

MARRIOTT VACATIONS WORLDWIDE Corp  
Form 10-Q  
October 16, 2014  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended September 12, 2014**

**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 October 10, 2014 was 32,611,649.

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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 millions, except per share amounts)

(Unaudited)

|                                       | <b>Twelve Weeks Ended</b> |                          | <b>Thirty-Six Weeks Ended</b> |                          |
|---------------------------------------|---------------------------|--------------------------|-------------------------------|--------------------------|
|                                       | <b>September 12, 2014</b> | <b>September 6, 2013</b> | <b>September 12, 2014</b>     | <b>September 6, 2013</b> |
| <b>REVENUES</b>                       |                           |                          |                               |                          |
| Sale of vacation ownership products   | \$ 156                    | \$ 162                   | \$ 453                        | \$ 472                   |
| Resort management and other services  | 67                        | 65                       | 197                           | 188                      |
| Financing                             | 30                        | 32                       | 90                            | 97                       |
| Rental                                | 65                        | 65                       | 191                           | 193                      |
| Other                                 | 4                         | 4                        | 12                            | 13                       |
| Cost reimbursements                   | 91                        | 84                       | 282                           | 260                      |
| <b>TOTAL REVENUES</b>                 | <b>413</b>                | <b>412</b>               | <b>1,225</b>                  | <b>1,223</b>             |
| <b>EXPENSES</b>                       |                           |                          |                               |                          |
| Cost of vacation ownership products   | 49                        | 56                       | 139                           | 157                      |
| Marketing and sales                   | 74                        | 72                       | 217                           | 220                      |
| Resort management and other services  | 44                        | 45                       | 132                           | 134                      |
| Financing                             | 5                         | 5                        | 16                            | 16                       |
| Rental                                | 54                        | 57                       | 166                           | 169                      |
| Other                                 | 4                         | 4                        | 9                             | 9                        |
| General and administrative            | 22                        | 23                       | 67                            | 66                       |
| Litigation settlement                 | 3                         |                          | (5)                           | (1)                      |
| Organizational and separation related | 1                         | 4                        | 3                             | 7                        |
| Consumer financing interest           | 6                         | 7                        | 18                            | 22                       |
| Royalty fee                           | 14                        | 13                       | 41                            | 41                       |
| Impairment                            |                           |                          | 1                             | 1                        |
| Cost reimbursements                   | 91                        | 84                       | 282                           | 260                      |
| <b>TOTAL EXPENSES</b>                 | <b>367</b>                | <b>370</b>               | <b>1,086</b>                  | <b>1,101</b>             |
| Gains and other income                |                           |                          | 2                             | 1                        |
| Interest expense                      | (3)                       | (2)                      | (8)                           | (9)                      |
| <b>INCOME BEFORE INCOME TAXES</b>     | <b>43</b>                 | <b>40</b>                | <b>133</b>                    | <b>114</b>               |
| Provision for income taxes            | (18)                      | (15)                     | (53)                          | (40)                     |

|   |         |         |         |         |
|---|---------|---------|---------|---------|
| <b>NET INCOME</b>                                   | \$ 25   | \$ 25   | \$ 80   | \$ 74   |
| Basic earnings per share                            | \$ 0.77 | \$ 0.70 | \$ 2.35 | \$ 2.10 |
| Shares used in computing basic earnings per share   | 33.4    | 35.5    | 34.2    | 35.4    |
| Diluted earnings per share                          | \$ 0.75 | \$ 0.67 | \$ 2.28 | \$ 2.03 |
| Shares used in computing diluted earnings per share | 34.4    | 36.7    | 35.2    | 36.6    |

**See Notes to Interim Consolidated Financial Statements**

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

(In millions)

