 million during the three and nine months ended September 30, 2019, and is recorded within Consumer financing interest on the Condensed Consolidated Statements of Income/(Loss). Cash paid related to such interest was \$56 million and \$61 million for the nine months ended September 30, 2020 and 2019.

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, 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 VOCRs and sells them to bankruptcy-remote entities. VOCRs qualify for securitization based primarily on the credit strength of the VOI purchaser to whom financing has been extended. VOCRs 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 VOCRs. The Company services the securitized VOCRs 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 VOCRs 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 of these SPEs have no recourse to the Company for principal and interest.

The assets and liabilities of these vacation ownership SPEs are as follows (in millions):

	September 30, 2020	December 31, 2019
Securitized contract receivables, gross ^(a)	\$ 2,737	\$ 2,984
Securitized restricted cash ^(b)	88	110
Interest receivables on securitized contract receivables ^(c)	26	25
Other assets ^(d)	3	4
Total SPE assets	2,854	3,123
Non-recourse term notes ^{(e) (f)}	2,190	1,969
Non-recourse conduit facilities ^(e)	267	572
Other liabilities ^(g)	1	4
Total SPE liabilities	2,458	2,545
SPE assets in excess of SPE liabilities	\$ 396	\$ 578

^(a) The Company does not allocate allowance for loan losses to SPEs. This amount is 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 \$25 million and \$23 million as of September 30, 2020 and December 31, 2019, 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 VOCRs that have not been securitized through bankruptcy-remote SPEs. Such gross receivables were \$572 million and \$883 million as of September 30, 2020 and December 31, 2019. A summary of total vacation ownership receivables and other securitized assets, net of securitized liabilities and the allowance for loan losses, is as follows (in millions):

	September 30, 2020	December 31, 2019
SPE assets in excess of SPE liabilities	\$ 396	\$ 578
Non-securitized contract receivables	572	883
Less: Allowance for loan losses	788	747
Total, net	<u>\$ 180</u>	<u>\$ 714</u>

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 had 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 had 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.

During the nine months ended September 30, 2019, the SPE conveyed \$23 million 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, foreign exchange forward contracts, foreign exchange spots, and foreign exchange swaps.

As of September 30, 2020, the Company had foreign exchange contracts which resulted in \$1 million of assets which are included within Other assets and less than \$1 million of liabilities which are included within Accrued expenses and other liabilities on the Condensed Consolidated Balance Sheets. On a recurring basis, such assets and liabilities (all of which are Level 2) are remeasured at estimated fair value 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 were as follows (in millions):

	September 30, 2020		December 31, 2019	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets				
Vacation ownership contract receivables, net (Level 3)	\$ 2,521	\$ 3,162	\$ 3,120	\$ 3,907
Liabilities				
Debt (Level 2)	\$ 6,641	\$ 6,675	\$ 5,575	\$ 5,709

The Company estimates the fair value of its VOCRs 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 Euro, British pound, Australian and Canadian 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, 2020, the Company had no fair value interest rate hedges.

Losses on derivatives recognized in AOCL for the three and nine months ended September 30, 2020 and 2019, were not material.

15. Income

Taxes

The Company files U.S. federal, state and foreign income tax returns in jurisdictions with varying statutes of limitations. The Company is no longer subject to U.S. federal income tax examinations for years prior to 2016. 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 was (110.5)% and 25.4% for the three months ended September 30, 2020 and 2019. The Company's effective tax rate was 17.3% and 26.4% for the nine months ended September 30, 2020 and 2019. The change in the effective tax rate is primarily due to the change in the Company's updated forecasts for taxable earnings for the full year, which have been significantly impacted by COVID-19. The jurisdictional composition of the forecast resulted in profits within higher tax rate jurisdictions and losses in many lower tax rate jurisdictions, which significantly impacted the overall effective tax rate of the Company. The Company reported a tax benefit on pre-tax income for the third quarter of 2020 resulting from the true-up of applying the revised forecasted effective tax rate to the prior quarter's losses.

The Company made income tax payments, net of tax refunds, of \$47 million and \$82 million during the nine months ended September 30, 2020 and 2019. The Company also made 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.

Tax positions are reviewed at least quarterly and adjusted as new information becomes available. The recoverability of deferred tax assets is evaluated by assessing the adequacy of future expected taxable income from all sources, including reversal of taxable temporary differences, available tax planning strategies and forecasted operating earnings. These estimates of future taxable income inherently require significant judgment. To the extent it is considered more likely than not that a deferred tax asset will be not recovered, a valuation allowance is established. The significant negative impacts of COVID-19 resulted in the establishment of additional valuation allowances during the nine months ended September 30, 2020 of \$8 million related to foreign tax credits.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security ("CARES") Act was established to provide emergency assistance and health care for individuals, families, and businesses affected by COVID-19 and generally support the U.S. economy. The CARES Act, among other things, includes provisions relating to refundable payroll tax credits, deferment of employer social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations, and technical corrections to tax depreciation methods for qualified improvement property. The Company recorded \$3 million and \$24 million of employee retention tax credits for the three and nine months ended September 30, 2020, including credits from similar programs outside the U.S. These credits are reflected within COVID-19 related costs on the Condensed Consolidated Statements of Income/(Loss). The Company expects to continue to participate in these programs to a lesser degree in the fourth quarter of 2020. The Company has deferred social security payments and will have additional depreciation deductions relating to qualified improvement property. While the Company continues to review and consider any available benefits under the CARES Act or similar legislation that may be enacted in response to the COVID-19 pandemic for which it qualifies, the Company cannot predict the manner in which such benefits will be allocated or administered and cannot assure that it will be able to receive such benefits in a timely manner.

16. Leases

The Company leases property and equipment under finance and operating leases for its corporate headquarters, administrative functions, marketing and sales offices, and various other facilities and equipment. For leases with terms greater than 12 months, the Company records the related asset and obligation at the present value of lease payments over the term. Many of its leases include rental escalation clauses, lease incentives, renewal options and/or termination options that are factored into the Company's 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 statements of income/(loss).

When available, the Company uses the rate implicit in the lease to discount lease payments to present value; however, most of its leases do not provide a readily determinable implicit rate. Therefore, the Company must estimate its incremental

borrowing rate to discount the lease payments based on information available at lease commencement. The majority of the Company's leases have remaining lease terms of one to 20 years, some of which include options to extend the leases for up to 10 years, and some of which include options to terminate the leases within one year.

The Company had right-of-use assets of \$104 million and \$136 million and related lease liabilities of \$171 million and \$180 million as of September 30, 2020 and December 31, 2019. 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 (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Operating lease cost	\$ 7	\$ 9	\$ 24	\$ 28
Short-term lease cost	\$ 4	\$ 6	\$ 11	\$ 18
Finance lease cost:				
Amortization of right-of-use assets	\$ 1	\$ —	\$ 2	\$ 1
Interest on lease liabilities	—	—	—	—
Total finance lease cost	\$ 1	\$ —	\$ 2	\$ 1

The table below presents supplemental cash flow information related to leases (in millions):

	Nine Months Ended September 30,	
	2020	2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 28	\$ 35
Operating cash flows from finance leases	—	—
Financing cash flows from finance leases	3	2
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	\$ 9	\$ 17
Finance leases	6	2

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

	Balance Sheet Classification	September 30, 2020	December 31, 2019
Operating leases (in millions):			
Operating lease right-of-use assets	Other assets	\$ 104	\$ 136
Operating lease liabilities	Accrued expenses and other liabilities	171	180
Finance leases (in millions):			
Finance lease assets ^(a)	Property and equipment, net	\$ 8	\$ 5
Finance lease liabilities	Debt	8	5
Weighted average remaining lease term:			
Operating leases		7.3 years	7.8 years
Finance leases		2.8 years	2.8 years
Weighted average discount rate:			
Operating leases ^(b)		6.2%	6.2%
Finance leases		5.6%	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, 2020 (in millions):

	Operating Leases	Finance Leases
Three months ending December 31, 2020	\$ 9	\$ 1
2021	35	4
2022	31	3
2023	30	1
2024	29	—
Thereafter	78	—
Total minimum lease payments	212	9
Less: Amount of lease payments representing interest	(41)	(1)
Present value of future minimum lease payments	\$ 171	\$ 8

Subsequent to the Spin-off 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 30, 2019, the Company recorded \$12 million of 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/(Loss).

Due to the impact of COVID-19, the Company decided in the second quarter of 2020 to abandon the remaining portion of its administrative offices in New Jersey. The Company was also notified in the second quarter that Wyndham Hotels exercised its early termination rights under the sublease agreement for this building. As a result, the Company recorded \$22 million of restructuring charges associated with non-lease components of the office space and \$24 million of impairment charges associated with the write-off of right-of-use assets and furniture, fixtures, and equipment. During the third quarter of 2020, the Company incurred \$5 million of impairment charges related to right-of-use assets at closed sales centers within its WVC segment.

17. Commitments and Contingencies

The Company is involved in claims, legal and regulatory proceedings, and governmental inquiries related to its business, none of which, in the opinion of management, is expected to have a material effect on the Company's 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 Panorama 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, 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 fiscal quarter 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 as of September 30, 2020 and December 31, 2019. Such reserves are exclusive of matters relating to the Company’s separation from Cendant, matters relating to the Spin-off, matters relating to the sale of the European vacation rentals business, and matters relating to the sale of the North American vacation rentals business, which are discussed in Note 25—*Transactions with Former Parent and Former Subsidiaries*. 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, 2020, the potential exposure resulting from adverse outcomes of such legal proceedings could, in the aggregate, range up to \$33 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.

For matters deemed reasonably possible, therefore 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. As of September 30, 2020, the potential exposure resulting from adverse outcomes of such legal proceedings could, in the aggregate, range to an amount that is less than \$1 million.

GUARANTEES/INDEMNIFICATIONS

Standard Guarantees/Indemnifications

In the ordinary course of business, the Company enters into agreements that contain standard guarantees and indemnities whereby the Company indemnifies another party for specified breaches of, or third-party claims relating to, an underlying agreement. Such underlying agreements are typically entered into by one of the Company’s subsidiaries. The various underlying agreements generally govern purchases, sales or outsourcing of products or services, leases of real estate, licensing of software and/or development of vacation ownership properties, access to credit facilities, derivatives and issuances of debt securities. Also in the ordinary course of business, the Company provides corporate guarantees for its operating business units relating to merchant credit-card processing for prepaid customer stays and other deposits. While a majority of these guarantees and indemnifications extend only for the duration of the underlying agreement, some survive the expiration of the agreement. The Company is not able to estimate the maximum potential amount of future payments to be made under these guarantees and indemnifications as the triggering events are not predictable. In certain cases, the Company maintains insurance coverage that may mitigate any potential payments.

Other Guarantees and Indemnifications

Wyndham Vacation Clubs

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 25—*Transactions with Former Parent and Former Subsidiaries*.

18. Accumulated Other Comprehensive (Loss)/Income

The components of accumulated other comprehensive (loss)/income are as follows (in millions):

	Foreign Currency Translation Adjustments	Unrealized (Losses)/Gains on Cash Flow Hedges	Defined Benefit Pension Plans	Accumulated Other Comprehensive (Loss)/Income
Pretax				
Balance, December 31, 2019	\$ (148)	\$ (1)	\$ 1	\$ (148)
Other comprehensive loss	(6)	—	—	(6)
Balance, September 30, 2020	<u>\$ (154)</u>	<u>\$ (1)</u>	<u>\$ 1</u>	<u>\$ (154)</u>
Tax				
Balance, December 31, 2019	\$ 95	\$ 1	\$ —	\$ 96
Other comprehensive income	2	—	—	2
Balance, September 30, 2020	<u>\$ 97</u>	<u>\$ 1</u>	<u>\$ —</u>	<u>\$ 98</u>
Net of Tax				
Balance, December 31, 2019	\$ (53)	\$ —	\$ 1	\$ (52)
Other comprehensive loss	(4)	—	—	(4)
Balance, September 30, 2020	<u>\$ (57)</u>	<u>\$ —</u>	<u>\$ 1</u>	<u>\$ (56)</u>

	Foreign Currency Translation Adjustments	Unrealized (Losses)/Gains 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	<u>\$ (173)</u>	<u>\$ (1)</u>	<u>\$ 2</u>	<u>\$ (172)</u>
Tax				
Balance, December 31, 2018 ^(a)	\$ 94	\$ 2	\$ (1)	\$ 95
Other comprehensive income/(loss) before reclassifications	1	(1)	—	—
Amount reclassified to earnings	—	—	—	—
Balance, September 30, 2019	<u>\$ 95</u>	<u>\$ 1</u>	<u>\$ (1)</u>	<u>\$ 95</u>
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	<u>\$ (78)</u>	<u>\$ —</u>	<u>\$ 1</u>	<u>\$ (77)</u>

^(a) Includes impact of the Company's adoption of 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.

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 AOCL are presented in the following table. Amounts in parenthesis indicate debits to the Condensed Consolidated Statements of Income/(Loss) (in millions):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2020	2019	2020	2019
Unrealized losses on cash flow hedge, net				
Gain on disposal of discontinued businesses, net of income taxes	\$ —	\$ —	\$ —	\$ (1)
Net income/(loss) attributable to Wyndham Destinations shareholders	\$ —	\$ —	\$ —	\$ (1)

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, 2020, 11.9 million shares remain available.

Incentive Equity Awards Granted by the Company

During the nine months ended September 30, 2020, the Company granted incentive equity awards to key employees and senior officers totaling \$35 million in the form of RSUs, \$8 million in the form of PSUs, and \$8 million in the form of stock options. Of these awards, the majority of NQs and RSUs will vest ratably over a period of four years. 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, 2020, consisted of the following (in millions, except grant prices):

	Balance, December 31, 2019	Granted	Vested/Exercised	Forfeitures ^(a)	Balance, September 30, 2020
RSUs					
Number of RSUs	1.0	1.0	(0.3)	(0.1)	1.6 ^(b)
Weighted average grant price	\$ 46.32	\$ 33.60	\$ 46.43	\$ 43.07	\$ 38.34
PSUs					
Number of PSUs	0.2	0.1	—	—	0.3 ^(c)
Weighted average grant price	\$ 44.38	\$ 41.04	\$ —	\$ —	\$ 42.57
SSARs					
Number of SSARs	0.2	—	—	—	0.2 ^(d)
Weighted average grant price	\$ 34.24	\$ —	\$ —	\$ —	\$ 34.52
NQs					
Number of NQs	1.3	1.1	—	(0.1)	2.3 ^(e)
Weighted average grant price	\$ 46.84	\$ 41.04	\$ —	\$ 42.89	\$ 44.16

(a) The Company recognizes forfeitures as they occur.

(b) Aggregate unrecognized compensation expense related to RSUs was \$51 million as of September 30, 2020, which is expected to be recognized over a weighted average period of 2.7 years.

(c) There was no unrecognized compensation expense related to PSUs as of September 30, 2020.

(d) There were 0.2 million SSARs that were exercisable as of September 30, 2020. There was no unrecognized compensation expense related to SSARs.

as of September 30, 2020, as all SSARs are vested.

- (e) Unrecognized compensation expense for NQs was \$12 million as of September 30, 2020, which is expected to be recognized over a weighted average period of 3.0 years.

The fair values of stock options granted by the Company during 2020 were estimated on the date of 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.

Stock Options	2020 (a)	2020 (b)
Grant date fair value	\$ 7.28	\$ 7.27
Grant date strike price	\$ 41.04	\$ 41.04
Expected volatility	32.60%	32.88%
Expected life	7.50 years	6.25 years
Risk-free interest rate	1.03%	0.95%
Projected dividend yield	4.87%	4.87%

(a) Stock options cliff vest after a period of five years.

(b) Stock options vest ratably over a period of four years.

Stock-Based Compensation Expense

The Company recorded stock-based compensation expense of \$6 million and \$14 million during the three and nine months ended September 30, 2020, and \$5 million and \$17 million during the three and nine months ended September 30, 2019, related to incentive equity awards granted to key employees, senior officers, and non-employee directors. Stock based compensation expense includes \$4 million for the nine months ended September 30, 2019, which has been classified within Separation and related costs on the Condensed Consolidated Statements of Income/(Loss).

The Company paid \$2 million of taxes for the net share settlement of incentive equity awards that vested during the nine months ended September 30, 2020, and \$4 million during the nine months ended September 30, 2019.

Employee Stock Purchase Plan

The Company has an employee stock purchase plan which allows eligible employees to purchase common shares of Company stock through payroll deductions at a 40% 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 issuances under this plan during the nine months ended September 30, 2020 and 2019.

20. Segment Information

The Company has two operating segments: WVC and Panorama. The WVC 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 Panorama segment provides leisure travelers with flexibility and access to a wide variety of global travel options through its membership platforms, including timeshare exchange, closed user group, and home exchange. During 2018, the Company decided to explore strategic alternatives for its North American vacation rentals business, which was part of its Panorama segment, and completed the sale of this business on October 22, 2019. The assets and liabilities of this business were classified as held-for-sale until the sale was completed. This business did not meet the criteria to be classified as a discontinued operation; therefore, the results of operations through the date of sale are included in the 2019 results presented in the tables below. 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/(loss) 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, gains and losses on sale/disposition of business, 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.

The following tables present the Company's segment information (in millions):

Net revenues	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2020	2019	2020	2019
Wyndham Vacation Clubs	\$ 477	\$ 858	\$ 1,125	\$ 2,351
Panorama	138	250	393	716
Total reportable segments	615	1,108	1,518	3,067
Corporate and other ^(a)	(1)	(3)	(3)	(5)
Total Company	\$ 614	\$ 1,105	\$ 1,515	\$ 3,062

Reconciliation of Net income/(loss) to Adjusted EBITDA	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2020	2019	2020	2019
Net income/(loss) attributable to Wyndham Destinations shareholders	\$ 40	\$ 135	\$ (258)	\$ 339
Gain on disposal of discontinued businesses, net of income taxes	—	—	—	(5)
(Benefit)/provision for income taxes	(21)	46	(54)	120
Depreciation and amortization	32	31	94	90
Interest expense	52	40	138	122
Interest (income)	(2)	(1)	(5)	(6)
Asset impairments ^(b)	6	—	54	—
COVID-19 related costs ^(c)	13	—	51	—
Exchange inventory write-off	10	—	48	—
Restructuring	2	—	27	4
Stock-based compensation	6	5	14	13
Legacy items ^(d)	1	—	2	1
Acquisition and divestiture related costs	—	4	—	4
Separation and related costs ^(e)	—	7	—	44
Adjusted EBITDA	\$ 139	\$ 267	\$ 111	\$ 726

Adjusted EBITDA	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2020	2019	2020	2019
Wyndham Vacation Clubs	\$ 96	\$ 203	\$ 6	\$ 534
Panorama	60	83	142	234
Total reportable segments	156	286	148	768
Corporate and other ^(a)	(17)	(19)	(37)	(42)
Total Company	\$ 139	\$ 267	\$ 111	\$ 726

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

^(b) Includes \$5 million of bad debt expense related to a note receivable for the nine months ended September 30, 2020, included in Operating expenses on the Condensed Consolidated Statements of Income/(Loss).

^(c) Reflects severance and other employee costs associated with layoffs due to the COVID-19 workforce reduction offset in part by employee retention credits received in connection with the U.S. CARES Act and similar international programs for wages paid to certain employees despite having operations suspended.

^(d) Represents the resolution of and adjustment to certain contingent liabilities resulting from the Spin-off, the sale of the European vacation rentals business, and the Company's separation from Candant.

^(e) Includes \$4 million of stock based compensation expense for the nine months ended September 30, 2019.

Segment Assets ^(a)	September 30, 2020	December 31, 2019
Wyndham Vacation Clubs	\$ 5,064	\$ 5,582
Panorama	1,365	1,482
Total reportable segments	6,429	7,064
Corporate and other	1,393	389
Total Company	\$ 7,822	\$ 7,453

^(a) Excludes investment in consolidated subsidiaries.

21. Separation and Related 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 which are reflected in continuing operations. These costs were comprised of stock compensation, 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 former corporate headquarters. This decision was part of the Company's continued focus on rationalizing existing facilities in order to reduce its corporate footprint.

22. COVID-19 Related Items

During the three and nine months ended September 30, 2020, the Company incurred \$14 million and \$81 million of expenses in connection with COVID-19 which are included within COVID-19 related costs on the Condensed Consolidated Statements of Income/(Loss). A reduction in workforce in March resulted in the layoff or furlough of approximately 9,000 employees. As of September 30, 2020, there were approximately 5,700 employees that were laid off or remained furloughed. Of the COVID-19 related costs, \$9 million and \$68 million were recognized during the three and nine months ended September 30, 2020, related to severance and other employee costs resulting from the layoffs, salary and benefits continuation for certain employees while operations are suspended, and vacation payments associated with furloughed employees. These charges consisted of (i) \$7 million and \$53 million at the WVC segment, (ii) \$1 million and \$6 million at the Panorama segment, and (iii) \$1 million and \$9 million at the Company's corporate operations during the three and nine months ended September 30, 2020.

The COVID-19 employee-related costs during the three and nine months ended September 30, 2020 included \$3 million and \$24 million of employee retention credits earned in connection with government programs, primarily the CARES Act. This provision of the CARES Act has no additional requirements or restrictions.

As of September 30, 2020, the Company had liabilities of \$12 million for COVID-19 employee-related costs included within Accrued expenses and other liabilities on the Condensed Consolidated Balance Sheets. The activity associated with the Company's COVID-19 related liabilities is summarized as follows (in millions):

	Liability as of December 31, 2019	Costs Recognized	Cash Payments	Other ^(a)	Liability as of September 30, 2020
COVID-19 employee-related	\$ —	\$ 68	\$ (55)	\$ (1)	\$ 12
	\$ —	\$ 68	\$ (55)	\$ (1)	\$ 12

^(a) Includes employee-related write-offs.

In the first quarter of 2020, the Company evaluated the potential impact of COVID-19 on its owners' ability to repay their contract receivables and as a result of higher unemployment, the Company increased its loan loss allowance. This was reflected as a \$225 million reduction to Vacation ownership interest sales and a \$55 million reduction to Cost/(recovery) of vacation ownership interests on the Condensed Consolidated Statements of Income/(Loss). The net negative impact of the additional provision related to COVID-19 on Adjusted EBITDA was \$170 million for the nine months ended September 30, 2020. The Company will continue to monitor this reserve as more information becomes available. Refer to Note 8—*Vacation Ownership Contract Receivables* for additional details.

As a result of the impact on the business from COVID-19, the Company performed impairment analyses resulting in \$6 million and \$50 million of impairments for the three and nine months ended September 30, 2020. These impairments include: (i) \$6 million of impairments during the third quarter at the WVC segment driven by right-to-use leases and related fixed assets due to sales center closures; (ii) a \$24 million impairment during the second quarter related to the New Jersey lease discussed in Note 24—*Restructuring*; (iii) \$9 million of impairments during the second quarter related to other assets including equity investments and furniture, fixtures and equipment; and (iv) \$10 million of impairments recognized during the first quarter of 2020 related to prepaid development costs and undeveloped land and the Love Home Swap tradename. Refer to Note 23—*Impairments* for additional details.

