

MARRIOTT VACATIONS WORLDWIDE Corp

Form 10-Q

October 15, 2015

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 11, 2015

OR

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

For the transition period from _____ to _____

Commission file number 001-35219

Marriott Vacations Worldwide Corporation

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

45-2598330
(I.R.S. Employer
Identification No.)

6649 Westwood Blvd.
Orlando, FL
(Address of principal executive offices)
(407) 206-6000

32821
(Zip Code)

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐ (Do not check if a smaller reporting company)

Smaller reporting company ☐

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

The number of shares outstanding of the issuer's common stock, par value \$0.01 per share, as of October 9, 2015 was 31,065,226.

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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****MARRIOTT VACATIONS WORLDWIDE CORPORATION****INTERIM CONSOLIDATED STATEMENTS OF INCOME**

(In thousands, except per share amounts)

(Unaudited)

	Twelve Weeks Ended		Thirty-Six Weeks Ended	
	September 11, 2015	September 12, 2015	September 11, 2015	September 12, 2014
REVENUES				
Sale of vacation ownership products	\$ 136,802	\$ 155,384	\$ 476,078	\$ 452,796
Resort management and other services	73,828	70,981	212,308	209,348
Financing	28,294	29,545	85,640	90,002
Rental	76,039	65,620	224,880	190,972
Cost reimbursements	92,173	91,508	285,937	281,769
TOTAL REVENUES	407,136	413,038	1,284,843	1,224,887
EXPENSES				
Cost of vacation ownership products	40,776	48,640	150,857	138,925
Marketing and sales	71,628	73,380	228,760	216,827
Resort management and other services	47,409	47,857	135,298	141,061
Financing	5,488	5,434	16,478	15,976
Rental	62,567	54,605	184,560	166,386
General and administrative	23,214	21,932	68,883	66,913
Litigation settlement		3,225	(236)	(4,350)
Organizational and separation related	439	332	732	2,272
Consumer financing interest	5,289	5,605	16,558	17,967
Royalty fee	14,000	14,339	40,431	41,420
Impairment		26		860
Cost reimbursements	92,173	91,508	285,937	281,769
TOTAL EXPENSES	362,983	366,883	1,128,258	1,086,026
(Losses) gains and other (expense)				
income	(20)	207	9,492	1,849
Interest expense	(2,839)	(2,890)	(8,822)	(7,638)
Equity in earnings	50	38	148	156
Other	(5,181)		(6,453)	

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INCOME BEFORE INCOME TAXES	36,163	43,510	150,950	133,228
Provision for income taxes	(14,608)	(17,862)	(61,300)	(52,969)
NET INCOME	\$ 21,555	\$ 25,648	\$ 89,650	\$ 80,259
Basic earnings per share	\$ 0.69	\$ 0.77	\$ 2.81	\$ 2.35
Shares used in computing basic earnings per share	31,455	33,374	31,870	34,180
Diluted earnings per share	\$ 0.67	\$ 0.75	\$ 2.75	\$ 2.28
Shares used in computing diluted earnings per share	32,128	34,366	32,550	35,161
Dividends declared per share of common stock	\$ 0.25	\$	\$ 0.75	\$

See Notes to Interim Consolidated Financial Statements

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MARRIOTT VACATIONS WORLDWIDE CORPORATION
INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	Twelve Weeks Ended		Thirty-Six Weeks Ended	
	September 11, 2015	September 12, 2015	September 11, 2014	September 12, 2014
Net income	\$ 21,555	\$ 25,648	\$ 89,650	\$ 80,259
Other comprehensive loss, net of tax:				
Foreign currency translation adjustments	(1,392)	(3,047)	(3,749)	(3,127)
Derivative instrument adjustments	(59)			
Total other comprehensive loss, net of tax	(1,451)	(3,047)	(3,749)	(3,127)
COMPREHENSIVE INCOME	\$ 20,104	\$ 22,601	\$ 85,901	\$ 77,132

See Notes to the Interim Consolidated Financial Statements

Table of Contents**MARRIOTT VACATIONS WORLDWIDE CORPORATION****INTERIM CONSOLIDATED BALANCE SHEETS**

(In thousands, except share and per share data)

	(Unaudited) September 11, 2015	January 2, 2015
ASSETS		
Cash and cash equivalents	\$ 321,690	\$ 346,515
Restricted cash (including \$93,803 and \$34,986 from VIEs, respectively)	121,752	109,907
Accounts and contracts receivable, net (including \$4,211 and \$4,992 from VIEs, respectively)	128,321	109,700
Vacation ownership notes receivable, net (including \$704,349 and \$750,680 from VIEs, respectively)	887,456	917,228
Inventory	721,664	772,784
Property and equipment	247,317	147,379
Other	98,827	127,066
Total Assets	\$ 2,527,027	\$ 2,530,579
LIABILITIES AND EQUITY		
Accounts payable	\$ 77,516	\$ 114,079
Advance deposits	66,436	60,192
Accrued liabilities (including \$1,635 and \$1,088 from VIEs, respectively)	150,928	165,969
Deferred revenue	44,499	38,818
Payroll and benefits liability	87,871	93,073
Liability for Marriott Rewards customer loyalty program	73,904	89,285
Deferred compensation liability	48,468	41,677
Mandatorily redeemable preferred stock of consolidated subsidiary, net	38,935	38,816
Debt, net (including \$776,648 and \$708,031 from VIEs, respectively)	769,716	703,013
Other	38,239	27,071
Deferred taxes	94,544	78,883
Total Liabilities	1,491,056	1,450,876

Contingencies and Commitments (Note 8)

Preferred stock	\$0.01 par value; 2,000,000		
shares authorized; none issued or outstanding			
Common stock	\$0.01 par value; 100,000,000		
shares authorized; 36,355,412 and 36,089,513			
shares issued, respectively		363	361
Treasury stock	at cost; 5,294,063 and		
3,996,725 shares, respectively		(335,339)	(229,229)
Additional paid-in capital		1,138,049	1,137,785
Accumulated other comprehensive income		13,305	17,054
Retained earnings		219,593	153,732
Total Equity		1,035,971	1,079,703
Total Liabilities and Equity	\$	2,527,027	\$ 2,530,579

The abbreviation VIEs above means Variable Interest Entities.

See Notes to Interim Consolidated Financial Statements

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MARRIOTT VACATIONS WORLDWIDE CORPORATION
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Thirty-Six Weeks Ended	
	September 11, 2015	September 12, 2014
OPERATING ACTIVITIES		
Net income	\$ 89,650	\$ 80,259
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	13,850	13,183
Amortization of debt issuance costs	3,739	3,762
Provision for loan losses	22,753	22,725
Share-based compensation	9,633	9,354
Deferred income taxes	17,261	29,523
Equity method income	(148)	(156)
Gain on disposal of property and equipment, net	(9,492)	(1,849)
Non-cash litigation settlement	(262)	
Impairment charges		860
Net change in assets and liabilities:		
Accounts and contracts receivable	(17,799)	(8,609)
Notes receivable originations	(189,029)	(169,784)
Notes receivable collections	192,852	203,728
Inventory	51,467	61,740
Purchase of operating hotels for future conversion to inventory	(61,554)	
Other assets	26,524	45,650
Accounts payable, advance deposits and accrued liabilities	(52,380)	(67,160)
Deferred revenue	5,742	4,228
Payroll and benefit liabilities	(4,959)	(4,855)
Liability for Marriott Rewards customer loyalty program	(15,384)	(22,737)
Deferred compensation liability	6,791	3,340
Other liabilities	6,236	3,196
Other, net	5,233	80
Net cash provided by operating activities	100,724	206,478
INVESTING ACTIVITIES		
Capital expenditures for property and equipment (excluding inventory)	(20,873)	(7,753)
Purchase of operating hotel to be sold	(47,658)	
(Increase) decrease in restricted cash	(12,616)	20,656
Dispositions, net	20,605	33,310

Net cash (used in) provided by investing activities	(60,542)	46,213
FINANCING ACTIVITIES		
Borrowings from securitization transactions	255,000	22,638
Repayment of debt related to securitization transactions	(186,383)	(162,680)
Proceeds from vacation ownership inventory arrangement	5,375	
Debt issuance costs	(4,405)	(1,676)
Repurchase of common stock	(106,110)	(160,155)
Payment of dividends	(16,003)	
Proceeds from stock option exercises	96	1,723
Excess tax benefits from share-based compensation	68	
Payment of withholding taxes on vesting of restricted stock units	(9,615)	(5,130)
Other	213	
Net cash used in financing activities	(61,764)	(305,280)
Effect of changes in exchange rates on cash and cash equivalents	(3,243)	(790)
DECREASE IN CASH AND CASH EQUIVALENTS	(24,825)	(53,379)
CASH AND CASH EQUIVALENTS, beginning of period	346,515	199,511
CASH AND CASH EQUIVALENTS, end of period	\$ 321,690	\$ 146,132

SUPPLEMENTAL DISCLOSURES OF NON-CASH FINANCING ACTIVITIES

Non-cash impact on Additional paid-in capital for changes in Deferred tax liabilities distributed to Marriott Vacations Worldwide at Spin-Off	\$ (77)	\$ (2,097)
Non-cash issuance of note receivable	(500)	
Dividends payable	(7,786)	

See Notes to Interim Consolidated Financial Statements

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MARRIOTT VACATIONS WORLDWIDE CORPORATION

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Our Business

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

Our business is grouped into three reportable segments: North America, Europe and Asia Pacific. As of September 11, 2015, our portfolio consisted of 61 properties, including two hotels, in the United States and eight other countries and territories. We generate most of our revenues from four primary sources: selling vacation ownership products; managing our resorts; financing consumer purchases; and renting vacation ownership inventory.

Our Spin-Off from Marriott International, Inc.

On November 21, 2011, the spin-off of Marriott Vacations Worldwide from Marriott International (the Spin-Off) was completed. In connection with the Spin-Off, we entered into several agreements that govern the ongoing relationship between Marriott Vacations Worldwide and Marriott International.

Principles of Consolidation and Basis of Presentation

The interim consolidated financial statements presented herein and discussed below include 100 percent of the assets, liabilities, revenues, expenses and cash flows of Marriott Vacations Worldwide, all entities in which Marriott Vacations Worldwide has a controlling voting interest (subsidiaries), and those variable interest entities for which Marriott Vacations Worldwide is the primary beneficiary in accordance with consolidation accounting guidance. Intercompany accounts and transactions between consolidated companies have been eliminated in consolidation. The interim consolidated financial statements reflect our financial position, results of operations and cash flows as prepared in conformity with United States Generally Accepted Accounting Principles (GAAP).

In order to make this report easier to read, we refer throughout to (i) our Interim Consolidated Financial Statements as our Financial Statements, (ii) our Interim Consolidated Statements of Income as our Statements of Income, (iii) our Interim Consolidated Balance Sheets as our Balance Sheets, and (iv) our Interim Consolidated Statements of Cash Flows as our Cash Flows. In addition, references throughout to numbered Footnotes refer to the numbered Notes in these Notes to Interim Consolidated Financial Statements, unless otherwise noted.