(Unaudited)

|  | Twelve Weeks Ended |                   | Thirty-Six Weeks Ended |                   |
|--|--------------------|-------------------|------------------------|-------------------|
|  | September 12, 2014 | September 6, 2013 | September 12, 2014     | September 6, 2013 |
| Net income                                 | \$ 25              | \$ 25             | \$ 80                  | \$ 74             |
| Other comprehensive loss, net of tax:      |                    |                   |                        |                   |
| Foreign currency translation adjustments   | (3)                |                   | (3)                    | (1)               |
| Total other comprehensive loss, net of tax | (3)                |                   | (3)                    | (1)               |
| <b>COMPREHENSIVE INCOME</b>                | <b>\$ 22</b>       | <b>\$ 25</b>      | <b>\$ 77</b>           | <b>\$ 73</b>      |

See Notes to Interim Consolidated Financial Statements

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

(In millions, except share and per share amounts)

|   | <b>(Unaudited)</b>        |                        |
|---|---------------------------|------------------------|
|   | <b>September 12, 2014</b> | <b>January 3, 2014</b> |
| <b>ASSETS</b>   |                           |                        |
| Cash and cash equivalents   | \$ 146                    | \$ 200                 |
| Restricted cash (including \$36 and \$34 from VIEs, respectively)   | 65                        | 86                     |
| Accounts and contracts receivable, net (including \$3 and \$5 from VIEs, respectively)                              | 113                       | 109                    |
| Vacation ownership notes receivable, net (including \$580 and \$719 from VIEs, respectively)                        | 912                       | 970                    |
| Inventory   | 799                       | 870                    |
| Property and equipment  | 212                       | 254                    |
| Other   | 100                       | 143                    |
| <b>Total Assets</b>   | <b>\$ 2,347</b>           | <b>\$ 2,632</b>        |
| <b>LIABILITIES AND EQUITY</b>   |                           |                        |
| Accounts payable  | \$ 79                     | \$ 129                 |
| Advance deposits  | 55                        | 48                     |
| Accrued liabilities (including \$2 and \$1 from VIEs, respectively)   | 147                       | 185                    |
| Deferred revenue  | 23                        | 19                     |
| Payroll and benefits liability  | 77                        | 82                     |
| Liability for Marriott Rewards customer loyalty program   | 92                        | 114                    |
| Deferred compensation liability   | 40                        | 37                     |
| Mandatorily redeemable preferred stock of consolidated subsidiary   | 40                        | 40                     |
| Debt (including \$534 and \$674 from VIEs, respectively)  | 538                       | 678                    |
| Other   | 33                        | 31                     |
| Deferred taxes  | 93                        | 60                     |
| <b>Total Liabilities</b>  | <b>1,217</b>              | <b>1,423</b>           |
| <b>Contingencies and Commitments (Note 8)</b>   |                           |                        |
| Preferred stock \$ .01 par value; 2,000,000 shares authorized; none issued or outstanding                           |                           |                        |
| Common stock \$ .01 par value; 100,000,000 shares authorized; 35,961,779 and 35,637,765 shares issued, respectively |                           |                        |
| Treasury stock at cost; 2,963,020 and 505,023 shares, respectively  | (161)                     | (26)                   |
| Additional paid-in capital  | 1,109                     | 1,130                  |
| Accumulated other comprehensive income  | 20                        | 23                     |
| Retained earnings   | 162                       | 82                     |

|                              |    |       |    |       |
|------------------------------|----|-------|----|-------|
| Total Equity                 |    | 1,130 |    | 1,209 |
| Total Liabilities and Equity | \$ | 2,347 | \$ | 2,632 |

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 millions)

(Unaudited)