Other impairments include \$48 million of exchange inventory write-offs during the nine months ended September 30, 2020 as discussed in Note 9—*Inventory*, and \$5 million of bad debt expense related to a note receivable recorded in the second quarter of 2020. These impairments are included in Operating expenses on the Condensed Consolidated Statements of Income/(Loss).

The Company also recognized \$24 million of restructuring charges during the nine months ended September 30, 2020. This was driven by \$22 million related to the New Jersey lease discussed in Note 24—*Restructuring* recognized during the second quarter of 2020.

The tables below present the COVID-19 related impacts to the Company's results of operations for the three and nine months ended September 30, 2020, and the related classification on the Condensed Consolidated Statements of Income/(Loss) (in millions):

Three Months Ended	Wyndham Vacation Clubs	Panorama	Corporate	Consolidated	Income Statement Classification
Employee compensation related and other	\$ 11	\$ 1	\$ 2	\$ 14	COVID-19 related costs
Asset impairments	6	—	—	6	Asset impairments
Exchange inventory write-off	—	10	—	10	Operating expenses
Lease related	1	—	—	1	Restructuring
Total COVID-19	\$ 18	\$ 11	\$ 2	\$ 31	

Nine Months Ended	Wyndham Vacation Clubs	Panorama	Corporate	Consolidated	Income Statement Classification
Allowance for loan losses:					
Provision	\$ 225	\$ —	\$ —	\$ 225	Vacation ownership interest sales
Recoveries	(55)	—	—	(55)	Cost/(recovery) of vacation ownership interests
Employee compensation related and other	62	6	13	81	COVID-19 related costs
Asset impairments	20	34	—	54	Asset impairments/Operating expenses
Exchange inventory write-off	—	48	—	48	Operating expenses
Lease related	2	22	—	24	Restructuring
Total COVID-19	\$ 254	\$ 110	\$ 13	\$ 377	

23. Impairments

The Company recognized \$6 million and \$50 million of impairments during the three and nine months ended September 30, 2020. During the first quarter of 2020, there were \$6 million of impairments at the WVC segment related to prepaid development costs and undeveloped land and \$4 million at the Panorama segment related to the Love Home Swap

tradename. In the second quarter, the Company recorded a \$24 million impairment at the Panorama segment related to the New Jersey lease discussed in Note 24—*Restructuring* and the associated furniture, fixtures and equipment, a \$6 million impairment for equity investments held at the Panorama segment, and a \$3 million impairment at the WVC segment related to lease assets and furniture, fixtures and equipment. During the third quarter, \$6 million of impairments were driven by right-to-use leases and related fixed assets within the WVC operating segment due to sales center closures.

24. Restructuring

2020 Restructuring Plans

During the nine months ended September 30, 2020, the Company recorded \$24 million of COVID-19 related restructuring charges. Due to the impact of COVID-19, the Company decided in the second quarter of 2020 to abandon the remaining portion of its administrative offices in New Jersey. The Company was notified in the second quarter that Wyndham Hotels exercised its early termination rights under the sublease agreement. As a result, the Company recorded \$22 million of restructuring charges associated with non-lease components of the office space and \$24 million of impairment charges associated with the write-off of right-of-use assets and furniture, fixtures and equipment at its Panorama segment. The Company also recognized \$2 million of facility-related restructuring charges and \$6 million of impairment charges associated with closed sales centers at its WVC segment. The Company reduced the 2020 restructuring liability by less than \$1 million of cash payments during the nine months ended September 30, 2020. The remaining 2020 restructuring liability of \$24 million is expected to be paid by the end of 2029.

2019 Restructuring Plans

During 2019, the Company recorded \$5 million of charges related to restructuring initiatives, most of which were personnel-related resulting from a reduction of approximately 100 employees. This action was primarily focused on enhancing organizational efficiency and rationalizing operations. The charges consisted of (i) \$2 million at the WVC segment, (ii) \$2 million at the Panorama segment, and (iii) \$1 million at the Company’s corporate operations. The Company reduced its restructuring liability by \$1 million of cash payments during 2019. During the nine months ended September 30, 2020, the Company incurred an additional \$2 million of restructuring expenses at its Panorama segment and \$1 million at its corporate operations. The Company reduced this restructuring liability by \$5 million of cash payments during the nine months ended September 30, 2020. The remaining 2019 restructuring liability of \$2 million is expected to be paid by the end of 2021.

The Company implemented additional restructuring plans prior to 2019 for which the Company reduced the liabilities by \$3 million of cash payments during the nine months ended September 30, 2020. The remaining liability of less than \$1 million as of September 30, 2020, is mostly personnel-related and is expected to be paid by the end of 2021.

The activity associated with the Company’s restructuring plans is summarized as follows (in millions):

	Liability as of		Liability as of	
	December 31, 2019	Costs Recognized	Cash Payments	September 30, 2020
Personnel-related	\$ 7	\$ 3	\$ (8)	\$ 2
Facility-related	—	24	—	24
	<u>\$ 7</u>	<u>\$ 27</u>	<u>\$ (8)</u>	<u>\$ 26</u>

25. Transactions with Former Parent and Former Subsidiaries

Matters Related to Cendant

Pursuant to the Separation and Distribution Agreement with Cendant (the Company’s former parent company), 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 has settled the majority of the lawsuits that were pending on the date of the separation.

As of September 30, 2020, the Cendant separation and related liabilities of \$13 million are comprised of \$12 million for tax liabilities and \$1 million for other contingent and corporate liabilities. As of December 31, 2019, the Company had \$13 million of Cendant separation-related liabilities. These liabilities are included 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 separation including the Separation and Distribution Agreement, the Employee Matters Agreement, 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, 2020, transition service agreement expenses of less than \$1 million were included in General and administrative expense. For the three and nine months ended September 30, 2019, transition service agreement expenses included \$1 million and \$2 million within General and administrative expense, and less than \$1 million and \$2 million within Separation and related costs on the Condensed Consolidated Statements of Income/(Loss). Transition service agreement income during the nine months ended September 30, 2019, was \$1 million, included in Other revenue. As of September 30, 2020, these transition services have ended.

Matters Related to the European Vacation Rentals Business

In connection with the sale of the Company's European vacation rentals business to Awaze Limited ("Awaze"), formerly Compass IV Limited, an affiliate of Platinum Equity, LLC, 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. Awaze 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 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 denominated in pound sterling of \$46 million. The estimated fair value of the guarantee was \$22 million as of September 30, 2020. The Company established a \$7 million receivable from Wyndham Hotels for its portion of the guarantee.

During 2019, the Company reached an agreement with Awaze 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, in the European vacation rentals business' final net proceeds (as defined by the sales agreement). The Company paid \$40 million to Wyndham Hotels in the second quarter of 2019 for certain items including the return of the escrow, post-closing adjustments, transaction expenses, and estimated taxes.

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 Awaze 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 was \$45 million at September 30, 2020. 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 mainly 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, 2020. Wyndham Destinations is responsible for two-thirds of these guarantees.

As part of this agreement Wyndham Hotels is required to maintain minimum credit ratings which increased to Ba1 for Moody's and BB+ for S&P on May 9, 2020. In April 2020, S&P downgraded Wyndham Hotels' credit rating from BB+ to BB. Although any ultimate exposure relative to indemnities retained from the European vacation rentals sale will be shared two-thirds by Wyndham Destinations and one-third by Wyndham Hotels, as the selling entity, Wyndham Destinations is responsible for administering additional security to enhance corporate guarantees in the event either company falls below a certain credit rating threshold. As a result of the Wyndham Hotels credit ratings downgrade, during the third quarter, the Company posted a £58 million surety bond and a £36 million letter of credit (\$75 million and \$46 million as of September 30, 2020) which will be maintained until such time that either companies' S&P and Moody's credit rating improves to BB+/Ba1.

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 on the Condensed Consolidated Balance Sheets at September 30, 2020. Total receivables of \$23 million were included in Other assets on the Condensed Consolidated Balance Sheets at September 30, 2020, representing the portion of these guarantees and indemnifications for which Wyndham Hotels is responsible.

During 2019, Awaze proposed certain post-closing adjustments of \$44 million which could serve to reduce the net consideration received from the sale of the European vacation rentals business. The Company finds no basis for such adjustments, and at this time the Company cannot reasonably estimate the probability or amount of the potential liability that may be owed to Awaze, if any. Any potential liability would be shared two-thirds and one-third between the Company and Wyndham Hotels and the impact would be included in discontinued operations. After the close of the second quarter, Awaze filed its claim with the high courts of England and Wales. The Company filed its defense on September 25, 2020 setting forth its disagreement with the claim and rebuttal of any obligation for the amounts claimed.

Wyndham Destinations entered into a transition service agreement with Awaze, 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 nine months ended September 30, 2020, transition service agreement expenses were less than \$1 million and transition service agreement income was less than \$1 million. 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. Transition service agreement expenses were included in General and administrative expense and transition service income was included in Net revenues on the Condensed Consolidated Statements of Income/(Loss). As of September 30, 2020, these transition services have ended.

Matter Related to the North American Vacation Rentals Business

In connection with the sale of the North American vacation rentals business, the Company agreed to indemnify Vacasa against certain claims and assessments, including income tax and other tax matters related to the operations of the North American vacations rentals business for the periods prior to the transaction. The estimated fair value of the indemnifications was \$2 million, which was included in Accrued expenses and other liabilities on the Condensed Consolidated Balance Sheets at September 30, 2020.

In connection with the sale of the North American vacations rentals business in the fourth quarter of 2019, the Company entered into a transition service agreement with Vacasa, pursuant to which the companies agreed to provide each other certain transitional services including human resources, facilities, payroll, information technology, information management and related services, treasury, and finance on an interim, transitional basis. During the three and nine months ended September 30, 2020, transition service agreement expenses were less than \$1 million and \$1 million and transition service agreement income was less than \$1 million and \$1 million. Transition service agreement expenses were included in General and administrative expense and transition service income was included in Other revenue on the Condensed Consolidated Statements of Income/(Loss).

26. 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, Florida. On July 8, 2020, the Company acquired the completed vacation ownership property for \$45 million.

In August 2018, the Company provided notification to the owner trustee of the Company's leased aircraft of its intent to exercise the purchase option for such aircraft at fair market value. In connection with that purchase, the Company entered into an agreement to sell the Company aircraft to its former CEO and current Chairman of the Board of Directors at a price equivalent to the purchase price. In January 2019, the transaction to purchase the aircraft and sell the aircraft for \$16 million was closed. The Company occasionally sublets this aircraft for business travel through a timesharing arrangement, and incurred less than \$1 million of expenses as of September 30, 2020 and 2019.

27. Subsequent Events

Sierra Timeshare Conduit Renewal

On October 27, 2020 Sierra Timeshare Conduit Receivables Funding II, LLC (the "Issuer"), an indirect, wholly-owned subsidiary of Wyndham Destinations, Inc., renewed its securitized timeshare receivables conduit facility, extending the end of the commitment period from August 30, 2021 to October 31, 2022 and making certain other amendments, including to the advance rate, the LIBOR replacement mechanism, certain default and delinquency triggers, the applicable commercial paper rate and certain concentration limits. The facility bears interest based on variable commercial paper rates plus a spread or LIBOR (or a successor rate), plus a spread.

The renewal involved execution of (i) a Tenth Amendment, dated as of October 27, 2020, to the Amended and Restated Indenture and Servicing Agreement, dated as of October 1, 2010, by and among the Issuer, Wyndham Consumer Finance, Inc., as Servicer, Wells Fargo Bank, National Association, as Trustee and U.S. Bank National Association, as Collateral Agent and (ii) a Tenth Amendment, dated as of October 27, 2020 to the Amended and Restated Note Purchase Agreement, dated as of October 1, 2010, by and among the Issuer, Wyndham Consumer Finance, Inc., as Servicer, Wyndham Destinations, Inc. and JPMorgan Chase Bank N.A., as Deal Agent.

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. and its subsidiaries (“Wyndham Destinations” or “we”) 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, uncertainty with respect to the scope and duration of the novel coronavirus global pandemic (“COVID-19”) and any resurgences and the pace of recovery; the timing of the development and distribution of an effective vaccine or treatment for COVID-19; the potential impact of the COVID-19 pandemic and governmental, business and individuals’ actions in response to the pandemic and our related contingency plans and cost and investment reductions on our business, vacation ownership interest (“VOI”) sales and tour flow, consumer demand and liquidity, our ability to comply with financial and restrictive covenants under our indebtedness and our ability to access capital on reasonable terms, at a reasonable cost or at all, our ability and the ability of Wyndham Hotels & Resorts, Inc. (“Wyndham Hotels”) to maintain credit ratings, general economic conditions and unemployment rates, the performance of the financial and credit markets, the competition in and the economic environment for the timeshare industry; risks associated with employees working remotely or operating with a reduced workforce; the impact of war, terrorist activity, political strife, severe weather events and other natural disasters, and pandemics (including COVID-19) or threats of pandemics; operating risks associated with the Wyndham Vacation Clubs (“WVC”) and Panorama segments; uncertainties related to our ability to realize the anticipated benefits of the spin-off of the hotel business (“Spin-off”) Wyndham Hotels or the divestiture of our North American and European vacation rentals businesses or the acquisition of Alliance Reservations Network (“ARN”); unanticipated developments related to the impact of the Spin-off, the divestiture of our North American and European vacation rentals businesses, the acquisition of ARN and related transactions, including any potential impact on our relationships with our customers, suppliers, employees and others with whom we have relationships, and possible disruption to our operations; our ability to execute on our strategy; the timing and amount of future dividends and share repurchases, if any, and those other factors 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, 2019, filed with the SEC on February 26, 2020, in Part II, Item 1A. of our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2020, in Part II, Item 1A. of our Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2020, and in Part II, Item 1A. of this Quarterly Report on Form 10-Q. 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:

- **Wyndham Vacation Clubs (“WVC”)**—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.
- **Panorama**— provides leisure travelers with flexibility and access to a wide variety of global travel options through its membership platforms, including timeshare exchange, closed user group, and home exchange.

Impact of COVID-19 on Our Business

The results of operations during the nine months ended September 30, 2020 include impacts related to COVID-19, which have been significantly negative for the travel industry, our company, our customers, and our employees. Our response to COVID-19 initially focused on the health and safety of our owners, members, guests and employees, when we closed the majority of our resorts and sales centers. We also were keenly focused on preserving cash, cutting costs and managing liquidity. Several of our business lines have strong recurring sources of income and cash flow, for example, consumer finance, hospitality and our exchange membership businesses. The fee streams from these businesses, which represented approximately 50% of Adjusted EBITDA in 2019, bolstered our financial stability when resorts and sales centers were mostly closed for the months of April and May. We incurred expenses in connection with COVID-19 of \$31 million and \$377 million during the three and nine months ended September 30, 2020, which are discussed in further detail in Note 22—*COVID-19 Related Items* to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

We cannot presently determine the extent or duration of the overall operational and financial impact that COVID-19 will have on our business. We believe the ongoing effects of COVID-19 on our operations have had, and will continue to have, a significant adverse effect on our financial results and liquidity, and such negative impact may continue well beyond the containment of such an outbreak. We expect to continue to see United States of America (“U.S.”) consumers shift from international to domestic travel and also to destinations that require driving versus flying. We believe these shifts may be favorable to the timeshare industry. In addition, we believe larger condominium-like accommodations with kitchens will be more amenable for social distancing and travelers will seek trusted brands they can rely upon for thorough cleaning of vacation accommodations prior to arrival. Historically, occupancy at our resorts has remained high in downturns because our owners own their vacations and are therefore committed to traveling.

Cost Actions and Preservation of Cash Flow

We have taken early and significant actions to maximize cash flow. Since the start of the pandemic we have reduced our 2020 operating cost base by \$225 million with \$60 million of permanent cost reductions. Savings related primarily to the impact of staff reductions/furloughs, travel and expense, and a reduction in third party vendor/consulting spend. We reviewed inventory and capital expenditure requirements and reduced both by a combined \$144 million for the 2020 fiscal year. Share repurchase activity has been suspended since March 2020.

Operational Changes

We worked with government authorities and health experts in establishing new operational criteria and methodologies, for example, curbside check-in, enhanced cleaning protocols, and controlled amenity access. In May 2020, we partnered with Ecolab to launch the *Vacation Ready* program and our internal task force oversaw the implementation of safety protocols in accordance with guidelines and in consultation with health experts. While the levels of restrictions on operations imposed by governmental authorities have been reduced in some locations, they have increased in others, and there is continued uncertainty regarding the trend of these restrictions going forward. As of September 30, 2020, we have reopened 85% of our U.S. resorts (97% have reopened as of the date of this filing) and restarted 77% of our U.S. sales and marketing operations (79% as of the date of this filing) with plans to restart the remainder in early 2021. As of September 30, 2020, approximately 5,700 employees were laid off or remain furloughed of the original 9,000 employees impacted.

Relief Under the CARES Act

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security (“CARES”) Act was established to provide emergency assistance and health care for individuals, families, and businesses affected by COVID-19 and generally support the U.S. economy. The CARES Act, among other things, includes provisions relating to refundable payroll tax credits, deferment of employer social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to net interest deduction limitations, and technical corrections to tax depreciation methods for qualified improvement property. We recorded \$3 million and \$24 million of employee retention tax credits for the three and nine months ended September 30, 2020, including credits from similar programs outside the U.S. We have deferred social security payments to the U.S. government until 2021 in accordance with CARES Act provisions and will have additional depreciation deductions relating to qualified improvement property. While we continue to review and consider any available benefits under the CARES Act or similar legislation that may be enacted in response to the COVID-19 pandemic for which we qualify, we cannot predict the manner in which such benefits will be allocated or administered and we cannot assure you that we will be able to receive such benefits in a timely manner.

Focus on Higher Margin Business

As part of our reopening strategy, we are focusing on higher margin owner business by harvesting our owner upgrade pipeline. Prior to this year, just under 40% of sales were to lower margin new owners.

We are also raising our credit standards and eliminating sub-640 Fair Isaac Corporation (“FICO”) scores which will strengthen our receivables portfolio going forward. We have closed some unprofitable marketing and sales locations and shifted marketing channels and resources to our most productive channels. All of these changes are designed to result in higher volume per guest (“VPG”) which is a measure of sales efficiency and is strongly correlated to profitability.

Other Developments

Continued closure and/or reclosure of resorts and sales centers could result in additional COVID-19 charges including idle pay for certain sales and marketing employees and potential further impairment of assets. If unemployment rates increase and/or our collection experience for our vacation ownership contract receivables (“VOCRs”) declines more than we estimated in the first quarter, we may need to further increase our allowance for loan losses for VOCRs. The additional \$225 million allowance

recorded in the first quarter provided for the full estimated impact of a prolonged recession (approximately 15-20 months to return to pre-COVID-19 defaults) based on our historical data for the most recent recession in 2008. Given the significant amount of government assistance provided to consumers in the early stages of the pandemic, we expect defaults to remain elevated at or just beyond the later end of that range; therefore, we would not expect any future additional adjustments to be as material as the adjustment taken in the first quarter. Updated unemployment statistics to date, as well as recent loan portfolio activity, have not yielded a change to our original estimate. If the recovery from COVID-19 happens more quickly than assumed, there could be an adjustment to reduce this additional allowance in future periods.

Given a range of different scenarios related to the COVID-19 impact on our business, we expect to maintain adequate liquidity and remain in compliance with our debt covenants. As a precautionary measure to enhance liquidity, we drew down our \$1.0 billion revolving credit facility at the end of the first quarter and have \$1.28 billion of cash and cash equivalents on hand as of September 30, 2020. We suspended share repurchases in March and have made other operational decisions to preserve cash. During the third quarter we amended our \$1.0 billion revolving credit facility which modified existing quarterly-tested financial covenants through March 31, 2022, and raised the first lien coverage ratio in the near term to provide significant financial flexibility. We maintained our ability to pay dividends and to continue to invest in the business throughout the covenant relief period. See Note 11—*Debt* to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for additional details.

We successfully closed on a \$325 million private securitization financing on April 29, 2020. While this transaction was at a higher cost compared to transactions we completed in the past, it was favorable to similar transactions completed in the public market at that time. We also closed on a \$575 million public securitization financing on August 13, 2020 at a similar cost compared to transactions we have completed in the past. These transactions provide reinforcement that we expect to maintain adequate liquidity.

On July 24, 2020, we issued \$650 million senior secured notes maturing July 31, 2026, with an interest rate of 6.625%. The proceeds will be used for general corporate purposes, which may include the repayment of outstanding indebtedness under our secured revolving credit facility, the future repayment of our 5.625% secured notes due March 2021 and the payment of related fees and expenses. In the third quarter, we repaid \$350 million of our indebtedness under the secured revolving credit facility.

Given the uncertainty around COVID-19, we have withdrawn our full year outlook for revenue and earnings.

Alliance Reservations Network Acquisition

On August 7, 2019, we acquired Alliance Reservations Network (“ARN”) for \$102 million (\$97 million net of cash acquired). ARN provides private-label travel booking technology solutions. This acquisition was made to accelerate growth at RCI by increasing the offerings available to our members and affiliates. We have recognized the assets and liabilities of ARN based on estimates of their acquisition date fair values. ARN is reported within the Panorama segment.

North American Vacation Rentals Business Sale

During 2018, we decided to explore strategic alternatives for the North American vacation rentals business and on October 22, 2019, we closed on the sale of this business for \$162 million. The assets and liabilities of this business were classified as held-for-sale. This business did not meet the criteria to be classified as a discontinued operation; therefore, the results of operations through the date of sale are reflected within continuing operations on the Condensed Consolidated Statements of Income/(Loss).

RESULTS OF OPERATIONS

The reportable segments presented below represent our operating segments for which discrete financial information is available and which are utilized on a regular basis by our chief operating decision maker to assess performance and to allocate resources. In identifying the reportable segments, we also consider the nature of services provided by our operating segments. Management uses net revenues and Adjusted EBITDA to assess the performance of the reportable segments. We define Adjusted EBITDA as Net income/(loss) 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, gains and losses on sale/disposition of business, and items that meet the conditions of unusual and/or infrequent. We believe that Adjusted EBITDA is a useful measure of performance for our segments which, when considered with GAAP measures, we believe gives a more complete understanding of our operating performance. Our 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, 2020 and 2019. These operating statistics are the drivers of our revenues and therefore provide an enhanced understanding of our businesses. Refer to the three months ended September 30, 2020 vs. three months ended September 30, 2019 section for a discussion on how these operating statistics affected our business for the periods presented.