Unless otherwise specified, each reference to a particular quarter in these Financial Statements means the twelve weeks ended on the date shown in the following table, rather than the corresponding calendar quarter:

Fiscal Year	Quarter-End Date
2015 Third Quarter	September 11, 2015
2015 Second Quarter	June 19, 2015
2015 First Quarter	March 27, 2015
2014 Third Quarter	September 12, 2014
2014 Second Quarter	June 20, 2014
2014 First Quarter	March 28, 2014

In our opinion, our Financial Statements reflect all normal and recurring adjustments necessary to present fairly our financial position and the results of our operations and cash flows for the periods presented. Interim results may not be indicative of fiscal year performance because of, among other reasons, seasonal and short-term variations.

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These Financial Statements have not been audited. Amounts as of January 2, 2015 included in these Financial Statements have been derived from the audited consolidated financial statements as of that date. We have condensed or omitted certain information and footnote disclosures normally included in financial statements presented in accordance with GAAP. Although we believe our footnote disclosures are adequate to make the information presented not misleading, you should read these Financial Statements in conjunction with the consolidated financial statements and notes to those consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended January 2, 2015.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Such estimates include, but are not limited to, revenue recognition, cost of vacation ownership products, inventory valuation, property and equipment valuation, loan loss reserves, Marriott Rewards customer loyalty program liability, self-insured medical plan reserves, equity-based compensation, income taxes and loss contingencies. Accordingly, actual amounts may differ from these estimated amounts.

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

New Accounting Standards

Accounting Standards Update No. 2015-16 *Simplifying the Accounting for Measurement-Period Adjustments (Topic 805): Business Combinations* (ASU 2015-16)

In September 2015, the Financial Accounting Standards Board (FASB) issued ASU 2015-16, which replaces the requirement that an acquirer in a business combination account for measurement period adjustments retrospectively with a requirement that an acquirer recognize adjustments to the provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. ASU 2015-16 requires that the acquirer record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. For public business entities, ASU 2015-16 is effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. The guidance is to be applied prospectively to adjustments to provisional amounts that occur after the effective date of the guidance, with earlier application permitted for financial statements that have not been issued. Our early adoption of ASU 2015-16 in the third quarter of 2015 did not have a material impact on our Financial Statements.

Accounting Standards Update No. 2015-11 *Simplifying the Measurement of Inventory (Topic 330): Inventory* (ASU 2015-11)

In July 2015, the FASB issued ASU 2015-11, which requires an entity to measure inventory at the lower of cost or net realizable value, which consists of the estimated selling prices in the ordinary course of business, less reasonably predictable cost of completion, disposal, and transportation. For public entities, the updated guidance is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The guidance is to be applied prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. Our early adoption of ASU 2015-11 in the third quarter of 2015 did not have a material impact on our Financial Statements as it applies solely to our operating inventories. This guidance is not applicable to our vacation ownership inventory.

Accounting Standards Update No. 2015-03 *Interest Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs* (ASU 2015-03)

In April 2015, the FASB issued ASU 2015-03, which requires debt issuance costs related to a debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of the debt liability instead of being presented as an asset. The recognition and measurement guidance for debt issuance costs has not changed. ASU 2015-03 requires retrospective application and represents a change in accounting principle. ASU 2015-03 is effective for fiscal years beginning after December 15, 2015 and early adoption is permitted for financial statements that have not been previously issued. Our early adoption of ASU 2015-03 in the first quarter of 2015 did not have a material impact on our Financial Statements. In June 2015, the staff of the Securities and Exchange Commission (SEC) announced that it would not object to an entity always presenting debt issuance costs related to revolving debt arrangements as an asset, regardless of whether a balance was outstanding, while amortizing the costs ratably over the term of the revolving debt arrangement. As a result, we applied the SEC staff guidance beginning in the second quarter of 2015 and began presenting costs associated with our revolving debt arrangements as an asset. We have applied these changes retrospectively to all periods presented.

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Accounting Standards Update No. 2015-02 *Consolidation (Topic 810): Amendments to the Consolidation Analysis*
(ASU 2015-02)

In February 2015, the FASB issued ASU 2015-02, which amends the guidance for evaluating whether to consolidate certain legal entities. Specifically, ASU 2015-02 modifies the method for determining whether limited partnerships and similar legal entities are variable interest entities (VIEs) or voting interest entities. Further, it eliminates the presumption that a general partner should consolidate a limited partnership and impacts the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships. The updated guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015, with early adoption permitted. Our early adoption of ASU 2015-02 in the first quarter of 2015 did not have a material impact on our Financial Statements.

Future Adoption of Accounting Standards

Accounting Standards Update No. 2014-09 *Revenue from Contracts with Customers (Topic 606)* (ASU 2014-09)

In May 2014, the FASB issued ASU 2014-09. ASU 2014-09 supersedes the revenue recognition requirements in Topic 605, *Revenue Recognition*, as well as most industry-specific guidance, and significantly enhances comparability of revenue recognition practices across entities and industries by providing a principles-based, comprehensive framework for addressing revenue recognition issues. In order for a provider of promised goods or services to recognize as revenue the consideration that it expects to receive in exchange for the promised goods or services, the provider should apply the following five steps: (1) identify the contract with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09 will be effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. Early application is permitted only as of annual reporting periods beginning after December 15, 2016. The new standard may be applied prospectively to each prior period presented or retrospectively with the cumulative effect recognized on the date of adoption. We continue to evaluate the impact that this guidance, including the method of implementation, will have on our financial statements and disclosures. We expect to adopt ASU 2014-09 commencing in our fiscal year 2018.

2. INCOME TAXES

We file U.S. consolidated federal and state tax returns, as well as consolidated and separate tax filings for non-U.S. jurisdictions. Our total unrecognized tax benefit balance that, if recognized, would impact our effective tax rate was \$1.5 million and \$1.3 million at September 11, 2015 and January 2, 2015, respectively.

We have joined in the Marriott International U.S. federal tax consolidated filing for periods up to the date of the Spin-Off. The U.S. Internal Revenue Service (the IRS) has examined Marriott International's federal income tax returns, and it has settled all issues related to the timeshare business for the tax years through the Spin-Off. Our tax years subsequent to the Spin-Off are subject to examination by relevant tax authorities; currently our 2011 and 2012 returns are being audited by the IRS and our 2012 and 2013 returns are being audited by tax authorities in foreign jurisdictions. Although we do not anticipate that a significant impact to our unrecognized tax benefit balance will occur during the next fiscal year, the amount of our liability for unrecognized tax benefits could change as a result of these audits. Pursuant to a Tax Sharing and Indemnification Agreement with Marriott International effective November 21, 2011, as subsequently amended, Marriott International is liable and shall pay the relevant tax authority for all taxes related to our taxable income prior to the Spin-Off.

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

(\$ in thousands)		September 11, 2015	January 2, 2015
Vacation ownership notes receivable	securitized	\$ 704,349	\$ 750,680
Vacation ownership notes receivable	non-securitized		
Eligible for securitization ⁽¹⁾⁽²⁾		34,426	24,194
Not eligible for securitization ⁽¹⁾		148,681	142,354
Subtotal		183,107	166,548
Total vacation ownership notes receivable		\$ 887,456	\$ 917,228

- (1) Refer to Footnote No. 4, Financial Instruments, for discussion of eligibility of our vacation ownership notes receivable.
- (2) We expect that these vacation ownership notes receivable will be purchased by the MVW Owner Trust 2015-1 (the 2015-1 Trust) prior to December 31, 2015 in accordance with the terms of the securitization transaction completed in the third quarter of 2015. Refer to Footnote No. 9, Debt, for discussion of the terms of this securitization transaction and the purchase of additional vacation ownership notes receivable by the 2015-1 Trust.

The following tables show future principal payments, net of reserves, as well as interest rates for our non-securitized and securitized vacation ownership notes receivable at September 11, 2015:

(\$ in thousands)	Non-Securitized	Securitized	Total
	Vacation Ownership Notes Receivable	Vacation Ownership Notes Receivable	
2015	\$ 25,581	\$ 34,374	\$ 59,955
2016	34,509	102,199	136,708
2017	25,737	97,524	123,261
2018	18,140	85,683	103,823
2019	13,851	77,450	91,301
Thereafter	65,289	307,119	372,408
Balance at September 11, 2015	\$ 183,107	\$ 704,349	\$ 887,456
Weighted average stated interest rate	11.7%	12.8%	12.5%
Range of stated interest rates	0.0% to 19.5%	4.9% to 19.5%	0.0% to 19.5%

We reflect interest income associated with vacation ownership notes receivable on our Statements of Income in the Financing revenues caption. The following table summarizes interest income associated with vacation ownership notes receivable:

(\$ in thousands)	Twelve Weeks Ended		Thirty-Six Weeks Ended	
	September 11, 2015	September 12, 2014	September 11, 2015	September 12, 2014
Interest income associated with vacation ownership notes receivable securitized	\$ 20,005	\$ 18,930	\$ 59,992	\$ 60,259
Interest income associated with vacation ownership notes receivable non-securitized	6,921	9,146	21,428	25,282
Total interest income associated with vacation ownership notes receivable	\$ 26,926	\$ 28,076	\$ 81,420	\$ 85,541

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We record an estimate of expected uncollectibility on all notes receivable from vacation ownership purchasers as a reduction of revenues from the sale of vacation ownership products at the time we recognize profit on a vacation ownership product sale. We fully reserve for all defaulted vacation ownership notes receivable in addition to recording a reserve on the estimated uncollectible portion of the remaining vacation ownership notes receivable. For those vacation ownership notes receivable that are not in default, we assess collectibility based on pools of vacation ownership notes receivable because we hold large numbers of homogeneous vacation ownership notes receivable. We use the same criteria to estimate uncollectibility for non-securitized vacation ownership notes receivable and securitized vacation ownership notes receivable because they perform similarly. We estimate uncollectibility for each pool based on historical activity for similar vacation ownership notes receivable.

The following table summarizes the activity related to our vacation ownership notes receivable reserve for the thirty-six weeks ended September 11, 2015:

	Non-Securitized Vacation Ownership Notes Receivable Reserve	Securitized Vacation Ownership Notes Receivable Reserve	Total
<i>(\$ in thousands)</i>			
Balance at January 2, 2015	\$ 64,752	\$ 53,666	\$ 118,418
Provision for loan losses	15,068	7,413	22,481
Securitizations	(12,622)	12,622	
Clean-up calls ⁽¹⁾	5,725	(5,725)	
Write-offs	(32,706)		(32,706)
Defaulted vacation ownership notes receivable repurchase activity ⁽²⁾	17,802	(17,802)	
Balance at September 11, 2015	\$ 58,019	\$ 50,174	\$ 108,193

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

(2) Decrease in securitized vacation ownership notes receivable reserve and increase in non-securitized vacation ownership notes receivable reserve was attributable to the transfer of the reserve when we voluntarily repurchased the securitized vacation ownership notes receivable.