|   | <b>Thirty-Six Weeks Ended</b> |                          |
|---|-------------------------------|--------------------------|
|   | <b>September 12, 2013</b>     | <b>September 6, 2013</b> |
| <b>OPERATING ACTIVITIES</b>   |                               |                          |
| Net income  | \$ 80                         | \$ 74                    |
| Adjustments to reconcile net income to net cash provided by operating activities: |                               |                          |
| Depreciation  | 13                            | 16                       |
| Amortization of debt issuance costs   | 4                             | 4                        |
| Provision for loan losses   | 22                            | 26                       |
| Share-based compensation  | 9                             | 8                        |
| Deferred income taxes   | 29                            | 23                       |
| Impairment charges  | 1                             | 1                        |
| Gain on disposal of property and equipment, net                                   | (2)                           | (1)                      |
| Net change in assets and liabilities:   |                               |                          |
| Accounts and contracts receivable   | (8)                           | (16)                     |
| Notes receivable originations   | (170)                         | (166)                    |
| Notes receivable collections  | 204                           | 217                      |
| Inventory   | 62                            | 33                       |
| Other assets  | 46                            | 33                       |
| Accounts payable, advance deposits and accrued liabilities                        | (66)                          | (74)                     |
| Liability for Marriott Rewards customer loyalty program                           | (23)                          | (33)                     |
| Deferred revenue  | 4                             | (13)                     |
| Payroll and benefit liabilities   | (5)                           | (2)                      |
| Deferred compensation liability   | 3                             | (8)                      |
| Other liabilities   | 3                             | 1                        |
| Net cash provided by operating activities   | 206                           | 123                      |
| <b>INVESTING ACTIVITIES</b>   |                               |                          |
| Capital expenditures for property and equipment (excluding inventory)             | (8)                           | (11)                     |
| Decrease in restricted cash   | 21                            | 4                        |
| Dispositions, net   | 33                            | 3                        |
| Net cash provided by (used in) investing activities                               | 46                            | (4)                      |
| <b>FINANCING ACTIVITIES</b>   |                               |                          |
| Borrowings from securitization transactions                                       | 23                            | 361                      |
| Repayment of debt related to securitization transactions                          | (163)                         | (288)                    |
| Borrowings on Revolving Corporate Credit Facility                                 |                               | 25                       |

|   |        |        |
|---|--------|--------|
| Repayments on Revolving Corporate Credit Facility                 |        | (25)   |
| Debt issuance costs   | (2)    | (5)    |
| Repurchase of common stock  | (160)  |        |
| Proceeds from stock option exercises                              | 2      | 2      |
| Payment of withholding taxes on vesting of restricted stock units | (5)    | (4)    |
| Net cash (used in) provided by financing activities               | (305)  | 66     |
| Effect of changes in exchange rates on cash and cash equivalents  | (1)    |        |
| (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS                  | (54)   | 185    |
| CASH AND CASH EQUIVALENTS, beginning of period                    | 200    | 103    |
| CASH AND CASH EQUIVALENTS, end of period                          | \$ 146 | \$ 288 |

#### **SUPPLEMENTAL DISCLOSURES OF NON-CASH FINANCING ACTIVITIES**

|   |        |    |
|---|--------|----|
| Non-cash reduction of Additional paid-in capital for decrease in Deferred tax liabilities distributed to Marriott Vacations Worldwide at Spin-Off | \$ (2) | \$ |
|---|--------|----|

**See Notes to Interim Consolidated Financial Statements**

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**MARRIOTT VACATIONS WORLDWIDE CORPORATION**

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Our Business*

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

Our business is grouped into three reportable segments: North America, Europe and Asia Pacific. As of September 12, 2014, we operated 62 properties in the United States and nine other countries and territories. We generate most of our revenues from four primary sources: selling vacation ownership products; managing our resorts; financing consumer purchases; 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. As a result of the Spin-Off, we became an independent public company, and our common stock is 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.

*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> |
|---------------------|-------------------------|
| 2014 Third Quarter  | September 12, 2014      |
| 2014 Second Quarter | June 20, 2014           |
| 2014 First Quarter  | March 28, 2014          |
| 2013 Third Quarter  | September 6, 2013       |
| 2013 Second Quarter | June 14, 2013           |
| 2013 First Quarter  | March 22, 2013          |

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

These Financial Statements have not been audited. We have condensed or omitted certain information and footnote disclosures normally included in financial statements presented in accordance with GAAP. Although we believe our footnote disclosures are adequate to make the information presented not misleading, 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 3, 2014.

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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.

We have reclassified certain prior year amounts to conform to our 2014 presentation.

### *New Accounting Standards*

#### Accounting Standards Update No. 2013-11 — Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists ( ASU No. 2013-11 )

ASU No. 2013-11, which we adopted in the first quarter of 2014, provides financial statement presentation guidance on whether an unrecognized tax benefit must be presented as either a reduction to a deferred tax asset or separately as a liability. Our adoption of this update did not have a material impact on our Financial Statements.