	Three Months Ended September 30,		
	2020	2019	% Change ^(g)
Wyndham Vacation Clubs ^(a)			
Gross VOI sales (in millions) ^(b) ^(h)	\$ 256	\$ 663	(61.5)
Tours (in 000s) ^(c)	80	269	(70.3)
Volume Per Guest (“VPG”) ^(d)	\$ 3,039	\$ 2,332	30.3
Panorama ^(a)			
Average number of members (in 000s) ^(e)	3,680	3,895	(5.5)
Exchange revenue per member ^(f)	\$ 131.95	\$ 162.47	(18.8)

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

(b) 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.

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

(d) VPG is calculated by dividing Gross VOI sales (excluding tele-sales upgrades, which are non-tour upgrade sales) by the number of tours. 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.

(e) Represents paid members in our vacation exchange programs who are current on their annual membership dues or within the allowed grace period.

(f) Represents total revenues generated from fees associated with memberships, exchange transactions, 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 Vacation ownership interest sales, net to Gross VOI sales for the three months ended September 30, 2020 and 2019 (in millions):

	2020	2019
Vacation ownership interest sales, net	\$ 196	\$ 528
Loan loss provision	45	135
Gross VOI sales, net of Fee-for-Service sales	241	663
Fee-for-Service sales ⁽¹⁾	15	—
Gross VOI sales	\$ 256	\$ 663

(1) Represents total sales of VOIs through our Fee-for-Service programs where inventory is sold through our sales and marketing channels for a commission. There were \$6 million Fee-for-Service commission revenues for the three months ended September 30, 2020, and no Fee-for-Service commission revenues for the three months ended September 30, 2019. These commissions are reported within Service and membership fees on the Condensed Consolidated Statements of Income/(Loss).

THREE MONTHS ENDED SEPTEMBER 30, 2020 VS. THREE MONTHS ENDED SEPTEMBER 30, 2019

Our consolidated results are as follows (in millions):

	Three Months Ended September 30,		
	2020	2019	Favorable/(Unfavorable)
Net revenues	\$ 614	\$ 1,105	\$ (491)
Expenses	550	891	341
Operating income/(loss)	64	214	(150)
Other (income), net	(5)	(6)	(1)
Interest expense	52	40	(12)
Interest (income)	(2)	(1)	1
Income/(loss) before income taxes	19	181	(162)
(Benefit)/provision for income taxes	(21)	46	67
Net income/(loss) from continuing operations	40	135	(95)
Gain on disposal of discontinued businesses, net of income taxes	—	—	—
Net income/(loss) attributable to Wyndham Destinations shareholders	\$ 40	\$ 135	\$ (95)

Net revenues decreased \$491 million for the three months ended September 30, 2020, compared with the same period last year. The total revenue decrease of \$491 million (44.4%) was not materially impacted by foreign currency. Excluding foreign currency, the decrease in net revenues was primarily the result of:

- \$382 million of decreased revenues at our WVC segment primarily due to a decrease in net VOI sales as a result of the temporary closure of our resorts and suspension of sales and marketing operations directly related to COVID-19, as well as decreased property management revenues, and consumer financing revenues; and
- \$111 million of decreased revenues at our Panorama segment driven by absence of vacation rentals revenue as a result of the sale of the North American vacation rentals business in October 2019, as well as the negative impact of COVID-19.

Expenses decreased \$341 million for the three months ended September 30, 2020, compared with the same period last year. The decrease in expenses of \$341 million (38.3%) was not materially impacted by foreign currency. Excluding the foreign currency impact, the decrease in expenses was primarily the result of:

- \$106 million decrease in sales and commission expenses primarily due to lower gross VOI sales as a result of COVID-19;
- \$101 million decrease in marketing costs primarily due to the temporary suspension of sales and marketing operations;
- \$65 million decrease in costs due to the sale of the North American vacation rentals business;
- \$38 million decrease in the cost of VOIs sold primarily due to lower gross VOI sales; and
- \$27 million decrease in property management expenses primarily due to lower management fees;
- \$19 million decrease in Panorama operating expenses associated with lower exchange and related service revenues driven by COVID-19 impacts;
- \$16 million decrease in general administrative expenses related to COVID-19 impacts; and
- \$7 million decrease in separation costs; partially offset by
- \$14 million increase for COVID-19 related costs primarily due to workforce reduction;
- \$10 million increase due to the write-down of exchange inventory; and
- \$6 million increase in impairments directly related to COVID-19.

Other income, net of other expenses decreased by \$1 million for the three months ended September 30, 2020, compared with the same period last year, primarily due to higher business interruption recoveries in 2019.

Interest expense increased \$12 million for the three months ended September 30, 2020 compared with the same period last year primarily due to the \$650 million 6.625% secured notes issued during the third quarter of 2020 and the \$350 million 4.625% secured notes issued in the fourth quarter of 2019.

Our effective tax rates were (110.5)% and 25.4% during the three months ended September 30, 2020 and 2019. The change in the effective tax rate is primarily due to the change in our updated forecasts for taxable earnings for the full year, which have been significantly impacted by COVID-19. The jurisdictional composition of the forecast resulted in profits within higher tax rate jurisdictions and losses in many lower tax rate jurisdictions, which significantly impacted the overall effective tax rate. We

reported a tax benefit on the pre-tax income for the third quarter of 2020 resulting from the true-up of applying the revised forecasted effective tax rate to the prior quarter's losses.

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. There were no material hurricane impacts during 2020.

As a result of these items, Net income attributable to Wyndham Destinations shareholders decreased \$95 million for the three months ended September 30, 2020 as compared to the same period last year.

Our segment results are as follows (in millions):

	Three Months Ended September 30,	
	2020	2019
Net revenues		
Wyndham Vacation Clubs	\$ 477	\$ 858
Panorama	138	250
Total reportable segments	615	1,108
Corporate and other ^(a)	(1)	(3)
Total Company	<u>\$ 614</u>	<u>\$ 1,105</u>

	Three Months Ended September 30,	
	2020	2019
Reconciliation of Net income to Adjusted EBITDA		
Net income attributable to Wyndham Destinations shareholders	\$ 40	\$ 135
(Benefit)/provision for income taxes	(21)	46
Depreciation and amortization	32	31
Interest expense	52	40
Interest (income)	(2)	(1)
Exchange inventory write-off	10	—
Asset impairments	6	—
COVID-19 related costs ^(b)	13	—
Restructuring	2	—
Stock-based compensation	6	5
Legacy items ^(c)	1	—
Acquisition and divestiture related costs	—	4
Separation and related costs	—	7
Adjusted EBITDA	<u>\$ 139</u>	<u>\$ 267</u>

	Three Months Ended September 30,	
	2020	2019
Adjusted EBITDA		
Wyndham Vacation Clubs	\$ 96	\$ 203
Panorama	60	83
Total reportable segments	156	286
Corporate and other ^(a)	(17)	(19)
Total Company	<u>\$ 139</u>	<u>\$ 267</u>

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

^(b) Reflects severance and other costs associated with layoffs due to the COVID-19 workforce reduction offset in part by employee retention credits received in connection with the U.S. CARES Act and similar international programs for wages paid to certain employees despite having operations suspended.

^(c) Represents the resolution of and adjustment to certain contingent liabilities resulting from the Spin-off, the sale of the European vacation rentals business, and our separation from Candant.

Wyndham Vacation Clubs

Net revenues decreased \$381 million and Adjusted EBITDA decreased \$107 million during the three months ended September 30, 2020, compared with the same period of 2019. The net revenue decrease of \$382 million (44.5%) was favorably impacted by foreign currency of \$1 million (0.1%) and the total Adjusted EBITDA decrease of \$107 million (52.7%) was not materially impacted by foreign currency.

The net revenue decrease excluding the impact of currency was primarily driven by:

- \$422 million decrease in gross VOI sales, net of Fee-for-Service sales, primarily driven by a 70.3% decrease in tours resulting from the negative impact on our sales and marketing operations directly related to COVID-19; partially offset by a \$89 million decrease in our provision for loan losses primarily due to lower gross VOI sales;
- \$30 million decrease in property management revenues primarily due to lower management fees and reimbursable revenues;
- \$18 million decrease in consumer financing revenues primarily due to a lower weighted average interest rate earned on a lower average portfolio balance; and
- \$7 million decrease in ancillary revenues primarily due to a decrease in trial vacation package revenue and our co-branded credit card program; partially offset by
- \$6 million increase in commission revenues as a result of higher Fee-for-Service VOI sales.

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

- \$106 million decrease in sales and commission expenses primarily due to lower gross VOI sales;
- \$98 million decrease in marketing costs primarily due to the temporary suspension of sales and marketing operations;
- \$38 million decrease in the cost of VOIs sold primarily due to lower gross VOI sales;
- \$27 million decrease in property management expenses primarily due to lower management fees and lower reimbursable expenses;
- \$11 million decrease in general and administrative expenses primarily due to lower employee-related costs; and
- \$1 million decrease in consumer financing interest expense primarily due to a decrease in the weighted average interest rate on our non-recourse debt; partially offset by
- \$4 million increase in commission expense as a result of higher Fee-for-Service VOI sales; and
- \$2 million increase in maintenance fees on unsold inventory primarily due to the temporary closure of our resorts resulting in the inability to recover a portion of these costs.

Panorama

Net revenues decreased \$112 million and Adjusted EBITDA decreased \$23 million during the three months ended September 30, 2020, compared with the same period of 2019. The revenue decrease of \$111 million (44.4%) was unfavorably impacted by foreign currency of \$1 million (0.4%). The Adjusted EBITDA decrease of \$23 million (27.7%) was not materially impacted by foreign currency.

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

- \$60 million decrease in vacation rentals revenue as a result of the sale of the North American vacation rentals business in October 2019;
- \$36 million decrease in exchange and related service revenues driven by the negative impact of COVID-19, which drove an increase in cancellations and a decrease in third quarter bookings; and
- \$15 million net decrease in ancillary revenues primarily driven by the sale of the North American vacation rentals business in October 2019, partially offset by increased ancillary revenue from the acquisition of ARN in August 2019.

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

- \$65 million decrease in costs due to the sale of the North American vacation rentals business in October 2019; and
- \$27 million of decreased costs primarily associated with lower exchange and related service revenues; partially offset by
- \$3 million of increased expenses from the ARN business.

Corporate and other

Corporate Adjusted EBITDA increased \$2 million for the three months ended September 30, 2020 compared to 2019 and was not materially impacted by foreign currency. The increase in Adjusted EBITDA was primarily due to lower employee-related costs.

NINE MONTHS ENDED SEPTEMBER 30, 2020 VS. NINE MONTHS ENDED SEPTEMBER 30, 2019

Our consolidated results are as follows (in millions):

	Nine Months Ended September 30,		
	2020	2019	Favorable/(Unfavorable)
Net revenues	\$ 1,515	\$ 3,062	\$ (1,547)
Expenses	1,705	2,510	805
Operating (loss)/income	(190)	552	(742)
Other (income), net	(11)	(18)	(7)
Interest expense	138	122	(16)
Interest (income)	(5)	(6)	(1)
(Loss)/income before income taxes	(312)	454	(766)
(Benefit)/provision for income taxes	(54)	120	174
Net (loss)/income from continuing operations	(258)	334	(592)
Gain on disposal of discontinued businesses, net of income taxes	—	5	(5)
Net (loss)/income attributable to Wyndham Destinations shareholders	\$ (258)	\$ 339	\$ (597)

Net revenues decreased \$1.55 billion for the nine months ended September 30, 2020 compared with the same period last year. During the first quarter of 2020 and in anticipation of increased defaults on VOCRs due to the impact of COVID-19, we recorded an additional \$225 million provision which negatively impacted revenues and a corresponding \$55 million benefit to cost of vacation ownership interests, representing estimated recoveries related to the additional provision. We expect the large increase in unemployment rates as a result of COVID-19 to have a negative impact on our owners' ability to repay their contract receivables. The net negative impact of the additional provision related to COVID-19 on Adjusted EBITDA was \$170 million. The total revenue decrease of \$1.54 billion (50.4%) was impacted by unfavorable foreign currency of \$5 million (0.2%). Excluding foreign currency, the decrease in net revenues was primarily the result of:

- \$1.22 billion of decreased revenues at our WVC segment primarily due to decreased net VOI sales as a result of the temporary closure of our resorts and suspension of sales and marketing operations directly related to COVID-19 and decreased property management revenues, consumer financing revenues, and ancillary revenues; and
- \$320 million of decreased revenues at our Panorama segment driven by absence of vacation rentals revenue as a result of the sale of the North American vacation rentals business in October 2019, as well as the negative impact of COVID-19, partially offset by an increase in revenue at ARN, which was acquired in August 2019.

Expenses decreased \$805 million for the nine months ended September 30, 2020 compared with the same period last year. The decrease in expenses of \$810 million (32.3%) was favorably impacted by foreign currency of \$5 million (0.2%). Excluding the foreign currency impact, the decrease in expenses was primarily the result of:

- \$250 million decrease in sales and commission expenses primarily due to lower gross VOI sales as a result of COVID-19;
- \$249 million decrease in marketing costs primarily due to the temporary suspension of sales and marketing operations;
- \$181 million decrease in costs due to the sale of the North American vacation rentals business;
- \$167 million decrease in the cost of VOIs sold primarily due to lower gross VOI sales, including the \$55 million benefit representing estimated recoveries related to the additional provision for loan losses associated with COVID-19;
- \$63 million decrease in property management expenses primarily due to lower management fees; and
- \$48 million decrease in Panorama operating expenses associated with lower exchange and related service revenues driven by COVID-19 impacts;
- \$44 million decrease in separation costs; and
- \$44 million decrease in general administrative expenses related to COVID-19 impacts; partially offset by
- \$81 million increase for COVID-19 related costs primarily due to workforce reduction;
- \$54 million increase in impairments directly related to COVID-19;
- \$48 million increase due to the write-down of exchange inventory;
- \$24 million of increased revenue-related expenses from the ARN business; and
- \$23 million increase in restructuring expense primarily due to facility-related COVID-19 impacts.

Other income, net of other expenses decreased by \$7 million for the nine months ended September 30, 2020 compared with the same period last year, primarily due to the gain on sale of a building in 2019, an unfavorable tax settlement in 2020, and higher business interruption recoveries in 2019.

Interest expense increased \$16 million for the nine months ended September 30, 2020 compared with the same period last year primarily due to higher average outstanding revolving credit facility balances driven by the drawdown of our \$1.0 billion secured revolving credit facility as a precautionary measure due to COVID-19 and interest on the new \$650 million 6.625% secured notes issued during the third quarter of 2020 and the \$350 million 4.625% secured notes issued in the fourth quarter of 2019.

Our effective tax rates were 17.3% and 26.4% for the nine months ended September 30, 2020 and 2019. The change in the effective tax rate is primarily due to the change in our updated forecasts for taxable earnings for the full year, which have been significantly impacted by COVID-19. The jurisdictional composition of the forecast resulted in profits within higher tax rate jurisdictions and losses in many lower tax rate jurisdictions, which significantly impacted the overall effective tax rate.

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. There were no material hurricane impacts during 2020.

As a result of these items, there was a Net loss attributable to Wyndham Destinations shareholders of \$258 million for the nine months ended September 30, 2020, as compared to Net income attributable to Wyndham Destinations shareholders of \$339 million during the same period last year.

Our segment results are as follows (in millions):

	Nine Months Ended September 30,	
	2020	2019
Net Revenues		
Wyndham Vacation Clubs	\$ 1,125	\$ 2,351
Panorama	393	716
Total reportable segments	1,518	3,067
Corporate and other ^(a)	(3)	(5)
Total Company	\$ 1,515	\$ 3,062

	Nine Months Ended September 30,	
	2020	2019
Reconciliation of Net income to Adjusted EBITDA		
Net (loss)/income attributable to Wyndham Destinations shareholders	\$ (258)	\$ 339
Gain on disposal of discontinued businesses, net of income taxes	—	(5)
(Benefit)/provision for income taxes	(54)	120
Depreciation and amortization	94	90
Interest expense	138	122
Interest (income)	(5)	(6)
Asset impairments ^(b)	54	—
COVID-19 related costs ^(c)	51	—
Exchange inventory write-off	48	—
Restructuring	27	4
Stock-based compensation	14	13
Legacy items ^(d)	2	1
Acquisition and divestiture related costs	—	4
Separation and related costs ^(e)	—	44
Adjusted EBITDA	\$ 111	\$ 726

	Nine Months Ended September 30,	
	2020	2019
Adjusted EBITDA		
Wyndham Vacation Clubs	\$ 6	\$ 534
Panorama	142	234
Total reportable segments	148	768
Corporate and other ^(a)	(37)	(42)
Total Company	\$ 111	\$ 726

(a) Includes the elimination of transactions between segments.

(b) Includes \$5 million of bad debt expense related to a note receivable for the nine months ended September 30, 2020, included in Operating expenses on the Condensed Consolidated Statements of Income/(Loss) included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

(c) Reflects severance and other costs associated with layoffs due to the COVID-19 workforce reduction offset in part by employee retention credits received in connection with the U.S. CARES Act and similar international programs for wages paid to certain employees despite having operations suspended.

(d) Represents the resolution of and adjustment to certain contingent liabilities resulting from the Spin-off, the sale of the European vacation rentals business, and our separation from Cendant.

(e) Includes \$4 million of stock based compensation expense for the nine months ended September 30, 2019.

Wyndham Vacation Clubs

Net revenues decreased \$1.23 billion and Adjusted EBITDA decreased \$528 million during the nine months ended September 30, 2020 compared with the same period of 2019. During the first quarter of 2020 and in anticipation of increased defaults on VOCRs due to the impacts of COVID-19, we recorded an additional \$225 million provision which negatively impacted revenues and a corresponding \$55 million benefit to cost of vacation ownership interests, representing estimated recoveries related to the additional provision. We expect the large increase in unemployment rates as a result of COVID-19 to have a negative impact on our owners' ability to repay their contract receivables. The net negative impact of the additional

provision related to COVID-19 on Adjusted EBITDA was \$170 million. The net revenue decrease of \$1.22 billion (52.1%) was unfavorably impacted by foreign currency of \$2 million (0.1%) and the total Adjusted EBITDA decrease of \$528 million (98.9%) was not materially impacted by foreign currency.

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

- \$1.09 billion decrease in gross VOI sales, net of Fee-for-Service sales, primarily driven by a 65.1% decrease in tours resulting from the temporary closure of our resorts and suspension of sales and marketing operations directly related to COVID-19; partially offset by a \$207 million decrease in our provision for loan losses primarily due to lower gross VOI sales;
- \$72 million decrease in property management revenues primarily due to lower management fees and reimbursable revenues;
- \$25 million decrease in consumer financing revenues primarily due to a lower weighted average interest rate earned on a lower average portfolio balance;
- \$16 million decrease in ancillary revenues primarily due to a decrease in trial vacation package revenue and our co-branded credit card program; and
- \$2 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:

- \$250 million decrease in sales and commission expenses primarily due to lower gross VOI sales;
- \$243 million decrease in marketing costs primarily due to the temporary suspension of sales and marketing operations;
- \$112 million decrease in the cost of VOIs sold primarily due to lower gross VOI sales and increased estimated inventory recoveries associated with our provision for loan losses;
- \$63 million decrease in property management expenses primarily due to lower management fees and lower reimbursable expenses;
- \$31 million decrease in general and administrative expenses primarily due to lower employee-related costs; and
- \$3 million decrease in consumer financing interest expense primarily due to a decrease in the weighted average interest rate on our non-recourse debt; partially offset by
- \$35 million increase in maintenance fees on unsold inventory primarily due to the temporary closure of our resorts resulting in the inability to recover a portion of these costs; and
- \$30 million increase in COVID-19 related costs primarily due to workforce reduction.

Panorama

Net revenues decreased \$323 million and Adjusted EBITDA decreased \$92 million during the nine months ended September 30, 2020 compared with the same period during 2019. Revenue decrease of \$320 million (44.7%) was impacted by unfavorable foreign currency of \$3 million (0.4%). Adjusted EBITDA decrease of \$92 million (39.3%) was not materially impacted by foreign currency.

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

- \$146 million decrease in vacation rentals revenue as a result of the sale of the North American vacation rentals business in October 2019;
- \$143 million net decrease in exchange and related service revenues driven by the negative impact of COVID-19 which resulted in higher cancellations and lower bookings; and
- \$31 million net decrease in ancillary revenues primarily due to the \$51 million decrease of ancillary revenue generated by the North American vacations rentals business which was sold in October 2019, partially offset by an increase in revenue of \$24 million from ARN, which was acquired in August 2019.

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

- \$181 million decrease in costs due to the sale of the North American vacation rentals business; and
- \$72 million of decreased costs primarily associated with lower exchange and related service revenues; partially offset by
- \$24 million of increased revenue-related expenses from the ARN business.

Corporate and other

Corporate Adjusted EBITDA increased \$5 million during the nine months ended September 30, 2020 compared to the same period in 2019 and was not materially impacted by foreign currency. The increase in Adjusted EBITDA was primarily due to lower employee-related costs.

RESTRUCTURING PLANS

During the nine months ended September 30, 2020, we recorded \$24 million of restructuring expense. Due to the impact of COVID-19, we decided in the second quarter of 2020 to abandon the remaining portion of our administrative offices in New Jersey. We were notified in the second quarter that Wyndham Hotels exercised its early termination rights under the sublease agreement. As a result, we recorded \$22 million of restructuring charges associated with non-lease components of the office space and \$24 million of impairment charges associated with the write-off of right-of-use assets and furniture, fixtures and equipment at the Panorama segment. We also recognized an additional \$2 million associated with office space for closed sales centers and \$6 million of impairment charges associated with the write-off of right-of-use assets and furniture, fixtures and equipment at our WVC segment. We reduced the 2020 restructuring liability by less than \$1 million of cash payments during the nine months ended September 30, 2020. The remaining 2020 restructuring liability of \$24 million is expected to be paid by the end of 2029.

During 2019, we recorded \$5 million of charges related to restructuring initiatives, most of which were personnel-related resulting from a reduction of approximately 100 employees. This action was primarily focused on enhancing organizational efficiency and rationalizing operations. The charges consisted of (i) \$2 million at the WVC segment, (ii) \$2 million at the Panorama segment, and (iii) \$1 million in our corporate operations. We reduced the restructuring liability by \$1 million of cash payments during 2019. During the nine months ended September 30, 2020, we incurred an additional \$2 million of restructuring expenses at the Panorama segment and \$1 million at our corporate operations. We reduced the restructuring liability by an additional \$5 million of cash payments during the nine months ended September 30, 2020. The remaining 2019 restructuring liability of \$2 million is expected to be paid by the end of 2021.