Although we consider loans to owners to be past due if we do not receive payment within 30 days of the due date, we suspend accrual of interest only on those loans that are over 90 days past due. We consider loans over 150 days past due to be in default. We apply payments we receive for vacation ownership notes receivable on non-accrual status first to interest, then to principal and any remainder to fees. We resume accruing interest when vacation ownership notes receivable are less than 90 days past due. We do not accept payments for vacation ownership notes receivable during the foreclosure process unless the amount is sufficient to pay all past due principal, interest, fees and penalties owed and fully reinstate the note. We write off uncollectible vacation ownership notes receivable against the reserve once we receive title to the vacation ownership products through the foreclosure or deed-in-lieu process or, in Europe or

Asia Pacific, when revocation is complete. For both non-securitized and securitized vacation ownership notes receivable, we estimated average remaining default rates of 6.83 percent and 6.95 percent as of September 11, 2015 and January 2, 2015, respectively. A 0.5 percentage point increase in the estimated default rate would have resulted in an increase in our allowance for loan losses of \$4.5 million as of September 11, 2015 and \$4.7 million as of January 2, 2015.

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The following table shows our recorded investment in non-accrual vacation ownership notes receivable, which are vacation ownership notes receivable that are 90 days or more past due:

<i>(\$ in thousands)</i>	Non-Securitized Vacation Ownership Notes Receivable	Securitized Vacation Ownership Notes Receivable	Total
Investment in vacation ownership notes receivable on non-accrual status at September 11, 2015	\$ 52,520	\$ 5,967	\$ 58,487
Investment in vacation ownership notes receivable on non-accrual status at January 2, 2015	\$ 60,275	\$ 7,172	\$ 67,447
Average investment in vacation ownership notes receivable on non-accrual status during the twelve weeks ended September 11, 2015	\$ 53,778	\$ 6,879	\$ 60,657
Average investment in vacation ownership notes receivable on non-accrual status during the twelve weeks ended September 12, 2014	\$ 64,576	\$ 7,027	\$ 71,603
Average investment in vacation ownership notes receivable on non-accrual status during the thirty-six weeks ended September 11, 2015	\$ 56,397	\$ 6,570	\$ 62,967
Average investment in vacation ownership notes receivable on non-accrual status during the thirty-six weeks ended September 12, 2014	\$ 65,857	\$ 7,022	\$ 72,879

The following table shows the aging of the recorded investment in principal, before reserves, in vacation ownership notes receivable as of September 11, 2015:

<i>(\$ in thousands)</i>	Non-Securitized Vacation Ownership Notes Receivable	Securitized Vacation Ownership Notes Receivable	Total
31 90 days past due	\$ 7,444	\$ 15,482	\$ 22,926
91 150 days past due	5,103	5,351	10,454
Greater than 150 days past due	47,417	616	48,033
Total past due	59,964	21,449	81,413
Current	181,162	733,074	914,236
Total vacation ownership notes receivable	\$ 241,126	\$ 754,523	\$ 995,649

The following table shows the aging of the recorded investment in principal, before reserves, in vacation ownership notes receivable as of January 2, 2015:

<i>(\$ in thousands)</i>	Total
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		Non-Securitized		Securitized			
		Vacation Ownership		Vacation Ownership			
		Notes Receivable		Notes Receivable			
31	90 days past due	\$	8,330	\$	22,544	\$	30,874
91	150 days past due		6,101		7,003		13,104
Greater than 150 days past due			54,174		169		54,343
Total past due			68,605		29,716		98,321
Current			162,695		774,630		937,325
Total vacation ownership notes receivable		\$	231,300	\$	804,346	\$	1,035,646

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The following table shows the carrying values and the estimated fair values of financial assets and liabilities that qualify as financial instruments, determined in accordance with the authoritative guidance for disclosures regarding the fair value of financial instruments. Considerable judgment is required in interpreting market data to develop estimates of fair value. The use of different market assumptions and/or estimation methodologies could have a material effect on the estimated fair value amounts. The table excludes Cash and cash equivalents, Restricted cash, Accounts and contracts receivable, Accounts payable, Advance deposits and Accrued liabilities, all of which had fair values approximating their carrying amounts due to the short maturities and liquidity of these instruments.

(\$ in thousands)	At September 11, 2015		At January 2, 2015	
	Carrying Amount	Fair Value ⁽¹⁾	Carrying Amount	Fair Value ⁽¹⁾
Vacation ownership notes receivable				
Securitized	\$ 704,349	\$ 861,004	\$ 750,680	\$ 909,391
Non-securitized	183,107	191,387	166,548	172,103
Derivative instruments	1,068	1,068		
Total financial assets	\$ 888,524	\$ 1,053,459	\$ 917,228	\$ 1,081,494
Non-recourse debt associated with vacation ownership notes receivable securitizations, gross	\$ (776,648)	\$ (780,427)	\$ (708,031)	\$ (712,977)
Other debt, gross	(3,519)	(3,519)	(3,306)	(3,306)
Mandatorily redeemable preferred stock of consolidated subsidiary, gross	(40,000)	(42,562)	(40,000)	(43,837)
Liability for Marriott Rewards customer loyalty program	(73,904)	(66,605)	(89,285)	(80,448)
Other liabilities	(4,205)	(4,205)	(4,118)	(4,118)
Total financial liabilities	\$ (898,276)	\$ (897,318)	\$ (844,740)	\$ (844,686)

⁽¹⁾ Fair value of financial instruments, with the exception of derivative instruments, has been determined using Level 3 inputs. Fair value of derivative instruments has been determined using Level 2 inputs.

Vacation Ownership Notes Receivable

We estimate the fair value of our securitized vacation ownership notes receivable using a discounted cash flow model. We believe this is comparable to the model that an independent third party would use in the current market. Our model uses default rates, prepayment rates, coupon rates and loan terms for our securitized vacation ownership notes receivable portfolio as key drivers of risk and relative value, that when applied in combination with pricing parameters, determine the fair value of the underlying vacation ownership notes receivable.

Due to factors that impact the general marketability of our non-securitized vacation ownership notes receivable, as well as current market conditions, we bifurcate our vacation ownership notes receivable at each balance sheet date into

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

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

(\$ in thousands)	At September 11, 2015		At January 2, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Vacation ownership notes receivable				
Eligible for securitization ⁽¹⁾	\$ 34,426	\$ 42,706	\$ 24,194	\$ 29,749
Not eligible for securitization	148,681	148,681	142,354	142,354
Total non-securitized	\$ 183,107	\$ 191,387	\$ 166,548	\$ 172,103

- (1) We expect that these vacation ownership notes receivable will be purchased by the 2015-1 Trust prior to December 31, 2015 in accordance with the terms of the securitization transaction completed in the third quarter of 2015. Refer to Footnote No. 9, Debt, for discussion of the terms of this securitization transaction and the purchase of additional vacation ownership notes receivable by the 2015-1 Trust.

We estimate the fair value of the portion of our non-securitized vacation ownership notes receivable that we believe will ultimately be securitized in the same manner as securitized vacation ownership notes receivable. We value the remaining non-securitized vacation ownership notes receivable at their carrying value, rather than using our pricing model. We believe that the carrying value of these particular vacation ownership notes receivable approximates fair value because the stated interest rates of these loans are consistent with current market rates and the reserve for these vacation ownership notes receivable appropriately accounts for risks in default rates, prepayment rates and loan terms.

Derivative Instruments

During 2015, we entered into a foreign exchange forward contract to hedge the risks associated with a forecasted transaction anticipated to be denominated in a foreign currency. We do not apply hedge accounting to this derivative instrument, and therefore it is marked to market. The fair value of the contract is determined using indicative foreign currency exchange rates from public market data, which are considered Level 2 fair value inputs.

Non-Recourse Debt Associated with Securitized Vacation Ownership Notes Receivable

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

Mandatorily Redeemable Preferred Stock of Consolidated Subsidiary

We estimate the fair value of the mandatorily redeemable preferred stock of our consolidated subsidiary using a discounted cash flow model. We believe this is comparable to the model that an independent third party would use in the current market. Our model includes an assessment of our subsidiary's credit risk and the instrument's contractual dividend rate.

Liability for Marriott Rewards Customer Loyalty Program

We determine the carrying value of the future redemption obligation of our liability for the Marriott Rewards customer loyalty program based on statistical formulas that project the timing of future redemption of Marriott Rewards Points based on historical levels, including estimates of the number of Marriott Rewards Points that will eventually be redeemed and the breakage for points that will never be redeemed. We estimate the fair value of the future redemption obligation by adjusting the contractual discount rate to an estimate of that of a market participant with similar nonperformance risk.

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Other Liabilities

We estimate the fair value of our other liabilities that are financial instruments using expected future payments discounted at risk-adjusted rates. These liabilities represent guarantee costs and other structured payments. The carrying values of our financial instruments within Other liabilities approximate their fair values.

5. ACQUISITIONS AND DISPOSITIONS

Acquisitions

Surfers Paradise, Australia

During the third quarter of 2015, we completed the acquisition of an operating hotel located in Surfers Paradise, Australia, for AUD \$84.5 million (\$62.3 million). The acquisition was treated as a business combination and accounted for using the acquisition method of accounting. As such, all transaction costs were expensed as incurred and have been included in the Other line of our Statements of Income. As consideration for the acquisition, we paid AUD \$82.6 million (\$61.0 million) in cash and assumed net liabilities of AUD \$1.9 million (\$1.3 million), which was allocated based on the fair value at the date of acquisition as follows: AUD \$28.9 million (\$21.3 million) to land, AUD \$49.5 million (\$36.5 million) to buildings and leasehold improvements and AUD \$6.1 million (\$4.5 million) to furniture and equipment. Fair value was determined using an independent appraisal, which was primarily based on a discounted cash flow model, a Level 3 fair value input. We intend to convert a portion of this hotel, which the related portion of the purchase price is classified as an operating activity on our Cash Flows, in the near term into vacation ownership interests for future use in our Asia Pacific segment, and to sell the remaining downsized hotel, which the related portion of the purchase price is classified as an investing activity on our Cash Flows, to a third party.

Washington, D.C.

During the third quarter of 2015, we completed the acquisition of 71 rooms at The Mayflower Hotel, Autograph Collection, an operating hotel located in Washington, D.C., for \$32.0 million. The asset acquisition was treated as a purchase of inventory and we intend to include these vacation ownership units, in their current form, in our North America points-based program, Marriott Vacation Club Destinations (MVCD) program in the near term.

San Diego, California

During the first quarter of 2015, we completed the acquisition of an operating hotel located in San Diego, California, for \$55.0 million. The acquisition was treated as a business combination and accounted for using the acquisition method of accounting. As consideration for the acquisition, we paid \$55.0 million in cash, which was allocated based on the fair value at the date of acquisition as follows: \$54.3 million to property and equipment and \$0.7 million to other assets. Fair value was determined using an independent appraisal, which was primarily based on a discounted cash flow model, a Level 3 fair value input. We intend to convert this hotel in the near term into vacation ownership interests for future use in our MVCD program. In order to ensure consistency with the expected related future cash flow presentation, \$46.6 million of the cash purchase price allocated to property and equipment was included as an operating activity in the Purchase of operating hotels for future conversion to inventory line on our Cash Flows for the thirty-six weeks ended September 11, 2015. The remaining \$7.7 million was included as an investing activity in the Capital expenditures for property and equipment line on our Cash Flows for the thirty-six weeks ended September 11, 2015, as it was allocated to assets to be used prior to conversion of the hotel to vacation ownership interests, as well as ancillary and sales center assets to be retained after the conversion.