#### Accounting Standards Update No. 2014-08 — Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity ( ASU No. 2014-08 )

ASU No. 2014-08, which we adopted in the first quarter of 2014, raises the threshold for a disposal to qualify as a discontinued operation and requires new disclosures of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. ASU No. 2014-08 is effective for annual periods beginning after December 15, 2014, and interim periods within annual periods beginning on or after December 15, 2015, with early adoption permitted. Our adoption of this update did not have a material impact on our Financial Statements.

### *Future Adoption of Accounting Standards*

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

In May 2014, the Financial Accounting Standards Board issued ASU No. 2014-09, which specifies how and when to recognize revenue and requires informative, relevant disclosures. ASU 2014-09 will be effective for financial statements issued for the first interim period within annual reporting periods beginning after December 15, 2016, and does not permit early adoption. We will adopt ASU 2014-09 in the first quarter of 2017 and are currently evaluating the impact it will have on our Financial Statements.

## **2. INCOME TAXES**

We file U.S. consolidated federal and state tax returns, as well as separate tax filings for non-U.S. jurisdictions. We entered into a Tax Sharing and Indemnification Agreement with Marriott International, effective November 21, 2011 (as subsequently amended, the Tax Sharing and Indemnification Agreement ), which governs the allocation of responsibility for federal, state, local and foreign income and other taxes related to taxable periods prior to and subsequent to the Spin-Off between Marriott International and Marriott Vacations Worldwide. Under this agreement, if any part of the Spin-Off fails to qualify for the tax treatment stated in the ruling Marriott International received from the U.S. Internal Revenue Service (the IRS ) in connection with the Spin-Off, taxes imposed will be allocated between Marriott International and Marriott Vacations Worldwide as set forth in the agreement, and each will indemnify and

hold harmless the other from and against the taxes so allocated. During the thirty-six weeks ended September 12, 2014, we increased our Deferred tax liabilities by \$2 million for adjustments to the Deferred tax liabilities at the time of the Spin-Off with a corresponding reduction to Additional paid-in-capital.

Our total unrecognized tax benefit balance that, if recognized, would impact our effective tax rate was less than \$1 million at both September 12, 2014 and January 3, 2014.

We have joined in the Marriott International U.S. federal tax consolidated filing for periods up to the date of the Spin-Off. 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. Although we do not anticipate that a significant impact to our unrecognized tax benefit balance will occur during the next fiscal year as a result of audits by other tax jurisdictions, the amount of our liability for unrecognized tax benefits could change as a result of these audits. Pursuant to the Tax Sharing and Indemnification Agreement, Marriott International is liable and shall pay the relevant tax authority for all taxes related to our taxable income prior to the Spin-Off. Our tax years subsequent to the Spin-Off are subject to examination by relevant tax authorities.

**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 millions)</i>                             | <b>September 12, 2014</b> | <b>January 3, 2014</b> |
|---|---------------------------|------------------------|
| Vacation ownership notes receivable securitized     | \$ 580                    | \$ 719                 |
| Vacation ownership notes receivable non-securitized |                           |                        |
| Eligible for securitization <sup>(1)</sup>          | 193                       | 73                     |
| Not eligible for securitization <sup>(1)</sup>      | 139                       | 178                    |
| <b>Subtotal</b>                                     | <b>332</b>                | <b>251</b>             |
| <br>Total vacation ownership notes receivable       | <br>\$ 912                | <br>\$ 970             |

