

MARRIOTT VACATIONS WORLDWIDE Corp  
Form 10-Q  
April 30, 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 March 27, 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)**

**32821**  
**(Zip Code)**

**(407) 206-6000**

**(Registrant's telephone number, including area code)**

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  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 April 24, 2015 was 31,736,631.



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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)

	<b>Twelve Weeks Ended</b>	
	<b>March 27, 2015</b>	<b>March 28, 2014</b>
<b>REVENUES</b>		
Sale of vacation ownership products	\$ 183,906	\$ 144,850
Resort management and other services	64,417	63,546
Financing	29,052	30,640
Rental	76,199	63,525
Cost reimbursements	101,306	99,386
<b>TOTAL REVENUES</b>	<b>454,880</b>	<b>401,947</b>
<b>EXPENSES</b>		
Cost of vacation ownership products	64,962	46,871
Marketing and sales	79,995	71,220
Resort management and other services	42,409	44,896
Financing	4,905	5,104
Rental	60,158	56,790
General and administrative	22,777	21,828
Litigation settlement	(262)	
Organizational and separation related	192	851
Consumer financing interest	6,021	6,625
Royalty fee	13,000	13,428
Cost reimbursements	101,306	99,386
<b>TOTAL EXPENSES</b>	<b>395,463</b>	<b>366,999</b>
Gains and other income	887	1,233
Interest expense	(2,974)	(2,147)
Equity in earnings	13	37
Impairment charges on equity investment		(2,000)
<b>INCOME BEFORE INCOME TAXES</b>	<b>57,343</b>	<b>32,071</b>

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Provision for income taxes	(23,289)	(12,763)
<b>NET INCOME</b>	<b>\$ 34,054</b>	<b>\$ 19,308</b>
Basic earnings per share	\$ 1.05	\$ 0.55
Shares used in computing basic earnings per share	32,299	34,875
Diluted earnings per share	\$ 1.03	\$ 0.54
Shares used in computing diluted earnings per share	33,009	35,882
Dividends declared per share of common stock	\$ 0.25	\$

**See Notes to Interim Consolidated Financial Statements**

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**MARRIOTT VACATIONS WORLDWIDE CORPORATION**  
**INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(In thousands)

(Unaudited)

	<b>Twelve Weeks Ended</b>	
	<b>March 27, 2015</b>	<b>March 28, 2014</b>
Net income	\$ 34,054	\$ 19,308
Other comprehensive (loss) income, net of tax:		
Foreign currency translation adjustments	(5,602)	6
Total other comprehensive (loss) income, net of tax	(5,602)	6
<b>COMPREHENSIVE INCOME</b>	<b>\$ 28,452</b>	<b>\$ 19,314</b>

**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)

	<b>(Unaudited)</b>	
	<b>March 27, 2015</b>	<b>January 2, 2015</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 272,180	\$ 346,515
Restricted cash (including \$29,310 and \$34,986 from VIEs, respectively)	62,016	109,907
Accounts and contracts receivable, net (including \$4,132 and \$4,992 from VIEs, respectively)	114,863	109,700
Vacation ownership notes receivable, net (including \$675,411 and \$750,680 from VIEs, respectively)	888,193	917,228
Inventory	724,520	772,784
Property and equipment	188,431	147,379
Other	138,666	120,503
<b>Total Assets</b>	<b>\$ 2,388,869</b>	<b>\$ 2,524,016</b>
<b>LIABILITIES AND EQUITY</b>		
Accounts payable	\$ 76,569	\$ 114,079
Advance deposits	63,439	60,192
Accrued liabilities (including \$552 and \$1,088 from VIEs, respectively)	171,325	165,969
Deferred revenue	27,018	38,818
Payroll and benefits liability	73,347	93,073
Liability for Marriott Rewards customer loyalty program	84,811	89,285
Deferred compensation liability	44,598	41,677
Mandatorily redeemable preferred stock of consolidated subsidiary, net	38,856	38,816
Debt, net (including \$629,220 and \$708,031 from VIEs, respectively)	618,946	696,450
Other	59,960	27,071
Deferred taxes	87,494	78,883
<b>Total Liabilities</b>	<b>1,346,363</b>	<b>1,444,313</b>
<b>Contingencies and Commitments (Note 8)</b>		
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; 36,333,814 and 36,089,513 shares issued, respectively	363	361
Treasury stock at cost; 4,602,258 and 3,996,725 shares, respectively	(277,629)	(229,229)



Additional paid-in capital	1,128,615	1,137,785
Accumulated other comprehensive income	11,452	17,054
Retained earnings	179,705	153,732
Total Equity	1,042,506	1,079,703
Total Liabilities and Equity	\$ 2,388,869	\$ 2,524,016

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)

	<b>Twelve Weeks Ended</b>	
	<b>March 27, 2015</b>	<b>March 28, 2014</b>
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 34,054	\$ 19,308
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	4,065	4,658
Amortization of debt issuance costs	1,267	1,369
Provision for loan losses	8,437	7,470
Share-based compensation	2,643	2,274
Deferred income taxes	8,600	(1,712)
Equity method income	(13)	(37)
Gain on disposal of property and equipment, net	(887)	(1,233)
Non-cash litigation settlement	(262)	
Impairment charges on equity investment		2,000
Net change in assets and liabilities:		
Accounts and contracts receivable	(4,643)	(25,348)
Notes receivable originations	(48,946)	(44,921)
Notes receivable collections	67,518	71,068
Inventory	44,883	19,617
Purchase of operating hotel for future conversion to inventory	(46,614)	
Other assets	(8,096)	2,791
Accounts payable, advance deposits and accrued liabilities	(25,064)	(9,483)
Deferred revenue	(11,624)	(3,449)
Payroll and benefit liabilities	(19,583)	(16,348)
Liability for Marriott Rewards customer loyalty program	(4,474)	(7,000)
Deferred compensation liability	2,921	700
Other liabilities	27,937	26,849
Other, net	(50)	(284)
Net cash provided by operating activities	32,069	48,289
<b>INVESTING ACTIVITIES</b>		
Capital expenditures for property and equipment (excluding inventory)	(10,562)	(1,056)
Decrease in restricted cash	47,103	12,555
Dispositions, net	197	21,796

Net cash provided by investing activities	36,738	33,295
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**FINANCING ACTIVITIES**

Repayment of debt related to securitization transactions	(78,811)	(80,789)
Proceeds from vacation ownership inventory arrangement	5,375	
Repurchase of common stock	(51,281)	(37,436)
Payment of dividends	(8,081)	
Proceeds from stock option exercises	90	468
Payment of withholding taxes on vesting of restricted stock units	(9,061)	(4,142)
Other	80	

Net cash used in financing activities	(141,689)	(121,899)
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Effect of changes in exchange rates on cash and cash equivalents	(1,453)	34
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<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(74,335)</b>	<b>(40,281)</b>
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CASH AND CASH EQUIVALENTS, beginning of period	346,515	199,511
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<b>CASH AND CASH EQUIVALENTS, end of period</b>	<b>\$ 272,180</b>	<b>\$ 159,230</b>
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**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	\$ (8)	\$ (1,450)
Non-cash issuance of note receivable	(500)	

**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 March 27, 2015, we operated 59 properties, including one hotel, in the United States and seven 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:

<b>Fiscal Year</b>	<b>Quarter-End Date</b>
2015 First Quarter	March 27, 2015
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.

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, loss contingencies and exit and disposal activities reserves. Accordingly, actual amounts may differ from these estimated amounts.

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

### *New Accounting Standards*

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

In February 2015, the Financial Accounting Standards Board ( 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.

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. See Footnote No. 9, Debt, for additional information on our debt issuance costs.

### *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. As currently written, ASU 2014-09 will be effective for financial statements issued for the first interim period within annual periods beginning after December 15, 2016, and does not permit early adoption. However, on April 29, 2015, the FASB published an exposure draft proposing to extend the effective date to the first interim period within annual periods beginning after December 15, 2017. We continue to evaluate the impact that this guidance, including the method of implementation, will have on our financial statements and disclosures.

## **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 \$1.4 million and \$1.3 million at March 27, 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, and our 2011 and 2012 returns are currently being audited by the IRS and authorities in other 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.

**Table of Contents****3. VACATION OWNERSHIP NOTES RECEIVABLE**

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

<i>(\$ in thousands)</i>	<b>March 27, 2015</b>	<b>January 2, 2015</b>
Vacation ownership notes receivable securitized	\$ 675,411	\$ 750,680
Vacation ownership notes receivable non-securitized		
Eligible for securitization <sup>(1)</sup>	88,521	24,194
Not eligible for securitization <sup>(1)</sup>	124,261	142,354
<b>Subtotal</b>	<b>212,782</b>	<b>166,548</b>
 Total vacation ownership notes receivable	 \$ 888,193	 \$ 917,228

<sup>(1)</sup> Refer to Footnote No. 4, Financial Instruments, for discussion of eligibility of our vacation ownership notes receivable.

The following tables show future principal payments, net of reserves, as well as interest rates for our securitized and non-securitized vacation ownership notes receivable at March 27, 2015:

<i>(\$ in thousands)</i>	<b>Non-Securitized Vacation Ownership Notes Receivable</b>	<b>Securitized Vacation Ownership Notes Receivable</b>	<b>Total</b>
2015	\$ 45,822	\$ 75,502	\$ 121,324
2016	36,102	97,914	134,016
2017	27,040	94,708	121,748
2018	17,707	83,687	101,394
2019	14,920	73,037	87,957
Thereafter	71,191	250,563	321,754
 Balance at March 27, 2015	 \$ 212,782	 \$ 675,411	 \$ 888,193
 Weighted average stated interest rate	 11.8%	 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  
March 27, 2015 March 28, 2014**



Interest income associated with vacation ownership notes receivable securitized	\$ 22,074	\$	21,591
Interest income associated with vacation ownership notes receivable non-securitized	5,493		7,541
<b>Total interest income associated with vacation ownership notes receivable</b>	<b>\$ 27,567</b>	<b>\$</b>	<b>29,132</b>

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.

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The following table summarizes the activity related to our vacation ownership notes receivable reserve for the twelve weeks ended March 27, 2015:

<i>(\$ in thousands)</i>	<b>Non-Securitized Vacation Ownership Notes Receivable Reserve</b>	<b>Securitized Vacation Ownership Notes Receivable Reserve</b>	<b>Total</b>
Balance at January 2, 2015	\$ 64,752	\$ 53,666	\$ 118,418
Provision for loan losses	3,379	4,815	8,194
Clean-up calls <sup>(1)</sup>	1,316	(1,316)	
Write-offs	(11,721)		(11,721)
Defaulted vacation ownership notes receivable repurchase activity <sup>(2)</sup>	6,031	(6,031)	
Balance at March 27, 2015	\$ 63,757	\$ 51,134	\$ 114,891

(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 of 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 6.84 percent and 6.95 percent as of March 27, 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 \$4.6 million as of March 27, 2015 and \$4.7 million as of January 2, 2015.