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Dispositions

Kauai, Hawaii

During the second quarter of 2015, we completed the sale of the remaining portion of our undeveloped land in Kauai, Hawaii for gross cash proceeds of \$20.0 million. We accounted for the sale under the full accrual method in accordance with the authoritative guidance on accounting for sales of real estate and recorded a gain of \$8.7 million, which is included in the (Losses) gains and other (expense) income line on our Statements of Income for the twelve and thirty-six weeks ended September 11, 2015. As a result of this sale, we have completed the transactions, a portion of which was completed in 2014, contemplated by the purchase and sale agreement that we entered into during the second quarter of 2014 providing for the sale of undeveloped and partially developed land, an operating golf course and related assets in Kauai, Hawaii for \$60.0 million in gross cash proceeds.

Marco Island, Florida

During the first quarter of 2015, we sold real property located in Marco Island, Florida, consisting of \$3.1 million of vacation ownership inventory, to a third-party developer. We received consideration consisting of \$5.4 million of cash and a note receivable of \$0.5 million. We did not recognize any gain or loss on this transaction.

In accordance with our agreement with the third-party developer, we are obligated to repurchase the completed property from the developer contingent upon the property meeting our brand standards, provided that the third-party developer has not sold the property to another party. In accordance with the authoritative guidance on accounting for sales of real estate, our conditional obligation to repurchase the property constitutes continuing involvement and thus we were unable to account for this transaction as a sale. The property was sold to a variable interest entity for which we are not the primary beneficiary as we do not control the variable interest entity's development activities and cannot prevent the variable interest entity from selling the property to another party. Accordingly, we have not consolidated the variable interest entity.

As of September 11, 2015, our Balance Sheet reflects \$7.0 million of Other liabilities that relate to the deferral of gain recognition for this transaction, which will reduce our basis in the asset if we repurchase the property. In addition, the note receivable of \$0.5 million and other receivables of \$0.2 million are included in the Accounts and contracts receivable line on the Balance Sheet as of September 11, 2015. The cash consideration received for the sale of the real property is included in Proceeds from vacation ownership inventory arrangements on our Cash Flows for the thirty-six weeks ended September 11, 2015. We believe that our maximum exposure to loss as a result of our involvement with this variable interest entity is our interest in the note receivable and the other receivables discussed above as of September 11, 2015.

Orlando, Florida

During the first quarter of 2014, we disposed of a golf course and adjacent undeveloped land in Orlando, Florida for \$24.0 million in gross cash proceeds. As a condition of the sale, we continued to operate the golf course through the end of the first quarter of 2015 at our own risk. We utilized the performance of services method to record a gain of \$3.1 million over the period during which we operated the golf course, of which \$0 and \$0.2 million is included in the (Losses) gains and other (expense) income line on our Statements of Income for the twelve weeks ended September 11, 2015 and September 12, 2014, respectively, and \$0.9 million and \$1.8 million is included in the (Losses) gains and other (expense) income line on our Statements of Income for the thirty-six weeks ended September 11, 2015 and September 12, 2014, respectively.

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

<i>(in thousands, except per share amounts)</i>	Twelve Weeks Ended		Thirty-Six Weeks Ended	
	September 11, 2015⁽¹⁾	September 12, 2014⁽²⁾	September 11, 2015⁽¹⁾	September 12, 2014⁽²⁾
Computation of Basic Earnings Per Share				
Net income	\$ 21,555	\$ 25,648	\$ 89,650	\$ 80,259
Weighted average shares outstanding	31,455	33,374	31,870	34,180
Basic earnings per share	\$ 0.69	\$ 0.77	\$ 2.81	\$ 2.35
Computation of Diluted Earnings Per Share				
Net income	\$ 21,555	\$ 25,648	\$ 89,650	\$ 80,259
Weighted average shares outstanding	31,455	33,374	31,870	34,180
Effect of dilutive shares outstanding				
Employee stock options and SARs	443	537	458	559
Restricted stock units	230	455	222	422
Shares for diluted earnings per share	32,128	34,366	32,550	35,161
Diluted earnings per share	\$ 0.67	\$ 0.75	\$ 2.75	\$ 2.28

(1) The computations of diluted earnings per share exclude approximately 167,000 shares of common stock, the maximum number of shares issuable as of September 11, 2015 upon the vesting of certain performance-based awards, because the performance conditions required for the shares subject to such awards to vest were not achieved by the end of the reporting period.

(2) The computations of diluted earnings per share exclude approximately 179,000 shares of common stock, the maximum number of shares issuable as of September 12, 2014 upon the vesting of certain performance-based awards, because the performance conditions required for the shares subject to such awards to vest were not achieved by the end of the reporting period.

In accordance with the applicable accounting guidance for calculating earnings per share, for the twelve and thirty-six week periods ended September 11, 2015 and September 12, 2014, we have not excluded any shares underlying stock

options or stock appreciation rights (SARs) that may be settled in shares of common stock from our calculation of diluted earnings per share as no exercise prices were greater than the average market prices for the applicable period.

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The following table shows the composition of our inventory balances:

<i>(\$ in thousands)</i>	At September 11, 2015	At January 2, 2015
Finished goods ⁽¹⁾	\$ 351,850	\$ 413,066
Land and infrastructure ⁽²⁾	364,128	355,198
Real estate inventory	715,978	768,264
Operating supplies and retail inventory	5,686	4,520
	\$ 721,664	\$ 772,784

- (1) Represents completed inventory that is either registered for sale as vacation ownership interests, or unregistered and available for sale in its current form.
- (2) Includes \$48.4 million of sales centers that are expected to be converted into vacation ownership products to be sold in the future and \$80.7 million of inventory related to estimated future foreclosures at September 11, 2015.

We value vacation ownership and residential products at the lower of cost or fair market value less costs to sell, in accordance with applicable accounting guidance, and we record operating supplies at the lower of cost (using the first-in, first-out method) or net realizable value.

8. CONTINGENCIES AND COMMITMENTS*Guarantees*

We have historically issued guarantees to certain lenders in connection with the provision of third-party financing for our sale of vacation ownership products for the North America and Asia Pacific segments. The terms of these guarantees generally require us to fund if the purchaser fails to pay under the term of its note payable. Prior to the Spin-Off, Marriott International guaranteed our performance under these arrangements, and following the Spin-Off continues to hold a standby letter of credit related to the Asia Pacific segment guarantee. If Marriott International is required to fund any draws by lenders under this letter of credit it would seek recourse from us. Marriott International no longer guarantees our performance with respect to third-party financing for sales of products in the North America segment. We are entitled to recover any payments we make to third-party lenders under these guarantees through reacquisition and resale of the financed vacation ownership product. Our commitments under these guarantees expire as the underlying notes mature or are repaid. The terms of the underlying notes extend to 2022.

The following table shows the maximum potential amount of future fundings for financing guarantees where we are the primary obligor and the carrying amount of the liability for expected future fundings, which is included on our Balance Sheet in the Other caption within Liabilities.

(\$ in thousands) Segment	Maximum Potential Amount of Future Fundings Liability for Expected At September 11, 2015		Future Fundings At September 11, 2015	
Asia Pacific	\$	5,822	\$	59
North America		2,846		177
Total guarantees where we are the primary obligor	\$	8,668	\$	236

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Commitments and Letters of Credit

In addition to the guarantees we describe in the preceding paragraphs, as of September 11, 2015, we had the following commitments outstanding:

We have various contracts for the use of information technology hardware and software that we use in the normal course of business. Our aggregate commitments under these contracts were \$27.6 million, of which we expect \$5.3 million, \$8.3 million, \$5.8 million, \$2.6 million, \$1.5 million and \$4.1 million will be paid in 2015, 2016, 2017, 2018, 2019 and thereafter, respectively.

We have commitments of \$2.5 million to subsidize vacation ownership associations, which we expect to pay in the fourth quarter of 2015.

We have a commitment of \$75.5 million to purchase vacation ownership units located in Miami, Florida, contingent upon satisfactory completion of construction and receipt of a certificate of occupancy, for use in our MVCD program. We made an initial deposit of \$3.8 million in connection with this commitment in 2014, and we are committed to make an additional deposit of \$3.8 million upon the seller's receipt of a temporary certificate of occupancy. The remaining payment of \$67.9 million is due upon acquisition of the units, which we expect to occur within one year. In the event that the seller fails to obtain a permanent certificate of occupancy for the entire project on or about the end of October, we may terminate the contract and receive a return of the deposit. We also have the right to extend this deadline in 30 day increments up to a total of 90 days. We are currently evaluating the use of a capital efficient arrangement to delay the timing of this capital investment.

We have a commitment of \$38.5 million to purchase vacation ownership units located on the Big Island of Hawaii, for use in our MVCD program, contingent upon the seller subjecting the units to a condominium regime prior to our purchase. We made a deposit of \$1.5 million in connection with this commitment in 2014, and we are committed to make the remaining payment of \$37.0 million upon satisfaction of the condition that the seller subject the units to a condominium regime, which we expect to occur within one year. Upon acquisition, we are committed to renovate the units pursuant to a property improvement plan to be agreed upon at a later date, for which an additional \$45.0 million to \$55.0 million will be required to be funded. We are currently evaluating the use of a capital efficient arrangement to delay the timing of this capital investment.

We have a commitment of \$137.1 million to purchase vacation ownership units located in Marco Island, Florida, of which we expect \$33.3 million, \$50.0 million and \$53.8 million will be paid in 2017, 2018 and 2019, respectively. See Footnote No. 5, Acquisitions and Dispositions, for additional information on this transaction.

Surety bonds issued as of September 11, 2015 totaled \$78.4 million, the majority of which were requested by federal, state or local governments related to our operations.

Additionally, as of September 11, 2015, we had \$3.3 million of letters of credit outstanding under our \$200 million revolving credit facility (the Revolving Corporate Credit Facility).

Loss Contingencies

In December 2012, Jon Benner, an owner of fractional interests at The Ritz-Carlton Club and Residences, San Francisco (the RCC San Francisco), filed suit in Superior Court for the State of California, County of San Francisco, against us and certain of our subsidiaries on behalf of a putative class consisting of all owners of fractional interests at the RCC San Francisco who allegedly did not receive proper notice of their payment obligations under California's Mello-Roos Community Facilities Act of 1982 (the Mello-Roos Act). The plaintiff alleged that the disclosures made about bonds issued for the project under this Act and the payment obligations of fractional interest purchasers with respect to such bonds were inadequate, and this and other alleged statutory violations constituted intentional and negligent misrepresentation, fraud and fraudulent concealment. The relief sought included damages in an unspecified amount, rescission of the purchases, restitution and disgorgement of profits. In September 2014, we reached an agreement to settle the Benner action on the basis of a stipulated class, which was approved by the court on March 31, 2015. At September 11, 2015, we had an accrual of \$0.9 million related to the settlement.