We have additional restructuring plans which were implemented prior to 2019 for which we reduced the liabilities by \$3 million of cash payments during the nine months ended September 30, 2020. The remaining liability of less than \$1 million as of September 30, 2020, is mostly personnel-related and is expected to be paid by the end of 2021.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES**Financial Condition**

(In millions)	September 30, 2020	December 31, 2019	Change
Total assets	\$ 7,822	\$ 7,453	\$ 369
Total liabilities	8,815	7,977	838
Total (deficit)	(993)	(524)	(469)

Total assets increased by \$369 million from December 31, 2019 to September 30, 2020, primarily due to:

- \$921 million increase in Cash and cash equivalents primarily due to net cash proceeds from debt borrowings, partially offset by treasury share repurchases, dividend payments, and short-term investments included within Other assets; and
- \$132 million increase in Inventory primarily due to an increase in completed inventory partially offset by net COVID-19 impacts of exchange inventory write-offs. These increases were partially offset by
- \$25 million decrease in Restricted cash primarily due to net pay downs on our non-recourse debt;
- \$22 million decrease in Trade receivables, net primarily due to lower VOI trial package sales and timing of annualized subscription billings;
- \$599 million decrease in Vacation ownership contract receivables, net, primarily due to lower VOI sales and an increase in the loan loss provision driven by the economic downturn as a result of COVID-19; and
- \$23 million decrease in Goodwill and other intangibles related to ARN purchase revaluation, exchange rate fluctuations on goodwill, and the impairment of the Love Home Swap tradename at our Panorama segment.

Total liabilities increased by \$838 million from December 31, 2019 to September 30, 2020, primarily due to:

- \$1.15 billion increase in Debt due to \$987 million increased borrowing under our revolving credit facility and issuance of the \$650 million 6.625% secured notes during the third quarter, partially offset by \$440 million of repayments on our revolving credit facility and \$40 million repayment of our 7.375% secured notes. This increase was partially offset by
- \$60 million decrease in Deferred income primarily due to lower VOI trial package sales and lower upfront subscription payments associated with reduced member acquisition as a result of COVID-19;
- \$84 million decrease in Non-recourse vacation ownership debt primarily due to net repayments;
- and
- \$132 million decrease in deferred taxes primarily driven by a reduction of the liability for installment sale income recognition and increased loan loss provision related to COVID-19 impacts.

Total deficit increased \$469 million from December 31, 2019 to September 30, 2020, primarily due to \$258 million of Net loss attributable to Wyndham Destinations shareholders; \$125 million of treasury stock repurchases; and \$114 million of dividends.

Liquidity and capital resources

The global spread of COVID-19 has significantly impacted the travel industry, our company, our customers, and our employees. In response to COVID-19, we temporarily closed our resorts and suspended our sales and marketing operations for the majority of April and May. As a result, we significantly reduced our workforce and furloughed thousands of employees. These actions have had, and continue to have, an impact on our operations which could impact our liquidity in the future. However, we believe that our current net cash from operations, cash and cash equivalents on hand, and continued access to the debt markets provide us with sufficient liquidity to meet our ongoing cash needs for the near future.

At the end of the first quarter, we drew down our \$1.0 billion five-year revolving credit facility, which expires in May 2023, as a precautionary measure to enhance liquidity. As of September 30, 2020, we have \$1.28 billion in cash and cash equivalents and \$393 million of available capacity on our revolving credit facility, net of letters of credit.

On July 15, 2020, the Company entered into an amendment to the Company's credit agreement ("Credit Agreement Amendment"). The Credit Agreement Amendment established a relief period ("Relief Period") with respect to the Company's secured revolving credit facility, which commenced on July 15, 2020, and will end on April 1, 2022. Among other changes, this amendment adds a new minimum liquidity covenant, tested quarterly until the end of the Relief Period, of (i) \$250 million plus (ii) 50% of the aggregate amount of dividends paid after the effective date of the Credit Agreement Amendment and on or prior to the last day of the relevant fiscal quarter.

On July 24, 2020, we issued \$650 million senior secured notes maturing July 31, 2026, with an interest rate of 6.625%. The proceeds will be used for general corporate purposes, which may include the repayment of outstanding indebtedness under our secured revolving credit facility, the future repayment of our 5.625% secured notes due March 2021 and the payment of related fees and expenses. In the third quarter, we repaid \$350 million of our indebtedness under the secured revolving credit facility.

We plan to continue to use our conduit facilities and non-recourse debt borrowings to finance VOCRs. During the second quarter, we successfully closed on a \$325 million private securitization financing. While this transaction was at a higher cost compared to transactions we completed in the past, it was favorable to similar transactions completed in the public market at that time. We also closed on a \$575 million public securitization financing during the third quarter at a similar cost compared to transactions we have completed in the past. These transactions provide reinforcement that we expect to maintain adequate liquidity.

Our non-recourse timeshare receivables U.S. dollars ("USD") bank conduit facility, with borrowing capability of \$800 million, had \$694 million of available capacity as of September 30, 2020. Borrowings under this facility are required to be repaid as the collateralized receivables amortize, but no later than September 2022. On October 27, 2020 we renewed this facility, extending the end of the commitment period from August 30, 2021 to October 31, 2022. See Note 27—*Subsequent Events* to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for additional details.

Our non-recourse timeshare receivables Australian and New Zealand dollars ("AUD" and "NZD") bank conduit facility has a borrowing capability of A\$255 million and NZ\$48 million through September 2021 and available capacity of \$53 million as of September 30, 2020. Borrowings under this facility are required to be repaid no later than September 2023.

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.

We are 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, we have debt and derivative instruments in place that reference LIBOR-based rates. Although certain of these LIBOR based obligations provide for alternative methods of calculating the related interest rate payable (including transition to an alternative benchmark rate) if LIBOR is not reported, uncertainty as to the extent and manner of future changes may result in interest rates and/or payments that are higher than, lower than, or that do not otherwise correlate over time with the interest rates and/or payments that would have been made on our obligations if LIBOR was available in its current form. The transition from LIBOR is estimated to take place after 2021 and management will continue to actively assess the related opportunities and risks involved in this transition. On October 27, 2020, we closed on the renewal of our USD bank conduit facility (see Note 27—*Subsequent Events* to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for additional details) and adopted appropriate LIBOR disclosures for asset-backed securities (“ABS”) financing structures as part of the renewal. We intend to include such language in our other relevant agreements prior to the end 2021.

CASH FLOW

The following table summarizes the changes in cash, cash equivalents and restricted cash during the nine months ended September 30, 2020 and 2019 (in millions):

	Nine Months Ended September 30,		
	2020	2019	Change
Cash provided by/(used in)			
Operating activities:			
Continuing operations	\$ 224	\$ 321	\$ (97)
Discontinued operations	—	(1)	1
Investing activities:			
Continuing operations	(98)	(115)	17
Discontinued operations	—	(22)	22
Financing activities:			
Continuing operations	775	(156)	931
Discontinued operations	—	—	—
Effects of changes in exchange rates on cash and cash equivalents	(5)	(4)	(1)
Net change in cash, cash equivalents and restricted cash	<u>\$ 896</u>	<u>\$ 23</u>	<u>\$ 873</u>

Operating Activities

Net cash provided by operating activities from continuing operations was \$224 million for the nine months ended September 30, 2020, compared to \$321 million in the prior year. This \$97 million decrease was driven by a \$592 million decrease in net results from continuing operations; a \$138 million decrease in non-cash add-back items primarily due to lower deferred income taxes offset by higher asset impairments and provision for loan losses; partially offset by a \$633 million decrease in cash utilized for working capital (cash outflow due to the net change in assets and liabilities).

Net cash used in operating activities from discontinued operations was \$1 million in 2019, related to the sale of the European vacation rentals business.

Investing Activities

Net cash used in investing activities from continuing operations was \$98 million for the nine months ended September 30, 2020, compared to \$115 million in the prior year. This decrease was primarily related to acquisition of businesses in 2019 of \$51 million, for which there was no equivalent in 2020, and \$19 million of lower purchases of property and equipment in 2020; partially offset by \$50 million purchase of investments in 2020.

Net cash used in investing activities from discontinued operations was \$22 million in 2019, related to the sale of the European vacation rentals business.

Financing Activities

Net cash provided by financing activities from continuing operations was \$775 million for the nine months ended September 30, 2020, compared to net cash used of \$156 million in the prior year. The increase was primarily due to \$1.01

billion of higher net proceeds from debt and notes driven by \$402 million increase in net proceeds from our secured revolving credit facility and \$650 million note issuance in 2020, offset by increased repayments on notes of \$40 million; an \$87 million decrease in cash used for share repurchases; and \$69 million of payments made to Wyndham Hotels in 2019, for which there was no equivalent in 2020; partially offset by \$233 million of higher net repayments of non-recourse debt.

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, over the long term we intend to continue to return value to shareholders through the repurchase of common stock and payment of dividends, although our share repurchase program has been temporarily suspended since March 2020 as a result of the impact of COVID-19. All future declarations of quarterly cash dividends are subject to final approval by the Board of Directors (“Board”).

During the nine months ended September 30, 2020, we spent \$134 million on vacation ownership development projects (inventory). We believe that our vacation ownership business currently has adequate finished inventory to support vacation ownership sales for at least the next year. During 2020, we anticipate spending between \$160 million and \$180 million on vacation ownership development projects, a reduction of approximately \$94 million due to the impact of COVID-19 on our industry and business. The average inventory spend on vacation ownership development projects for the four-year period 2020 through 2023 is expected to be \$170 million annually. 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, 2020, we spent \$56 million on capital expenditures primarily for information technology and sales center improvement projects. During 2020, we anticipate spending between \$70 million and \$75 million on capital expenditures, a reduction of approximately \$50 million due to the impact of COVID-19, deferring several projects beyond 2020.

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 and cash and cash equivalents. Additional expenditures are expected to be financed with general corporate borrowings.

Stock Repurchase Program

On August 20, 2007, our 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 3.1 million shares at an average price of \$40.79 for a cost of \$125 million during the nine months ended September 30, 2020. We suspended share repurchase activity in March 2020 due to uncertainty associated with COVID-19. On July 15, 2020, we amended the credit agreement for our revolving credit facility and term loan B. Among other changes, the Credit Agreement Amendment places us into a Relief Period from July 15, 2020 through April 1, 2022 that prohibits the use of cash for share repurchases unless the first lien leverage ratio is below 4.25 to 1.0 after the share repurchase.

Dividends

During the quarterly periods ended March 31, and June 30, 2020, we paid cash dividends of \$0.50 per share, and in the quarterly period ended September 30, 2020, we paid cash dividends of \$0.30 per share (\$112 million in aggregate). 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). On July 15, 2020, we amended the Credit Agreement governing our revolving credit facility and term loan B. Among other changes, the amendment places us into a Relief Period which adds a new minimum liquidity covenant, tested quarterly until the end of the Relief Period, of (i) \$250 million plus (ii) 50% of the aggregate amount of dividends paid after the

amendment effective date and on or prior to the last day of the relevant fiscal quarter.

Although our quarterly dividend was reduced during the third quarter of 2020 due to the impact on COVID-19, our ongoing dividend policy is to grow our dividend at the rate of growth of our earnings at a minimum. 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 and a maximum first lien leverage ratio. 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. 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.

The global spread of COVID-19 has significantly impacted the travel industry, our company, our customers, and our employees. Our response to COVID-19 initially focused on the health and safety of our owners, members, guests and employees, when we closed the majority of our resorts and sales centers. We also were keenly focused on preserving cash, cutting costs and managing liquidity. While we have reopened 85% of our U.S. resorts as of September 30, 2020 (97% as of the date of this filing) and restarted 77% of our U.S. sales and marketing operations (79% as of the date of this filing), the continued impact of COVID-19 on our industry and business will lead to a higher first lien leverage ratio in the near term. On July 15, 2020, we amended the credit agreement governing the revolving credit facility and term loan B which increased the maximum first lien leverage ratio and decreased the minimum interest coverage ratio allowed during the specified Relief period through the first quarter of 2022. The Relief period includes certain restrictions on the use of cash including the prohibition of share repurchases unless the first lien leverage ratio is below the original ratio of 4.25 to 1.0 after the share repurchase. We have the option to terminate this Relief period at any time we can demonstrate compliance with the 4.25 to 1.0 first lien leverage ratio. During the third quarter of 2020, the Relief period increased the maximum first lien leverage ratio to not exceed 6.50 to 1.0. Additionally, during the Relief period, a new minimum liquidity covenant was added, which is tested quarterly until the end of the Relief period, and requires us to maintain an interest coverage ratio (as defined in the Credit Agreement) of not less than 2.00 to 1.0. See Note 11—*Debt* to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for additional details.

As of September 30, 2020, our first lien leverage ratio was 4.1 to 1.0 and our interest coverage ratio was 4.2 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, 2020, we were in compliance with 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 VOCRs 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, 2020, all of our securitized loan pools were in compliance with applicable contractual triggers.

LIQUIDITY

Our vacation ownership business finances certain of its VOCRs through (i) asset-backed conduit facilities and (ii) term asset-backed securitizations, all of which are non-recourse to us with respect to principal and interest.

We have a USD bank conduit facility for which we extended its term through October 31, 2022 (see Note 27—*Subsequent Events* to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for additional details), and an AUD/NZD bank conduit facility, with a term through September 2021, amounting to a combined capacity of \$1.01 billion. As of September 30, 2020, we had \$747 million of availability under these asset-backed conduit facilities.

Our liquidity position may be negatively affected by unfavorable conditions in the capital markets in which we operate or if our VOCRs portfolios do not meet specified portfolio credit parameters. Our liquidity, as it relates to our VOCRs securitization program, could be adversely affected if we were to fail to renew or replace our conduit facilities on their expiration dates, 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 VOCRs deteriorate. Our ability to sell securities backed by our VOCRs depends on the continued ability and willingness of capital market participants to invest in such securities. During the second quarter, we successfully closed on a \$325 million private securitization financing. While this transaction was at a higher cost compared to transactions we completed in the past, it was favorable to similar transactions completed in the public market at that time. We also closed on a \$575 million public securitization financing during the third quarter at a similar cost compared to transactions we have completed in the past. These transactions provide reinforcement that we expect to maintain adequate liquidity.

We primarily utilize surety bonds in 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 12 surety providers in the amount of \$2.3 billion as of September 30, 2020, of which \$233 million is outstanding. The availability, terms and conditions and pricing of 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 the bonding capacity is unavailable or, alternatively, the terms and conditions and pricing of the bonding capacity are unacceptable to us, our vacation ownership business could be negatively impacted.

During the second quarter of 2020, Moody's Investors Service, Inc. downgraded our secured debt rating from Ba2 to Ba3 with a "negative outlook." Our secured debt is rated BB- with a "negative outlook" by Standard & Poor's Rating Services, and BB+ with a "negative 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. For information regarding the impact of our credit rating downgrade and credit rating downgrade of Wyndham Hotels, see Note 25—*Transactions with Former Parent and Former Subsidiaries - Matters Related to the European Vacation Rentals Business* to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

SEASONALITY

We experience seasonal fluctuations in our net revenues and net income from sales of VOIs and vacation exchange fees. 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 generally when members of our vacation exchange business book their vacations for the year. Our seasonality has been and could continue to be impacted by COVID-19.

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 12-month periods set forth below (in millions):

	10/1/20 - 9/30/21	10/1/21 - 9/30/22	10/1/22 - 9/30/23	10/1/23 - 9/30/24	10/1/24 - 9/30/25	Thereafter	Total
Non-recourse debt ^(a)	\$ 366	\$ 316	\$ 254	\$ 256	\$ 270	\$ 995	\$ 2,457
Debt	250	649	950	298	291	1,738	4,176
Interest on debt ^(b)	275	241	204	169	149	156	1,194
Finance leases	3	3	1	1	—	—	8
Operating leases ^(c)	34	32	30	30	27	59	212
Purchase commitments ^(d)	272	204	129	119	120	443	1,287
Inventory sold subject to conditional repurchase ^(e)	56	30	—	—	—	—	86
Separation liabilities ^(f)	1	12	—	—	—	2	15
Other ^(g)	11	10	—	—	—	—	21
Total ^(h)	\$ 1,268	\$ 1,497	\$ 1,568	\$ 873	\$ 857	\$ 3,393	\$ 9,456

(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 debt, non-recourse debt, and finance leases; estimated using the stated interest rates on our debt and non-recourse debt.

(c) Represents all operating leases including those with a lease of 12 months or less.

(d) Includes (i) \$1.0 billion for marketing-related activities; (ii) \$153 million relating to the development of vacation ownership properties, of which \$59 million is included within Accrued expenses and other liabilities on the Condensed Consolidated Balance Sheets included in Part I, Item 1 of this Quarterly Report on Form 10-Q; and (iii) \$31 million for information technology activities.

(e) Represents obligations to repurchase completed vacation ownership properties from third-party developers (See Note 9—*Inventory* to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for further detail) of which \$19 million was included within Accrued expenses and other liabilities on the Condensed Consolidated Balance Sheets included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

(f) Represents liabilities which we assumed and are responsible for pursuant to the Cendant Separation and Spin-off (See Note 25—*Transactions with Former Parent and Former Subsidiaries* to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for further details).

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

(h) Excludes a \$40 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.

COMMITMENTS AND CONTINGENCIES

From time to time, we are involved in claims, legal and regulatory proceedings, and governmental inquiries related to our 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 our guarantees and indemnifications see Note 17—*Commitments and Contingencies* to the Condensed Consolidated Financial Statements included in Part I, 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, 2020, which includes a description of our critical accounting policies that involve subjective and complex judgments that could potentially affect reported results. Below we include updates that have occurred since the filing of our most recent 10-K.

Impairment of Long-Lived Assets. With regard to the goodwill and other indefinite-lived intangible assets recorded in connection with business combinations, we annually (during the fourth quarter of each year subsequent to completing our annual forecasting process), or more frequently if circumstances indicate that the value of goodwill may be impaired, review

the reporting units' carrying values as required by the guidance for goodwill and other intangible assets. This is done either by performing a qualitative assessment or a quantitative assessment, with an impairment being recognized only if a reporting unit's fair value is less than carrying value. In any given year we can elect to perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is in excess of its carrying value. If it is not more likely than not that the fair value is in excess of the carrying value, or we elect to bypass the qualitative assessment, we would utilize the quantitative assessment. The qualitative factors evaluated include macroeconomic conditions, industry and market considerations, cost factors, overall financial performance, our historical share price as well as other industry-specific considerations. Given the impact of COVID-19 on our industry and business, we performed a qualitative assessment for impairment on each reporting unit's goodwill, as well as a quantitative assessment on ARN's goodwill during the third quarter of 2020. Based on the results of these assessments we determined that ARN's goodwill is not impaired and that it is more likely than not that our goodwill is not impaired at our other reporting units. To the extent estimated discounted cash flows are revised downward for ARN, whether as a result of continued and worsening COVID-19 impacts or if management's current negotiations to expand ARN programs both internally and externally do not materialize as expected, we may be required to write-down all or a portion of goodwill, which would adversely impact earnings.

We also determine whether the carrying value of other indefinite-lived intangible assets is impaired on an annual basis or more frequently if indicators of potential impairment exist. Application of the other indefinite-lived intangible assets impairment test requires judgment in the assumptions underlying the approach used to determine fair value. The fair value of each other indefinite-lived intangible asset is estimated using a discounted cash flow methodology. This analysis requires significant judgments, including anticipated market conditions, operating expense trends, estimation of future cash flows, which are dependent on internal forecasts, and estimation of long-term rate of growth. The estimates used to calculate the fair value of other indefinite-lived intangible assets change from year to year based on operating results and market conditions. Changes in these estimates and assumptions could materially affect the determination of fair value and the other indefinite-lived intangible assets impairment.

We also evaluate the recoverability of our other long-lived assets, including property and equipment and amortizable intangible assets, if circumstances indicate impairment may have occurred, pursuant to guidance for impairment or disposal of long-lived assets. This analysis is performed by comparing the respective carrying values of the assets to the current and expected future cash flows, on an undiscounted basis, to be generated from such assets. Property and equipment is evaluated separately within each segment. If such analysis indicates that the carrying value of these assets is not recoverable, the carrying value of such assets is reduced to fair value.

In addition to the goodwill assessment mentioned above, as a result of the impacts of COVID-19 we performed an interim impairment analysis on our property and equipment, inventory, other intangible assets and certain other assets during the three quarterly periods of 2020. There were \$10 million of impairments recognized during the first quarter of 2020 related to prepaid development costs and undeveloped land and impairment of the Love Home Swap tradename. In the second quarter, we recorded a \$24 million impairment related to the New Jersey lease (see Note 24—*Restructuring* to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for additional details), and a \$9 million impairment related to other assets including equity investments, lease assets, and furniture, fixtures and equipment. During the third quarter we recorded \$6 million of impairments driven by right-to-use leases and related fixed assets within the WVC segment due to closed sales centers. These impairments are included within the Asset impairments line of the Condensed Consolidated Statements of Income/(Loss) included in Part I, Item 1 of this Quarterly Report on Form 10-Q. For additional details on these impairments see Note 23—*Impairments* to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

In addition to the critical accounting policies discussed above, as part of our adoption of the Credit Losses accounting standard, we made an accounting policy election to present accrued interest receivable included within Trade receivables, net separate from our Vacation ownership contract receivables, net on the Condensed Consolidated Balance Sheets included in Part I, Item 1 of this Quarterly Report on Form 10-Q and elected not to estimate an allowance for credit losses on the accrued interest receivable balance. Once a contract is 91 days past due, we cease accruing interest and reverse all accrued interest recognized to date against interest income included within Consumer financing revenue on the Condensed Consolidated Statements of Income/(Loss) included in Part I, Item 1 of this Quarterly Report on Form 10-Q. We resume accruing interest for contracts which we had previously ceased accruing interest once the contract is less than 91 days past due.

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, 2020 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 interest rates would have resulted in less than \$1 million increase or decrease in annual consumer financing interest expense and total interest expense. We have determined 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 \$5 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 interest rates or 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, non-recourse conduit facilities 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, 2020, was \$267 million in non-recourse debt and \$839 million in corporate debt. A 100 basis point change in the underlying interest rates would result in a \$3 million increase or decrease in annual consumer financing interest expense and a \$8 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(c) 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, 2020, we utilized the criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

As a result of COVID-19, most of our employees began working remotely in late March 2020. We have not identified any material changes in our disclosure controls and procedures, nor our internal control over financial reporting as a result of this change. We are continually monitoring and assessing the COVID-19 situation to minimize the impact on the design and operating effectiveness of our internal controls.

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 25—*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 & Resorts, Inc. (“Wyndham Hotels”), matters related to the European vacation rentals business, and the North American vacation rentals business. Both notes are included in Part I, 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 Part I, Item 1A. of our Annual Report on Form 10-K for the fiscal year ended December 31, 2019, Part II, Item 1A. of our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2020, and Part II, Item 1A. of our Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2020, 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, 2020, there have been no material changes to the risk factors set forth in Part I, Item 1A. of our Annual Report on Form 10-K for the fiscal year ended December 31, 2019, as updated in Part II, Item 1A. of our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2020 and Part II, Item 1A. of our Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2020, except as noted below and except to the extent factual information disclosed elsewhere in this Quarterly Report on Form 10-Q relates to such risk factors.