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>	<b>Non-Securitized Vacation Ownership Notes Receivable</b>	<b>Securitized Vacation Ownership Notes Receivable</b>	<b>Total</b>
	\$ 53,672	\$ 10,914	\$ 64,586

Investment in vacation ownership notes receivable on non-accrual status at March 27, 2015				
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 March 27, 2015	\$	56,974	\$	9,043
			\$	66,017
Average investment in vacation ownership notes receivable on non-accrual status during the twelve weeks ended March 28, 2014	\$	67,679	\$	9,027
			\$	76,706

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The following table shows the aging of the recorded investment in principal, before reserves, in vacation ownership notes receivable as of March 27, 2015:

<i>(\$ in thousands)</i>	<b>Non-Securitized Vacation Ownership Notes Receivable</b>	<b>Securitized Vacation Ownership Notes Receivable</b>	<b>Total</b>
31 90 days past due	\$ 8,758	\$ 17,087	\$ 25,845
91 150 days past due	4,954	8,187	13,141
Greater than 150 days past due	48,718	2,727	51,445
Total past due	62,430	28,001	90,431
Current	214,109	698,544	912,653
Total vacation ownership notes receivable	\$ 276,539	\$ 726,545	\$ 1,003,084

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>	<b>Non-Securitized Vacation Ownership Notes Receivable</b>	<b>Securitized Vacation Ownership Notes Receivable</b>	<b>Total</b>
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

**4. FINANCIAL INSTRUMENTS**

The following table shows the carrying values and the estimated fair values of financial assets and liabilities that qualify as financial instruments, determined in accordance with the authoritative guidance for disclosures regarding the fair value of financial instruments. Considerable judgment is required in interpreting market data to develop estimates of fair value. The use of different market assumptions and/or estimation methodologies could have a material effect on the estimated fair value amounts. The table excludes Cash and cash equivalents, Restricted cash, Accounts and contracts receivable, Accounts payable 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 March 27, 2015		At January 2, 2015	
	Carrying Amount	Fair Value <sup>(1)</sup>	Carrying Amount	Fair Value <sup>(1)</sup>
Vacation ownership notes receivable				
Securitized	\$ 675,411	\$ 820,901	\$ 750,680	\$ 909,391
Non-securitized	212,782	235,286	166,548	172,103
Total financial assets	\$ 888,193	\$ 1,056,187	\$ 917,228	\$ 1,081,494
Non-recourse debt associated with vacation ownership notes receivable securitizations, gross	\$ (629,220)	\$ (635,042)	\$ (708,031)	\$ (712,977)
Other debt, gross	(3,386)	(3,386)	(3,306)	(3,306)
Mandatorily redeemable preferred stock of consolidated subsidiary, gross	(40,000)	(43,624)	(40,000)	(43,837)
Liability for Marriott Rewards customer loyalty program	(84,811)	(74,434)	(89,285)	(80,448)
Other liabilities	(4,141)	(4,141)	(4,118)	(4,118)
Total financial liabilities	\$ (761,558)	\$ (760,627)	\$ (844,740)	\$ (844,686)

(1) Fair value of financial instruments has been determined using Level 3 inputs.

**Table of Contents***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. 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 March 27, 2015		At January 2, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Vacation ownership notes receivable				
Eligible for securitization	\$ 88,521	\$ 111,025	\$ 24,194	\$ 29,749
Not eligible for securitization	124,261	124,261	142,354	142,354
Total non-securitized	\$ 212,782	\$ 235,286	\$ 166,548	\$ 172,103

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.

*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.

*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 reserves and other structured payments. The carrying values of our financial instruments within Other liabilities approximate their fair values.

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**5. ACQUISITIONS AND DISPOSITIONS**

*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 March 27, 2015, our Balance Sheet reflects \$6.2 million of Other liabilities that relate to the deferral of recognition of revenue on 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 March 27, 2015. The cash consideration received for the sale of the real property is included in Proceeds from vacation ownership inventory arrangements on the Cash Flow for the twelve weeks ended March 27, 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 March 27, 2015.

*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 estimated 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 calculated 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 into vacation ownership interests for future use in our North America points-based program, Marriott Vacation Club Destinations (MVCD) in the near term. 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 hotel for future conversion to inventory line on the Cash Flow for the twelve weeks ended March 27, 2015. The remaining \$7.7 million was included as an investing activity in the Capital expenditures for property and equipment line on the Cash Flow for the twelve weeks ended March 27, 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.

*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 \$0.9 million and \$1.2 million is included in the Gains and other income line on the Statements of Income for the twelve weeks ended March 27, 2015 and March 28, 2014, respectively.

Table of Contents**6. EARNINGS PER SHARE**

Basic earnings per common share is calculated by dividing net income attributable to common shareholders by the weighted average number of shares of common stock outstanding during the reporting period. Treasury stock is excluded from the weighted average number of shares of common stock outstanding. Diluted earnings per common share is calculated to give effect to all potentially dilutive common shares that were outstanding during the reporting period. The dilutive effect of outstanding equity-based compensation awards is reflected in diluted earnings per common share by application of the treasury stock method using average market prices during the period. 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>	<b>Twelve Weeks Ended</b>	
	<b>March 27, 2015<sup>(1)</sup></b>	<b>March 28, 2014<sup>(2)</sup></b>
<b>Computation of Basic Earnings Per Share</b>		
Net income	\$ 34,054	\$ 19,308
Weighted average shares outstanding	32,299	34,875
Basic earnings per share	\$ 1.05	\$ 0.55
<b>Computation of Diluted Earnings Per Share</b>		
Net income	\$ 34,054	\$ 19,308
Weighted average shares outstanding	32,299	34,875
Effect of dilutive securities		
Employee stock options and SARs	473	586
Restricted stock units	237	421
Shares for diluted earnings per share	33,009	35,882
Diluted earnings per share	\$ 1.03	\$ 0.54

(1) The computations of diluted earnings per share exclude approximately 203,000 shares of common stock, the maximum number of shares issuable as of March 27, 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 291,000 shares of common stock, the maximum number of shares issuable as of March 28, 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 weeks ended March 27, 2015, we excluded 62,018 shares underlying stock appreciation rights ( SARs ) that may be settled in shares of common stock, with an exercise price of \$77.42, from our calculation of diluted earnings per share because this exercise price was greater than the average market price for the applicable period. In addition, for the twelve weeks

ended March 28, 2014, we excluded 57,906 shares underlying SARs that may be settled in shares of common stock, with an exercise price of \$52.09, from our calculation of diluted earnings per share because this exercise price was greater than the average market price for the applicable period.

## 7. INVENTORY

The following table shows the composition of our inventory balances:

<i>(\$ in thousands)</i>	<b>At March 27, 2015</b>	<b>At January 2, 2015</b>
Finished goods <sup>(1)</sup>	\$ 361,237	\$ 413,066
Land and infrastructure <sup>(2)</sup>	358,742	355,198
Real estate inventory	719,979	768,264
Operating supplies and retail inventory	4,541	4,520
	<b>\$ 724,520</b>	<b>\$ 772,784</b>

- (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 \$47.5 million of sales centers that are expected to be converted into vacation ownership products to be sold in the future and \$83.0 million of inventory related to estimated future foreclosures at March 27, 2015.

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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 market 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 funding to third-party lenders related to these guarantees through reacquisition and resale of the financed vacation ownership product. Our commitments under these guarantees expire as 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	Liability for Expected Future Fundings	
	Maximum Potential Amount of Future Fundings At March 27, 2015	At March 27, 2015
Asia Pacific	\$ 7,453	\$ 56
North America	2,846	210
Total guarantees where we are the primary obligor	\$ 10,299	\$ 266

*Commitments and Letters of Credit*

In addition to the guarantees we describe in the preceding paragraphs, as of March 27, 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 \$32.6 million, of which we expect \$10.5 million, \$8.1 million, \$6.0 million, \$2.5 million, \$1.4 million and \$4.1 million will be paid in 2015, 2016, 2017, 2018, 2019 and thereafter, respectively.

We have commitments to subsidize vacation ownership associations of \$4.0 million, which we expect to pay in 2015.

We have a commitment of \$75.5 million to purchase vacation ownership units located in Miami, Florida, contingent upon completion of construction and receipt of a certificate of occupancy, for use in our MVCD program. We made a 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 and the remaining payment of \$67.9 million upon acquisition of the units in 2015. 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 in 2015. 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 is 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 March 27, 2015 totaled \$73.8 million, the majority of which were requested by federal, state or local governments related to our operations.

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Additionally, as of March 27, 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 in principle to settle the Benner action, which agreement was subject to court approval because the case is a putative class action. The court approved the settlement on March 31, 2015. At March 27, 2015, we have an accrual of \$2.9 million related to the settlement.

In December 2012, Steven B. Hoyt and Bradley A. Hoyt, purchasers of fractional interests in two of The Ritz-Carlton Destination Club projects, filed suit in the United States District Court for the District of Minnesota against us, certain of our subsidiaries and The Ritz-Carlton Hotel Company on behalf of a putative class consisting of all purchasers of fractional interests at The Ritz-Carlton Destination Club projects. The plaintiffs alleged that program changes beginning in 2009 caused an actionable decrease in the value of the fractional interests purchased. The relief sought included declaratory and injunctive relief, damages in an unspecified amount, rescission of the purchases, restitution, disgorgement of profits, interest and attorneys' fees. In response to our motion to dismiss the original complaint, plaintiffs filed an amended complaint. In response, we filed a renewed motion to dismiss. On February 7, 2014, the court issued an order granting that motion in part and denying it in part. In November 2014, the court granted our motion for partial judgment on the pleadings clarifying the scope of the single remaining claim in the case. We have reached an agreement in principle to settle the case for a nominal amount.

In January 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 ) were granted leave by the court to file, and subsequently did file, 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. In August 2013, the Hawaii Intermediate Court of Appeals reversed the Maui Circuit Court's denial of our motion to compel arbitration of the claims asserted by plaintiffs. The Circuit Court subsequently granted our renewed motion to compel arbitration and referred the matter to arbitration. The Hawaii Supreme Court thereafter agreed to review the decision of the Intermediate Court of Appeals and heard oral argument in the case in April 2014, but has not yet taken

any action to affirm or reverse that 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 amended complaint supersedes a prior complaint that was not served on any defendant. 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, and the parties are currently engaged in arbitration. We dispute the material allegations in the amended complaint and in the statement of claim filed in the arbitration, and intend to defend against this action vigorously. Given the early stages of the action and the inherent uncertainties of litigation and arbitration, 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, have agreed to release similar claims, in each instance for nominal sums.

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In June 2013, owners of 35 residences and lots at The Abaco Club on Winding Bay ( The Abaco Club ) in the Bahamas filed a complaint in Orange County, Florida Circuit Court against us, one of our subsidiaries, certain subsidiaries of Marriott International and the resort's owners' association, alleging that the defendants failed to maintain the golf course, golf clubhouse, roads, water supply system, and other facilities and equipment in a manner commensurate with a five-star luxury resort, and certain deficiencies in the quality of services provided at the resort. The plaintiffs also alleged that the defendants failed to honor an obligation to extend a right of first offer to club owners in connection with plans to sell the club property. The plaintiffs alleged statutory and common law claims for breach of contract, breach of fiduciary duty, and fraud and sought compensatory and punitive damages. We filed a motion to dismiss the complaint. In April 2014, this action was abated for a period after we entered into a non-binding letter of intent to dispose of undeveloped and partially developed land, an operating golf course, spa and clubhouse and related facilities at The Abaco Club to an entity to be comprised of certain members of The Abaco Club, including certain of the plaintiffs, and others. Upon the closing of the sale in December 2014, all claims asserted against us in this matter were dismissed with prejudice.