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In April 2013, Krishna and Sherrie Narayan and other owners of 12 residential units at the resort formerly known as The Ritz-Carlton Residences, Kapalua Bay (Kapalua Bay) filed an amended complaint related to a suit originally filed in Circuit Court for Maui County, Hawaii in June 2012 against us, certain of our subsidiaries, Marriott International, certain of its subsidiaries, and the joint venture in which we have an equity investment that developed and marketed vacation ownership and residential products at Kapalua Bay (the Joint Venture). In the original complaint, the plaintiffs alleged that defendants mismanaged funds of the residential owners association (the Kapalua Bay Association), created a conflict of interest by permitting their employees to serve on the Kapalua Bay Association s board, and failed to disclose documents to which the plaintiffs were allegedly entitled. The amended complaint alleges breach of fiduciary duty, violations of the Hawaii Unfair and Deceptive Trade Practices Act and the Hawaii condominium statute, intentional misrepresentation and concealment, unjust enrichment and civil conspiracy. The relief sought in the amended complaint includes injunctive relief, repayment of all sums paid to us and our subsidiaries and Marriott International and its subsidiaries, compensatory and punitive damages, and treble damages under the Hawaii Unfair and Deceptive Trade Practices Act. We dispute the material allegations in the amended complaint and continue to defend against this action vigorously. We filed a motion in the Circuit Court to compel arbitration of plaintiffs claims. That motion was denied, but on appeal the Hawaii Intermediate Court of Appeals reversed. The Hawaii Supreme Court, on June 3, 2015, reversed the decision of the Intermediate Court of Appeals and reinstated the action in Circuit Court, which has set the case for trial beginning September 16, 2016. We filed a petition with the United States Supreme Court on October 1, 2015, seeking review of the Hawaii Supreme Court s decision. Additionally, in 2014, owners of two residential units agreed to release their claims in this action. Given the inherent uncertainties of litigation, we cannot estimate a range of the potential liability, if any, at this time.

In June 2013, Earl C. and Patricia A. Charles, owners of a fractional interest at Kapalua Bay, together with owners of 38 other fractional interests at Kapalua Bay, filed an amended complaint in the Circuit Court of the Second Circuit for the State of Hawaii against us, certain of our subsidiaries, Marriott International, certain of its subsidiaries, the Joint Venture, and other entities that have equity investments in the Joint Venture. The plaintiffs allege that the defendants failed to disclose the financial condition of the Joint Venture and the commitment of the defendants to the Joint Venture, and that defendants actions constituted fraud and violated the Hawaii Unfair and Deceptive Trade Practices Act, the Hawaii Condominium Property Act and the Hawaii Time Sharing Plans statute. The relief sought includes compensatory and punitive damages, attorneys fees, pre-judgment interest, declaratory relief, rescission and treble damages under the Hawaii Unfair and Deceptive Trade Practices Act. The complaint was subsequently further amended to add owners of two additional fractional interests as plaintiffs. The Circuit Court granted our motion to compel arbitration of the claims asserted by the plaintiffs. Plaintiffs appealed that decision to the Hawaii Intermediate Court of Appeals and also initiated arbitration. On July 24, 2015, the Intermediate Court of Appeals reversed the decision of the Circuit Court and directed that the action be reinstated in the Circuit Court. We dispute the material allegations in the amended complaint and intend to defend against this action vigorously. Given the early stages of the action and the inherent uncertainties of litigation, we cannot estimate a range of the potential liability, if any, at this time. Additionally, owners of two fractional interests have since agreed to release their claims in this action, and the owners of another fractional interest, who are not parties to the Charles action, agreed to release similar claims, in each instance for nominal sums.

In August 2014, Michael and Marla Flynn, owners of weeks-based Marriott Vacation Club vacation ownership products at two of our resorts in Hawaii, filed a claim with the American Arbitration Association on behalf of a putative class consisting of themselves and all others similarly situated. The claimants alleged that the introduction of the MVCD program caused an actionable decrease in the value of their vacation ownership interests. The relief sought included compensatory and exemplary damages, restitution, injunctive relief, interest and attorneys fees pursuant to applicable timeshare and unfair trade practices acts and common-law theories of breach of contract and breach of an implied covenant of good faith and fair dealing. On March 30, 2015, the arbitrator ruled that the Flynn s claims are not subject to arbitration, and dismissed the Flynn proceeding. On October 2, 2015, Michael and Marla Flynn, joined by

Patrick and Mary Flynn as Trustees of the Flynn Family Trust, filed a civil action in the United States District Court for the District of Hawaii, asserting similar claims and seeking similar relief on behalf of themselves and a putative class consisting of themselves and all others similarly situated. The complaint has not yet been served. We dispute the material allegations in the complaint and intend to defend against the action vigorously. Given the early stages of the action and the inherent uncertainties of litigation, we cannot estimate a range of potential liability, if any, at this time.

On January 29, 2015, Norman and Carreen Abramson, owners of weeks-based Marriott Vacation Club vacation ownership products at one of our resorts in California and of our points-based Marriott Vacation Club vacation ownership product, filed an action in the United States District Court for the Central District of California on behalf of a putative class consisting of themselves and all others similarly situated. Mr. and Mrs. Abramson alleged that the introduction of the MVCD program caused an actionable decrease in the value of their vacation ownership interests, and sought as relief compensatory and punitive damages, restitution, injunctive relief, interest and attorneys' fees pursuant to applicable timeshare, consumer protection and unfair competition acts. On March 30, 2015, we filed a motion to dismiss. On June 30, 2015, Mr. and Mrs.

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Abramson filed a motion for class certification, which the Court denied on September 28, 2015. Mr. and Mrs. Abramson also amended their complaint, and we filed a motion to dismiss the amended complaint on October 9, 2015. We dispute the material allegations in the amended complaint and intend to defend against the action vigorously. Given the early stages of the action and the inherent uncertainties of litigation, we cannot estimate a range of potential liability, if any, at this time.

On May 26, 2015, we and certain of our subsidiaries were named as defendants in an action filed in the Superior Court of San Francisco County, California, by William and Sharon Petrick and certain other present and former owners of fractional interests at the RCC San Francisco. The case is not filed as a putative class action. The plaintiffs allege that the affiliation of the RCC San Francisco with MVCD, certain alleged sales practices, and other alleged acts of Marriott Vacations Worldwide and the other defendants caused an actionable decrease in the value of their fractional interests. The relief sought includes, among other things, compensatory and punitive damages, rescission, and pre- and post-judgment interest. Plaintiffs filed an amended complaint on October 9, 2015, and our response is due November 6, 2015. We dispute the material allegations in the amended complaint and intend to defend against the action vigorously. Given the early stages of the action and the inherent uncertainties of litigation, we cannot estimate a range of the potential liability, if any, at this time.

Other

We estimate the cash outflow associated with completing the phases of our existing portfolio of vacation ownership projects currently under development will be approximately \$13.1 million, of which \$4.3 million is included within liabilities on our Balance Sheet at September 11, 2015. This estimate is based on our current development plans, which remain subject to change, and we expect the phases currently under development will be completed by 2017.

During the second quarter of 2014, we agreed to settle a dispute with a service provider relating to services provided to us prior to 2011. In connection with the settlement, we received a one-time payment of \$7.6 million from the service provider, which no longer provides services to us. We recorded a gain of \$7.6 million as a result of the settlement, which is included in the Litigation settlement line on our Statement of Income for the thirty-six weeks ended September 12, 2014.

9. DEBT

The following table provides detail on our debt balances, net of unamortized debt issuance costs:

<i>(\$ in thousands)</i>	At September 11, 2015	At January 2, 2015
Vacation ownership notes receivable securitizations, gross ⁽¹⁾	\$ 776,648	\$ 708,031
Unamortized debt issuance costs	(10,187)	(8,090)
	766,461	699,941
Other debt, gross	3,519	3,306
Unamortized debt issuance costs	(264)	(234)
	3,255	3,072
	\$ 769,716	\$ 703,013

- (1) Interest rates as of September 11, 2015 range from 2.2% to 7.2% with a weighted average interest rate of 2.8%.

See Footnote No. 13, Variable Interest Entities, for a discussion of the collateral for the non-recourse debt associated with the securitized vacation ownership notes receivable and our non-recourse warehouse credit facility (the

Warehouse Credit Facility). All of our other debt was, and to the extent currently outstanding, is recourse to us but unsecured. The Warehouse Credit Facility currently terminates on September 15, 2016 and if not renewed, any amounts outstanding thereunder would become due and payable 13 months after termination, at which time all principal and interest collected with respect to the vacation ownership notes receivable held in the Warehouse Credit Facility would be redirected to the lenders to pay down the outstanding debt under the facility. As of September 11, 2015, there were no cash borrowings outstanding under our Warehouse Credit Facility. We generally expect to securitize our vacation ownership notes receivable, including any vacation ownership notes receivable held in the Warehouse Credit Facility, in the ABS market once per year.

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Although no cash borrowings were outstanding as of September 11, 2015 under our Revolving Corporate Credit Facility, any amounts that are borrowed under that facility, as well as obligations with respect to letters of credit issued pursuant to that facility, are secured by a perfected first priority security interest in substantially all of the assets of the borrower under, and guarantors of, that facility (which include Marriott Vacations Worldwide and each of our direct and indirect, existing and future, domestic subsidiaries, excluding certain bankruptcy remote special purpose subsidiaries), in each case including inventory, subject to certain exceptions.

On August 13, 2015, we completed the securitization of a pool of \$264.2 million of vacation ownership notes receivable. Approximately \$211.4 million of the vacation ownership notes receivable were purchased on August 13, 2015 by the 2015-1 Trust, and we expect the remaining vacation ownership notes receivable to be purchased by the 2015-1 Trust prior to December 31, 2015. As of August 13, 2015, the 2015-1 Trust held \$51.4 million of the proceeds, which will be released as the remaining vacation ownership notes receivable are purchased. On September 24, 2015, subsequent to the third quarter of 2015, the 2015-1 Trust purchased \$31.5 million of the remaining vacation ownership notes receivable and \$30.4 million was released from restricted cash. Any funds not used to purchase vacation ownership notes receivable will be returned to the investors. In connection with the securitization, investors purchased in a private placement \$255.0 million in vacation ownership loan backed notes from the 2015-1 Trust. Two classes of vacation ownership loan backed notes were issued by the 2015-1 Trust: \$233.2 million of Class A Notes and \$21.8 million of Class B Notes. The Class A Notes have an interest rate of 2.52 percent and the Class B Notes have an interest rate of 2.96 percent, for an overall weighted average interest rate of 2.56 percent.

The following table shows scheduled future principal payments for our debt:

(\$ in thousands)		Vacation Ownership Notes Receivable Securitizations ⁽¹⁾	Other Debt	Total
Debt Principal Payments Year				
2015	\$	35,357	\$ 29	\$ 35,386
2016		111,848	60	111,908
2017		106,587	64	106,651
2018		93,068	69	93,137
2019		81,671	74	81,745
Thereafter		348,117	3,223	351,340
Balance at September 11, 2015	\$	776,648	\$ 3,519	\$ 780,167

- (1) The debt associated with our vacation ownership notes receivable securitizations is non-recourse to us and represents estimated principal payments assuming purchase of the remaining vacation ownership notes receivable by the 2015-1 Trust in the fourth quarter of 2015 as discussed above.