<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:

| <i>(\$ in millions)</i>   | <b>Non-Securitized<br/>Vacation Ownership<br/>Notes Receivable</b> | <b>Securitized<br/>Vacation Ownership<br/>Notes Receivable</b> | <b>Total</b>  |
|---|--|--|---------------|
| 2014  | \$ 32  | \$ 32  | \$ 64         |
| 2015  | 50   | 94   | 144           |
| 2016  | 42   | 91   | 133           |
| 2017  | 32   | 87   | 119           |
| 2018  | 27   | 71   | 98            |
| Thereafter  | 149  | 205  | 354           |
| <br>Balance at September 12, 2014                               | <br>\$ 332   | <br>\$ 580   | <br>\$ 912    |
| <br>Weighted average stated interest rate at September 12, 2014 | <br>12.1%  | <br>12.8%  | <br>12.5%     |
| Range of stated interest rates at September 12, 2014            | 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 millions)  | Twelve Weeks Ended |                   | Thirty-Six Weeks Ended |                   |
|---|--------------------|-------------------|------------------------|-------------------|
|   | September 12, 2014 | September 6, 2013 | September 12, 2014     | September 6, 2013 |
| Interest income associated with vacation ownership notes receivable securitized     | \$ 19              | \$ 23             | \$ 60                  | \$ 70             |
| Interest income associated with vacation ownership notes receivable non-securitized | 9                  | 7                 | 25                     | 23                |
| <b>Total interest income associated with vacation ownership notes receivable</b>    | <b>\$ 28</b>       | <b>\$ 30</b>      | <b>\$ 85</b>           | <b>\$ 93</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 thirty-six weeks ended September 12, 2014:

| (\$ in millions)  | Non-Securitized Vacation Ownership<br>Notes Receivable |      | Securitized Vacation Ownership<br>Notes Receivable Reserve |      | Total  |
|---|--|------|--|------|--------|
|   |  |      |  |      |        |
| Balance at January 3, 2014  | \$   | 82   | \$   | 52   | \$ 134 |
| Provision for loan losses   |  | 15   |  | 7    | 22     |
| Securitized   |  | (2)  |  | 2    |        |
| Clean-up calls <sup>(1)</sup>   |  | 2    |  | (2)  |        |
| Write-offs  |  | (32) |  |      | (32)   |
| Defaulted vacation ownership notes<br>receivable repurchase activity <sup>(2)</sup> |  | 18   |  | (18) |        |
| Balance at September 12, 2014   | \$   | 83   | \$   | 41   | \$ 124 |

(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 after the due date, we suspend accrual of interest only on those loans that are over 90 days past due. We consider loans over 150 days past due to be in default. We apply payments we receive for vacation ownership notes receivable on non-accrual status first to interest, then to principal and any remainder to fees. We resume accruing interest when vacation ownership notes receivable are less than 90 days past due. We do not accept payments for vacation ownership notes receivable during the foreclosure process unless the amount is sufficient to pay all past due principal, interest, fees and penalties owed and fully reinstate the note. We write off uncollectible vacation ownership notes receivable against the reserve once we receive title to the vacation ownership products through the foreclosure or deed-in-lieu process or, in Europe or Asia Pacific, when revocation is complete. For both non-securitized and securitized vacation ownership notes receivable, we estimated average remaining default rates of 6.94 percent and 7.13 percent as of September 12, 2014 and January 3, 2014, 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 \$5 million as of both September 12, 2014 and January 3, 2014.

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

| (\$ in millions) | Non-Securitized Vacation Ownership<br>Notes Receivable |  | Securitized Vacation Ownership<br>Notes Receivable |  | Total |
|------------------|--|--|--|--|-------|
|                  |  |  |  |  |       |

|  |    |    |    |   |    |    |
|--|----|----|----|---|----|----|
| Investment in vacation ownership notes receivable on non-accrual status at September 12, 2014  | \$ | 63 | \$ | 6 | \$ | 69 |
| Investment in vacation ownership notes receivable on non-accrual status at January 3, 2014   | \$ | 69 | \$ | 8 | \$ | 77 |
| Average investment in vacation ownership notes receivable on non-accrual status during the thirty-six weeks ended September 12, 2014 | \$ | 66 | \$ | 7 | \$ | 73 |
| Average investment in vacation ownership notes receivable on non-accrual status during the thirty-six weeks ended September 6, 2013  | \$ | 73 | \$ | 8 | \$ | 81 |