In May 2014, we received notices of intent to initiate litigation or arbitration from: Michael and Marla Flynn, owners of weeks-based Marriott Vacation Club vacation ownership products at two of our resorts in Hawaii; William Sterman, an owner of such products at one of our resorts in Massachusetts; and Norman and Carreen Abramson, owners of such products at one of our resorts in California. The claimants, all of whom are represented by a single law firm, allege that the introduction of the MVCD program caused an actionable decrease in the value of their vacation ownership interests. The claimants stated that, if a satisfactory resolution of their concerns could not be achieved, they would pursue their claims through litigation or arbitration, each on behalf of a putative class consisting of themselves and all others similarly situated. The notices indicated that the relief that would be sought would include 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. The Flynns filed a claim based on the above allegations with the American Arbitration Association on August 6, 2014. We initiated a declaratory judgment action in the United States District Court of Hawaii against the Flynns, seeking to enjoin the arbitration proceedings. In December 2014, the Court ruled that the arbitrability of the Flynns' claims must be resolved by an arbitrator. We appealed that decision to the United States Court of Appeals for the Ninth Circuit. The Court granted our motion to expedite the appeal. On March 30, 2015, the arbitrator ruled that the Flynns' claims are not subject to arbitration, and dismissed the Flynn proceeding. As a result of the arbitrator's ruling that the Flynns' claims are not subject to arbitration, we dismissed as moot our appeal in the Ninth Circuit. Mr. Sterman filed a claim based on the above allegations with the American Arbitration Association in August 2014. We initiated a declaratory judgment action in the United States District Court for the Middle District of Florida against Mr. Sterman, seeking to enjoin the arbitration proceedings. On January 16, 2015, the Court ruled that the arbitrability of Mr. Sterman's claims must be resolved by an arbitrator. We appealed that decision to the United States Court of Appeals for the Eleventh Circuit. The Court granted our motion to expedite the appeal, which remains pending. On March 30, 2015, the arbitrator ruled that Mr. Sterman's claims were subject to arbitration, but reserved judgment on our motion to dismiss the arbitration for other reasons. On January 29, 2015, the Abramsons filed an action in the United States District Court for the Central District of California based on the above allegations. On March 30, 2015, we filed a motion to dismiss the Abramson action, which remains pending. We dispute the material allegations in the arbitration claim, as well as the allegations in the California action, and intend to defend against them vigorously. Given the early stages of the arbitration and litigation proceedings, we cannot estimate a range of 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 \$16.1 million, of which \$4.4 million is included within



liabilities on our Balance Sheet at March 27, 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.

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

<i>(\$ in thousands)</i>	<b>At March 27, 2015</b>	<b>At January 2, 2015</b>
Vacation ownership notes receivable securitizations, gross <sup>(1)</sup>	\$ 629,220	\$ 708,031
Unamortized debt issuance costs	(7,372)	(8,089)
	621,848	699,942
Other debt, gross	3,386	3,306
Unamortized debt issuance costs <sup>(2)</sup>	(6,288)	(6,798)
	(2,902)	(3,492)
	\$ 618,946	\$ 696,450

(1) Interest rates as of March 27, 2015 range from 2.2% to 7.2% with a weighted average interest rate of 3.0%.

(2) Includes \$6.1 million and \$6.6 million of unamortized debt issuance costs as of March 27, 2015 and January 2, 2015, respectively, related to facilities with no cash borrowings outstanding.

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 March 27, 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.

Although no cash borrowings were outstanding as of March 27, 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.

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

<i>(\$ in thousands)</i>	<b>Vacation Ownership Notes Receivable Securitizations <sup>(1)</sup></b>	<b>Other Debt</b>	<b>Total</b>
<b>Debt Principal Payments</b>			
<b>Year</b>			
2015	\$ 77,421	\$ 27	\$ 77,448
2016	94,960	56	95,016
2017	72,861	61	72,922
2018	68,355	65	68,420
2019	68,376	70	68,446
Thereafter	247,247	3,107	250,354
Balance at March 27, 2015	\$ 629,220	\$ 3,386	\$ 632,606

<sup>(1)</sup> The debt associated with our vacation ownership notes receivable securitizations is non-recourse to us. 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 \$6.6 million and \$6.2 million in the twelve weeks ended March 27, 2015 and March 28, 2014, respectively.

**Table of Contents***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 twelve weeks ended March 27, 2015, and as of March 27, 2015, no securitized vacation ownership notes receivable pools were out of compliance with the established parameters. As of March 27, 2015, we had 7 securitized vacation ownership notes receivable pools outstanding.

**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 March 27, 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>	<b>At March 27, 2015</b>	<b>At January 2, 2015</b>
Mandatorily redeemable preferred stock of consolidated subsidiary, gross	\$ 40,000	\$ 40,000
Unamortized debt issuance costs	(1,144)	(1,184)
	<b>\$ 38,856</b>	<b>\$ 38,816</b>

**11. SHAREHOLDERS EQUITY**

Marriott Vacations Worldwide has 100,000,000 authorized shares of common stock, par value of \$0.01 per share. At March 27, 2015, there were 36,333,814 shares of Marriott Vacations Worldwide common stock issued, of which 31,731,556 shares were outstanding and 4,602,258 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

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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 March 27, 2015 or January 2, 2015.

The following table details changes in shareholders' equity during the twelve weeks ended March 27, 2015:

<i>(\$ in thousands)</i>	<b>Common Stock</b>	<b>Treasury Stock</b>	<b>Additional Paid-In Capital</b>	<b>Accumulated Other Comprehensive Income</b>	<b>Retained Earnings</b>	<b>Total Equity</b>
Balance at January 2, 2015	\$ 361	\$ (229,229)	\$ 1,137,785	\$ 17,054	\$ 153,732	\$ 1,079,703
Net income					34,054	34,054
Foreign currency translation adjustments				(5,602)		(5,602)
Amounts related to share-based compensation	2		(6,281)			(6,279)
Adjustment to reclassification of Marriott International investment to Additional paid-in capital			(8)			(8)
Repurchase of common stock		(48,400)	(2,881)			(51,281)
Dividends					(8,081)	(8,081)
Balance at March 27, 2015	\$ 363	\$ (277,629)	\$ 1,128,615	\$ 11,452	\$ 179,705	\$ 1,042,506

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### *Share Repurchase Program*

In March 2015, pursuant to our existing share repurchase program, we entered into an accelerated share repurchase agreement ( ASR ) with a financial institution to repurchase shares of our common stock. Under the agreement, we paid \$30.0 million and received an initial delivery of 327,782 shares of common stock on March 20, 2015, which are included in treasury stock. We accounted for the ASR as two separate transactions: (i) a purchase of treasury stock and (ii) a forward contract indexed to our common stock.

We recorded \$27.1 million as treasury stock and \$2.9 million, the implied value of the forward contract, in additional paid-in capital on the Balance Sheet as of March 27, 2015. The total number of shares that we ultimately receive under the ASR will be determined based on the average of the daily volume-weighted average share price of our common stock over the duration of the ASR, less an agreed discount, and may be subject to adjustments for certain events under the agreement. The maximum number of additional shares that may be delivered to us under the ASR is 72,841. As the remainder of the shares are delivered to us, the forward contract will be reclassified from additional paid-in capital to treasury stock. Final settlement will occur in the second quarter of 2015.

Excluding the repurchases under the ASR discussed above, during the first quarter of 2015, we repurchased 277,751 shares of our common stock under our current share repurchase program at an average price of \$76.62 per share for a total of \$21.3 million. As of March 27, 2015, 2.3 million shares remained available for repurchase under the program.

### *Dividends*

On February 12, 2015, our Board of Directors declared a quarterly dividend of \$0.25 per share to shareholders of record as of February 26, 2015, which we paid on March 11, 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 March 27, 2015, 1.7 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 the 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 \$2.6 million and \$2.3 million for the twelve weeks ended March 27, 2015 and March 28, 2014, respectively. Our deferred compensation liability related to unvested awards held by our employees totaled \$23.4 million and \$12.2 million at March 27, 2015 and January 2, 2015, respectively.

### *Restricted Stock Units ( RSUs )*

We granted 118,189 RSUs, exclusive of RSUs with performance vesting conditions, to our employees and non-employee directors during the twelve weeks ended March 27, 2015. RSUs granted in the twelve weeks ended March 27, 2015 had a weighted average grant-date fair value of \$77.43. 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 twelve weeks ended March 27, 2015 and March 28, 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 twelve weeks ended March 27, 2015 and March 28, 2014 was approximately 74,000 and 62,000, respectively.

*Stock Appreciation Rights ( SARs )*

We granted 62,018 SARs to members of management during the twelve weeks ended March 27, 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 twelve weeks ended March 27, 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 expected annual dividend per share was \$1.00 based on our expected dividend rate.

The following table outlines the assumptions used to estimate the fair value of grants during the twelve weeks ended March 27, 2015:

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

**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.

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 March 27, 2015:



<i>(\$ in thousands)</i>	<b>Vacation Ownership Notes Receivable Securitizations</b>	<b>Warehouse Credit Facility</b>	<b>Total</b>
<b>Consolidated Assets:</b>			
Vacation ownership notes receivable, net of reserves	\$ 675,411	\$	\$ 675,411
Interest receivable	4,132		4,132
Restricted cash	29,310		29,310
<b>Total</b>	<b>\$ 708,853</b>	<b>\$</b>	<b>\$ 708,853</b>
<b>Consolidated Liabilities:</b>			
Interest payable	\$ 521	\$ 31	\$ 552
Debt	629,220		629,220
<b>Total</b>	<b>\$ 629,741</b>	<b>\$ 31</b>	<b>\$ 629,772</b>

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

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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 March 27, 2015:

<i>(\$ in thousands)</i>	<b>Vacation Ownership Notes Receivable Securitized</b>	<b>Warehouse Credit Facility</b>	<b>Total</b>
Interest income	\$ 22,074	\$	\$ 22,074
Interest expense to investors	\$ 4,706	\$ 313	\$ 5,019
Debt issuance cost amortization	\$ 717	\$ 285	\$ 1,002
Administrative expenses	\$ 107	\$ 42	\$ 149

The following table shows cash flows between us and the vacation ownership notes receivable securitization variable interest entities during the twelve weeks ended March 27, 2015 and March 28, 2014:

<i>(\$ in thousands)</i>	<b>Twelve Weeks Ended</b>	
	<b>March 27, 2015</b>	<b>March 28, 2014</b>
<b>Cash inflows:</b>		
Principal receipts	\$ 48,608	\$ 46,195
Interest receipts	22,933	22,292
Reserve release	1,425	1,538
<b>Total</b>	<b>72,966</b>	<b>70,025</b>
<b>Cash outflows:</b>		
Principal to investors	(48,054)	(47,161)
Voluntary repurchases of defaulted vacation ownership notes receivable	(6,031)	(6,906)
Voluntary clean-up call	(24,726)	(26,722)
Interest to investors	(5,219)	(5,865)
<b>Total</b>	<b>(84,030)</b>	<b>(86,654)</b>
<b>Net Cash Flows</b>	<b>\$ (11,064)</b>	<b>\$ (16,629)</b>

The following table shows cash flows between us and the Warehouse Credit Facility variable interest entity during the twelve weeks ended March 27, 2015 and March 28, 2014:

<i>(\$ in thousands)</i>	<b>Twelve Weeks Ended</b>	
	<b>March 27, 2015</b>	<b>March 28, 2014</b>
<b>Cash inflows:</b>		
<b>Total</b>	<b>\$</b>	<b>\$</b>

<b>Cash outflows:</b>		
Interest to investors	(336)	(375)
<b>Total</b>	<b>(336)</b>	<b>(375)</b>
<b>Net Cash Flows</b>	<b>\$ (336)</b>	<b>\$ (375)</b>

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 \$15.0 million upon presentation of demand notes related to certain vacation ownerships notes receivable securitization transactions outstanding at March 27, 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 March 27, 2015, we have an accrual of \$4.0 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*

<i>(\$ in thousands)</i>	<b>Twelve Weeks Ended</b>	
	<b>March 27, 2015</b>	<b>March 28, 2014</b>
North America	\$ 391,928	\$ 366,329
Europe	21,587	24,471
Asia Pacific	41,365	11,147
Total segment revenues	454,880	401,947
Corporate and other		
	\$ 454,880	\$ 401,947

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(\$ in thousands)	Twelve Weeks Ended	
	March 27, 2015	March 28, 2014
North America	\$ 97,736	\$ 79,655
Europe	14	1,402
Asia Pacific	9,443	1,492
Total segment financial results	107,193	82,549
Corporate and other	(49,850)	(50,478)
Provision for income taxes	(23,289)	(12,763)
	\$ 34,054	\$ 19,308

*Assets*

(\$ in thousands)	At March 27,	At January 2,
	2015	2015
North America	\$ 1,913,448	\$ 1,877,575
Europe	84,472	88,867
Asia Pacific	66,844	85,469
Total segment assets	2,064,764	2,051,911
Corporate and other	324,105	472,105
	\$ 2,388,869	\$ 2,524,016

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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 March 27, 2015, we operated 59 properties in the United States and seven other countries and territories, including an operating hotel in San Diego, California, that we intend to convert into vacation ownership interests for future use in our North America points-based program, Marriott Vacation Club Destinations™ ( MVCD ) in the near term. 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.