As the contractual terms of the underlying securitized vacation ownership notes receivable determine the maturities of the non-recourse debt associated with them, actual maturities may occur earlier than shown above due to prepayments by the vacation ownership notes receivable obligors.

We paid cash for interest, net of amounts capitalized, of \$18.5 million in the thirty-six weeks ended September 11, 2015 and \$19.4 million in the thirty-six weeks ended September 12, 2014, respectively.

Debt Associated with Vacation Ownership Notes Receivable Securitizations

Each of the transactions in which we have securitized vacation ownership notes receivable contains various triggers relating to the performance of the underlying vacation ownership notes receivable. If a pool of securitized vacation ownership notes receivable fails to perform within the pool's established parameters (default or delinquency thresholds vary by transaction), transaction provisions effectively redirect the monthly excess spread we would otherwise receive from that pool (attributable to the interests we retained) to accelerate the principal payments to investors (taking into account the subordination of the different tranches to the extent there are multiple tranches) until the performance trigger is cured. During the thirty-six weeks ended September 11, 2015, and as of September 11, 2015, no securitized vacation ownership notes receivable pools were out of compliance with the established parameters. As of September 11, 2015, we had 7 securitized vacation ownership notes receivable pools outstanding.

Table of Contents**10. MANDATORILY REDEEMABLE PREFERRED STOCK OF CONSOLIDATED SUBSIDIARY**

In October 2011, our subsidiary, MVW US Holdings, Inc. (MVW US Holdings) issued \$40.0 million of its mandatorily redeemable Series A (non-voting) preferred stock to Marriott International as part of Marriott International's internal reorganization prior to the Spin-Off. Subsequently Marriott International sold all of this preferred stock to third-party investors. Until October 2016, the Series A preferred stock will pay an annual cash dividend equal to the five-year U.S. Treasury Rate as of October 19, 2011, plus a spread of 10.958 percent, for a total annual cash dividend rate of 12 percent. In October 2016, if we do not elect to redeem the preferred stock, the annual cash dividend rate will be reset to the five-year U.S. Treasury Rate in effect on such date plus the same 10.958 percent spread. The Series A preferred stock is mandatorily redeemable by MVW US Holdings upon the tenth anniversary of the date of issuance but can be redeemed at our option after five years (i.e., beginning in October 2016) at par. The Series A preferred stock has an aggregate liquidation preference of \$40.0 million plus any accrued and unpaid dividends and an additional premium if liquidation occurs during the first five years after the issuance of the preferred stock. As of September 11, 2015, 1,000 shares of Series A preferred stock were authorized, of which 40 shares were issued and outstanding. The dividends are recorded as a component of Interest expense as the Series A preferred stock is treated as a liability for accounting purposes.

The following table provides detail on our mandatorily redeemable preferred stock of consolidated subsidiary balance, net of unamortized debt issuance costs:

<i>(\$ in thousands)</i>	At September 11, 2015		At January 2, 2015	
Mandatorily redeemable preferred stock of consolidated subsidiary, gross	\$	40,000	\$	40,000
Unamortized debt issuance costs		(1,065)		(1,184)
	\$	38,935	\$	38,816

11. SHAREHOLDERS' EQUITY

Marriott Vacations Worldwide has 100,000,000 authorized shares of common stock, par value of \$0.01 per share. At September 11, 2015, there were 36,355,412 shares of Marriott Vacations Worldwide common stock issued, of which 31,061,349 shares were outstanding and 5,294,063 shares were held as treasury stock. At January 2, 2015, there were 36,089,513 shares of Marriott Vacations Worldwide common stock issued, of which 32,092,788 shares were outstanding and 3,996,725 shares were held as treasury stock. Marriott Vacations Worldwide has 2,000,000 authorized shares of preferred stock, par value of \$0.01 per share, none of which were issued or outstanding as of September 11, 2015 or January 2, 2015.

The following table details changes in shareholders' equity during the thirty-six weeks ended September 11, 2015:

<i>(\$ in thousands)</i>	Common Stock	Treasury Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total Equity
	\$ 361	\$ (229,229)	\$ 1,137,785	\$ 17,054	\$ 153,732	\$ 1,079,703

Balance at January 2, 2015						
Net income				89,650		89,650
Foreign currency translation adjustments			(3,749)			(3,749)
Amounts related to share-based compensation	2		341			343
Adjustment to reclassification of Marriott International investment to Additional paid-in capital			(77)			(77)
Repurchase of common stock		(106,110)				(106,110)
Dividends				(23,789)		(23,789)
Balance at September 11, 2015	\$ 363	\$ (335,339)	\$ 1,138,049	\$ 13,305	\$ 219,593	\$ 1,035,971

Table of Contents*Share Repurchase Program*

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

<i>(\$ in thousands, except per share amounts)</i>	Number of Shares Repurchased	Cost of Shares Repurchased	Average Price Paid per Share
As of January 2, 2015	3,996,725	\$ 229,229	\$ 57.35
For the thirty-six weeks ended September 11, 2015	1,297,338	106,110	81.79
As of September 11, 2015	5,294,063	\$ 335,339	\$ 63.34

As of September 11, 2015, 1.6 million shares remained available for repurchase under the program.

Dividends

On September 10, 2015 our Board of Directors declared a quarterly dividend of \$0.25 per share to be paid on October 8, 2015 to shareholders of record as of September 24, 2015.

12. SHARE-BASED COMPENSATION

A total of 6 million shares are authorized for issuance under the Marriott Vacations Worldwide Corporation Stock and Cash Incentive Plan (the "Stock Plan"). As of September 11, 2015, 1.8 million shares were available for grants under the Stock Plan.

For share-based awards with service-only vesting conditions, we measure compensation expense related to share-based payment transactions with our employees and non-employee directors at fair value on the grant date. With respect to our employees, we recognize this expense on our Statements of Income over the vesting period during which the employees provide service in exchange for the award; with respect to non-employee directors, we recognize this expense on the grant date. For share-based arrangements with performance vesting conditions, we recognize compensation expense once it is probable that the corresponding performance condition will be achieved.

We recorded share-based compensation expense related to award grants to our officers, directors and employees of \$3.0 million for each of the twelve weeks ended September 11, 2015 and September 12, 2014, and \$9.6 million and \$9.2 million for the thirty-six weeks ended September 11, 2015 and September 12, 2014, respectively. Our deferred compensation liability related to unvested awards held by our employees totaled \$17.2 million and \$12.2 million at September 11, 2015 and January 2, 2015, respectively.

Restricted Stock Units (RSUs)

We granted 130,007 RSUs, exclusive of RSUs with performance vesting conditions, to our employees and non-employee directors during the thirty-six weeks ended September 11, 2015. RSUs granted in the thirty-six weeks ended September 11, 2015 had a weighted average grant-date fair value of \$78.22. RSUs issued to our employees generally vest over four years in annual installments commencing one year after the date of grant. RSUs issued to our non-employee directors vest in full on the date of grant.

During the thirty-six weeks ended September 11, 2015 and September 12, 2014, we granted RSUs with performance vesting conditions to members of management. The number of RSUs earned, if any, is determined following the end of a three-year performance period based upon our cumulative achievement over that period of specific quantitative operating financial measures. The maximum number of RSUs that may be earned under the RSUs with performance-based vesting criteria granted during the thirty-six weeks ended September 11, 2015 and September 12, 2014 was approximately 74,000 and 62,000, respectively.

Stock Appreciation Rights (SARs)

We granted 62,018 SARs to members of management during the thirty-six weeks ended September 11, 2015. These SARs had a weighted average grant-date fair value of \$29.75 and a weighted average exercise price of \$77.42. SARs generally expire ten years after the date of grant and both vest and may be exercised in cumulative installments of one quarter of the grant at the end of each of the first four years following the date of grant.

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We use the Black-Scholes model to estimate the fair value of the SARs granted. For SARs granted under the Stock Plan in the thirty-six weeks ended September 11, 2015, the expected stock price volatility was calculated based on the historical volatility from the stock prices of a group of identified peer companies. The average expected life was calculated using the simplified method. The risk-free interest rate was calculated based on U.S. Treasury zero-coupon issues with a remaining term equal to the expected life assumed at the date of grant. The dividend yield assumption listed below is based on the expectation of future payouts.

The following table outlines the assumptions used to estimate the fair value of grants during the thirty-six weeks ended September 11, 2015:

Expected volatility	42.74%
Dividend yield	1.26%
Risk-free rate	1.74%
Expected term (in years)	6.25

Employee Stock Purchase Plan

During the second quarter of 2015, the Board of Directors adopted, and subsequently our shareholders approved, the Marriott Vacations Worldwide Corporation Employee Stock Purchase Plan (the ESPP), which became effective during the third quarter of 2015. A total of 500,000 shares of common stock may be purchased under the ESPP. The ESPP allows eligible employees to purchase shares of our common stock at a price per share not less than 95% of the fair market value per share of common stock on the purchase date, up to a maximum established by the plan administrator for the offering period.

13. VARIABLE INTEREST ENTITIES

In accordance with the applicable accounting guidance for the consolidation of variable interest entities, we analyze our variable interests, including loans, guarantees and equity investments, to determine if an entity in which we have a variable interest is a variable interest entity. Our analysis includes both quantitative and qualitative reviews. We base our quantitative analysis on the forecasted cash flows of the entity, and our qualitative analysis on our review of the design of the entity, its organizational structure including decision-making ability, and relevant financial agreements. We also use our qualitative analyses to determine if we must consolidate a variable interest entity because we are its primary beneficiary.

Variable Interest Entities Related to Our Vacation Ownership Notes Receivable Securitizations

We periodically securitize, without recourse, through bankruptcy remote special purpose entities, notes receivable originated in connection with the sale of vacation ownership products. These vacation ownership notes receivable securitizations provide funding for us and transfer the economic risks and substantially all the benefits of the loans to third parties. In a vacation ownership notes receivable securitization, various classes of debt securities issued by the special purpose entities are generally collateralized by a single tranche of transferred assets, which consist of vacation ownership notes receivable. We service the vacation ownership notes receivable. With each vacation ownership notes receivable securitization, we may retain a portion of the securities, subordinated tranches, interest-only strips, subordinated interests in accrued interest and fees on the securitized vacation ownership notes receivable or, in some cases, overcollateralization and cash reserve accounts.

We created these entities to serve as a mechanism for holding assets and related liabilities, and the entities have no equity investment at risk, making them variable interest entities. We continue to service the vacation ownership notes receivable, transfer all proceeds collected to these special purpose entities, and retain rights to receive benefits that are potentially significant to the entities. Accordingly, we concluded that we are the entities' primary beneficiary and, therefore, consolidate them.