The following table shows the aging of the recorded investment in principal, before reserves, in vacation ownership notes receivable as of September 12, 2014:

| (\$ in millions)                          | Non-Securitized                     |     | Securitized                         |     | Total |       |
|---|-------------------------------------|-----|-------------------------------------|-----|-------|-------|
|   | Vacation Ownership Notes Receivable |     | Vacation Ownership Notes Receivable |     |       |       |
| 31 90 days past due                       | \$                                  | 11  | \$                                  | 14  | \$    | 25    |
| 91 150 days past due                      |                                     | 6   |                                     | 5   |       | 11    |
| Greater than 150 days past due            |                                     | 57  |                                     | 1   |       | 58    |
| Total past due                            |                                     | 74  |                                     | 20  |       | 94    |
| Current                                   |                                     | 341 |                                     | 601 |       | 942   |
| Total vacation ownership notes receivable | \$                                  | 415 | \$                                  | 621 | \$    | 1,036 |

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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 January 3, 2014:

| (\$ in millions)                          | Non-Securitized                        | Securitized                            | Total    |
|---|--|--|----------|
|   | Vacation Ownership<br>Notes Receivable | Vacation Ownership<br>Notes Receivable |          |
| 31 90 days past due                       | \$ 12                                  | \$ 22                                  | \$ 34    |
| 91 150 days past due                      | 7                                      | 8                                      | 15       |
| Greater than 150 days past due            | 62                                     |  | 62       |
| Total past due                            | 81                                     | 30                                     | 111      |
| Current                                   | 252                                    | 741                                    | 993      |
| Total vacation ownership notes receivable | \$ 333                                 | \$ 771                                 | \$ 1,104 |

**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 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, which had fair values approximating their carrying amounts due to the short maturities and liquidity of these instruments.

| (\$ in millions)  | At September 12, 2014 |                              | At January 3, 2014 |                              |
|---|-----------------------|------------------------------|--------------------|------------------------------|
|   | Carrying<br>Amount    | Fair<br>Value <sup>(1)</sup> | Carrying<br>Amount | Fair<br>Value <sup>(1)</sup> |
| Vacation ownership notes receivable securitized                                       | \$ 580                | \$ 693                       | \$ 719             | \$ 865                       |
| Vacation ownership notes receivable non-securitized                                   | 332                   | 376                          | 251                | 267                          |
| Total financial assets  | \$ 912                | \$ 1,069                     | \$ 970             | \$ 1,132                     |
| Non-recourse debt associated with vacation ownership notes receivable securitizations | \$ (534)              | \$ (546)                     | \$ (674)           | \$ (695)                     |
| Other debt  | (4)                   | (4)                          | (4)                | (4)                          |
| Mandatorily redeemable preferred stock of consolidated subsidiary                     | (40)                  | (44)                         | (40)               | (44)                         |
| Liability for Marriott Rewards customer loyalty program                               | (92)                  | (86)                         | (114)              | (110)                        |
| Other liabilities   | (6)                   | (6)                          | (6)                | (6)                          |
| Total financial liabilities   | \$ (676)              | \$ (686)                     | \$ (838)           | \$ (859)                     |

(1) Fair value of financial instruments has been determined using Level 3 inputs.  
*Vacation Ownership Notes Receivable*

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

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

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

| (\$ in millions)  |  | At September 12, 2014 |               | At January 3, 2014 |               |
|---|--|-----------------------|---------------|--------------------|---------------|
|   |  | Carrying Amount       | Fair Value    | Carrying Amount    | Fair Value    |
| Vacation ownership notes receivable eligible for securitization     |  | \$ 193                | \$ 237        | \$ 73              | \$ 89         |
| Vacation ownership notes receivable not eligible for securitization |  | 139                   | 139           | 178                | 178           |
| <b>Total vacation ownership notes receivable non-securitized</b>    |  | <b>\$ 332</b>         | <b>\$ 376</b> | <b>\$ 251</b>      | <b>\$ 267</b> |

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.

**5. DISPOSITIONS**

We entered into the following disposition transactions in furtherance of our initiative to dispose of excess undeveloped and partially developed land.