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.



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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 certain 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) from vacation ownership purchases 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 revenues and 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.

*Financing*

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:

	<b>Twelve Weeks Ended</b>	
	<b>March 27, 2015</b>	<b>March 28, 2014</b>
Average FICO score	728	731

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.

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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 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. As a result, we expect that interest income will continue to decline in the near term until new originations outpace the decline in principal of the 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:

	<b>Twelve Weeks Ended</b>	
	<b>March 27, 2015</b>	<b>March 28, 2014</b>
Historical default rates	0.9%	0.9%

*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. 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.

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*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.

**Table of Contents****Consolidated Results**

The following discussion presents an analysis of our results of operations for the twelve weeks ended March 27, 2015, compared to the twelve weeks ended March 28, 2014.

(\$ in thousands)	Twelve Weeks Ended	
	March 27, 2015	March 28, 2014
<b>Revenues</b>		
Sale of vacation ownership products	\$ 183,906	\$ 144,850
Resort management and other services	64,417	63,546
Financing	29,052	30,640
Rental	76,199	63,525
Cost reimbursements	101,306	99,386
<b>Total revenues</b>	<b>454,880</b>	<b>401,947</b>
<b>Expenses</b>		
Cost of vacation ownership products	64,962	46,871
Marketing and sales	79,995	71,220
Resort management and other services	42,409	44,896
Financing	4,905	5,104
Rental	60,158	56,790
General and administrative	22,777	21,828
Litigation settlement	(262)	
Organizational and separation related	192	851
Consumer financing interest	6,021	6,625
Royalty fee	13,000	13,428
Cost reimbursements	101,306	99,386
<b>Total expenses</b>	<b>395,463</b>	<b>366,999</b>
Gains and other income	887	1,233
Interest expense	(2,974)	(2,147)
Equity in earnings	13	37
Impairment charges on equity investment		(2,000)
<b>Income before income taxes</b>	<b>57,343</b>	<b>32,071</b>
Provision for income taxes	(23,289)	(12,763)
<b>Net income</b>	<b>\$ 34,054</b>	<b>\$ 19,308</b>

**Contract Sales**

*Twelve Weeks Ended March 27, 2015*

(\$ in thousands)	Twelve Weeks Ended		Change	% Change
	March 27, 2015	March 28, 2014		
Contract Sales				
Vacation ownership	\$ 169,950	\$ 155,248	\$ 14,702	9%
Residential products	28,420	6,326	22,094	NM
Total contract sales	\$ 198,370	\$ 161,574	\$ 36,796	23%

*NM = not meaningful*

The \$36.8 million increase in total contract sales was driven by \$28.4 million of higher residential contract sales in our Asia Pacific segment in the twelve weeks ended March 27, 2015, \$15.8 million of higher vacation ownership contract sales in our key North America segment and \$2.0 million of higher vacation ownership contract sales in our Asia Pacific segment, partially offset by \$6.3 million of lower residential contract sales in our North America segment and \$3.1 million of lower contract sales in our Europe segment.

The increase in vacation ownership contract sales in our North America segment reflected a \$12.6 million increase in sales at on-site sales locations, a \$1.9 million increase in fractional sales as we continue to sell through remaining luxury inventory, and a

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\$1.3 million increase in sales at off-site (non tour-based) sales locations. The increase in sales at on-site sales locations reflected a 5 percent increase in VPG to \$3,640 in the twelve weeks ended March 27, 2015 from \$3,477 in the prior year comparable period and a 5 percent increase in the number of tours. The increase in VPG was due to a 0.8 percentage point increase in closing efficiency and higher pricing, partially offset by a decrease in the number of points sold per contract due to the increase in sales to existing owners in the current period. The increase in the number of tours was driven by an increase in existing owner tours. During the twelve weeks ended March 27, 2015, we announced enhancements to our owner recognition levels that created a near-term incentive for existing owners to purchase additional points.

Due to operational constraints, regulatory conditions and certain other conditions related to our 18 units in Macau, we decided not to sell these units through our Marriott Vacation Club, Asia Pacific points program, and instead disposed of the units as whole ownership residential units during the first quarter of 2015 for \$28.4 million. We expect to reinvest the proceeds from the disposition in new timeshare destinations in the region with strong on-site sales locations.

**Sale of Vacation Ownership Products**

*Twelve Weeks Ended March 27, 2015*

(\$ in thousands)	Twelve Weeks Ended		Change	% Change
	March 27, 2015	March 28, 2014		
Contract sales	\$ 198,370	\$ 161,574	\$ 36,796	23%
Revenue recognition adjustments:				
Reportability	(1,513)	(4,554)	3,041	
Sales reserve	(8,367)	(7,651)	(716)	
Other <sup>(1)</sup>	(4,584)	(4,519)	(65)	
Sale of vacation ownership products	\$ 183,906	\$ 144,850	\$ 39,056	27%

<sup>(1)</sup> Adjustment for sales incentives that will not be recognized as Sale of vacation ownership products revenue. Revenue reportability had a \$1.5 million negative impact in the quarter, compared to a \$4.6 million negative impact in the prior year comparable period because more sales met the down payment requirement for revenue recognition purposes prior to the end of the current period compared to the prior year comparable period, mainly in our Europe segment. The higher sales reserve is due to the increase in vacation ownership contract sales in the current year quarter.

**Development Margin**

*Twelve Weeks Ended March 27, 2015*

(\$ in thousands)	Twelve Weeks Ended		Change	% Change
	March 27, 2015	March 28, 2014		



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Sale of vacation ownership products	\$ 183,906	\$ 144,850	\$ 39,056	27%
Cost of vacation ownership products	(64,962)	(46,871)	(18,091)	(39%)
Marketing and sales	(79,995)	(71,220)	(8,775)	(12%)
Development margin	\$ 38,949	\$ 26,759	\$ 12,190	46%
Development margin percentage	21.2%	18.5%	2.7 pts	

The increase in development margin reflected the following:

\$4.5 million from higher residential contract sales (\$5.9 million from the sale of residential inventory in our Asia Pacific segment in the twelve weeks ended March 27, 2015 compared to \$1.4 million from the sale of residential inventory in our North America segment in the prior year comparable period);

\$4.0 million from higher vacation ownership contract sales volume net of lower direct variable expenses (i.e., cost of vacation ownership products and marketing and sales), including \$1.6 million from a favorable mix of lower cost real estate inventory being sold;

\$1.9 million from higher revenue reportability compared to the prior year comparable period; and

\$1.8 million from higher favorable product cost true-ups, including \$1.5 million in our Asia Pacific segment (\$2.7 million in the twelve weeks ended March 27, 2015 compared to \$0.9 million in the prior year comparable period).

The 2.7 percentage point improvement in the development margin percentage reflected a 1.2 percentage point increase due to the higher favorable product cost true-up activity year-over-year, a 1.1 percentage point increase due to a favorable mix of lower cost

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vacation ownership real estate inventory being sold in the twelve weeks ended March 27, 2015, a 0.9 percentage point increase due to the favorable revenue reportability year-over-year and a 0.6 percentage point increase from the higher North America vacation ownership contract sales and Asia Pacific residential contract sales, both of which have a development margin that is higher than the company-wide average. These improvements were partially offset by a 1.1 percentage point decline due to less efficient marketing and sales spending, primarily in our Europe segment due to an inability to leverage fixed costs on lower sales volumes.

**Resort Management and Other Services Revenues, Expenses and Margin**

*Twelve Weeks Ended March 27, 2015*

(\$ in thousands)	Twelve Weeks Ended		Change	% Change
	March 27, 2015	March 28, 2014		
Management fee revenues	\$ 17,580	\$ 16,783	\$ 797	5%
Other services revenues	46,837	46,763	74	NM
Resort management and other services revenues	64,417	63,546	871	1%
Resort management and other services expenses	(42,409)	(44,896)	2,487	6%
Resort management and other services margin	\$ 22,008	\$ 18,650	\$ 3,358	18%

Resort management and other services margin percentage	34.2%	29.3%	4.9 pts
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The increase in resort management and other services revenues reflected \$0.8 million of higher management fees, \$0.6 million of additional annual club dues earned in connection with the MVCD program due to the cumulative increase in owners enrolled in the program, \$0.6 million of higher fees from external exchange service providers and \$1.2 million of higher resale commission and other revenues, partially offset by \$2.3 million of lower ancillary revenues. The decrease in ancillary revenues included a \$2.8 million decline due to the disposition of certain assets during the prior year, the closure of another ancillary operation during the prior year and outsourcing the operation of a restaurant during the prior year. These declines were partially offset by a \$0.5 million increase in ancillary revenues from food and beverage and golf offerings at our other resorts.

The improvement in the resort management and other services margin reflected the increase in revenue, as well as \$2.5 million of lower expenses, including \$4.1 million of ancillary expense savings from the dispositions, closure and outsourcing noted above, partially offset by \$1.6 million of higher ancillary, customer service and MVCD program expenses related to the higher revenues in the twelve weeks ended March 27, 2015.

**Financing Revenues, Expenses and Margin**

*Twelve Weeks Ended March 27, 2015*

(\$ in thousands)	Twelve Weeks Ended		Change	% Change
	March 27, 2013	March 28, 2014		
Interest income	\$ 27,567	\$ 29,118	\$ (1,551)	(5%)
Other financing revenues	1,485	1,522	(37)	(2%)
Financing revenues	29,052	30,640	(1,588)	(5%)
Financing expenses	(4,905)	(5,104)	199	4%
Consumer financing interest expense	(6,021)	(6,625)	604	9%
Financing margin	\$ 18,126	\$ 18,911	\$ (785)	(4%)
Financing propensity	44%	42%		

The decrease in financing revenues was due to a \$67.0 million decline in the average gross vacation ownership notes receivable balance. This decline reflected our continued collection of existing vacation ownership notes receivable at a faster pace than our origination of new vacation ownership notes receivable.

The decline in financing margin reflects the lower financing revenues, partially offset by lower consumer financing interest expense and lower financing expenses. The lower consumer financing interest expense was due to a lower average interest rate on the outstanding debt balances (\$0.8 million), partially offset by an increase in the outstanding debt balances of securitized vacation ownership notes receivable and associated interest costs (\$0.2 million). The lower average interest rate reflected the continued pay-down of older securitization transactions that carried higher overall interest rates and the benefit of lower interest rates applicable to our more recently completed securitizations of vacation ownership notes receivable.

**Table of Contents****Rental Revenues, Expenses and Margin***Twelve Weeks Ended March 27, 2015*

(\$ in thousands)	Twelve Weeks Ended		Change	% Change
	March 27, 2015	March 28, 2014		
Rental revenues	\$ 76,199	\$ 63,525	\$ 12,674	20%
Unsold maintenance fees upscale	(12,043)	(11,098)	(945)	9%
Unsold maintenance fees luxury	(2,410)	(2,852)	442	(16%)
Unsold maintenance fees	(14,453)	(13,950)	(503)	(4%)
Other expenses	(45,705)	(42,840)	(2,865)	(7%)
Rental margin	\$ 16,041	\$ 6,735	\$ 9,306	138%
Rental margin percentage	21.1%	10.6%	10.5 pts	

	Twelve Weeks Ended		Change	% Change
	March 27, 2015	March 28, 2014		
Transient keys rented <sup>(1)</sup>	296,710	269,131	27,579	10%
Average transient key rate	\$ 226.15	\$ 212.81	\$ 13.34	6%
Resort occupancy	87.7%	88.6%	(0.9 pts)	

<sup>(1)</sup> Transient keys rented exclude those obtained through the use of plus points.