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The following table shows consolidated assets, which are collateral for the obligations of these variable interest entities, and consolidated liabilities included on our Balance Sheet at September 11, 2015:

	Vacation Ownership			
	Notes Receivable	Warehouse Credit		
(\$ in thousands)	Securitizations	Facility		Total
Consolidated Assets:				
Vacation ownership notes receivable, net of reserves	\$ 704,349	\$	\$	704,349
Interest receivable	4,211			4,211
Restricted cash ⁽¹⁾	93,803			93,803
Total	\$ 802,363	\$	\$	802,363
Consolidated Liabilities:				
Interest payable	\$ 1,547	\$ 88	\$	1,635
Debt	776,648			776,648
Total	\$ 778,195	\$ 88	\$	778,283

- ⁽¹⁾ Includes \$51.4 million of the proceeds from the securitization transaction completed during the third quarter of 2015, which will be released as the remaining vacation ownership notes receivable are purchased by the 2015-1 Trust. Refer to Footnote No. 9, Debt, for discussion of the terms of this securitization transaction and the purchase of additional vacation ownership notes receivable by the 2015-1 Trust.

The noncontrolling interest balance was zero. The creditors of these entities do not have general recourse to us.

The following table shows the interest income and expense recognized as a result of our involvement with these variable interest entities during the twelve weeks ended September 11, 2015:

(\$ in thousands)	Vacation Ownership			Total
	Notes Receivable Securitizations	Warehouse Credit Facility		
Interest income	\$ 20,005	\$	\$	20,005
Interest expense to investors	\$ 4,003	\$ 321	\$	4,324
Debt issuance cost amortization	\$ 688	\$ 277	\$	965
Administrative expenses	\$ 64	\$ 37	\$	101

The following table shows the interest income and expense recognized as a result of our involvement with these variable interest entities during the thirty-six weeks ended September 11, 2015:

(\$ in thousands)	Total
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	Vacation Ownership Notes Receivable Securitizations	Warehouse Credit Facility	
Interest income	\$ 59,992	\$	\$ 59,992
Interest expense to investors	\$ 12,659	\$ 955	\$ 13,614
Debt issuance cost amortization	\$ 2,102	\$ 842	\$ 2,944
Administrative expenses	\$ 216	\$ 104	\$ 320

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The following table shows cash flows between us and the vacation ownership notes receivable securitization variable interest entities during the thirty-six weeks ended September 11, 2015 and September 12, 2014:

(\$ in thousands)	Thirty-Six Weeks Ended	
	September 11, 2015	September 12, 2014
Cash inflows:		
Net proceeds from vacation ownership notes receivable securitizations	\$ 252,361	\$ 22,638
Principal receipts	127,571	124,575
Interest receipts	62,324	61,549
Reserve release	2,478	1,608
Total	444,734	210,370
Cash outflows:		
Principal to investors	(114,561)	(117,351)
Voluntary repurchases of defaulted vacation ownership notes receivable	(17,802)	(18,289)
Voluntary clean-up call	(54,020)	(26,722)
Interest to investors	(12,160)	(14,104)
Funding of restricted cash ⁽¹⁾	(52,756)	
Total	(251,299)	(176,466)
Net Cash Flows	\$ 193,435	\$ 33,904

- (1) Includes \$51.4 million of the proceeds from the securitization transaction completed during the third quarter of 2015, which will be released as the remaining vacation ownership notes receivable are purchased by the 2015-1 Trust. Refer to Footnote No. 9, Debt, for discussion of the terms of this securitization transaction and the purchase of additional vacation ownership notes receivable by the 2015-1 Trust.

The following table shows cash flows between us and the Warehouse Credit Facility variable interest entity during the thirty-six weeks ended September 11, 2015 and September 12, 2014:

(\$ in thousands)	Thirty-Six Weeks Ended	
	September 11, 2015	September 12, 2014
Cash inflows:		
Total	\$	\$
Cash outflows:		
Interest to investors	(920)	(1,013)

Total	(920)	(1,013)
Net Cash Flows	\$ (920)	\$ (1,013)

Under the terms of our vacation ownership notes receivable securitizations, we have the right at our option to repurchase defaulted vacation ownership notes receivable at the outstanding principal balance. The transaction documents typically limit such repurchases to 15 to 20 percent of the transaction's initial vacation ownership notes receivable principal balance. Our maximum exposure to loss relating to the special purpose entities that purchase, sell and own these vacation ownership notes receivable is the overcollateralization amount (the difference between the loan collateral balance and the balance on the outstanding vacation ownership notes receivable), plus cash reserves and any residual interest in future cash flows from collateral. In addition, we could be required to fund up to an aggregate of \$10.0 million upon presentation of demand notes related to certain vacation ownerships notes receivable securitization transactions outstanding at September 11, 2015.

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Other Variable Interest Entities

We have an equity investment in the Joint Venture, a variable interest entity that previously developed and marketed vacation ownership and residential products in Hawaii. We concluded that the Joint Venture is a variable interest entity because the equity investment at risk is not sufficient to permit it to finance its activities without additional support from other venture parties. We determined that we are not the primary beneficiary of the Joint Venture, as power to direct the activities that most significantly impact its economic performance is shared among the variable interest holders and, therefore, we do not consolidate the Joint Venture. In 2009, we fully impaired our equity investment in the Joint Venture and in certain notes receivable due from the Joint Venture and subsequently reduced the carrying value of our investment in those receivables to zero. Following the Joint Venture's failure to pay promissory notes due in 2010 and 2011, the lenders initiated foreclosure proceedings with respect to unsold interests in the project. A sale was completed following a foreclosure auction, and on June 13, 2013, we received \$7.4 million of cash as a partial repayment of our previously fully reserved receivables due from the Joint Venture. The Joint Venture's obligations with respect to the remaining receivables have been terminated. At September 11, 2015, we had an accrual of \$4.1 million for potential future funding obligations, representing our remaining expected exposure to loss related to our involvement with the Joint Venture exclusive of any future costs that may be incurred pursuant to outstanding litigation matters, including those discussed in Footnote No. 8, Contingencies and Commitments.

14. BUSINESS SEGMENTS

We define our reportable segments based on the way in which the chief operating decision maker, currently our chief executive officer, manages the operations of the company for purposes of allocating resources and assessing performance. We operate in three reportable business segments:

In our North America segment, we develop, market, sell and manage vacation ownership and related products under the Marriott Vacation Club and Grand Residences by Marriott brands. We also develop, market and sell vacation ownership and related products under The Ritz-Carlton Destination Club brand, as well as whole ownership residential products under The Ritz-Carlton Residences brand.

In our Europe segment, we are focusing on selling our existing projects and managing existing resorts. We do not have any current plans for new development in this segment.

In our Asia Pacific segment, we develop, market, sell and manage the Marriott Vacation Club, Asia Pacific, a right-to-use points program that we specifically designed to appeal to the vacation preferences of the Asian market, as well as a weeks-based right-to-use product.

We evaluate the performance of our segments based primarily on the results of the segment without allocating corporate expenses or income taxes. We do not allocate corporate interest expense, consumer financing interest expense, other financing expenses or general and administrative expenses to our segments. We include interest income specific to segment activities within the appropriate segment. We allocate other gains and losses and equity in earnings or losses from our joint ventures to each of our segments as appropriate. Corporate and other represents that portion of our revenues, equity in earnings or losses, and other gains or losses that are not allocable to our segments.

Revenues

(\$ in thousands)	Twelve Weeks Ended		Thirty-Six Weeks Ended	
	September 11, 2015	September 12, 2014	September 11, 2015	September 12, 2014
North America	\$ 362,440	\$ 363,901	\$ 1,138,857	\$ 1,093,153
Europe	31,995	37,291	80,203	96,511
Asia Pacific	12,701	11,846	65,783	35,223
Total segment revenues	407,136	413,038	1,284,843	1,224,887
Corporate and other				
	\$ 407,136	\$ 413,038	\$ 1,284,843	\$ 1,224,887

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(\$ in thousands)	Twelve Weeks Ended		Thirty-Six Weeks Ended	
	September 11, 2015	September 12, 2014	September 11, 2015	September 12, 2014
North America	\$ 85,337	\$ 86,008	\$ 287,676	\$ 267,339
Europe	6,159	6,701	9,179	13,262
Asia Pacific	(4,056)	1,030	5,332	4,015
Total segment financial results	87,440	93,739	302,187	284,616
Corporate and other	(51,277)	(50,229)	(151,237)	(151,388)
Provision for income taxes	(14,608)	(17,862)	(61,300)	(52,969)
	\$ 21,555	\$ 25,648	\$ 89,650	\$ 80,259

Assets

(\$ in thousands)	At September 11, 2015	At January 2, 2015
North America	\$ 1,887,189	\$ 1,879,648
Europe	79,451	88,867
Asia Pacific	136,109	85,469
Total segment assets	2,102,749	2,053,984
Corporate and other	424,278	476,595
	\$ 2,527,027	\$ 2,530,579

15. SUBSEQUENT EVENTS*Share Repurchase Program Approval by the Board*

On October 12, 2015, our Board of Directors approved the repurchase of up to an additional 2,000,000 shares of our common stock under our existing share repurchase program and extended the termination date of the program to March 24, 2017. The specific timing, amount and other terms of the repurchases will depend on market conditions, corporate and regulatory requirements and other factors. Acquired shares of our common stock are held as treasury shares carried at cost in our Financial Statements. In connection with the repurchase program, we are authorized to adopt one or more trading plans pursuant to the provisions of Rule 10b5-1 under the Securities Exchange Act of 1934, as amended.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations Forward-Looking Statements

We make forward-looking statements in Management's Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this Quarterly Report on Form 10-Q based on our management's beliefs and assumptions and on information currently available to our management. Forward-looking statements include, among other things, the information concerning our possible or assumed future results of operations, business strategies, financing plans, competitive position, potential growth opportunities, potential operating performance improvements, and the effects of competition. Forward-looking statements include all statements that are not historical facts and can be identified by the use of forward-looking terminology such as the words believe, expect, plan, intend, anticipate, estimate, potential, continue, may, might, should, could or the negative of these terms or similar expressions.

Forward-looking statements involve risks, uncertainties and assumptions. Actual results may differ materially from those expressed in these forward-looking statements. You should not put undue reliance on any forward-looking statements in this Quarterly Report. We do not have any intention or obligation to update forward-looking statements after the date of this Quarterly Report on Form 10-Q, except as required by law.

The risk factors discussed in Risk Factors in our most recent Annual Report on Form 10-K could cause our results to differ materially from those expressed in forward-looking statements. There may be other risks and uncertainties that we cannot predict at this time or that we currently do not expect will have a material adverse effect on our financial position, results of operations or cash flows. Any such risks could cause our results to differ materially from those we express in forward-looking statements.

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

The Spin-Off

On November 21, 2011, Marriott International, Inc. (Marriott International) completed the spin-off of its vacation ownership division (the Spin-Off). Since the Spin-Off, we have been an independent public company, with our common stock listed on the New York Stock Exchange under the symbol VAC. Following the Spin-Off, we and Marriott International have operated independently, and neither company has any ownership interest in the other.

Business Overview

We are one of the world's largest companies whose business is focused almost entirely on vacation ownership, based on number of owners, number of resorts and revenues. We are the exclusive worldwide developer, marketer, seller and manager of vacation ownership and related products under the Marriott Vacation Club and Grand Residences by Marriott brands. We are also the exclusive worldwide developer, marketer and seller of vacation ownership and related products under The Ritz-Carlton Destination Club brand, and we have the non-exclusive right to develop, market and sell whole ownership residential products under The Ritz-Carlton Residences brand.