The global outbreak of COVID-19 and the recent temporary closure of all of our resorts and sales centers have significantly negatively affected our operations, and continued closure or reclosure, as well as the continuing impact of measures that limit our ability to operate, may significantly negatively affect our future business, financial condition and results of operations.

The global outbreak of novel coronavirus global pandemic (“COVID-19”) has led, and will likely continue to lead, to disruptions in the global economy. Tourism and travel-related industries continue to face significant disruption as a result of the COVID-19 pandemic, as the United States of America (“U.S.”) federal government and its individual states as well as foreign countries have taken, and in light of recent increases in new COVID-19 cases, will likely continue to take, actions to curb the spread of COVID-19, including encouraging or mandating “social distancing” and quarantines, mandating certain business closures, limiting the number of individuals that may gather in one location and implementing travel restrictions. COVID-19 has caused, and will likely continue to cause, extreme volatility in the equity markets and the capital markets, generally.

Our business has been significantly negatively affected by COVID-19. In response to COVID-19, we temporarily closed our resorts in mid-March across the globe and suspended our vacation ownership sales and marketing operations. Our temporary resort and sales center closures led to significant declines in our vacation ownership interest (“VOI”) sales during this closure period. We also experienced an increase in cancellations and a decrease in bookings for our Panorama business. As a result of these closures, we reduced our workforce and furloughed or laid off approximately 9,000 employees. Given the magnitude of these events, our revenues were negatively impacted and we incurred \$31 million and \$377 million of charges directly related to COVID-19 during the three and nine months ended September 30, 2020. As of September 30, 2020, we have reopened 85% of our U.S. resorts (97% as of the date of this filing) and the majority of these resorts have re-opened to full capacity following local health guidelines. We estimate that the remaining suspended operations will resume in early 2021. Approximately 5,700 employees remain laid off or furloughed. We have restarted our sales and marketing operations at the majority of the U.S. resorts that have reopened; however, revenue has not returned to pre-COVID-19 levels. While the levels of restrictions on operations imposed by governmental authorities have reduced in some locations, they have increased in other locations, and there is continued uncertainty regarding the trend of these restrictions going forward.

The duration of the impact of COVID-19 and our resort and sales centers closures and our ability to implement our growth strategy is uncertain, as the full impact and duration of the COVID-19 outbreak continues to evolve. Continued closure and/or reclosure of resorts and sales centers could result in additional COVID-19 charges, including idle pay for certain sales and marketing employees, and could result in potential further impairment of assets. If the impact of COVID-19 continues or worsens, our revenues will continue to be negatively impacted.

The actions we have taken to reduce operating costs and improve efficiency, including the layoff and furloughing of a substantial number of our employees and further changes we may make in the future to reduce costs, have caused and may continue to cause us to experience operational challenges, including as a result of furloughed employees not returning to employment because they have obtained alternative employment or otherwise, and may negatively impact our ability to attract and retain associates, our reputation and market share. In addition, the increase in the number of our employees working remotely has increased certain risks to our business, including increased demand on our information technology resources and systems, greater potential for phishing and other cybersecurity attacks, and an increase in the number of points of potential attack, and any failure to effectively manage these risks and to timely identify and respond to any cyberattacks, may adversely affect our business. The pandemic may also have long-term effects on the nature of the office environment and remote working, which may present operational challenges that could adversely affect our business. Working remotely has caused strain for, and may adversely impact the productivity of, certain employees, which conditions, if prolonged, could harm our business. Additionally, efforts to re-open our offices safely may not be successful, could expose our personnel to health risks and will involve additional financial burdens.

In addition, increases in unemployment due to COVID-19 and the measures implemented to contain the spread of the virus may continue to negatively impact our VOI owners' ability to repay their contract receivables. If unemployment rates increase and/or our collection experience for our vacation ownership contract receivables ("VOCRs") declines more than we estimated in the first quarter, we may need to further increase our allowance for loan losses for VOCRs. The additional \$225 million allowance recorded in the first quarter provided for the full estimated impact of a prolonged recession (approximately 18 months to return to pre-COVID-19 employment) based on our historical data for the most recent recession in 2008; therefore we would not expect any future additional adjustments to be as material as the adjustment taken in the first quarter.

Given a range of different scenarios related to the COVID-19 impact on our business, we expect to maintain adequate liquidity and remain in compliance with our debt covenants. However, the effects of COVID-19 may also negatively affect our ability to comply with existing covenants under our debt agreements, increase our cost of capital or make additional capital more difficult to obtain or available only on terms less favorable to us, if at all. Subject to the provisions of the amendment to our credit agreement ("Credit Agreement Amendment"), our secured revolving credit facility requires us to maintain a minimum interest coverage ratio of at least 2.50 to 1.00 as of the measurement date and a maximum first lien leverage ratio not to exceed 4.25 to 1.00 as of the measurement date. However, the Credit Agreement Amendment establishes a relief period with respect to our secured revolving credit facility, which began on July 15, 2020, and will last until the earlier of April 1, 2022, and the termination by us of the relief period, subject to certain conditions ("Relief Period"). The Credit Agreement Amendment increases the leverage-based financial covenant by varying levels for each applicable quarter during the Relief Period, in each case which represents an increase to the existing leverage-based financial covenant of 4.25 to 1.00. Following the Relief Period, the Credit Agreement Amendment re-establishes the existing leverage-based financial covenant of 4.25 to 1.00, tested on the basis of trailing 12-month consolidated EBITDA (as defined in the Credit Agreement). In addition, the Credit Agreement Amendment, among other things, increases the interest rate applicable to borrowings under our secured revolving credit facility based on our first lien leverage ratio in any quarter it exceeds 4.25 to 1.0, until the end of the Relief Period; adds a new minimum liquidity covenant, tested quarterly until the end of the Relief Period, of (i) \$250 million plus (ii) 50% of the aggregate amount of dividends paid after the Amendment Effective Date and on or prior to the last day of the relevant fiscal quarter and requires us to maintain an interest coverage ratio (as defined in the Credit Agreement) of not less than 2.00 to 1.00, which shall increase to 2.50 to 1.00 after the Relief Period, the level existing prior to the Amendment Effective Date. Finally, the Credit Agreement Amendment amends the definition of "Material Adverse Effect" in the Credit Agreement to take into consideration the COVID-19 pandemic during the Relief Period, to the extent disclosed prior to July 15, 2020, in our public filings and certain other specified materials. The continued impact of COVID-19 on our industry and business may impact our ability to maintain compliance with these debt covenants in the future. If we fail to comply with our debt covenants, including as amended by the Credit Agreement Amendment during the Relief Period, the lenders under our secured revolving credit facility and term loan B, subject to our right to cure, would have the right to terminate and declare the outstanding loans to be immediately due and payable, and any such default could trigger a cross-default, acceleration or other consequences under other indebtedness or financial instruments to which we are a party. Any continued impact of COVID-19 on our industry and business will also lead to a higher first lien leverage ratio in the future. If this ratio exceeds 3.75 to 1.0 after the aforementioned Relief Period, the interest rate on revolver borrowings will increase by 25 basis points, and we would be subject to higher fees associated with our letters of credit. In addition, during the Relief Period, the interest rate applicable to borrowings under our secured revolving credit facility based on the our first lien leverage ratio in any given quarter is subject to further increases.

COVID-19 has also impacted the public asset-backed securities market, and thus impacted our ability to issue asset-backed securities in the first quarter. However, in April 2020, we successfully closed on a \$325 million private securitization financing at a higher cost compared to transactions we have completed in the past. In August 2020, we successfully closed on a \$575 million public securitization financing at a similar cost compared to transactions we have completed in the past. The impact of

COVID-19 on the financial markets may have an impact on the availability of this type of funding and other types of financing in the near term and terms for hospitality/travel-related companies may command a higher interest rate. The ongoing effects of COVID-19 on our operations could have a significant negative impact on our financial results, capital and liquidity, as well as our credit rating, and such negative impact could continue well beyond the containment of such outbreak.

In connection with the sale of our European vacation rentals business, Wyndham Hotels provided certain post-closing credit support in the form of guarantees. As part of this agreement Wyndham Hotels is required to maintain minimum credit ratings which increased to Ba1 for Moody's Investors Service, Inc. ("Moody's") and BB+ for Standard & Poor's Rating Services ("S&P") on May 9, 2020. In April 2020, S&P downgraded Wyndham Hotels' credit rating from BB+ to BB. Although any ultimate exposure relative to indemnities retained from the European vacation rentals sale will be shared two-thirds by us and one-third by Wyndham Hotels, as the selling entity, we are responsible for administering additional security to enhance corporate guarantees in the event either company falls below a certain credit rating threshold.

As a result of the Wyndham Hotels credit ratings downgrade, we posted £58 million surety bond and a £36 million letter of credit (\$75 million and \$46 million as of September 30, 2020) and we will maintain them until such time that either companies' S&P's and Moody's credit rating improves to BB+/Ba1. In addition, as a result of Moody's downgrade in May 2020, the coupon rate on the 5.40% notes due 2024, the 6.35% notes due 2025, and the 5.75% notes due 2027 increased by 25 basis points per annum, effective October 1, 2020.

As of September 30, 2020, we had \$747 million of availability under our asset-backed conduit facilities. Any further disruption to the asset-backed securities market could continue to negatively impact our ability to obtain asset-backed financings. Our liquidity, as it relates to our VOCRs securitization program, could be adversely affected if we were to fail to renew or replace our conduit facilities on their expiration dates, 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 VOCRs deteriorate as a result of the COVID-19 crisis or otherwise. Our ability to sell securities backed by our VOCRs depends on the continued ability and willingness of capital market participants to invest in such securities, which may be negatively affected by COVID-19 and its impact on economic conditions and the credit of our VOCRs pools.

We utilize surety bonds in our vacation ownership business for sales and development transactions in order to meet regulatory requirements of certain states. The availability, terms and conditions and pricing of 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. As a result of COVID-19, we could see a reduction in commitments from our surety providers. Any such reduction in commitments or reduced availability of bonding capacity, or a negative change to the terms and conditions and pricing of the bonding capacity may negatively impact our vacation ownership business.

The impact of the COVID-19 pandemic and possible resurgences, including continued resort and sales center closures or reclosures, increases in cancellations or reduction in bookings, reluctance of customers to travel even after all government restrictions and recommendations are no longer in effect or to spend on discretionary items such as vacation, as well as the uncertainty regarding the ongoing length and severity of the economic downturn caused by COVID-19, will continue to negatively impact our business and revenue, and we are unable to predict the full extent or nature of these impacts at this time. While we have made and continue to make efforts to mitigate the impacts of COVID-19, there can be no assurance that these efforts will be successful, and as a result, our future business, financial condition and results of operations may be significantly negatively impacted. The volatile conditions stemming from COVID-19, as well as reactions to future pandemics or resurgences of COVID-19, could also precipitate or aggravate the other risk factors that we identify or incorporate by reference in Part I, Item 1A. of our Annual Report on Form 10-K for the fiscal year ended December 31, 2019, which in turn could significantly negatively affect our business, financial condition, liquidity, results of operations (including revenues and profitability) and/or stock price. Further, COVID-19 may affect our operating and financial results in a manner that is not presently known to us or that we currently do not consider to present significant risks to our operations.

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

- (a) On August 7, 2020, in connection with RCI's acquisition of Alliance Reservations Network (ARN), 468,100 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, at \$28.84 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, 2020:

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 2020	—	\$ —	—	\$ 351,074,356
August 2020	—	—	—	351,074,356
September 2020	—	—	—	351,074,356
Total	—	\$ —	—	\$ 351,074,356

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 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. In March 2020, we announced that we have suspended our share repurchase activity due to the uncertainty resulting from the COVID-19 pandemic, and no share repurchases were made during the quarter ended September 30, 2020.

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.

Sierra Timeshare Conduit Renewal

On October 27, 2020 Sierra Timeshare Conduit Receivables Funding II, LLC (the “Issuer”), an indirect, wholly-owned subsidiary of Wyndham Destinations, Inc., renewed its securitized timeshare receivables conduit facility, extending the end of the commitment period from August 30, 2021 to October 31, 2022 and making certain other amendments, including to the advance rate, the LIBOR replacement mechanism, certain default and delinquency triggers, the applicable commercial paper rate and certain concentration limits. The facility bears interest based on variable commercial paper rates plus a spread or LIBOR (or a successor rate), plus a spread.

The renewal involved execution of (i) a Tenth Amendment, dated as of October 27, 2020, to the Amended and Restated Indenture and Servicing Agreement, dated as of October 1, 2010, by and among the Issuer, Wyndham Consumer Finance, Inc., as Servicer, Wells Fargo Bank, National Association, as Trustee and U.S. Bank National Association, as Collateral Agent and (ii) a Tenth Amendment, dated as of October 27, 2020 to the Amended and Restated Note Purchase Agreement, dated as of October 1, 2010, by and among the Issuer, Wyndham Consumer Finance, Inc., as Servicer, Wyndham Destinations, Inc. and JPMorgan Chase Bank N.A., as Deal Agent.

Certain of the participants in the facility, the Trustee and the Collateral Agent, and their respective affiliates, have performed and may in the future perform, various commercial banking, investment banking and other financial advisory services for us and our subsidiaries for which they have received, and will receive, customary fees and expenses.

Item 6. Exhibits.

<u>Exhibit No.</u>	<u>Description</u>
4.1	Second Supplemental Indenture, dated July 24, 2020, between Wyndham Destinations, Inc. and U.S. Bank National Association, as Trustee (incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed on July 24, 2020).
4.2	Form of 6.625% Note due 2026 (included within Exhibit 4.1).
10.1	First Amendment, dated as of July 15, 2020, to the Credit Agreement, dated as of May 31, 2018, among Wyndham Destinations, Inc., the several lenders and letter of credit issuers from time to time party thereto, Bank of America, N.A., as administrative agent, and the other parties thereto (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on July 20, 2020).
10.2*	Purchase Agreement, dated as of July 20, 2020, between Wyndham Destinations, Inc. and BofA Securities, Inc., as representative of the several initial purchasers named in Schedule II thereto.
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*	Inline XBRL Instance Document
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104*	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Filed with this report

** Furnished with this report

WYNDHAM DESTINATIONS, INC.

\$650,000,000 6.625% Senior Secured Notes due 2026
Purchase Agreement

July 20, 2020

BofA Securities, Inc. One Bryant Park
New York, NY 10036
As Representative of the
several Initial Purchasers listed in Schedule II hereto

Ladies and Gentlemen:

Wyndham Destinations, Inc., a corporation organized under the laws of Delaware (the “Company”), proposes to issue and sell to the several Initial Purchasers named in Schedule II hereto (the “Initial Purchasers”), for whom you (the “Representative”) are acting as representative, the principal amount of its 6.625% Senior Secured Notes due 2026 (the “Securities”) identified in Schedule II hereto, to be issued under the indenture (the “Base Indenture”), dated December 13, 2019, between the Company and U.S. Bank National Association, as trustee (the “Trustee”), and a second supplemental indenture between the Company and the Trustee to be dated the Closing Date (as defined below) (together with the Base Indenture, the “Indenture”).

As of the Closing Date, the Securities will be designated by the Company in writing (the “Secured Obligation Designation”) to the Collateral Agent (as defined below), as “Notes”, and the obligations represented thereby as “Note Obligations”, in each case, under that certain Security Agreement, dated as of May 31, 2018 (as amended, restated, amended and restated, supplemented or otherwise modified from time to time, the “Security Agreement” and, together with the Secured Obligation Designation, the “Security Documents”) among the Company, the other grantors party thereto from time to time and Bank of America, N.A., as collateral agent (in such capacity, the “Collateral Agent”). The Securities will thereby be secured as of the Closing Date (and to the extent and for so long as such obligations are required to be secured pursuant to the terms of the Indenture) by a first priority lien (subject to Permitted Liens (as defined in the Disclosure Package (as defined below) and the Offering Memorandum) and other exceptions described in the Security Agreement) on the Collateral (as defined in the Security Agreement) on a *pari passu* basis with the Company’s obligations under (i) the Credit Agreement dated May 31, 2018 (as amended by the First Amendment dated July 15, 2020, and as may be further amended, restated, amended and restated, supplemented or otherwise modified from time to time, the “Credit Agreement”) by and among the Company, the lenders from time to time party thereto and Bank of America, N.A., as administrative and collateral

agent, (ii) the Company's outstanding 5.625% Notes due 2021, 4.25% Notes due 2022, 3.90% Notes due 2023, 5.40% Notes due 2024, 6.35% Notes due 2025, 5.75% Notes due 2027 and 4.625% Notes due 2030 and (iii) such other obligations as may be secured on the Collateral on a *pari passu* basis with the foregoing from time to time pursuant to the terms thereof.

To the extent there are no additional Initial Purchasers listed on Schedule II other than you, the term Representative as used herein shall mean you, as Initial Purchaser, and the term Initial Purchasers shall mean either the singular or plural as the context requires. The use of neuter in this Agreement shall include the feminine and masculine wherever appropriate.

The Securities will be sold to the Initial Purchasers without being registered under the Securities Act of 1933, as amended (the "Securities Act"), in reliance upon an exemption therefrom. The Company has prepared a preliminary offering memorandum dated July 20, 2020 (the "Preliminary Offering Memorandum") and will prepare an offering memorandum dated the date hereof (the "Offering Memorandum") setting forth information concerning the Company and the Securities. Copies of the Preliminary Offering Memorandum have been, and copies of the Offering Memorandum will be, delivered by the Company to the Initial Purchasers pursuant to the terms of this purchase agreement (the "Agreement"). The Company hereby confirms that it has authorized the use of the Preliminary Offering Memorandum, the Disclosure Package and the Offering Memorandum in connection with the offering and resale of the Securities by the Initial Purchasers in the manner contemplated by this Agreement. References herein to the Preliminary Offering Memorandum, the Disclosure Package and the Offering Memorandum shall be deemed to refer to and include the documents incorporated by reference therein and any reference to "amend," "amendment" or "supplement" with respect to the Preliminary Offering Memorandum or the Offering Memorandum shall be deemed to refer to and include any documents filed after such date and incorporated by reference therein. Capitalized terms used but not defined herein shall have the meanings given to such terms in the Preliminary Offering Memorandum.

At or prior to the time when sales of the Securities were first made (the "Time of Sale"), the Company had prepared the Disclosure Package (as defined below).

1. Representations and Warranties. The Company represents and warrants to, and agrees with, each Initial Purchaser as set forth below in this Section 1.

(a) The Preliminary Offering Memorandum, as of its date, did not, the Disclosure Package, at the Time of Sale, did not, and at the Closing Date, will not, and the Offering Memorandum, in the form first used by the Initial Purchasers to confirm sales of the Securities and as of the Closing Date, will not, contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided, however, that the Company makes no representations or warranties as to any statements or omissions made in reliance upon and in conformity with information furnished in writing to the Company by or on behalf of any Initial Purchaser through the Representative specifically for inclusion in the Preliminary Offering Memorandum, the Disclosure Package or the Offering Memorandum (or any supplement thereto), it being understood and agreed that the

only such information furnished by or on behalf of any Initial Purchaser consists of the information described as such in Section 7(b) hereof.

(b) As of the Execution Time, (i) the Disclosure Package and (ii) each electronic road show related to the Securities, when taken together as a whole with the Disclosure Package, does not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. The preceding sentence does not apply to statements in or omissions from the Disclosure Package based upon and in conformity with written information furnished to the Company by any Initial Purchaser through the Representative specifically for use therein, it being understood and agreed that the only such information furnished by or on behalf of any Initial Purchaser consists of the information described as such in Section 7(b) hereof.

(c) The Company (including its agents and representatives, other than the Initial Purchasers in their capacity as such) has not prepared, made, used, authorized, approved or referred to and will not prepare, make, use, authorize, approve or refer to any written communication that constitutes an offer to sell or solicitation of an offer to buy the Securities (each such communication by the Company or their agents and representatives (other than a communication referred to in clauses (i) and (ii) below) an "Issuer Written Communication") other than (i) the Preliminary Offering Memorandum, (ii) the Offering Memorandum, (iii) a term sheet substantially in the form of Schedule IV hereto, and (iv) any electronic road show or other written communications. Each such Issuer Written Communication, did not, and at the Closing Date will not, contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. The foregoing sentence does not apply to statements in or omissions from any Issuer Written Communication based upon and in conformity with written information furnished to the Company by any Initial Purchaser through the Representative specifically for use therein, it being understood and agreed that the only such information furnished by or on behalf of any Initial Purchaser consists of the information described as such in Section 7(b) hereof.

(d) The Company is not and, after giving effect to the offering and sale of the Securities and the application of the proceeds thereof as described in the Disclosure Package and the Offering Memorandum, will not be an "investment company" required to be registered under the Investment Company Act of 1940, as amended.

(e) The Company has not paid or agreed to pay to any person any compensation for soliciting another to purchase any securities of the Company (except as contemplated in this Agreement).

(f) The statements in the Disclosure Package and the Offering Memorandum under the caption "Description of notes," insofar as such statements purport to summarize certain provisions of the Indenture and the Securities, fairly summarize such provisions in all material respects.

(g) The Company has not taken, directly or indirectly, any action designed to constitute or that has constituted or that might reasonably be expected to cause or result in stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the Securities.

(h) Each of the Company and its Significant Subsidiaries has been duly incorporated or formed and is validly existing in good standing under the laws of the jurisdiction in which it is chartered or organized with full corporate power and authority to own or lease, as the case may be, and to operate its properties and conduct its business as described in the Disclosure Package and the Offering Memorandum, and is duly qualified to do business as a foreign corporation and is in good standing under the laws of each jurisdiction that requires such qualification, except to the extent that the failure to so qualify or be in good standing, individually or in the aggregate, would not have a material adverse effect, or would not constitute a development involving a prospective change which would have a material adverse effect, on the condition (financial or otherwise), earnings, business or properties of the Company and its subsidiaries, taken as a whole, whether or not arising from transactions in the ordinary course of business (a "Material Adverse Effect").

(i) All the outstanding shares of capital stock of the Company and each Significant Subsidiary have been duly authorized and validly issued and are fully paid and nonassessable. Except as otherwise set forth in the Disclosure Package and the Offering Memorandum, all outstanding shares of capital stock of the subsidiaries are owned by the Company, either directly or through wholly owned subsidiaries, free and clear of any security interest, claim, lien or encumbrance (other than any security interest, claim, lien or encumbrance created, imposed or permitted pursuant to the terms of the Security Documents), except as would not have a Material Adverse Effect.