The increase in rental revenues was due to a company-wide 10 percent increase in transient keys rented (\$5.9 million) primarily sourced from a 12 percent increase in available keys, a company-wide 6 percent increase in average transient rate (\$3.9 million) driven by stronger consumer demand and a favorable mix of available inventory, \$1.2 million of higher plus points revenue (which is recognized upon utilization of plus points for stays at our resorts or upon expiration of the points) and a \$1.1 million increase in preview keys. In addition, we had \$0.6 million of revenue from the operation of the hotel acquired during the twelve weeks ended March 27, 2015.

The increase in rental margin reflected \$8.6 million of higher rental revenues net of direct variable expenses (such as housekeeping), expenses incurred due to owners choosing alternative usage options, and unsold maintenance fees, as well as the \$1.2 million increase in plus points revenue, partially offset by a \$0.5 million loss from the operation of the hotel acquired during the twelve weeks ended March 27, 2015.

**Cost Reimbursements***Twelve Weeks Ended March 27, 2015*

Cost reimbursements increased \$1.9 million, or 2 percent, over the prior year comparable period, reflecting an increase of \$4.5 million due to higher costs and \$1.0 million due to additional managed unit weeks in the twelve weeks ended March 27, 2015, partially offset by \$2.3 million of lower costs associated with management contracts that were terminated prior to 2015 and a \$1.3 million negative impact from foreign exchange rates in our Europe

segment.

### **General and Administrative**

*Twelve Weeks Ended March 27, 2015*

General and administrative expenses increased \$1.0 million (from \$21.8 million to \$22.8 million) and were driven by higher personnel related and other costs.

### **Litigation Settlement**

*Twelve Weeks Ended March 27, 2015*

During the first quarter of 2015, we reversed \$0.3 million of an accrual from the sale of The Abaco Club in the Bahamas in the fourth quarter of 2014 because actual costs were lower than expected. See Footnote No. 8, Contingencies and Commitments, to our Financial Statements for further information related to this transaction.

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### **Organizational and Separation Related Efforts**

*Twelve Weeks Ended March 27, 2015*

Organizational and separation related expenses, as reflected on our Statements of Income, continued to decline in the first quarter of 2015, with \$0.2 million of expenses in the twelve weeks ended March 27, 2015 compared to \$0.9 million in the prior year comparable period.

### **Interest Expense**

*Twelve Weeks Ended March 27, 2015*

Interest expense increased \$0.9 million (from \$2.1 million to \$3.0 million) due to \$1.3 million of lower capitalized interest costs because fewer projects were under construction than in the prior year comparable period, partially offset by a \$0.2 million decline in expense associated with our liability for the Marriott Rewards customer loyalty program under our Marriott Rewards Affiliation Agreement with Marriott International and a \$0.2 million decline in other interest expense.

### **Royalty Fee**

*Twelve Weeks Ended March 27, 2015*

Royalty fee expense decreased \$0.4 million in the twelve weeks ended March 25, 2015 (from \$13.4 million to \$13.0 million), and included \$0.5 million of lower costs due to a higher portion of sales of pre-owned inventory, which carries a lower royalty fee as compared to initial sales of our real estate inventory (one percent versus two percent), partially offset by \$0.1 million of higher costs due to higher closings in the twelve weeks ended March 27, 2015. Royalty fee expense decreased despite higher sales of our real estate inventory, as the \$28.4 million of residential contract sales in our Asia Pacific segment were unbranded and did not require us to pay a royalty fee.

### **Gains and Other Income**

*Twelve Weeks Ended March 27, 2015*

The decline in gains and other income was due to a lower gain related to the disposition of a golf course and adjacent undeveloped land in Orlando, Florida compared to the prior year comparable period. We disposed of this asset in the first quarter of 2014 and, 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 \$0.9 million was recorded in the twelve weeks ended March 27, 2015 and \$1.2 million in the prior year comparable period.

### **Impairment Charges on Equity Investment**

*Twelve Weeks Ended March 27, 2015*

During the first quarter of 2014, we recorded a \$2.0 million impairment charge to increase our accrual for remaining costs that we expected to incur relating to our interests in an equity method investment in a joint venture project in our North America segment. There were no impairment charges on equity investment in the first quarter of 2015.

**Income Tax**

*Twelve Weeks Ended March 27, 2015*

Our provision for income taxes increased \$10.5 million (from \$12.8 million to \$23.3 million) from the prior year comparable period. The increase was due to higher income in the United States as noted in the discussion of our North America results as well as higher income from the sale of the residential inventory in Macau as noted in the discussion of our Asia-Pacific results.

**Table of Contents****Earnings Before Interest Expense, Taxes, Depreciation and Amortization ( EBITDA )**

EBITDA, a financial measure that is not prescribed or authorized by GAAP, is defined as earnings, or net income, before interest expense (excluding consumer financing interest expense), provision for income taxes, depreciation and amortization. For purposes of our EBITDA calculation, we do not adjust for consumer financing interest expense because the associated debt 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. Further, we consider consumer financing interest expense to be an operating expense of our business.

We consider EBITDA to be an indicator of operating performance, and we use it to measure our ability to service debt, fund capital expenditures and expand our business. We also use it, as do analysts, lenders, investors and others, because it excludes certain items that can vary widely across different industries or among companies within the same industry. For example, interest expense can be dependent on a company's capital structure, debt levels and credit ratings. Accordingly, the impact of interest expense on earnings can vary significantly among companies. The tax positions of companies can also vary because of their differing abilities to take advantage of tax benefits and because of the tax policies of the jurisdictions in which they operate. As a result, effective tax rates and provision for income taxes can vary considerably among companies. EBITDA also excludes depreciation and amortization because companies utilize productive assets of different ages and use different methods of both acquiring and depreciating productive assets. These differences can result in considerable variability in the relative costs of productive assets and the depreciation and amortization expense among companies.

EBITDA has limitations and should not be considered in isolation or as a substitute for performance measures calculated in accordance with GAAP. In addition, other companies in our industry may calculate EBITDA differently than we do or may not calculate it at all, limiting its usefulness as a comparative measure. The table below shows our EBITDA calculation and reconciles that measure with Net income.

(\$ in thousands)	Twelve Weeks Ended	
	March 27, 2015	March 28, 2014
Net income	\$ 34,054	\$ 19,308
Interest expense	2,974	2,147
Tax provision	23,289	12,763
Depreciation and amortization	4,065	4,658
<b>EBITDA</b>	<b>\$ 64,382</b>	<b>\$ 38,876</b>

**Business Segments**

Our business is grouped into three reportable business segments: North America, Europe and Asia Pacific. See Footnote No. 14, Business Segments, to our Financial Statements for further information on our segments.

As of March 27, 2015, we operated the following 59 properties by segment:

U.S. <sup>(1)</sup>	Non-U.S.	Total
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North America <sup>(2)</sup>	46	5	51
Europe		5	5
Asia Pacific		3	3
Total	46	13	59

- (1) Includes properties located in the 48 contiguous states, Hawaii and Alaska.
- (2) Includes an operating hotel in San Diego, California that was acquired during the first quarter of 2015, which is operated by a third party, that we intend to convert into vacation ownership interests for future use in our MVCD program in the near term.

**Table of Contents****North America**

The following discussion presents an analysis of our results of operations for the twelve weeks ended March 27, 2015, compared to the twelve weeks ended March 28, 2014.

(\$ in thousands)	Twelve Weeks Ended	
	March 27, 2015	March 28, 2014
<b>Revenues</b>		
Sale of vacation ownership products	\$ 141,728	\$ 131,342
Resort management and other services	58,575	57,160
Financing	27,056	28,561
Rental	71,715	59,323
Cost reimbursements	92,854	89,943
<b>Total revenues</b>	<b>391,928</b>	<b>366,329</b>
<b>Expenses</b>		
Cost of vacation ownership products	40,501	41,505
Marketing and sales	69,017	62,687
Resort management and other services	36,968	39,089
Rental	54,611	51,037
Litigation settlement	(262)	
Organizational and separation related	139	17
Royalty fee	1,260	1,677
Cost reimbursements	92,854	89,943
<b>Total expenses</b>	<b>295,088</b>	<b>285,955</b>
Gains and other income	880	1,242
Equity in earnings	16	39
Impairment charges on equity investment		(2,000)
<b>Segment financial results</b>	<b>\$ 97,736</b>	<b>\$ 79,655</b>

**Contract Sales**

Twelve Weeks Ended March 27, 2015

(\$ in thousands)	Twelve Weeks Ended		Change	% Change
	March 27, 2015	March 28, 2014		
<b>Contract Sales</b>				
Vacation ownership	\$ 155,993	\$ 140,177	\$ 15,816	11%
Residential products		6,326	(6,326)	(100%)

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Total contract sales	\$ 155,993	\$	146,503	\$	9,490	6%
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The increase in vacation ownership contract sales in our North America segment reflected a \$12.6 million increase in sales at on-site sales locations, a \$1.9 million increase in fractional sales as we continue to sell through remaining luxury inventory, and a \$1.3 million increase in sales at off-site (non tour-based) sales locations. The increase in sales at on-site sales locations reflected a 5 percent increase in VPG to \$3,640 in the twelve weeks ended March 27, 2015 from \$3,477 in the prior year comparable period and a 5 percent increase in the number of tours. The increase in VPG was due to a 0.8 percentage point increase in closing efficiency and higher pricing, partially offset by a decrease in the number of points sold per contract due to the increase in sales to existing owners in the current period. The increase in the number of tours was driven by an increase in existing owner tours. During the twelve weeks ended March 27, 2015, we announced enhancements to our owner recognition levels that created a near-term incentive for existing owners to purchase additional points.

**Table of Contents****Sale of Vacation Ownership Products***Twelve Weeks Ended March 27, 2015*

(\$ in thousands)	Twelve Weeks Ended		Change	% Change
	March 27, 2015	March 28, 2014		
Contract sales	\$ 155,993	\$ 146,503	\$ 9,490	6%
Revenue recognition adjustments:				
Reportability	(3,444)	(4,400)	956	
Sales reserve	(6,334)	(6,327)	(7)	
Other <sup>(1)</sup>	(4,487)	(4,434)	(53)	
Sale of vacation ownership products	\$ 141,728	\$ 131,342	\$ 10,386	8%

(1) Adjustment for sales incentives that will not be recognized as Sale of vacation ownership products revenue. Revenue reportability had a \$3.4 million negative impact in the quarter, compared to a \$4.4 million negative impact in the prior year comparable period because fewer sales were in the rescission period at the end of the twelve weeks ended March 27, 2015 compared to the prior year comparable period. Although the sales reserve is unchanged from the prior year comparable period, it reflects an increase due to the higher contract sales and an offsetting decrease due to lower estimated default activity compared to the prior year comparable period.

**Development Margin***Twelve Weeks Ended March 27, 2015*

(\$ in thousands)	Twelve Weeks Ended		Change	% Change
	March 27, 2015	March 28, 2014		
Sale of vacation ownership products	\$ 141,728	\$ 131,342	\$ 10,386	8%
Cost of vacation ownership products	(40,501)	(41,505)	1,004	2%
Marketing and sales	(69,017)	(62,687)	(6,330)	(10%)
Development margin	\$ 32,210	\$ 27,150	\$ 5,060	19%
Development margin percentage	22.7%	20.7%	2.0 pts	

The increase in development margin reflected the following:

\$5.8 million from higher vacation ownership contract sales volume net of lower direct variable expenses (i.e., cost of vacation ownership products and marketing and sales), including \$1.5 million from a favorable mix of lower cost real estate inventory being sold;

\$0.5 million from higher revenue reportability compared to the prior year comparable period; and

\$0.2 million from higher favorable product cost true-ups (\$1.0 million in the twelve weeks ended March 27, 2015 compared to \$0.8 million in the prior year comparable period).

These increases were partially offset by \$1.4 million lower residential contract sales.

The 2.0 percentage point improvement in the development margin percentage reflected a 1.1 percentage point increase due to a favorable mix of lower cost vacation ownership real estate inventory being sold in the twelve weeks ended March 27, 2015, a 0.5 percentage point increase from the higher vacation ownership contract sales and more efficient marketing and sales spending, a 0.2 percentage point increase due to the higher favorable product cost true-up activity year-over-year, and a 0.2 percentage point increase due to the favorable revenue reportability year-over-year.