Our business is grouped into three reportable segments: North America, Europe and Asia Pacific. As of September 11, 2015, our portfolio consisted of 61 properties in the United States and eight other countries and territories. Our properties include an operating hotel in San Diego, California, which is operated by a third party, that we intend to convert in the near term into vacation ownership interests for future use in our North America points-based program, Marriott Vacation Club Destinations (MVCD) and a hotel operated by a third party in Surfers Paradise, Australia, a portion of which we intend to convert, in the near term, into vacation ownership interests for future use in our Asia Pacific segment. We intend to sell the remaining downsized hotel in Surfers Paradise to a third party. We generate most of our revenues from four primary sources: selling vacation ownership products; managing our resorts; financing consumer purchases of vacation ownership products; and renting vacation ownership inventory.

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Below is a summary of significant accounting policies used in our business that will be used in describing our results of operations.

Sale of Vacation Ownership Products

We recognize revenues from the sale of vacation ownership products when all of the following conditions exist: a binding sales contract has been executed; the statutory rescission period has expired; the receivable is deemed collectible; and the remainder of our obligations are substantially completed.

Sales of vacation ownership products may be made for cash or we may provide financing. For sales where we provide financing, we defer revenue recognition until we receive a minimum down payment equal to ten percent of the purchase price plus the fair value of sales incentives provided to the purchaser. These sales incentives typically include Marriott Rewards Points or an alternative sales incentive that we refer to as plus points. These plus points are redeemable for stays at our resorts, generally within one to two years from the date of issuance. Sales incentives are only awarded if the sale is closed.

As a result of the down payment requirements with respect to financed sales and the statutory rescission periods, we often defer revenues associated with the sale of vacation ownership products from the date of the purchase agreement to a future period. When comparing results year-over-year, this deferral frequently generates significant variances, which we refer to as the impact of revenue reportability.

Finally, as more fully described in the Financing section below, we record an estimate of expected uncollectibility on all vacation ownership notes receivable (also known as a vacation ownership notes receivable reserve or a sales reserve) as a reduction of revenues from the sale of vacation ownership products at the time we recognize revenues from a sale.

We report, on a supplemental basis, contract sales for each of our three segments. Contract sales represent the total amount of vacation ownership product sales under purchase agreements signed during the period where we have received a down payment of at least ten percent of the contract price, reduced by actual rescissions during the period. Contract sales differ from revenues from the sale of vacation ownership products that we report on our Statements of Income due to the requirements for revenue recognition described above. We consider contract sales to be an important operating measure because it reflects the pace of sales in our business.

Cost of vacation ownership products includes costs to develop and construct our projects (also known as real estate inventory costs) as well as other non-capitalizable costs associated with the overall project development process. For each project, we expense real estate inventory costs in the same proportion as the revenue recognized. Consistent with the applicable accounting guidance, to the extent there is a change in the estimated sales revenues or real estate inventory costs for the project in a period, a non-cash adjustment is recorded on our Statements of Income to true-up costs in that period to those that would have been recorded historically if the revised estimates had been used. These true-ups, which we refer to as product cost true-ups, will have a positive or negative impact on our Statements of Income.

We refer to revenues from the sale of vacation ownership products less the cost of vacation ownership products and marketing and sales costs as development margin. Development margin percentage is calculated by dividing development margin by revenues from the sale of vacation ownership products.

Resort Management and Other Services

Our resort management and other services revenues include revenues generated from fees we earn for managing each of our resorts. In addition, we earn revenue for providing ancillary offerings, including food and beverage, retail, and golf and spa offerings at our resorts. We also receive annual fees, club dues, settlement fees from the sale of vacation ownership products and certain transaction-based fees from owners and other third parties, including external exchange service providers with which we are associated.

We provide day-to-day management services, including housekeeping services, operation of reservation systems, maintenance, and certain accounting and administrative services for property owners' associations. We receive compensation for these management services; this compensation is generally based on either a percentage of budgeted costs to operate the resorts or a fixed fee arrangement. We earn these fees regardless of usage or occupancy.

Resort management and other services expenses include costs to operate the food and beverage and other ancillary operations and overall customer support services, including reservations, certain transaction-based expenses relating to external exchange service providers and settlement expenses from the sale of vacation ownership products.

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We offer financing to qualified customers for the purchase of most types of our vacation ownership products. The average FICO score of customers who were U.S. citizens or residents who financed a vacation ownership purchase was as follows:

Thirty-Six Weeks Ended		
	September 11, 2015	September 12, 2014
Average FICO score	734	729

The typical financing agreement provides for monthly payments of principal and interest with the principal balance of the loan fully amortizing over the term of the related vacation ownership note receivable, which is generally ten years. The interest income earned from the financing arrangements is earned on an accrual basis on the principal balance outstanding over the life of the arrangement and is recorded as Financing revenues on our Statements of Income.

Financing revenues include interest income earned on vacation ownership notes receivable as well as fees earned from servicing the existing vacation ownership notes receivable portfolio. Financing expenses include costs in support of the financing, servicing and securitization processes. The amount of interest income earned in a period depends on the amount of outstanding vacation ownership notes receivable, which is impacted positively by the origination of new vacation ownership notes receivable and negatively by principal collections. Due to weakened economic conditions and our elimination of historical financing incentive programs, the percentage of customers choosing to finance their vacation ownership purchase with us (which we refer to as financing propensity) declined significantly through 2009 and has stabilized since then. In the first half of 2015, we implemented new programs to help drive financing propensity higher than the 40 to 45 percent that we have averaged in recent years. We expect that interest income will begin to increase in the near term as new originations from growth in the business as well as the impact of higher financing propensity levels begin to outpace the decline in principal of our existing vacation ownership notes receivable portfolio.

In the event of a default, we generally have the right to foreclose on or revoke the mortgaged vacation ownership interest. We return vacation ownership interests that we reacquire through foreclosure or revocation back to real estate inventory. As discussed above, we record a vacation ownership notes receivable reserve at the time of sale and classify the reserve as a reduction to revenues from the sale of vacation ownership products on our Statements of Income. Historical default rates, which represent defaults as a percentage of each year's beginning gross vacation ownership notes receivable balance, were as follows:

Thirty-Six Weeks Ended		
	September 11, 2015	September 12, 2014
Historical default rates	2.8%	2.9%

Rental

We operate a rental business to provide owner flexibility and to help mitigate carrying costs associated with our inventory. We obtain rental inventory from unsold inventory and inventory we control because owners have elected alternative usage options offered through our vacation ownership programs.

Rental revenues are primarily the revenues we earn from renting this inventory. We also recognize rental revenue from the utilization of plus points under the MVCD program when those points are redeemed for rental stays at one of our resorts or upon expiration of the points.

Rental expenses include:

Maintenance fees on unsold inventory;

Costs to provide alternative usage options, including Marriott Rewards Points and offerings available as part of the Explorer Collection, for owners who elect to exchange their inventory;

Subsidy payments to property owners' associations at resorts that are in the early phases of construction where maintenance fees collected from the owners are not sufficient to support operating costs of the resort;

Marketing costs and direct operating and related expenses in connection with the rental business (such as housekeeping, credit card expenses and reservation services); and

Costs associated with the banking and borrowing usage option that is available under the MVCD program.

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Rental metrics, including the average daily transient rate or the number of transient keys rented, may not be comparable between periods given fluctuation in available occupancy by location, unit size (such as two bedroom, one bedroom or studio unit), and owner use and exchange behavior. Further, as our ability to rent certain luxury inventory and inventory in our Asia Pacific segment is often limited on a site-by-site basis, rental operations may not generate adequate rental revenues to cover associated costs. Our vacation units are either full villas or lock-off villas. Lock-off villas are units that can be separated into a master unit and a guest room. Full villas are non-lock-off villas because they cannot be separated. A key is the lowest increment for reporting occupancy statistics based upon the mix of non-lock-off and lock-off villas. Lock-off villas represent two keys and non-lock-off villas represent one key. The transient keys metric represents the blended mix of inventory available for rent and includes all of the combined inventory configurations available in our resort system.

Cost Reimbursements

Cost reimbursements include direct and indirect costs that property owners' associations reimburse to us. In accordance with the accounting guidance for gross versus net presentation, we record these revenues and expenses on a gross basis. We recognize cost reimbursements when we incur the related reimbursable costs. These costs primarily consist of payroll and payroll related expenses for management of the property owners' associations and other services we provide where we are the employer. Cost reimbursements consist of actual expenses with no added margin.

Consumer Financing Interest Expense

Consumer financing interest expense represents interest expense associated with the debt from our non-recourse warehouse credit facility (the Warehouse Credit Facility) and from the securitization of our vacation ownership notes receivable. We distinguish consumer financing interest expense from all other interest expense because the debt associated with the consumer financing interest expense is secured by vacation ownership notes receivable that have been sold to bankruptcy remote special purpose entities and that is generally non-recourse to us.

Interest Expense

Interest expense consists of all interest expense other than consumer financing interest expense.

Other Items

We measure operating performance using the following key metrics:

Contract sales from the sale of vacation ownership products;

Development margin percentage; and

Volume per guest (VPG), which we calculate by dividing contract sales, excluding fractional and residential sales, telesales and other sales that are not attributed to a tour at a sales location, by the number of tours at sales locations in a given period. We believe that this operating metric is valuable in evaluating the effectiveness of the sales process as it combines the impact of average contract price with the number of touring guests who make a purchase.

Rounding

Percentage changes presented in our public filings are calculated using whole dollars.

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The following discussion presents an analysis of our results of operations for the twelve and thirty-six weeks ended September 11, 2015, compared to the twelve and thirty-six weeks ended September 12, 2014.

(\$ in thousands)	Twelve Weeks Ended		Thirty-Six Weeks Ended	
	September 11, 2015	September 12, 2015	September 11, 2014	September 12, 2014
Revenues				
Sale of vacation ownership products	\$ 136,802	\$ 155,384	\$ 476,078	\$ 452,796
Resort management and other services	73,828	70,981	212,308	209,348
Financing	28,294	29,545	85,640	90,002
Rental	76,039	65,620	224,880	190,972
Cost reimbursements	92,173	91,508	285,937	281,769
Total revenues	407,136	413,038	1,284,843	1,224,887
Expenses				
Cost of vacation ownership products	40,776	48,640	150,857	138,925
Marketing and sales	71,628	73,380	228,760	216,827
Resort management and other services	47,409	47,857	135,298	141,061
Financing	5,488	5,434	16,478	15,976
Rental	62,567	54,605	184,560	166,386
General and administrative	23,214	21,932	68,883	66,913
Litigation settlement		3,225	(236)	(4,350)
Organizational and separation related	439	332	732	2,272
Consumer financing interest	5,289	5,605	16,558	17,967
Royalty fee	14,000	14,339	40,431	41,420
Impairment		26		860
Cost reimbursements	92,173	91,508	285,937	281,769
Total expenses	362,983	366,883	1,128,258	1,086,026
(Losses) gains and other (expense) income	(20)	207	9,492	1,849
Interest expense	(2,839)	(2,890)	(8,822)	(7,638)
Equity in earnings	50	38	148	156
Other	(5,181)		(6,453)	