(j) The Company's authorized equity capitalization is as set forth in the Disclosure Package and the Offering Memorandum; the capital stock of the Company conforms in all material respects to the description thereof contained in the Disclosure Package and the Offering Memorandum; the outstanding shares of common stock of the Company, par value \$0.01 per share (the "Common Stock"), have been duly authorized and validly issued and are fully paid and nonassessable; the holders of outstanding shares of capital stock of the Company are not entitled to preemptive or other rights to subscribe for the Securities; and, except as set forth in the Disclosure Package and the Offering Memorandum, no options, warrants or other rights to purchase, agreements or other obligations to issue, or rights to convert any obligations into or exchange any securities for, shares of capital stock of or ownership interests in the Company are outstanding.

(k) This Agreement has been duly authorized, executed and delivered by the Company; the Indenture has been duly authorized by the Company and, assuming due authorization, execution and delivery thereof by the Trustee, when executed and delivered by the Company, will constitute a valid and legally binding instrument enforceable against the Company in accordance with its terms (subject, as to the enforcement of remedies, to applicable bankruptcy, reorganization, insolvency, moratorium or other laws affecting

creditors' rights generally from time to time in effect and to general principles of equity); and the Securities have been duly authorized, and, when executed and authenticated in accordance with the provisions of the Indenture and delivered to and paid for by the Initial Purchasers, will have been duly executed and delivered by the Company, will be fully paid and nonassessable, and will constitute valid and legally binding obligations of the Company entitled to the benefits of the Indenture and enforceable against the Company in accordance with their terms (subject, as to the enforcement of remedies, to applicable bankruptcy, reorganization, insolvency, moratorium or other laws affecting creditors' rights generally from time to time in effect and to general principles of equity).

(l) The Company has all requisite corporate or similar power and authority to execute, deliver and perform its obligations under each Security Document. At or prior to the Closing Date, each of the Security Documents will have been duly authorized by the Company and, when executed and delivered by the Company, each of the Security Documents will constitute a valid and legally binding agreement of the Company, enforceable against the Company in accordance with its terms (subject, as to the enforcement of remedies, to applicable bankruptcy, reorganization, insolvency, moratorium or other laws affecting creditors' rights generally from time to time in effect and to general principles of equity). The Secured Obligation Designation, when executed and delivered in connection with the sale of the Securities, and the Security Agreement will create in favor of the Collateral Agent, for the benefit of itself, the Trustee and the holders of the Securities, valid and enforceable security interests in and first priority liens (subject to Permitted Liens (as defined in the Disclosure Package and the Offering Memorandum) and other exceptions described in the Security Agreement) on the Collateral, which will be perfected security interests, if applicable in the relevant jurisdiction.

(m) No consent, approval, authorization, filing with or order of any court or governmental agency or body is required in connection with the transactions contemplated herein, or in the Indenture, except (i) such as may be required under the blue sky laws of any jurisdiction in which the Securities are offered and sold or (ii) such as may be required to perfect the Collateral Agent's security interests granted pursuant to the Security Documents (including the making or procuring of appropriate registrations, filings, endorsements, stampings, intimation and/or the taking of other actions in accordance with local laws and/or notifications of the Security Documents and/or the liens created thereunder).

(n) None of the execution and delivery of this Agreement or the Indenture, the issuance and sale of the Securities, or the consummation of any other of the transactions herein or therein contemplated, or the fulfillment of the terms hereof or thereof will conflict with, result in a breach or violation or imposition of any lien, charge or encumbrance upon any property or assets of the Company or any of its Significant Subsidiaries (other than any lien, charge or encumbrance created or imposed pursuant to the Security Documents) pursuant to (i) the charter or bylaws or comparable constituting documents of the Company or any of its Significant Subsidiaries; (ii) the terms of any indenture, contract, lease, mortgage, deed of trust, note agreement, loan agreement or other similar agreement,

obligation or instrument to which the Company or any of its subsidiaries is a party or bound or to which its or their property is subject; or (iii) any statute, law, rule, regulation, judgment, order or decree of any court, regulatory body, administrative agency, governmental body, arbitrator or other authority having jurisdiction over the Company or any of its subsidiaries or any of its or their properties, except in the case of clauses (ii) and (iii) above, for any such conflicts, breaches, violations, liens, charges or encumbrances as would not, individually or in the aggregate, reasonably be expected to have a material adverse effect on the performance by the Company of this Agreement or the Indenture, the issuance and sale of the Securities or the consummation of any of the transactions contemplated herein or therein.

(o) The consolidated and combined historical financial statements and schedules of the Company and its consolidated subsidiaries incorporated by reference in the Disclosure Package and the Offering Memorandum present fairly in all material respects the financial condition, results of operations and cash flows of the Company as of the dates and for the periods indicated, comply as to form with the applicable accounting requirements of Regulation S-X, except as otherwise stated therein, and have been prepared in conformity with generally accepted accounting principles in the United States applied on a consistent basis throughout the periods involved (except as otherwise noted therein). The interactive data in eXtensible Business Reporting Language incorporated by reference in the Disclosure Package and the Offering Memorandum fairly presents the information called for in all material respects and is prepared in accordance with the Commission's rules and guidelines applicable thereto.

(p) No action, suit or proceeding by or before any court or governmental agency, authority or body or any arbitrator involving the Company or any of its subsidiaries or its or their property is pending or, to the knowledge of the Company, threatened that (i) could reasonably be expected to have a material adverse effect on the performance by the Company of this Agreement or the Indenture, or the consummation of any of the transactions contemplated hereby or thereby, or (ii) could reasonably be expected to have a Material Adverse Effect, except as set forth in or contemplated in the Disclosure Package and the Offering Memorandum (exclusive of any amendment or supplement thereto made after the date hereof).

(q) Each of the Company and its subsidiaries owns or leases all such tangible properties as are necessary to the conduct of its operations as presently conducted, except as would not have a Material Adverse Effect.

(r) Neither the Company nor any of its subsidiaries is in violation or default of (i) any provision of its charter or bylaws or comparable constituting documents; (ii) the terms of any indenture, contract, lease, mortgage, deed of trust, note agreement, loan agreement or other similar agreement, obligation or instrument to which it is a party or bound or to which its property is subject; or (iii) any statute, law, rule, regulation, judgment, order or decree applicable to the Company or any of its subsidiaries of any court, regulatory body, administrative agency, governmental body, arbitrator or other authority having jurisdiction over the Company or such subsidiary or any of its properties, as applicable,

except in the case of clauses (ii) and (iii) above for any such violation or default that would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

(s) Deloitte & Touche LLP, who have certified certain financial statements of the Company and its consolidated subsidiaries and delivered their report with respect to the audited consolidated historical financial statements and schedules incorporated by reference in the Disclosure Package and the Offering Memorandum, are an independent registered public accounting firm with respect to the Company and its subsidiaries within the applicable rules and regulations of the Public Company Accounting Oversight Board (United States) and as required by the Act.

(t) The Company and its subsidiaries have filed all applicable tax returns that are required to be filed or have requested extensions thereof (except in any case in which the failure so to file would not have a Material Adverse Effect and except as set forth in or contemplated in the Disclosure Package and the Offering Memorandum (exclusive of any amendment or supplement thereto made after the date hereof)) and have paid all taxes required to be paid by them and any other tax assessment, fine or penalty levied against them, to the extent that any of the foregoing is due and payable, except for any such tax assessment, fine or penalty that is currently being contested in good faith or as would not have individually or in the aggregate a Material Adverse Effect and except as set forth in or contemplated in the Disclosure Package and the Offering Memorandum (exclusive of any amendment or supplement thereto made after the date hereof).

(u) No labor problem or dispute with the employees of the Company or any of its subsidiaries exists or to the knowledge of the Company is threatened or imminent, except as would not have a Material Adverse Effect and except as set forth in or contemplated in the Disclosure Package and the Offering Memorandum (exclusive of any amendment or supplement thereto made after the date hereof).

(v) To the Company's best knowledge, except as disclosed in the Disclosure Package and the Offering Memorandum (exclusive of any amendment or supplement thereto made after the date hereof), no disputes exist or, to the Company's knowledge, are threatened with any franchisee of the Company or any of its subsidiaries (each a "Franchisee") that, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

(w) Each Franchisee is such by virtue of being a party to a franchise contract with either the Company or a subsidiary thereof and assuming each such contract has been duly authorized, executed and delivered by the parties thereto, other than the Company or a subsidiary thereof, each such contract constitutes a valid and legally binding obligation of each party thereto, enforceable against the Company or a subsidiary thereof in accordance with its terms, except (i) for any one or more of such franchise contracts as would not have a Material Adverse Effect, and (ii) to the extent that enforcement thereof may be limited by applicable bankruptcy, insolvency (including, without limitation, all laws relating to fraudulent transfers), reorganization, moratorium or similar laws affecting enforcement of

creditors' rights generally and except as enforcement thereof is subject to general principles of equity (regardless of whether enforcement is considered in a proceeding in equity or at law).

(x) The Company and each of its Significant Subsidiaries have complied and are currently complying with the rules and regulations of the United States Federal Trade Commission and the comparable laws, rules and regulations of each state or state agency applicable to the franchising business of the Company and such Significant Subsidiary in each state in which the Company or such Significant Subsidiary is doing business, except for any non-compliance that (individually or in the aggregate with any other such non-compliance) would not reasonably be expected to have a Material Adverse Effect.

(y) No subsidiary of the Company is currently prohibited, directly or indirectly, from paying any dividends to the Company, from making any other distribution on such subsidiary's capital stock, from repaying to the Company any loans or advances to such subsidiary from the Company or from transferring any of such subsidiary's property or assets to the Company or any other subsidiary of the Company, except as described in or contemplated in the Disclosure Package and the Offering Memorandum (exclusive of any amendment or supplement thereto made after the date hereof).

(z) The Company and each of its subsidiaries are insured by insurers of recognized financial responsibility against such losses and risks and in such amounts as are prudent and customary in the businesses in which they are engaged; all policies of insurance and fidelity or surety bonds insuring the Company or any of its subsidiaries or their respective businesses, assets, employees, officers and directors are to the knowledge of the Company in full force and effect; the Company and its subsidiaries are in compliance with the terms of such policies and instruments; and neither the Company nor any of its subsidiaries has any reason to believe that it will not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue its business at a cost that would not have a Material Adverse Effect except as set forth in or contemplated in the Disclosure Package and the Offering Memorandum (exclusive of any amendment or supplement thereto made after the date hereof).

(aa) The Company and its subsidiaries possess all governmental licenses, certificates, permits and other authorizations issued by all applicable governmental authorities necessary to conduct their respective businesses, except where failure to possess would not have a Material Adverse Effect, and neither the Company nor any of its subsidiaries has received any notice of proceedings relating to the revocation or modification of any such certificate, authorization or permit which, individually or in the aggregate, if the subject of an unfavorable decision, ruling or finding, would have a Material Adverse Effect, except as set forth in or contemplated in the Disclosure Package and the Offering Memorandum (exclusive of any amendment or supplement thereto made after the date hereof).

(bb) The Company and each of its subsidiaries maintain a system of internal accounting controls to provide reasonable assurance that (i) transactions are executed in

accordance with management's general or specific authorizations; (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles in the United States and to maintain asset accountability; (iii) access to assets is permitted only in accordance with management's general or specific authorization; and (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. The Company and its subsidiaries are not aware of any material weakness in their internal control over financial reporting. The Company and its subsidiaries maintain adequate "disclosure controls and procedures" (as such term is defined in Rule 13a-15e under the Exchange Act); such disclosure controls and procedures are effective.

(cc) Except as described in the Disclosure Package and the Offering Memorandum, with respect to the stock options (the "Stock Options") granted pursuant to the stock-based compensation plans of the Company and its subsidiaries (the "Company Stock Plans"), (i) each Stock Option designated by the Company at the time of grant as an "incentive stock option" under Section 422 of the Code so qualifies, (ii) each grant of a Stock Option was duly authorized no later than the date on which the grant of such Stock Option was by its terms to be effective (the "Grant Date") by all necessary corporate action, including, as applicable, approval by the board of directors of the Company (or a duly constituted and authorized committee thereof) and any required stockholder approval by the necessary number of votes or written consents, and the award agreement governing such grant (if any) was duly executed and delivered by each party thereto, (iii) each such grant was made in accordance with the terms of the Company Stock Plans, the Exchange Act and all other applicable laws and regulatory rules or requirements, including the rules of the New York Stock Exchange and any other exchange on which Company securities are traded, (iv) the per share exercise price of each Stock Option was no less than the fair market value of a share of Common Stock on the applicable Grant Date and (v) each such grant was properly accounted for in accordance with generally accepted accounting principles in the United States in the financial statements (including the related notes) of the Company and disclosed in the Company's filings with the Commission in accordance with the Exchange Act and all other applicable laws. The Company has not knowingly granted, and there is no, nor has there been any, policy or practice of the Company of granting, Stock Options prior to, or otherwise coordinating the grant of Stock Options with, the release or other public announcement of material information regarding the Company or its subsidiaries or their results of operations or prospects.

(dd) The Company and its subsidiaries are (i) in compliance with any and all applicable laws and regulations relating to the protection of human health and safety, the environment or hazardous or toxic substances or wastes, pollutants or contaminants ("Environmental Laws"); (ii) have received and are in compliance with all permits, licenses or other approvals required of them under applicable Environmental Laws to conduct their respective businesses; and (iii) have not received notice of any actual or potential liability under any Environmental Law, except where such non-compliance with Environmental Laws, failure to receive required permits, licenses or other approvals, or liability would not, individually or in the aggregate, have a Material Adverse Effect, except as set forth in or

contemplated in the Disclosure Package and the Offering Memorandum (exclusive of any amendment or supplement thereto made after the date hereof). Except as set forth in the Disclosure Package and the Offering Memorandum, neither the Company nor any of its subsidiaries has been named as a “potentially responsible party” under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended.

(ee) In the ordinary course of its business, the Company periodically reviews the effect of Environmental Laws on the business, operations and properties of the Company and its subsidiaries, in the course of which it identifies and evaluates associated costs and liabilities (including, without limitation, any capital or operating expenditures required for clean-up, closure of properties or compliance with Environmental Laws, or any permit, license or approval, any related constraints on operating activities and any potential liabilities to third parties); on the basis of such review, the Company has reasonably concluded that such associated costs and liabilities would not, individually or in the aggregate, have a Material Adverse Effect, except as set forth in or contemplated in the Disclosure Package and the Offering Memorandum (exclusive of any amendment or supplement thereto made after the date hereof).

(ff) The minimum funding standard under Section 302 of the Employee Retirement Income Security Act of 1974, as amended, and the regulations and published interpretations thereunder (“ERISA”), has been satisfied by each “pension plan” (as defined in Section 3(2) of ERISA) which has been established or maintained by the Company and/or one or more of its subsidiaries, and the trust forming part of each such plan which is intended to be qualified under Section 401 of the Code is so qualified; each of the Company and its subsidiaries has fulfilled its obligations, if any, under Section 515 of ERISA; neither the Company nor any of its subsidiaries maintains or is required to contribute to a “welfare plan” (as defined in Section 3(1) of ERISA) which provides retiree or other post-employment welfare benefits or insurance coverage (other than “continuation coverage” (as defined in Section 602 of ERISA)); each pension plan and welfare plan established or maintained by the Company and/or one or more of its subsidiaries is in compliance in all material respects with the currently applicable provisions of ERISA; and neither the Company nor any of its subsidiaries has incurred or could reasonably be expected to incur any withdrawal liability under Section 4201 of ERISA, any liability under Section 4062, 4063, or 4064 of ERISA, or any other liability under Title IV of ERISA.

(gg) None of the following events has occurred or exists: (i) a failure to fulfill the obligations, if any, under the minimum funding standards of Section 302 of ERISA, and the regulations and published interpretations thereunder with respect to a Plan, determined without regard to any waiver of such obligations or extension of any amortization period; (ii) an audit or, to the knowledge of the Company, investigation by the Internal Revenue Service, the U.S. Department of Labor, the Pension Benefit Guaranty Corporation or any other federal or state governmental agency or any foreign regulatory agency with respect to the employment or compensation of employees by any of the Company or any of its subsidiaries that could have a Material Adverse Effect; or (iii) any breach of any contractual obligation, or any violation of law or applicable qualification standards, with respect to the

employment or compensation of employees by the Company or any of its subsidiaries that could have a Material Adverse Effect. None of the following events has occurred or is reasonably likely to occur: (i) a material increase in the aggregate amount of contributions required to be made to all Plans in the current fiscal year of the Company and its subsidiaries compared to the amount of such contributions made in the most recently completed fiscal year of the Company and its subsidiaries; (ii) a material increase in the “accumulated post-retirement benefit obligations” (within the meaning of Financial Accounting Standards Board ASC 715, *Compensation—Retirement Benefits*) of the Company and its subsidiaries compared to the amount of such obligations in the most recently completed fiscal year of the Company and its subsidiaries; (iii) any event or condition giving rise to a liability under Title IV of ERISA that could have a Material Adverse Effect; or (iv) the filing of a claim by one or more employees or former employees of the Company or any of its subsidiaries related to their employment that could have a Material Adverse Effect. For purposes of this paragraph, the term “Plan” means a plan (within the meaning of Section 3(3) of ERISA) subject to Title IV of ERISA with respect to which the Company or any of its subsidiaries may have any liability.

(hh) Subject to the exceptions set forth in clauses (ii) through (iv) of the second sentence of this Section 1(hh), the Company and/or its subsidiaries own, possess, license or have other rights to use all patents, trade and service marks, trade names, copyrights, domain names (in each case including all registrations and applications to register same), inventions, trade secrets, technology and other intellectual property (collectively, the “Intellectual Property”) necessary for the conduct of the Company’s business as now conducted or as proposed in the Preliminary Offering Memorandum and the Offering Memorandum to be conducted (collectively, the “Company Intellectual Property”) free and clear of all liens or other similar encumbrances (other than any lien or encumbrance created or imposed pursuant to the terms of the Security Documents), except as would not have a Material Adverse Effect or as set forth in the Preliminary Offering Memorandum or the Offering Memorandum. Except as would not have a Material Adverse Effect or as set forth in the Preliminary Offering Memorandum or the Offering Memorandum, (i) to the knowledge of the Company, there is no infringement or other violation by third parties of any Company Intellectual Property owned by the Company or any of its subsidiaries; (ii) there is no pending or, to the knowledge of the Company, threatened action, suit, proceeding or claim by any third-party challenging the Company’s or its subsidiaries’ rights in or to any Company Intellectual Property, and to the knowledge of the Company, there is no reasonable basis for any such claim; (iii) there is no pending or, to the knowledge of the Company, threatened action, suit, proceeding or claim by any third-party against the Company challenging the validity, scope or enforceability of any Company Intellectual Property owned by the Company or the Company’s use of any Company Intellectual Property, and to the knowledge of the Company, there is no reasonable basis for any such claim; and (iv) there is no pending or, to the knowledge of the Company, threatened action, suit, proceeding or claim by any third-party that the Company or any subsidiary infringes or otherwise violates any Intellectual Property of any third-party, and to the knowledge of the Company there is no reasonable basis for any such claim.

(ii) The operations of the Company and its subsidiaries are and have been conducted at all times in compliance with applicable financial recordkeeping and reporting requirements and the money laundering statutes of all jurisdictions where the Company or any of its subsidiaries conducts business, the rules and regulations thereunder and any related or similar rules, regulations or guidelines, issued, administered or enforced by any governmental agency (collectively, the “Money Laundering Laws”) and no action, suit or proceeding by or before any court or governmental agency, authority or body or any arbitrator involving the Company or any of its subsidiaries with respect to the Money Laundering Laws is pending or, to the best knowledge of the Company, threatened.

(jj) None of the Company, any of its subsidiaries or, to the knowledge of the Company, any director, officer, agent or employee of the Company or any of its subsidiaries is currently the subject of any sanctions administered by the Office of Foreign Assets Control of the U.S. Department of the Treasury (“OFAC”), the U.S. Department of State, the United Nations Security Council (“UNSC”), the European Union or Her Majesty’s Treasury (collectively, “Sanctions”), nor is the Company or any of its subsidiaries located, organized or resident in a country or territory that is the subject or the target of Sanctions; and the Company will not directly or indirectly use the proceeds of the offering of the Securities hereunder, or lend, contribute or otherwise make available such proceeds to any subsidiary, joint venture partner or other person or entity to fund or facilitate any activities of or business with any person that, at the time of such funding, is the subject of Sanctions or in any other manner that violates Sanctions. For the past five years, the Company and its subsidiaries have not knowingly engaged in and are not now knowingly engaged in any dealings or transactions with any person that at the time of the dealing or transaction is or was the subject or the target of Sanctions or with Crimea, Cuba, Iran, North Korea or Syria.

(kk) On the Closing Date, the Securities will not be of the same class as securities listed on a national securities exchange registered under Section 6 of the Exchange Act or quoted in an automated inter-dealer quotation system; and each of the Preliminary Offering Memorandum and the Offering Memorandum, as of its respective date, contains or will contain all the information that, if requested by a prospective purchaser of the Securities, would be required to be provided to such prospective purchaser pursuant to Rule 144A(d)(4) under the Securities Act.

(ll) Neither the Company nor any of its affiliates (as defined in Rule 501(b) of Regulation D) has, directly or through any agent, sold, offered for sale, solicited offers to buy or otherwise negotiated in respect of, any security (as defined in the Securities Act), that is or will be integrated with the sale of the Securities in a manner that would require registration of the Securities under the Securities Act.

(mm) None of the Company or any of its affiliates or any other person acting on its or their behalf (other than the Initial Purchasers, as to which no representation is made) has (i) solicited offers for, or offered or sold, the Securities by means of any form of general solicitation or general advertising within the meaning of Rule 502(c) of Regulation D or in any manner involving a public offering within the meaning of

Section 4(a)(2) of the Securities Act or (ii) engaged in any directed selling efforts within the meaning of Regulation S under the Securities Act (“Regulation S”) with respect to the Securities, and all such persons have complied with the offering restrictions requirement of Regulation S.

(nn) Assuming the accuracy of the representations and warranties of the Initial Purchasers contained in Section 2(b) (including Schedule V hereto) and their compliance with their agreements set forth therein, it is not necessary, in connection with the issuance and sale of the Securities to the Initial Purchasers and the offer, resale and delivery of the Securities by the Initial Purchasers in the manner contemplated by this Agreement and the Offering Memorandum, to register the Securities under the Securities Act or to qualify the Indenture under the Trust Indenture Act.

(oo) There is and has been no failure on the part of the Company and any of the Company’s directors or officers, in their capacities as such, to comply in all material respects with any applicable provision of the Sarbanes-Oxley Act of 2002 and the rules and regulations promulgated in connection therewith (the “Sarbanes-Oxley Act”), including Section 402 relating to loans and Sections 302 and 906 relating to certifications.