**Table of Contents****Resort Management and Other Services Revenues, Expenses and Margin***Twelve Weeks Ended March 27, 2015*

(\$ in thousands)	Twelve Weeks Ended		Change	% Change
	March 27, 2015	March 28, 2014		
Management fee revenues	\$ 15,568	\$ 14,618	\$ 950	6%
Other services revenues	43,007	42,542	465	1%
Resort management and other services revenues	58,575	57,160	1,415	2%
Resort management and other services expenses	(36,968)	(39,089)	2,121	5%
Resort management and other services margin	\$ 21,607	\$ 18,071	\$ 3,536	20%

Resort management and other services margin percentage 36.9% 31.6% 5.3 pts

The increase in resort management and other services revenues reflected nearly \$1.0 million of higher management fees, \$0.6 million of additional annual club dues earned in connection with the MVCD program due to the cumulative increase in owners enrolled in the program, \$0.5 million of higher fees from external exchange service providers and \$1.3 million of higher resales commission and other revenues, partially offset by \$2.0 million of lower ancillary revenues. The decrease in ancillary revenues included a \$2.8 million decline due to the disposition of certain assets during the prior year, the closure of another ancillary operation during the prior year and outsourcing the operation of a restaurant during the prior year. These declines were partially offset by a \$0.8 million increase in ancillary revenues from food and beverage and golf offerings at our other resorts.

The improvement in the resort management and other services margin reflected the increase in revenue, as well as \$2.1 million of lower expenses, including \$4.1 million of ancillary expense savings from the dispositions, closure and outsourcing noted above partially offset by \$2.0 million of higher ancillary, customer service and MVCD program expenses related to the higher revenues in the twelve weeks ended March 27, 2015.

**Financing Revenues, Expenses and Margin***Twelve Weeks Ended March 27, 2015*

(\$ in thousands)	Twelve Weeks Ended		Change	% Change
	March 27, 2015	March 28, 2014		
Interest income	\$ 25,609	\$ 27,087	\$ (1,478)	(5%)
Other financing revenues	1,447	1,474	(27)	(2%)
Financing revenues	\$ 27,056	\$ 28,561	\$ (1,505)	(5%)

Financing propensity 42% 40%

The decrease in financing revenues was due to lower interest income from a lower outstanding vacation ownership notes receivable balance. This decline reflected our continued collection of existing vacation ownership notes receivable at a faster pace than our origination of new vacation ownership notes receivable.

### Rental Revenues, Expenses and Margin

Twelve Weeks Ended March 27, 2015

(\$ in thousands)	Twelve Weeks Ended		Change	% Change
	March 27, 2015	March 28, 2014		
Rental revenues	\$ 71,715	\$ 59,323	\$ 12,392	21%
Unsold maintenance fees upscale	(10,936)	(9,604)	(1,332)	(14%)
Unsold maintenance fees luxury	(2,410)	(2,852)	442	16%
Unsold maintenance fees	(13,346)	(12,456)	(890)	(7%)
Other expenses	(41,265)	(38,581)	(2,684)	(7%)
Rental margin	\$ 17,104	\$ 8,286	\$ 8,818	106%
Rental margin percentage	23.8%	14.0%	9.8 pts	

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	Twelve Weeks Ended		Change	% Change
	March 27, 2015	March 28, 2014		
Transient keys rented <sup>(1)</sup>	279,761	252,066	27,695	11%
Average transient key rate	\$ 226.03	\$ 212.28	\$ 13.75	6%
Resort occupancy	89.7%	90.3%	(0.6 pts)	

<sup>(1)</sup> Transient keys rented exclude those obtained through the use of plus points.

The increase in rental revenues was due to an 11 percent increase in transient keys rented (\$5.9 million) primarily sourced from a 12 percent increase in available keys, a 6 percent increase in average transient rate (\$3.8 million) driven by stronger consumer demand and a favorable mix of available inventory, \$1.2 million of higher plus points revenue (which is recognized upon utilization of plus points for stays at our resorts or upon expiration of the points) and a \$0.8 million increase in preview keys. In addition, we had \$0.6 million of revenue from the operation of the hotel acquired during the twelve weeks ended March 27, 2015.

The increase in rental margin reflected \$8.1 million of higher rental revenues net of direct variable expenses (such as housekeeping), expenses incurred due to owners choosing alternative usage options, and unsold maintenance fees, as well as the \$1.2 million increase in plus points revenue, partially offset by a \$0.5 million loss from the operation of the hotel acquired during the twelve weeks ended March 27, 2015.

**Europe**

(\$ in thousands)	Twelve Weeks Ended	
	March 27, 2015	March 28, 2014
<b>Revenues</b>		
Sale of vacation ownership products	\$ 5,900	\$ 7,240
Resort management and other services	4,979	5,480
Financing	990	1,022
Rental	2,132	2,227
Cost reimbursements	7,586	8,502
<b>Total revenues</b>	<b>21,587</b>	<b>24,471</b>
<b>Expenses</b>		
Cost of vacation ownership products	852	1,446
Marketing and sales	5,421	4,755
Resort management and other services	4,591	5,107
Rental	3,051	3,157
Royalty fee	76	102
Cost reimbursements	7,586	8,502
<b>Total expenses</b>	<b>21,577</b>	<b>23,069</b>
Gains and other income	4	
<b>Segment financial results</b>	<b>\$ 14</b>	<b>\$ 1,402</b>



**Overview**

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

**Contract Sales**

*Twelve Weeks Ended March 27, 2015*

(\$ in thousands)	Twelve Weeks Ended		Change	% Change
	March 27, 2015	March 28, 2014		
Contract Sales				
Vacation ownership	\$ 5,298	\$ 8,448	\$ (3,150)	(37%)
Total contract sales	\$ 5,298	\$ 8,448	\$ (3,150)	(37%)

**Table of Contents**

The decrease in contract sales was driven by \$2.0 million of lower sales from our Middle East sales location due to large multi-week purchases in the prior year comparable period that did not recur in the current period and higher cancellations in the current period, as well as \$0.6 million of lower sales across the other sites and \$0.6 million of lower fractional sales.

**Sale of Vacation Ownership Products**

*Twelve Weeks Ended March 27, 2015*

(\$ in thousands)	Twelve Weeks Ended		Change	% Change
	March 27, 2015	March 28, 2014		
Contract sales	\$ 5,298	\$ 8,448	\$ (3,150)	(37%)
Revenue recognition adjustments:				
Reportability	1,768	(136)	1,904	
Sales reserve	(1,080)	(975)	(105)	
Other <sup>(1)</sup>	(86)	(97)	11	
Sale of vacation ownership products	\$ 5,900	\$ 7,240	\$ (1,340)	(19%)

(1) Adjustment for sales incentives that will not be recognized as Sale of vacation ownership products revenue. Revenue reportability had a \$1.8 million positive impact in the quarter, compared to a \$0.1 million negative impact in the prior year comparable period because more sales met the down payment requirement for revenue recognition purposes prior to the end of the current period compared to the prior year comparable period. The increase in the sales reserve is due to an increase in the estimated default activity compared to the prior year comparable period.

**Development Margin**

*Twelve Weeks Ended March 27, 2015*

(\$ in thousands)	Twelve Weeks Ended		Change	% Change
	March 27, 2015	March 28, 2014		
Sale of vacation ownership products	\$ 5,900	\$ 7,240	\$ (1,340)	(19%)
Cost of vacation ownership products	(852)	(1,446)	594	41%
Marketing and sales	(5,421)	(4,755)	(666)	(14%)
Development margin	\$ (373)	\$ 1,039	\$ (1,412)	(136%)
Development margin percentage	(6.3%)	14.4%	(20.7 pts)	

The decrease in development margin reflected \$2.7 million from the lower vacation ownership contract sales volume net of higher direct variable expenses (i.e., cost of vacation ownership products and marketing and sales) due in part to less efficient marketing and sales spending at our existing sales locations due to an inability to leverage fixed costs on lower sales volumes, partially offset by \$1.3 million from the higher revenue reportability year-over-year.



**Table of Contents***Asia Pacific*

(\$ in thousands)	Twelve Weeks Ended	
	March 27, 2015	March 28, 2014
<b>Revenues</b>		
Sale of vacation ownership products	\$ 36,278	\$ 6,268
Resort management and other services	863	906
Financing	1,006	1,057
Rental	2,352	1,975
Cost reimbursements	866	941
<b>Total revenues</b>	<b>41,365</b>	<b>11,147</b>
<b>Expenses</b>		
Cost of vacation ownership products	21,996	1,453
Marketing and sales	5,557	3,778
Resort management and other services	850	700
Rental	2,496	2,596
Royalty fee	157	177
Cost reimbursements	866	941
<b>Total expenses</b>	<b>31,922</b>	<b>9,645</b>
Gains and other income	3	(8)
Equity in earnings	(3)	(2)
<b>Segment financial results</b>	<b>\$ 9,443</b>	<b>\$ 1,492</b>

**Overview**

In our Asia Pacific segment, we continue to identify opportunities for development margin improvement. Our on-site sales locations are more efficient sales channels than our off-site sales locations and we plan to focus on future inventory acquisitions with strong on-site sales locations. Due to operational constraints, regulatory conditions and certain other conditions related to our 18 units in Macau, we decided not to sell these units through our Marriott Vacation Club, Asia Pacific points program, and instead disposed of the units as whole ownership residential units during the first quarter of 2015. We expect to reinvest the proceeds from the disposition in new timeshare destinations in the region with strong on-site sales locations.

**Contract Sales**

*Twelve Weeks Ended March 27, 2015*

(\$ in thousands)	Twelve Weeks Ended		Change	% Change
	March 27, 2015	March 28, 2014		

Contract Sales				
Vacation ownership	\$ 8,659	\$ 6,623	\$ 2,036	31%
Residential products	28,420		28,420	NM
Total contract sales	\$ 37,079	\$ 6,623	\$ 30,456	NM

The increase in vacation ownership contract sales reflected a \$704 increase in VPG and a 5.5 percent increase in the number of tours, both of which were impacted in the prior year comparable period by the increase in the cancellations rate due to changes in the Singapore timeshare regulations and continued political turmoil in Thailand.

The \$28.4 million of residential contract sales was from the disposition of the Macau inventory discussed above.

**Table of Contents****Sale of Vacation Ownership Products***Twelve Weeks Ended March 27, 2015*

(\$ in thousands)	Twelve Weeks Ended		Change	% Change
	March 27, 2015	March 28, 2014		
Contract sales	\$ 37,079	\$ 6,623	\$ 30,456	NM
Revenue recognition adjustments:				
Reportability	163	(18)	181	
Sales reserve	(953)	(349)	(604)	
Other <sup>(1)</sup>	(11)	12	(23)	
Sale of vacation ownership products	\$ 36,278	\$ 6,268	\$ 30,010	NM

<sup>(1)</sup> Adjustment for sales incentives that will not be recognized as Sale of vacation ownership products revenue. The increase in the sales reserve is due to an increase in the estimated default activity compared to the prior year comparable period as well as the increase in vacation ownership contract sales.

**Development Margin***Twelve Weeks Ended March 27, 2015*

(\$ in thousands)	Twelve Weeks Ended		Change	% Change
	March 27, 2015	March 28, 2014		
Sale of vacation ownership products	\$ 36,278	\$ 6,268	\$ 30,010	NM
Cost of vacation ownership products	(21,996)	(1,453)	(20,543)	NM
Marketing and sales	(5,557)	(3,778)	(1,779)	(47%)
Development margin	\$ 8,725	\$ 1,037	\$ 7,688	NM
Development margin percentage	24.1%	16.5%	7.6 pts	

The increase in development margin reflected \$5.9 million from the residential contract sales, \$1.5 million from higher favorable product cost true-ups (\$1.5 million in the twelve weeks ended March 27, 2015 compared to \$0 in the prior year comparable period), and \$0.7 million from the higher sales volume net of direct variable expenses (i.e., cost of vacation ownership products and marketing and sales), and included more efficient marketing and sales spending at our existing sales locations due to leveraging fixed costs on higher sales volumes. These increases were partially offset by \$0.4 million from the increase in the sales reserve.

**Corporate and Other**

(\$ in thousands)	Twelve Weeks Ended	
	March 27, 2015	March 28, 2014
Cost of vacation ownership products	\$ 1,613	\$ 2,467
Financing	4,905	5,104
General and administrative	22,777	21,828
Organizational and separation related	53	834
Consumer financing interest	6,021	6,625
Royalty fee	11,507	11,472
<b>Total Expenses</b>	<b>\$ 46,876</b>	<b>\$ 48,330</b>

Corporate and Other consists of results not specifically attributable to an individual segment, including expenses in support of our financing operations, non-capitalizable development expenses incurred to support overall company development, company-wide general and administrative costs, and the fixed royalty fee payable under the license agreements that we entered into with Marriott International in connection with the Spin-Off, as well as consumer financing interest expense.

*Twelve Weeks Ended March 27, 2015*

Total expenses decreased \$1.5 million from the prior year comparable period. The \$1.5 million decrease resulted from \$0.9 million of lower cost of vacation ownership products expenses due to lower pre-development spending associated with potential acquisitions and lower other expenses, \$0.8 million of lower organizational and separation related expenses due to the completion of many of the initiatives relating to our separation from Marriott International, \$0.6 million of lower consumer financing interest expense and \$0.2 million of lower financing expenses, partially offset by nearly \$1.0 million of higher general and administrative expenses.

## **Table of Contents**

The \$0.6 million decline in consumer financing interest expense was due to a lower average interest rate on the outstanding debt balances (\$0.8 million), partially offset by an increase in the outstanding debt balances of securitized vacation ownership notes receivable and associated interest costs (\$0.2 million). The lower average interest rate reflected the continued pay-down of older securitization transactions that carried higher overall interest rates and the benefit of lower interest rates applicable to our more recently completed securitizations of vacation ownership notes receivable.

General and administrative expenses increased \$1.0 million (from \$21.8 million to \$22.8 million) and were driven by higher personnel related and other costs.

## **Recent Accounting Pronouncements**

See Footnote No. 1, Summary of Significant Accounting Policies, to our Financial Statements for a discussion of recently issued accounting pronouncements, including information on new accounting standards and the future adoption of such standards.

## **Liquidity and Capital Resources**

Our capital needs are supported by cash on hand (\$272.2 million at the end of the first quarter of 2015), cash generated from operations, our ability to raise capital through securitizations in the ABS market, and to the extent necessary, funds available under the Warehouse Credit Facility and the Revolving Corporate Credit Facility. We believe these sources of capital will be adequate to meet our short-term and long-term liquidity requirements, finance our long-term growth plans, satisfy debt service requirements, and fulfill other cash requirements. At the end of the first quarter of 2015, \$629.2 million of the \$632.6 million of total gross debt outstanding was non-recourse debt associated with vacation ownership notes receivable securitizations. In addition, we have \$40.0 million of mandatorily redeemable preferred stock of a consolidated subsidiary that we are not required to redeem until October 2021. We may, however, redeem the preferred stock at par after October 2016 at our option.

At the end of the first quarter of 2015, we had \$720.0 million of real estate inventory on hand, comprised of \$361.2 million of finished goods, and \$358.8 million of land and infrastructure. We expect to continue to sell excess Ritz-Carlton branded inventory through the MVCD program in order to generate incremental cash and reduce related carrying costs.

Our vacation ownership product offerings allow us to utilize our real estate inventory efficiently. The majority of our sales are of a points-based product, which permits us to sell vacation ownership products at most of our sales locations, including those where little or no weeks-based inventory remains available for sale. Because we no longer need specific resort-based inventory at each sales location, we need to have only a few resorts under construction at any given time and can leverage successful sales locations at completed resorts. This allows us to maintain long-term sales locations and reduces the need to develop and staff on-site sales locations at smaller projects in the future. We believe our points-based programs enable us to align our real estate inventory acquisitions with the pace of sales of vacation ownership products.

We are selectively pursuing growth opportunities in North America and Asia by targeting high-quality inventory that would allow us to add desirable new destinations to our system with new on-site sales locations through transactions that limit our up-front capital investment and allow us to purchase finished inventory closer to the time it is needed for sale. These asset light deals may consist of the development of new inventory, or the conversion of previously built units by third parties, just prior to sale.



We intend for our capital allocation strategy to strike a balance between enhancing our operations and using our capital to provide returns to our shareholders through programs such as share repurchase programs and payment of dividends.

During the twelve weeks ended March 27, 2015 we had a net decrease in cash and cash equivalents of \$74.3 million compared to a net decrease of \$40.3 million during the twelve weeks ended March 28, 2014. The following table summarizes these changes:

<i>(\$ in thousands)</i>	<b>Twelve Weeks Ended</b>	
	<b>March 27, 2015</b>	<b>March 28, 2014</b>
Cash provided by (used in):		
Operating activities	\$ 32,069	\$ 48,289
Investing activities	36,738	33,295
Financing activities	(141,689)	(121,899)
Effect of change in exchange rates on cash and cash equivalents	(1,453)	34
Net change in cash and cash equivalents	\$ (74,335)	\$ (40,281)

**Table of Contents***Cash from Operating Activities*

Our primary sources of funds from operations are (1) cash sales and down payments on financed sales, (2) cash from our financing operations, including principal and interest payments received on outstanding vacation ownership notes receivable and (3) net cash generated from our rental and resort management and other services operations. Outflows include spending for the development of new phases of existing resorts, the acquisition of additional inventory and funding our working capital needs.

We minimize our working capital needs through cash management, strict credit-granting policies, and disciplined collection efforts. Our working capital needs fluctuate throughout the year given the timing of annual maintenance fees on unsold inventory we pay to property owners' associations and certain annual compensation related outflows. In addition, our cash from operations varies due to the timing of our owners' repayment of vacation ownership notes receivable, the closing of sales contracts for vacation ownership products, financing propensity and cash outlays for real estate inventory acquisition and development.

In the twelve weeks ended March 27, 2015, we generated \$32.1 million of cash flows from operating activities, compared to \$48.3 million in the twelve weeks ended March 28, 2014. Excluding the impact of changes in net income and adjustments for non-cash items, the change in cash flows related to cash outlays for an acquisition of an operating hotel in San Diego, California that we intend to convert to vacation ownership interests in the future, timing of payments to property owners' associations for maintenance fees collected on their behalf and timing of payments for maintenance fees on unsold inventory. These outlays were partially offset by the timing of management fee collections and the benefit from payments made in the first quarter of 2014 related to a new accounts payable system and value added taxes paid in France.

We recorded \$28.4 million of residential contract sales in the twelve weeks ended March 27, 2015 associated with the sale of 18 units in Macau.

In addition to net income and adjustments for non-cash items, the following operating activities are key drivers of our cash flow from operating activities:

*Real Estate Inventory Spending (In Excess of) Less Than Cost of Sales*

(\$ in thousands)	Twelve Weeks Ended	
	March 27, 2015	March 28, 2014
Real estate inventory spending	\$ (17,309)	\$ (24,075)
Purchase of operating hotel for future conversion to inventory	(46,614)	
Real estate inventory costs	62,276	43,332
Real estate inventory spending (in excess of) less than cost of sales	\$ (1,647)	\$ 19,257

We measure our real estate inventory capital efficiency by comparing the cash outflow for real estate inventory spending (a cash item) to the amount of real estate inventory costs charged to expense on our Statements of Income related to sale of vacation ownership products (a non-cash item).

Our real estate inventory spending was in excess of real estate inventory costs in the twelve weeks ended March 27, 2015, as we capitalized on the opportunity to add a premier destination to our portfolio through the acquisition of an

operating hotel in San Diego, California that we intend to convert to vacation ownership interests in the future, partially offset by lower spending on other projects. We intend to convert this hotel into vacation ownership interests for future use in our MVCD program in the near term. 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 hotel for future conversion to inventory line on the Cash Flow for the twelve weeks ended March 27, 2015. See Footnote No. 5, Acquisitions and Dispositions, to our Financial Statements for additional information regarding this transaction.

In the twelve weeks ended March 28, 2014, real estate inventory spending was less than real estate inventory costs due to the level of completed real estate inventory on hand at that time.

Through our existing vacation ownership interest repurchase program, we proactively buy back previously sold vacation ownership interests at lower costs than would be required to develop new inventory. By repurchasing inventory in desirable locations, we expect to be able to stabilize the future cost of vacation ownership products.

**Table of Contents***Notes Receivable Collections in Excess of New Mortgages*

(\$ in thousands)	Twelve Weeks Ended	
	March 27, 2015	March 28, 2014
Vacation ownership notes receivable collections non-securitized	\$ 19,074	\$ 24,898
Vacation ownership notes receivable collections securitized	48,444	46,170
Vacation ownership notes receivable originations	(48,946)	(44,921)
Vacation ownership notes receivable collections in excess of originations	\$ 18,572	\$ 26,147

Vacation ownership notes receivable collections include principal from non-securitized and securitized vacation ownership notes receivable. Vacation ownership notes receivable collections declined due to the reduction in the portfolio of outstanding vacation ownership notes receivable. Vacation ownership notes receivable originations in the twelve weeks ended March 27, 2015 increased due to higher vacation ownership sales volumes and an increase in financing propensity to 43.8 percent for the twelve weeks ended March 27, 2015 compared to 42.0 percent for the twelve weeks ended March 28, 2014. During the twelve weeks ended March 27, 2015, and as of March 27, 2015, no securitized vacation ownership notes receivable pools were out of compliance with established performance parameters.

*Cash from Investing Activities*

(\$ in thousands)	Twelve Weeks Ended	
	March 27, 2015	March 28, 2014
Capital expenditures for property and equipment (excluding inventory)	\$ (10,562)	\$ (1,056)
Decrease in restricted cash	47,103	12,555
Dispositions, net	197	21,796
Net cash provided by investing activities	\$ 36,738	\$ 33,295

*Capital Expenditures for Property and Equipment*

Capital expenditures for property and equipment relate to spending for technology development, buildings and equipment used at sales locations and ancillary offerings, such as food and beverage offerings, at locations where such offerings are provided.

In the twelve weeks ended March 27, 2015, capital expenditures for property and equipment of \$10.6 million included \$9.3 million to support business operations (including \$8.5 million for ancillary and operations assets and \$0.8 million for sales locations other than the operating hotel in San Diego, California), and \$1.3 million for technology spending (including \$0.8 million for Spin-Off related initiatives). The capital expenditures for ancillary and operations assets included \$7.7 million associated with the purchase price allocation for the operating hotel in San Diego, California.

See Footnote No. 5, Acquisitions and Dispositions, to our Financial Statements for additional information regarding this transaction.

In the twelve weeks ended March 28, 2014, capital expenditures for property and equipment of \$1.1 million included \$0.7 million to support business operations (including \$0.5 million for ancillary and operations assets and \$0.2 million for sales locations) and \$0.4 million for technology spending (including \$0.3 million for Spin-Off related initiatives).

#### *Decrease in Restricted Cash*

Restricted cash primarily consists of cash held in reserve accounts related to vacation ownership notes receivable securitizations, cash collected for maintenance fees to be remitted to property owners associations and deposits received, primarily associated with tour package sales and vacation ownership product sales that are held in escrow until the associated contract has closed or the period in which it can be rescinded has expired, depending on applicable legal requirements.

The decrease in restricted cash in the twelve weeks ended March 27, 2015 reflected \$48.0 million of higher cash distributions for maintenance fees remitted to certain property owners associations subsequent to the end of 2014, \$6.6 million of higher cash distributed to investors in connection with securitized vacation ownership notes receivable subsequent to the end of 2014 and a \$0.1 million decrease in funds required to be held in escrow to guarantee our credit card business in the Asia Pacific segment, partially offset by a \$6.8 million increase in cash associated with vacation ownership sales held in escrow.