(pp) Neither the Company nor any of its subsidiaries nor, to the knowledge of the Company, any director, officer, agent or employee or other person associated with or acting on behalf of the Company or any of its subsidiaries is aware of or has taken any action, directly or indirectly, that would result in a violation by such persons of the Foreign Corrupt Practices Act of 1977, as amended, and the rules and regulations thereunder (the “FCPA”), including, without limitation, making use of the mails or any means or instrumentality of interstate commerce corruptly in furtherance of an offer, payment, promise to pay or authorization of the payment of any money, or other property, gift, promise to give, or authorization of the giving of anything of value to any “foreign official” (as such term is defined in the FCPA) or any foreign political party or official thereof or any candidate for foreign political office, in contravention of the FCPA; and the Company and its subsidiaries have instituted and maintain policies and procedures designed to ensure compliance with the FCPA.

(qq) The Company and its subsidiaries’ information technology assets and equipment, computers, systems, networks, hardware, software, websites, applications, and databases (collectively, “IT Systems”) are adequate for, and operate and perform in all material respects as required in connection with the operation of the business of the Company and its subsidiaries as currently conducted, free and clear of all material bugs, errors, defects, Trojan horses, time bombs, malware and other corruptants. The Company and its subsidiaries have implemented and maintained commercially reasonable controls, policies, procedures, and safeguards to maintain and protect in all material respects their material confidential information and the integrity, continuous operation, redundancy and security of all IT Systems and data (including all personal, personally identifiable, sensitive, confidential or regulated data (“Personal Data”)) used in connection with their businesses, and there have been no material breaches, violations, outages or unauthorized uses of or accesses to same,

except for those that have been remedied without material cost or liability or the duty to notify any other person, nor any incidents under internal review or investigations relating to the same. The Company and its subsidiaries are presently in material compliance with all applicable laws or statutes and all judgments, orders, rules and regulations of any court or arbitrator or governmental or regulatory authority, internal policies and contractual obligations relating to the privacy and security of IT Systems and Personal Data and to the protection of such IT Systems and Personal Data from unauthorized use, access, misappropriation or modification.

(rr) Any certificate signed by any officer of the Company and delivered to the Representative or counsel for the Initial Purchasers in connection with the offering of the Securities shall be deemed a representation and warranty by the Company, as to matters covered thereby, to each Initial Purchaser.

2. Purchase and Resale.

(a) Subject to the terms and conditions and in reliance upon the representations and warranties herein set forth, the Company agrees to sell to each Initial Purchaser, and each Initial Purchaser agrees, severally and not jointly, to purchase from the Company, at the purchase price set forth in Schedule I hereto the principal amount of the Securities set forth opposite such Initial Purchaser's name in Schedule II hereto.

(b) It is understood that the Initial Purchasers intend to offer the Securities for resale on the terms set forth in the Disclosure Package. Each Initial Purchaser, severally and not jointly, represents, warrants and agrees that:

(i) it is a qualified institutional buyer within the meaning of Rule 144A under the Securities Act (a "QIB") and an accredited investor within the meaning of Rule 501(a) of Regulation D under the Securities Act ("Regulation D");

(ii) it has not solicited offers for, or offered or sold, and will not solicit offers for, or offer or sell, the Securities by means of any form of general solicitation or general advertising within the meaning of Rule 502(c) of Regulation D or in any manner involving a public offering within the meaning of Section 4(a)(2) of the Securities Act; and

(iii) neither it nor any person engaged by it has solicited offers for, or offered or sold, and will not solicit offers for, or offer or sell, the Securities as part of their initial offering except:

- (A) to persons whom it reasonably believes to be QIBs in transactions pursuant to Rule 144A under the Securities Act ("Rule 144A") and in connection with each such sale, it has taken or will take reasonable steps to ensure that the

purchaser of the Securities is aware that such sale is being made in reliance on Rule 144A; or

- (B) in accordance with the restrictions set forth in Schedule V hereto.

(c) Each Initial Purchaser acknowledges and agrees that the Company and, for purposes of the “no registration” opinions to be delivered to the Initial Purchasers pursuant to Sections 5(b) and 5(c), counsel for the Company and counsel for the Initial Purchasers, respectively, may rely upon the accuracy of the representations and warranties of the Initial Purchasers, and compliance by the Initial Purchasers with their agreements, contained in paragraph (b) above (including Schedule V hereto), and each Initial Purchaser hereby consents to such reliance.

(d) The Company acknowledges and agrees that the Initial Purchasers may offer and sell Securities to or through any affiliate of an Initial Purchaser and that any such affiliate may offer and sell Securities purchased by it to or through any Initial Purchaser; provided that such offers and sales shall be made in accordance with the provisions of this Agreement (including Schedule V hereto).

3. Delivery and Payment. Delivery of and payment for the Securities shall be made on the Closing Date and at the time specified in Schedule I hereto or at such time on such later date not more than three Business Days after the foregoing date as the Representative shall designate, which date and time may be postponed by agreement between the Representative and the Company or as provided in Section 8 hereof (such date and time of delivery and payment for the Securities being herein called the “Closing Date”). Delivery of the Securities shall be made to the Representative for the respective accounts of the several Initial Purchasers against payment by the several Initial Purchasers through the Representative of the purchase price thereof to or upon the order of the Company by wire transfer payable in same-day funds to an account specified by the Company. Delivery of the Securities shall be made through the facilities of The Depository Trust Company unless the Representative shall otherwise instruct.

4. Agreements. The Company agrees with the several Initial Purchasers that:

(a) At any time prior to the completion of the initial sale of the Securities by the Initial Purchasers, the Company will deliver, without charge, to the Initial Purchasers as many copies of the Preliminary Offering Memorandum, any Issuer Written Communication and the Offering Memorandum (including all amendments and supplements thereto) as the Representative may reasonably request.

(b) Before finalizing the Offering Memorandum or making or distributing any amendment or supplement to the Disclosure Package or the Offering Memorandum or filing with the Commission any document that will be incorporated by reference therein, the Company will furnish to the Representative and counsel for the Initial Purchasers a copy of the proposed Offering Memorandum or such amendment or supplement or document to be incorporated by reference therein for review, and will not distribute any such proposed

Offering Memorandum, amendment or supplement or file any such document with the Commission to which the Representative reasonably objects.

(c) The Company will arrange, if necessary, for the qualification of the Securities for sale under the “blue sky laws” of such jurisdictions as the Representative may reasonably request and will maintain such qualifications in effect so long as required for the sale of the Securities; provided that in no event shall the Company be obligated to qualify to do business in any jurisdiction where it is not now so qualified or to take any action that would subject it to service of process in suits, other than those arising out of the offering or sale of the Securities, in any jurisdiction where it is not now so subject. The Company will promptly advise the Representative of the receipt by the Company of any notification with respect to the suspension of the qualification of the Securities for sale under the “blue sky laws” in any jurisdiction or the initiation or threatening of any proceeding for such purpose.

(d) If at any time prior to the completion of the initial offering of the Securities (i) any event shall occur or condition shall exist as a result of which the Offering Memorandum as then amended or supplemented would include any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances existing when the Offering Memorandum is delivered to a purchaser, not misleading or (ii) it is necessary to amend or supplement the Offering Memorandum to comply with law, the Company will immediately notify the Initial Purchasers thereof and forthwith prepare and, subject to paragraph (b) above, furnish to the Initial Purchasers such amendments or supplements to the Offering Memorandum (or any document to be filed with the Commission and incorporated by reference therein) as may be necessary so that the statements in the Offering Memorandum as so amended or supplemented (including such document to be incorporated by reference therein) will not, in the light of the circumstances existing when the Offering Memorandum is delivered to a purchaser, be misleading or so that the Offering Memorandum will comply with law.

(e) While the Securities remain outstanding and are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, the Company will, during any period in which the Company is not subject to and in compliance with Section 13 or 15(d) of the Exchange Act, furnish to holders of the Securities and prospective purchasers of the Securities designated by such holders, upon the request of such holders or such prospective purchasers, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

(f) The Company will not, and will not permit any of its affiliates which the Company controls to, resell any Securities that have not been acquired by any of them unless such Securities are separately identified by a separate CUSIP number, if necessary.

(g) Neither the Company nor any of its affiliates (as defined in Rule 501(b) of Regulation D) will, directly or through any agent, sell, offer for sale, solicit offers to buy or otherwise negotiate in respect of, any security (as defined in the Securities Act), that is or will be integrated with the sale of the Securities in a manner that would require registration of the Securities under the Securities Act.

(h) None of the Company or any of its affiliates or any other person acting on its or their behalf (other than the Initial Purchasers, as to which no covenant is given) will (i) solicit offers for, or offer or sell, the Securities by means of any form of general solicitation or general advertising within the meaning of Rule 502(c) of Regulation D or in any manner involving a public offering within the meaning of Section 4(a)(2) of the Securities Act or (ii) engage in any directed selling efforts within the meaning of Regulation S with respect to the Securities, and all such persons will comply with the offering restrictions requirement of Regulation S.

(i) Except as described in the Disclosure Package and Offering Memorandum, the Company will not, without the prior written consent of BofA Securities, Inc., offer, sell, contract to sell, pledge, or otherwise dispose of (or enter into any transaction which is designed to, or might reasonably be expected to, result in the disposition (whether by actual disposition or effective economic disposition due to cash settlement or otherwise) by the Company or any affiliate of the Company or any person in privity with the Company or any affiliate of the Company), directly or indirectly, including the filing (or participation in the filing) of a registration statement with the Commission in respect of, or establish or increase a put equivalent position or liquidate or decrease a call equivalent position within the meaning of Section 16 of the Exchange Act, any debt securities issued or guaranteed by the Company (other than the Securities, commercial paper notes or asset-backed securities in the course of ordinary business) or publicly announce an intention to effect any such transaction, until the Business Day set forth on Schedule I hereto.

(j) The Company will not take, directly or indirectly, any action designed to or that would constitute or that might reasonably be expected to cause or result in, under the Exchange Act or otherwise, stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the Securities.

(k) The Company agrees to pay the costs and expenses relating to the following matters: (i) the preparation of the Indenture, the issuance of the Securities and the fees of the Trustee; (ii) the preparation, printing or reproduction of the Preliminary Offering Memorandum, the Offering Memorandum and each Issuer Written Communication, and each amendment or supplement to any of them; (iii) the printing (or reproduction) and delivery (including postage, air freight charges and charges for counting and packaging) of such copies of the Preliminary Offering Memorandum, the Offering Memorandum and each Issuer Written Communication, and all amendments or supplements to any of them, as may, in each case, be reasonably requested for use in connection with the offering and sale of the Securities; (iv) the preparation, printing, authentication, issuance and delivery of certificates for the Securities, including any stamp or transfer taxes in connection with the original issuance and sale of the Securities; (v) the printing (or reproduction) and delivery of this Agreement, any blue sky memorandum and all other agreements or documents printed (or reproduced) and delivered in connection with the offering of the Securities; (vi) if required, any registration or qualification of the Securities for offer and sale under the securities or blue sky laws of the several states (including filing fees and the reasonable fees and expenses of counsel for the Initial Purchasers relating to such registration and qualification); (vii) if

required, any filings required to be made with the Financial Industry Regulatory Authority, Inc. (including filing fees and the reasonable fees and expenses of counsel for the Initial Purchasers relating to such filings); (viii) the reasonable transportation and other expenses incurred by or on behalf of Company representatives in connection with presentations to prospective purchasers of the Securities; (ix) the fees and expenses of the Company's accountants and the fees and expenses of counsel (including local and special counsel) for the Company; (x) all other costs and expenses incident to the performance by the Company of its obligations hereunder; (xi) fees and expenses of the Trustee and the Collateral Agent (including fees and expenses of counsel); and (xii) the fees and expenses incurred with respect to creating, documenting and perfecting the security interests in the Collateral as contemplated by the Security Documents (including the reasonable related fees and expenses of counsel to the Initial Purchasers for all periods prior to and after the Closing Date).

(l) The Company shall take all actions and make all filings required in connection with the perfection and maintenance of security interests in favor of the Collateral Agent for the benefit of the holders of the Securities in the Collateral as and to the extent required by the Indenture and the Security Documents.

5. Conditions to the Obligations of the Initial Purchasers. The obligations of the Initial Purchasers to purchase the Securities shall be subject to the accuracy of the representations and warranties on the part of the Company contained herein as of the Execution Time and the Closing Date, to the accuracy of the statements of the Company made in any certificates pursuant to the provisions hereof, to the performance by the Company of its obligations hereunder and to the following additional conditions:

(a) The Company shall have delivered, or cause to be delivered to the Representative and the Collateral Agent the Secured Obligation Designation, in form and substance reasonably satisfactory to the Representative and executed by the Company and the Company shall make payment or arrangements for payment of all applicable recording taxes, fees, charges, costs and expenses required for the recording of the Security Documents and the security interests required thereby, if any.

(b) The Company shall have requested and caused Kirkland & Ellis LLP, counsel for the Company, and in-house counsel of the Company to furnish to the Representative on the Closing Date their opinions, dated the Closing Date and addressed to the Representative, in form and substance reasonably satisfactory to the Representative. In rendering such opinions, such counsel may rely (A) as to matters involving the application of laws of any jurisdiction other than the jurisdiction of incorporation of the Company, the State of New York or the federal laws of the United States, to the extent they deem proper and specify such reliance in such opinions, upon the opinion of other counsel of good standing whom they believe to be reliable and who are satisfactory to counsel for the Initial Purchasers and (B) as to matters of fact, to the extent they deem proper, on certificates of responsible officers of the Company and public officials. References therein to the Offering Memorandum shall also include any supplements thereto at the Closing Date.

(c) On the Closing Date, the Representative shall have received from Davis Polk & Wardwell LLP, counsel for the Initial Purchasers, such opinion or opinions, dated the Closing Date and addressed to the Representative, with respect to the issuance and sale of the Securities, the Indenture, the Disclosure Package, the Offering Memorandum (together with any supplement thereto) and other related matters as the Representative may reasonably require, and the Company shall have furnished to such counsel such documents as they request for the purpose of enabling them to pass upon such matters.

(d) The Company shall have furnished to the Representative a certificate of the Company, signed by and in their capacity as such (x) the Chairman of the Board, the President or any Senior Vice President and (y) the principal financial or accounting officer of the Company or the Treasurer, dated the Closing Date, to the effect that the signers of such certificate have reviewed the Disclosure Package, the Offering Memorandum and any supplements or amendments thereto, as well as each electronic road show used in connection with the offering of the Securities, and this Agreement and that:

(i) the representations and warranties of the Company in this Agreement are true and correct on and as of the Closing Date with the same effect as if made on the Closing Date and the Company has complied with all the agreements and satisfied all the conditions on its part to be performed or satisfied hereunder at or prior to the Closing Date;

(ii) since the date of the most recent financial statements included or incorporated by reference in the Disclosure Package and the Offering Memorandum (exclusive of any supplement thereto), there has been no material adverse effect, and no development involving a prospective change which would have a material adverse effect, on the condition (financial or otherwise), earnings, business or properties of the Company and its subsidiaries, taken as a whole, whether or not arising from transactions in the ordinary course of business, except as set forth in or contemplated in the Disclosure Package and the Offering Memorandum (exclusive of any supplement thereto).

(e) At the Execution Time and at the Closing Date, the Company shall have requested and caused Deloitte & Touche LLP to furnish to the Representative letters, dated respectively as of the Execution Time and as of the Closing Date, in the form agreed with counsel for the Initial Purchasers confirming that they are independent accountants within the meaning of the Exchange Act and the applicable published rules and regulations thereunder. References therein to the Offering Memorandum shall also include any supplement thereto at the date of the letter.

(f) Subsequent to the Execution Time or, if earlier, the dates as of which information is given in the Disclosure Package (exclusive of any amendment or supplement thereto) and the Offering Memorandum (exclusive of any supplement thereto), as the case may be, there shall not have been (i) any change or decrease specified in the letter or letters referred to in paragraph (e) of this Section 5 or (ii) any change, or any development involving a prospective change, in or affecting the condition (financial or otherwise), earnings, business

or properties of the Company and its subsidiaries taken as a whole, whether or not arising from transactions in the ordinary course of business, except as set forth in or contemplated in the Disclosure Package and the Offering Memorandum (exclusive of any amendment or supplement thereto) the effect of which, in any case referred to in clause (i) or (ii) above, is, in the sole judgment of the Representative, so material and adverse as to make it impractical or inadvisable to proceed with the offering or delivery of the Securities as contemplated the Disclosure Package and the Offering Memorandum (exclusive of supplement thereto).

(g) Subsequent to the Execution Time, there shall not have been any decrease in the rating of any of the Company's debt securities by any "nationally recognized statistical rating organization" (as such term is defined by the Commission in Section 3(a)(62) of the Exchange Act) or any notice given of any intended or potential decrease in any such rating or of a possible change in any such rating that does not indicate the direction of the possible change.

(h) At the time of execution of this Agreement and on the Closing Date, the Company shall have furnished to the Representative a certificate, dated the time of execution of this Agreement and the Closing Date, respectively, of the Company's chief financial officer with respect to certain financial information contained in the Preliminary Offering Memorandum, the Disclosure Package and the Offering Memorandum in form and substance reasonably satisfactory to the Representative.

(i) Prior to the Closing Date, the Company shall have furnished to the Representative such further information, certificates and documents as the Representative may reasonably request.

If any of the conditions specified in this Section 5 shall not have been fulfilled when and as provided in this Agreement, or if any of the opinions and certificates mentioned above or elsewhere in this Agreement shall not be reasonably satisfactory in form and substance to the Representative and counsel for the Initial Purchasers, this Agreement and all obligations of the Initial Purchasers hereunder may be canceled at, or at any time prior to, the Closing Date by the Representative. Notice of such cancellation shall be given to the Company in writing or by telephone or facsimile confirmed in writing.

The documents required to be delivered by this Section 5 shall be delivered at the office of Davis Polk & Wardwell LLP, counsel for the Initial Purchasers, at 450 Lexington Avenue, New York, New York 10017, on the Closing Date.

6. Reimbursement of Initial Purchasers' Expenses. If the sale of the Securities provided for herein is not consummated because any condition to the obligations of the Initial Purchasers set forth in Section 5 hereof is not satisfied, because of any termination pursuant to Section 9 hereof or because of any refusal, inability or failure on the part of the Company to perform any agreement herein or comply with any provision hereof other than by reason of a default by any of the Initial Purchasers, the Company will reimburse the Initial Purchasers severally through BofA Securities, Inc. on demand for all reasonable out-of-pocket costs and expenses (including reasonable

fees and disbursements of counsel) that shall have been incurred by them in connection with the proposed purchase and sale of the Securities.

7. Indemnification and Contribution. (a) The Company agrees to indemnify and hold harmless each Initial Purchaser, the directors, officers, employees, affiliates and agents of each Initial Purchaser and each person who controls any Initial Purchaser within the meaning of either the Act or the Exchange Act against any and all losses, claims, damages or liabilities, joint or several, to which they or any of them may become subject under the Act, the Exchange Act or other Federal or state statutory law or regulation, at common law or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of a material fact contained in the Preliminary Offering Memorandum, the Disclosure Package, the Offering Memorandum or any Issuer Written Communication, or in any amendment thereof or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, and agrees to reimburse each such indemnified party, as incurred, for any legal or other expenses reasonably incurred by it in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that the Company will not be liable in any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon any such untrue statement or alleged untrue statement or omission or alleged omission made therein in reliance upon and in conformity with written information furnished to the Company by or on behalf of any Initial Purchaser through the Representative specifically for inclusion therein. This indemnity agreement will be in addition to any liability which the Company may otherwise have.

(b) Each Initial Purchaser severally and not jointly agrees to indemnify and hold harmless the Company, each of its directors, each of its officers and each person who controls the Company within the meaning of either the Act or the Exchange Act, to the same extent as the foregoing indemnity from the Company to each Initial Purchaser, but only with respect to any losses, claims, damages or liabilities that arise out of or are based upon any untrue statements or omission made in written information relating to such Initial Purchaser furnished to the Company by or on behalf of such Initial Purchaser through the Representative specifically for inclusion in the documents referred to in the foregoing indemnity. This indemnity agreement will be in addition to any liability which any Initial Purchaser may otherwise have. The Company acknowledges that the statements set forth (i) in the last paragraph of the cover page regarding delivery of the Securities and, under the heading "Plan of Distribution" (ii) the list of Initial Purchasers and their respective participation in the sale of the Securities and (iii) the paragraph related to stabilization, syndicate covering transactions and penalty bids in any Preliminary Offering Memorandum and the Offering Memorandum constitute the only information furnished in writing by or on behalf of the several Initial Purchasers for inclusion in any Preliminary Offering Memorandum, the Disclosure Package, the Offering Memorandum or any Issuer Written Communication.

(c) Promptly after receipt by an indemnified party under this Section 7 of notice of the commencement of any action, such indemnified party will, if a claim in respect thereof is to be made against the indemnifying party under this Section 7, notify the indemnifying party in writing of the commencement thereof; but the failure so to notify the indemnifying party (i) will not relieve it from liability under paragraph (a) or (b) above unless and to the extent it did not otherwise have knowledge of such action and such failure results in the forfeiture by the indemnifying party of substantial rights and defenses and (ii) will not, in any event, relieve the indemnifying party from any obligations to any indemnified party other than the indemnification obligation provided in paragraph (a) or (b) above. The indemnifying party shall be entitled to assume the defense of any such action and appoint counsel (including local counsel) of the indemnifying party's choice at the indemnifying party's expense to represent the indemnified party in any action for which indemnification is sought (in which case the indemnifying party shall not thereafter be responsible for the fees and expenses of any separate counsel, other than local counsel if not appointed by the indemnifying party, retained by the indemnified party or parties except as set forth below); provided, however, that such counsel shall be reasonably satisfactory to the indemnified party. Notwithstanding the indemnifying party's election to appoint counsel (including local counsel) to represent the indemnified party in an action, the indemnified party shall have the right to employ separate counsel (including local counsel), and the indemnifying party shall bear the reasonable fees, costs and expenses of such separate counsel if (i) the use of counsel chosen by the indemnifying party to represent the indemnified party would present such counsel with a conflict of interest, (ii) the actual or potential defendants in, or targets of, any such action include both the indemnified party and the indemnifying party and the indemnified party shall have reasonably concluded that there may be legal defenses available to it and/or other indemnified parties which are different from or additional to those available to the indemnifying party, (iii) the indemnifying party shall not have employed counsel reasonably satisfactory to the indemnified party to represent the indemnified party within a reasonable time after notice of the institution of such action or (iv) the indemnifying party shall authorize the indemnified party to employ separate counsel at the expense of the indemnifying party. An indemnifying party will not, without the prior written consent of the indemnified parties, settle or compromise or consent to the entry of any judgment with respect to any pending or threatened claim, action, suit or proceeding in respect of which indemnification or contribution may be sought hereunder (whether or not the indemnified parties are actual or potential parties to such claim or action) unless such settlement, compromise or consent (i) includes an unconditional release of each indemnified party from all liability arising out of such claim, action, suit or proceeding and (ii) does not include a statement as to or an admission of fault, culpability or a failure to act, by or on behalf of any indemnified party.