The decrease in restricted cash in the twelve weeks ended March 28, 2014 reflected \$12.2 million of higher cash distributions for maintenance fees remitted to certain property owners associations subsequent to the end of 2013 and \$7.2 million of higher cash distributions in connection with securitized vacation ownership notes receivable that was distributed to investors subsequent to the end of 2013, partially offset by a \$6.2 million increase in cash related to vacation ownership sales that are held in escrow, and a \$0.6 million increase in funds required to be held in escrow to guarantee our credit card business in the Asia Pacific segment.

**Table of Contents***Dispositions*

Dispositions in the twelve weeks ended March 27, 2015 related to the sale of a lot in St. Thomas, U.S. Virgin Islands. Dispositions in the twelve weeks ended March 28, 2014 related to the sale of an operating golf course and adjacent undeveloped land in Orlando, Florida.

*Cash from Financing Activities*

(\$ in thousands)	Twelve Weeks Ended	
	March 27, 2015	March 28, 2014
Repayment of debt related to securitization transactions	\$ (78,811)	\$ (80,789)
Proceeds from vacation ownership inventory arrangement	5,375	
Repurchase of common stock	(51,281)	(37,436)
Payment of dividends	(8,081)	
Proceeds from stock option exercises	90	468
Payment of withholding taxes on vesting of restricted stock units	(9,061)	(4,142)
Other	80	
Net cash used in financing activities	\$ (141,689)	\$ (121,899)

*Warehouse Credit Facility*

At March 27, 2015, no amounts were outstanding under the Warehouse Credit Facility and \$93.6 million of gross vacation ownership notes receivable were eligible for securitization.

*Repayment of Debt Related to Securitization Transactions*

We reflect repayments of bonds associated with vacation ownership notes receivable securitizations and repayments on the Warehouse Credit Facility (including vacation ownership notes receivable repurchases) as Repayment of debt related to securitization transactions. Repayments on the non-recourse debt associated with our vacation ownership notes receivable securitizations totaled \$78.8 million (including \$24.7 million for voluntary retirement clean-up calls) and \$80.8 million (including \$26.7 million for voluntary retirement clean-up calls) in the twelve weeks ended March 27, 2015 and March 28, 2014, respectively.

*Proceeds from Vacation Ownership Inventory Arrangement*

In connection with our initiative of pursuing growth opportunities in ways that optimize the timing of our capital investments, including working with third party partners to develop new inventory or convert previously built units to be sold to us close to when we need such inventory for sale, we sold real property located in Marco Island, Florida during the first quarter of 2015 to a third party developer. Pursuant to this transaction, we are obligated to repurchase the completed property from the developer contingent upon the property meeting our brand standards and provided that the third party developer has not sold the property to another party. As discussed in Footnote No. 5, Acquisitions and Dispositions, to our Financial Statements, we received cash proceeds of \$5.4 million upon the sale of this real property. 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, and as such have recorded these proceeds as a financing activity.

*Share Repurchase Program*

During the twelve weeks ended March 27, 2015, we repurchased 277,751 shares of our common stock at an average price of \$76.62 for a total of \$21.3 million. Additionally, we paid \$30.0 million under an accelerated share repurchase program in March 2015 and received an initial delivery of 327,782 shares. The maximum number of additional shares that may be delivered to us under the accelerated share repurchase program is 72,841. The final settlement will occur in the second quarter of 2015. See Footnote No. 11, Shareholders Equity, to our Financial Statements for further information related to our share repurchase program.

*Dividends*

On February 12, 2015, our Board of Directors declared a quarterly dividend of \$0.25 per share to shareholders of record as of February 26, 2015, which we paid on March 11, 2015. Any future dividend payments will be subject to Board approval, and there can be no assurance that we will pay dividends in the future.

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### *Contractual Obligations and Off-Balance Sheet Arrangements*

There have been no significant changes to our Contractual Obligations and Off-Balance Sheet Arrangements as reported in Management's Discussion and Analysis of Financial Condition and Results of Operations, in our Annual Report on Form 10-K for the year ended January 2, 2015, other than those discussed below. As of March 27, 2015, debt decreased by \$77.6 million to \$618.9 million compared to \$696.5 million at January 2, 2015, of which \$78.8 million related to a decrease in non-recourse debt associated with vacation ownership notes receivable securitizations, partially offset by \$1.2 million of debt issuance cost amortization. As of March 27, 2015, future debt payments to be paid out of collections from our vacation ownership notes receivable, including principal and interest, totaled \$704.4 million and are due as follows: \$91.5 million in 2015; \$110.2 million in 2016; \$84.2 million in 2017; \$77.6 million in 2018; \$75.7 million in 2019; and \$265.2 million thereafter. Additionally, we have a new commitment of \$137.1 million to purchase vacation ownership units located in Marco Island, Florida, discussed in Footnote No. 5,

Acquisitions and Dispositions, to our Financial Statements, of which we expect \$33.3 million, \$50.0 million and \$53.8 million will be paid in 2017, 2018 and 2019.

We have historically issued guarantees to certain lenders in connection with the provision of third-party financing for our sales of vacation ownership products. The terms of these guarantees generally require us to fund if the purchaser fails to pay under the terms of its note payable. We are entitled to recover any funding to third-party lenders related to these guarantees through reacquisition and resale of the vacation ownership product. Our commitments under these guarantees expire as the guaranteed notes mature or are repaid. Our maximum exposure under such guarantees as of March 27, 2015 in the Asia Pacific and North America segments was \$7.5 million and \$2.8 million, respectively. The underlying debt to third-party lenders will mature between 2015 and 2022.

For additional information on these guarantees and the circumstances under which they were entered into, see the Guarantees caption within Footnote No. 8, Contingencies and Commitments, to our Financial Statements.

In the normal course of our resort management business, we enter into purchase commitments with property owners associations to manage the daily operating needs of our resorts. Since we are reimbursed for these commitments from the cash flows of the resorts, these obligations have minimal impact on our net income and cash flow.

### **Critical Accounting Estimates**

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect reported amounts and related disclosures. Management considers an accounting estimate to be critical if: (1) it requires assumptions to be made that are uncertain at the time the estimate is made; and (2) changes in the estimate, or different estimates that could have been selected, could have a material effect on our consolidated results of operations or financial condition.

While we believe that our estimates, assumptions, and judgments are reasonable, they are based on information presently available. Actual results may differ significantly. Additionally, changes in our assumptions, estimates or assessments as a result of unforeseen events or otherwise could have a material impact on our financial position or results of operations. We have discussed those estimates that we believe are critical and require the use of complex judgment in their application in our most recent Annual Report on Form 10-K. Since the date of our most recent Annual Report on Form 10-K, there have been no material changes to our critical accounting policies or the methodologies or assumptions we apply under them.



**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Our exposure to market risk has not changed materially from that disclosed in our Annual Report on Form 10-K for the year ended January 2, 2015.

**Item 4. Controls and Procedures**

*Disclosure Controls and Procedures*

As of the end of the period covered by this Quarterly Report on Form 10-Q, we evaluated, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the Exchange Act)), and management necessarily applied its judgment in assessing the costs and benefits of such controls and procedures, which by their nature, can provide only reasonable assurance about management's control objectives. Our disclosure controls and procedures have been designed to provide reasonable assurance of achieving the desired control objectives. However, you should note that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and we cannot assure you that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote. Based upon the foregoing evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective and operating to provide reasonable assurance that we record, process, summarize and report the information we are required to disclose in the reports that we file or submit under the Exchange Act within the time periods specified in the rules and forms of the SEC, and to provide reasonable assurance that we accumulate and communicate such information to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions about required disclosure.

**Table of Contents***Changes in Internal Control Over Financial Reporting*

There were no changes in our internal control over financial reporting during the period covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Part II. OTHER INFORMATION****Item 1. Legal Proceedings**

Currently, and from time to time, we are subject to claims in legal proceedings arising in the normal course of business, including, among others, the legal actions discussed in Footnote No. 8, Contingencies and Commitments, to our Financial Statements. While management presently believes that the ultimate outcome of these proceedings, individually and in the aggregate, will not materially harm our financial position, cash flows, or overall trends in results of operations, legal proceedings are inherently uncertain, and unfavorable rulings could, individually or in aggregate, have a material adverse effect on our business, financial condition, or operating results.

**Item 1A. Risk Factors**

There have been no material changes from the risk factors disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended January 2, 2015.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds***Issuer Purchases of Equity Securities*

Period		Total Number of Shares Purchased	Average Price per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>(1)</sup>	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs <sup>(1)</sup>
January 3, 2015	January 30, 2015	69,341	\$ 73.16	69,341	2,833,934
January 31, 2015	February 27, 2015	21,600	\$ 74.47	21,600	2,812,334
February 28, 2015	March 27, 2015	186,810	\$ 78.15	186,810	2,625,524
February 28, 2015	March 27, 2015 <sup>(S)</sup>	327,782	\$ 82.74	327,782	2,297,742
<b>Total</b>		<b>605,533</b>	<b>\$ 79.93</b>	<b>605,533</b>	<b>2,297,742</b>

(1)

On October 14, 2014, our Board of Directors approved the repurchase of up to an additional 3,400,000 shares of our common stock under our existing share repurchase program and extended the termination date of the program to March 26, 2016. Prior to that authorization, our Board of Directors had authorized the repurchase of up to 3,500,000 shares of our common stock prior to March 28, 2015 under the share repurchase program.

- (2) In March 2015, pursuant to our existing share repurchase program, we entered into an accelerated share repurchase agreement ( ASR ) with a financial institution to repurchase shares of our common stock. Under the agreement, we paid \$30.0 million and received an initial delivery of 327,782 shares of common stock on March 20, 2015. The total number of shares that we ultimately receive under the ASR will be determined based on the average of the daily volume-weighted average share price of our common stock over the duration of the ASR, less an agreed discount, and may be subject to adjustments for certain events under the agreement. The maximum number of additional shares that may be delivered to us under the ASR is 72,841.

**Item 3. Defaults Upon Senior Securities**

None.

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**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

Exhibits filed or furnished as a part of this Quarterly Report on Form 10-Q are listed on the Index to Exhibits on page E-1, which is incorporated by reference herein.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MARRIOTT VACATIONS WORLDWIDE  
CORPORATION

April 30, 2015

/s/ Stephen P. Weisz  
Stephen P. Weisz  
President and Chief Executive Officer

/s/ John E. Geller, Jr.  
John E. Geller, Jr.  
Executive Vice President and Chief Financial Officer

**Table of Contents****INDEX TO EXHIBITS**

<b>Exhibit No.</b>	<b>Description</b>
3.1	Restated Certificate of Incorporation of Marriott Vacations Worldwide Corporation, incorporated by reference to Exhibit 3.1 of our Current Report on Form 8-K filed on November 22, 2011.
3.2	Restated Bylaws of Marriott Vacations Worldwide Corporation, incorporated by reference to Exhibit 3.2 of our Current Report on Form 8-K filed on November 22, 2011.
10.1	Form of Director Stock Unit Agreement.
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
32.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(b) and Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(b) and Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Label Linkbase Document.
101.PRE	XBRL Taxonomy Presentation Linkbase Document.

We have attached the following documents formatted in XBRL (Extensible Business Reporting Language) as Exhibit 101 to this report: (i) the Interim Consolidated Statements of Income for the twelve weeks ended March 27, 2015 and March 28, 2014; (ii) the Interim Consolidated Statements of Comprehensive Income for the twelve weeks ended March 27, 2015 and March 28, 2014; (iii) the Interim Consolidated Balance Sheets at March 27, 2015 and January 2, 2015; and (iv) the Interim Consolidated Statements of Cash Flows for the twelve weeks ended March 27, 2015 and March 28, 2014.