(d) In the event that the indemnity provided in paragraph (a), (b) or (c) of this Section 7 is unavailable to or insufficient to hold harmless an indemnified party for any reason, the Company and the Initial Purchasers severally agree to contribute to the aggregate losses, claims, damages and liabilities (including legal or other expenses reasonably incurred in connection with investigating or defending any loss, claim, damage, liability or action) (collectively "Losses") to which the Company and one or more of the Initial Purchasers

may be subject in such proportion as is appropriate to reflect the relative benefits received by the Company on the one hand and by the Initial Purchasers on the other from the offering of the Securities; provided, however, that in no case shall any Initial Purchaser (except as may be provided in any agreement among Initial Purchasers relating to the offering of the Securities) be responsible for any amount in excess of the underwriting discount or commission applicable to the Securities purchased by such Initial Purchaser hereunder. If the allocation provided by the immediately preceding sentence is unavailable for any reason, the Company and the Initial Purchasers severally shall contribute in such proportion as is appropriate to reflect not only such relative benefits but also the relative fault of the Company on the one hand and of the Initial Purchasers on the other in connection with the statements or omissions which resulted in such Losses as well as any other relevant equitable considerations. Benefits received by the Company shall be deemed to be equal to the total net proceeds from the offering (before deducting expenses) received by it, and benefits received by the Initial Purchasers shall be deemed to be equal to the total underwriting discounts and commissions, as provided in this Agreement. Relative fault shall be determined by reference to, among other things, whether any untrue or any alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information provided by the Company on the one hand or the Initial Purchasers on the other, the intent of the parties and their relative knowledge, access to information and opportunity to correct or prevent such untrue statement or omission. The Company and the Initial Purchasers agree that it would not be just and equitable if contribution were determined by pro rata allocation or any other method of allocation which does not take account of the equitable considerations referred to above. Notwithstanding the provisions of this paragraph (d), no person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. For purposes of this Section 7, each person who controls an Initial Purchaser within the meaning of either the Act or the Exchange Act and each director, officer, employee, affiliate and agent of an Initial Purchaser shall have the same rights to contribution as such Initial Purchaser, and each person who controls the Company within the meaning of either the Act or the Exchange Act and each officer and director of the Company shall have the same rights to contribution as the Company, subject in each case to the applicable terms and conditions of this paragraph (d). The Initial Purchasers' obligations to contribute pursuant to this Section 7 are several, and not joint, in proportion to their respective commitments as set forth opposite their names in Schedule II hereto.

8. Default by an Initial Purchaser. If any one or more Initial Purchasers shall fail to purchase and pay for any of the Securities agreed to be purchased by such Initial Purchaser or Initial Purchasers hereunder and such failure to purchase shall constitute a default in the performance of its or their obligations under this Agreement, the remaining Initial Purchasers shall be obligated severally to take up and pay for (in the respective proportions which the principal amount of Securities set forth opposite their names in Schedule II hereto bears to the aggregate principal amount of Securities set forth opposite the names of all the remaining Initial Purchasers) the Securities which the defaulting Initial Purchaser or Initial Purchasers agreed but failed to purchase; provided, however, that in the event that the aggregate principal amount of Securities

which the defaulting Initial Purchaser or Initial Purchasers agreed but failed to purchase shall exceed 10% of the aggregate principal amount of Securities set forth in Schedule II hereto, the remaining Initial Purchasers shall have the right to purchase all, but shall not be under any obligation to purchase any, of the Securities, and if such nondefaulting Initial Purchasers do not purchase all the Securities, this Agreement will terminate without liability to any nondefaulting Initial Purchaser or the Company. In the event of a default by any Initial Purchaser as set forth in this Section 8, the Closing Date shall be postponed for such period, not exceeding five Business Days, as the Representative shall determine in order that the required changes in the Offering Memorandum or in any other documents or arrangements may be effected. Nothing contained in this Agreement shall relieve any defaulting Initial Purchaser of its liability, if any, to the Company and any nondefaulting Initial Purchaser for damages occasioned by its default hereunder.

9. Termination. (a) This Agreement shall be subject to termination in the absolute discretion of the Representative, by notice given to the Company prior to delivery of and payment for the Securities, if at any time prior to such delivery and payment (i) trading in the Company's Common Stock shall have been suspended by the Commission or the New York Stock Exchange or trading in securities generally on the New York Stock Exchange or the Nasdaq Global Market shall have been suspended or limited or minimum prices shall have been established on such exchange; (ii) a material disruption in securities settlement, payment of clearance services in the United States shall have occurred; (iii) a banking moratorium shall have been declared either by Federal or New York State authorities or (iv) there shall have occurred any outbreak or escalation of hostilities, declaration by the United States of a national emergency or war, or other calamity or crisis the effect of which on financial markets is such as to make it, in the sole judgment of the Representative, impractical or inadvisable to proceed with the offering, sales or delivery of the Securities as contemplated by the Disclosure Package or the Offering Memorandum (exclusive of any amendment or supplement thereto).

(b) If this Agreement is terminated pursuant to this Section, such termination shall be without liability of any party to any other party, except to the extent provided in Section 4(k) and Section 6 herein. Notwithstanding any such termination, the provisions of Section 7 and Section 10 shall remain in effect.

10. Representations and Indemnities to Survive. The respective agreements, representations, warranties, indemnities and other statements of the Company or its officers and of the Initial Purchasers set forth in or made pursuant to this Agreement will remain in full force and effect, regardless of any investigation made by or on behalf of any Initial Purchaser or the Company or any of the officers, directors, employees, agents or controlling persons referred to in Section 7 hereof, and will survive delivery of and payment for the Securities. The provisions of Sections 6 and 7 hereof shall survive the termination or cancellation of this Agreement.

11. Notices. All communications hereunder will be in writing and effective only on receipt, and, if sent to the Representative, will be mailed, delivered or telefaxed to BofA Securities, Inc., One Bryant Park, New York, NY 10036, Facsimile: (212) 901-7897, Attention: High Yield Legal Department; or, if sent to the Company, will be mailed, delivered or telefaxed

to (973) 753-6496 and confirmed to it at 22 Sylvan Way, Parsippany, New Jersey 07054, attention of the Legal Department.

12. Successors. This Agreement will inure to the benefit of and be binding upon the parties hereto and their respective successors and the officers, directors, employees, agents and controlling persons referred to in Section 7 hereof, and no other person will have any right or obligation hereunder.

13. Integration. This Agreement supersedes all prior agreements and understandings (whether written or oral) between the Company and the Initial Purchasers, or any of them, with respect to the subject matter hereof.

14. Applicable Law. This Agreement will be governed by and construed in accordance with the laws of the State of New York applicable to contracts made and to be performed within the State of New York.

15. Waiver of Jury Trial. The Company hereby irrevocably waives, to the fullest extent permitted by applicable law, any and all right to trial by jury in any legal proceeding arising out of or relating to this Agreement or the transactions contemplated hereby.

16. No Fiduciary Duty. The Company hereby acknowledges that (a) the purchase and sale of the Securities pursuant to this Agreement is an arm's-length commercial transaction between the Company, on the one hand, and the Initial Purchasers and any affiliate through which it may be acting, on the other, and does not constitute a recommendation, investment advice, or solicitation of any action by the Initial Purchasers, (b) the Initial Purchasers are acting as principal and not as an agent or fiduciary of the Company and (c) the Company's engagement of the Initial Purchasers in connection with the offering and the process leading up to the offering is as independent contractors and not in any other capacity. Furthermore, the Company agrees that it is solely responsible for making its own judgments in connection with the offering (irrespective of whether any of the Initial Purchasers have advised or are currently advising the Company on related or other matters). The Company agrees that it will not claim that the Initial Purchasers have rendered advisory services of any nature or respect, or owe an agency, fiduciary or similar duty to the Company, in connection with such transaction or the process leading thereto, and none of the activities of the Initial Purchasers in connection with the transactions contemplated herein constitutes a recommendation, investment advice or solicitation of any action by the Initial Purchasers with respect to any entity or natural person.

17. Counterparts. This Agreement may be signed in one or more counterparts, each of which shall constitute an original and all of which together shall constitute one and the same agreement. The words "execution," "signed," "signature," and words of like import in this Agreement or in any other certificate, agreement or document related to this Agreement, if any, shall include images of manually executed signatures transmitted by facsimile or other electronic format (including, without limitation, "pdf," "tif" or "jpg") and other electronic signatures (including, without limitation, DocuSign and AdobeSign). The use of electronic signatures and electronic records (including, without limitation, any contract or other record created, generated, sent, communicated, received, or stored by electronic means) shall be of the same legal effect,

validity and enforceability as a manually executed signature or use of a paper-based record-keeping system to the fullest extent permitted by applicable law, including the Federal Electronic Signatures in Global and National Commerce Act, the New York State Electronic Signatures and Records Act and any other applicable law, including, without limitation, any state law based on the Uniform Electronic Transactions Act or the Uniform Commercial Code.

18. Headings. The section headings used herein are for convenience only and shall not affect the construction hereof.

19. Definitions. The terms that follow, when used in this Agreement, shall have the meanings indicated.

“Act” shall mean the Securities Act of 1933, as amended and the rules and regulations of the Commission promulgated thereunder.

“BHC Act Affiliate” shall have the meaning assigned to the term “affiliate” in, and shall be interpreted in accordance with, 12 U.S.C. § 1841(k).

“Business Day” shall mean any day other than a Saturday, a Sunday or a legal holiday or a day on which banking institutions or trust companies are authorized or obligated by law to close in New York City.

“Commission” shall mean the Securities and Exchange Commission.

“Covered Entity” shall mean any of the following: (i) a “covered entity” as that term is defined in, and interpreted in accordance with, 12 C.F.R. § 252.82(b); (ii) a “covered bank” as that term is defined in, and interpreted in accordance with, 12 C.F.R. § 47.3(b); or (iii) a “covered FSI” as that term is defined in, and interpreted in accordance with, 12 C.F.R. § 382.2(b).

“Default Right” shall have the meaning assigned to that term in, and shall be interpreted in accordance with, 12 C.F.R. §§ 252.81, 47.2 or 382.1, as applicable.

“Disclosure Package” shall mean the Preliminary Offering Memorandum, as supplemented and amended by any written communications listed on Schedule III hereto.

“Exchange Act” shall mean the Securities Exchange Act of 1934, as amended, and the rules and regulations of the Commission promulgated thereunder.

“Execution Time” shall mean the date and time that this Agreement is executed and delivered by the parties hereto.

“Regulations S-X” shall mean Regulation S-X under the Act.

“Significant Subsidiary” shall have the meaning specified in Rule 1-02 of Regulation S-X.

“Rule 158,” “Rule 163,” “Rule 164,” “Rule 172,” “Rule 405,” “Rule 415,” “Rule 424,” “Rule 430B” and “Rule 433” refer to such rules under the Act.

“Trust Indenture Act” shall mean the Trust Indenture Act of 1939, as amended, and the rules and regulations of the Commission promulgated thereunder.

“U.S. Special Resolution Regime” means each of (i) the Federal Deposit Insurance Act and the regulations promulgated thereunder and (ii) Title II of the Dodd-Frank Wall Street Reform and Consumer Protection Act and the regulations promulgated thereunder.

20. Recognition of the U.S. Special Resolution Regimes.

(a) In the event that any Initial Purchaser that is a Covered Entity becomes subject to a proceeding under a U.S. Special Resolution Regime, the transfer from such Initial Purchaser of this Agreement, and any interest and obligation in or under this Agreement, will be effective to the same extent as the transfer would be effective under the U.S. Special Resolution Regime if this Agreement, and any such interest and obligation, were governed by the laws of the United States or a state of the United States.

(b) In the event that any Initial Purchaser that is a Covered Entity or a BHC Act Affiliate of such Initial Purchaser becomes subject to a proceeding under a U.S. Special Resolution Regime, Default Rights under this Agreement that may be exercised against such Initial Purchaser are permitted to be exercised to no greater extent than such Default Rights could be exercised under the U.S. Special Resolution Regime if this Agreement were governed by the laws of the United States or a state of the United States.

21. Reaffirmation.

(a) Company, on behalf of itself and each of the other Loan Parties (as defined in the Credit Agreement), hereby reaffirms all of their respective obligations and liabilities under the Loan Documents (as defined in the Credit Agreement) to which such Loan Party is a party, as such obligations and liabilities have been supplemented by the Indenture and the Secured Obligation Designation and acknowledges and agrees that such obligations and liabilities remain in full force and effect.

(b) Company, on behalf of itself and each of the other Loan Parties, hereby irrevocably and unconditionally ratifies each Loan Document to which such Loan Party is a party (as such Loan Documents are amended or supplemented to and including the date hereof) and ratifies and reaffirms such Loan Party’s grant of liens and security interests under the Collateral Documents (as defined in the Credit Agreement) and confirms that the liens and security interests granted thereunder continue to secure the Secured Obligations (as defined in the Security Agreement), including, without limitation, any additional Secured Obligations resulting from or incurred pursuant to the Loan Documents.

If the foregoing is in accordance with your understanding of our agreement, please sign and return to us the enclosed duplicate hereof, whereupon this letter and your acceptance shall represent a binding agreement among the Company and the several Initial Purchasers.

Very truly yours,

Wyndham Destinations, Inc.

By: _____
Name:
Title:

[Signature page to Purchase Agreement]

The foregoing Agreement is hereby confirmed and accepted as of the date specified in Schedule I hereto.

BofA Securities, Inc.

By: _____
Name:
Title:

For itself and the other several Initial Purchasers, if any, named in Schedule II to the foregoing Agreement.

[Signature page to Purchase Agreement]

SCHEDULE I

Purchase Agreement dated July 20, 2020

Representative: BofA Securities, Inc.

Title and Purchase Prices of Securities:

Title:

6.625% Senior Secured Notes due 2026

Principal amount:

\$650,000,000 of the 6.625% Senior Secured Notes due 2026

Purchase price:

98.875% of the principal amount of the 6.625% Senior Secured Notes due 2026

Closing Date, Time and Location: July 24, 2020 at 10:00 a.m. at Davis Polk & Wardwell LLP, 450 Lexington Avenue, New York, New York 10017.

Type of Offering: Non-delayed

Date referred to in Section 4(i) after which the Company may offer or sell debt securities issued or guaranteed by the Company without the consent of BofA Securities, Inc.: the first Business Day that is at least 15 calendar days after the Closing Date

SCHEDULE I

SCHEDULE II

<u>Initial Purchaser</u>	Principal Amount of the Securities to be Purchased
BofA Securities, Inc.	\$162,500,000
Deutsche Bank Securities Inc.	61,750,000
J.P. Morgan Securities LLC	61,750,000
Barclays Capital Inc.	45,500,000
Credit Suisse Securities (USA) LLC	45,500,000
Goldman Sachs & Co. LLC	45,500,000
MUFG Securities Americas Inc.	45,500,000
Scotia Capital (USA) Inc.	45,500,000
SunTrust Robinson Humphrey, Inc.	45,500,000
Wells Fargo Securities, LLC	45,500,000
HSBC Securities (USA) Inc.	26,000,000
Comerica Securities, Inc.	9,750,000
U.S. Bancorp Investments, Inc.	9,750,000
Total	<u>\$650,000,000</u>

SCHEDULE II

SCHEDULE III

Schedule of additional written communications included in the Disclosure Package

- 1) Pricing Term Sheet dated July 20, 2020 of the Company with respect to the Securities

SCHEDULE III

SCHEDULE IV

Pricing Term Sheet

Strictly Confidential
Pricing Term Sheet, dated July 20, 2020
to Preliminary Offering Memorandum dated July 20, 2020

**WYNDHAM
• DESTINATIONS**

\$650,000,000 6.625% Senior Secured Notes due 2026

This pricing term sheet is qualified in its entirety by reference to the Preliminary Offering Memorandum, dated July 20, 2020 (the "Preliminary Offering Memorandum"). The information in this pricing term sheet supplements the Preliminary Offering Memorandum and updates and supersedes the information in the Preliminary Offering Memorandum to the extent it is inconsistent with the information in the Preliminary Offering Memorandum. Terms used and not defined herein have the meanings assigned in the Preliminary Offering Memorandum.

The notes have not been registered under the Securities Act of 1933, as amended (the "Securities Act"), or the securities laws of any other jurisdiction. The notes may not be offered or sold in the United States or to U.S. persons (as defined in Regulation S) except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. Accordingly, the notes are being offered only to (1) persons reasonably believed to be "qualified institutional buyers" as defined in Rule 144A under the Securities Act and (2) outside the United States to non-U.S. persons in compliance with Regulation S under the Securities Act.

SCHEDULE IV-1

Issuer:	Wyndham Destinations, Inc.
Title of Securities:	\$650,000,000 6.625% Senior Secured Notes due 2026
Expected Ratings (Moody's / S&P / Fitch):*	Ba3 (negative) / BB- (negative) / BB+ (negative)
Trade Date:	July 20, 2020
Settlement Date:	July 24, 2020 (T+4)
Principal Amount:	\$650,000,000
Maturity Date:	July 31, 2026
Interest Rate:	6.625% per annum
Offering Price:	100.000% of the principal amount
Gross Proceeds to Issuer:	\$650,000,000
Distribution:	Rule 144A / Regulation S (no registration rights)
Yield to Maturity:	6.625%
Interest Payment Dates:	January 31 and July 31, commencing January 31, 2021
Optional Redemption Provisions:	Prior to April 30, 2026, make-whole call at any time at a discount rate of Treasury plus 50 basis points; par call at any time on and after April 30, 2026
CUSIP / ISIN:	144A: 98310W AS7 / US98310WAS70 Regulation S: U98340 AD1 / USU98340AD19
Joint Book-Running Managers:	BofA Securities, Inc. Deutsche Bank Securities Inc. J.P. Morgan Securities LLC Barclays Capital Inc. Credit Suisse Securities (USA) LLC Goldman Sachs & Co. LLC MUFG Securities Americas Inc. Scotia Capital (USA) Inc. SunTrust Robinson Humphrey, Inc. Wells Fargo Securities, LLC
Co-Managers:	HSBC Securities (USA) Inc. Comerica Securities, Inc. U.S. Bancorp Investments, Inc.
Use of Proceeds:	The issuer intends to use the net proceeds of this offering for general corporate purposes, which may include the repayment of outstanding indebtedness under its secured revolving credit facility, the future repayment of its 5.625% secured notes due March 2021 and the payment of related fees and expenses.

***Note: A securities rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time. Credit ratings are subject to change depending on financial and other factors.**

The issuer expects that delivery of the notes will be made to investors on or about July 24, 2020, which will be the fourth business day following the trade date (such settlement being referred to as "T+4"). Under Rule 15c6-1 under the Securities Exchange Act of 1934, as amended, trades in the secondary market are required to settle in two business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade notes on the date hereof or on the next succeeding business day will be required, by virtue of the fact that the notes initially settle in T+4, to specify an alternate settlement arrangement at the time of any such trade to prevent a failed settlement. Purchasers of the notes who wish to trade the notes on the date hereof or on the next succeeding business day should consult their advisors.

This communication is confidential and is for your information only and is not intended to be used by anyone other than you. This communication does not purport to be a complete description of these notes or the offering. Please refer to the Preliminary Offering Memorandum, as supplemented hereby, for a complete description.

This communication is being distributed solely to persons reasonably believed to be “qualified institutional buyers,” as defined in Rule 144A under the Securities Act, and certain non-U.S. persons outside the United States pursuant to Regulation S under the Securities Act.

This communication does not constitute an offer to sell or the solicitation of an offer to buy any securities in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction.

ANY DISCLAIMERS OR OTHER NOTICES THAT MAY APPEAR BELOW ARE NOT APPLICABLE TO THIS COMMUNICATION AND SHOULD BE DISREGARDED. SUCH DISCLAIMERS OR OTHER NOTICES WERE AUTOMATICALLY GENERATED AS A RESULT OF THIS COMMUNICATION BEING SENT VIA BLOOMBERG OR ANOTHER EMAIL SYSTEM.

SCHEDULE IV-3

SCHEDULE V

Restrictions on Offers and Sales Outside the United States

In connection with offers and sales of Securities outside the United States:

(a) Each Initial Purchaser acknowledges that the Securities have not been registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in transactions not subject to, the registration requirements of the Securities Act.

(b) Each Initial Purchaser, severally and not jointly, represents, warrants and agrees that:

(i) Such Initial Purchaser has offered and sold the Securities, and will offer and sell the Securities, (A) as part of their distribution at any time and (B) otherwise until 40 days after the later of the commencement of the offering of the Securities and the Closing Date, only in accordance with Regulation S under the Securities Act ("Regulation S") or Rule 144A or any other available exemption from registration under the Securities Act.

(ii) None of such Initial Purchaser or any of its affiliates or any other person acting on its or their behalf has engaged or will engage in any directed selling efforts with respect to the Securities, and all such persons have complied and will comply with the offering restrictions requirement of Regulation S.

(iii) At or prior to the confirmation of sale of any Securities sold in reliance on Regulation S, such Initial Purchaser will have sent to each distributor, dealer or other person receiving a selling concession, fee or other remuneration that purchases Securities from it during the distribution compliance period a confirmation or notice to substantially the following effect:

The Securities covered hereby have not been registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering of the Securities and the date of original issuance of the Securities, except in accordance with Regulation S or Rule 144A or any other available exemption from registration under the Securities Act. Terms used above have the meanings given to them by Regulation S.

(iv) Such Initial Purchaser has not and will not enter into any contractual arrangement with any distributor with respect to the distribution of the Securities, except with its affiliates or with the prior written consent of the Company.

Terms used in paragraph (a) and this paragraph (b) and not otherwise defined in this Agreement have the meanings given to them by Regulation S.

(c) Each Initial Purchaser acknowledges that no action has been or will be taken by the Company that would permit a public offering of the Securities, or possession or distribution of the Offering Memorandum, any Issuer Written Communication or any other offering or publicity material relating to the Securities, in any country or jurisdiction where action for that purpose is required.

SCHEDULE V-2

October 28, 2020

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

We are aware that our report dated October 28, 2020, on our review of the interim condensed consolidated financial information of Wyndham Destinations, Inc. and subsidiaries appearing in this Quarterly Report on Form 10-Q for the quarter ended September 30, 2020, 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.

/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 28, 2020

/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 28, 2020

/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, 2020, 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 28, 2020

/S/ MICHAEL A. HUG

MICHAEL A. HUG
CHIEF FINANCIAL OFFICER
OCTOBER 28, 2020