During the third quarter of 2014, we entered into a purchase and sale agreement to dispose of undeveloped and partially developed land, an operating golf course, spa and clubhouse and related facilities, at The Abaco Club on Winding Bay ( The Abaco Club ) in the Bahamas. The transaction contemplated by the purchase and sale agreement is subject to a number of closing conditions, and we cannot be certain that the transaction will be completed in a timely manner, or at all. If the transaction is completed as contemplated by the purchase and sale agreement, we will account for the sale under the full accrual method in accordance with the guidance on accounting for sales of real estate. See Footnote No. 8, Contingencies and Commitments, for additional discussion of this pending transaction.

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During the second quarter of 2014, we completed the sale of a parcel of undeveloped land on Singer Island, Florida for gross cash proceeds of \$11 million. We accounted for the sale under the full accrual method in accordance with the guidance on accounting for sales of real estate and recorded a gain of less than \$1 million, which is included in the Gains and other income line on the Statement of Income for the thirty-six weeks ended September 12, 2014.

During the second quarter of 2014, we entered into a purchase and sale agreement to dispose of undeveloped and partially developed land, an operating golf course and related assets, in Kauai, Hawaii for \$60 million in gross cash proceeds. The transaction contemplated by the purchase and sale agreement is subject to a number of closing conditions, and we cannot be certain that the transaction will be completed in a timely manner, or at all. If the transaction is completed as contemplated by the purchase and sale agreement, we will account for the sale under the full accrual method in accordance with the guidance on accounting for sales of real estate.

During the first quarter of 2014, we disposed of a golf course and adjacent undeveloped land in Orlando, Florida for \$24 million in gross cash proceeds. As a condition of the sale, we will continue to operate the golf course until the end of the first quarter of 2015 at our own risk. We will utilize the performance of services method to record a gain from the sale, which we estimate will be between \$2 million to \$3 million over the period during which we will operate the golf course, of which approximately \$2 million is included in the Gains and other income line on the Statement of Income for the thirty-six weeks ended September 12, 2014.

**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.

|  | Twelve Weeks Ended                |                                  | Thirty-Six Weeks Ended            |                                  |
|--|-----------------------------------|----------------------------------|-----------------------------------|----------------------------------|
| <i>(in millions, except per share amounts)</i>   | September 12, 2014 <sup>(1)</sup> | September 6, 2013 <sup>(2)</sup> | September 12, 2014 <sup>(1)</sup> | September 6, 2013 <sup>(2)</sup> |
| <b>Computation of Basic Earnings Per Share</b>   |                                   |                                  |                                   |                                  |
| Net income                                       | \$ 25                             | \$ 25                            | \$ 80                             | \$ 74                            |
| Weighted average shares outstanding              | 33.4                              | 35.5                             | 34.2                              | 35.4                             |
| Basic earnings per share                         | \$ 0.77                           | \$ 0.70                          | \$ 2.35                           | \$ 2.10                          |
| <b>Computation of Diluted Earnings Per Share</b> |                                   |                                  |                                   |                                  |
| Net income                                       | \$ 25                             | \$ 25                            | \$ 80                             | \$ 74                            |
| Weighted average shares outstanding              | 33.4                              | 35.5                             | 34.2                              | 35.4                             |

|                                       |         |         |         |         |
|---------------------------------------|---------|---------|---------|---------|
| Effect of dilutive securities         |         |         |         |         |
| Employee stock options and SARs       | 0.5     | 0.7     | 0.6     | 0.7     |
| Restricted stock units                | 0.5     | 0.5     | 0.4     | 0.5     |
| Shares for diluted earnings per share | 34.4    | 36.7    | 35.2    | 36.6    |
| Diluted earnings per share            | \$ 0.75 | \$ 0.67 | \$ 2.28 | \$ 2.03 |

- (1) The computations of diluted earnings per share exclude approximately 179,000 shares of common stock, the maximum number of shares issuable as of September 12, 2014 upon the vesting of certain performance-based awards that have not already been included in the calculation, 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 229,000 shares of common stock, the maximum number of shares issuable as of September 6, 2013 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.

For the twelve and thirty-six week periods ended September 12, 2014 and September 6, 2013, we have not excluded any shares underlying stock options or stock appreciation rights ( SARs ) that may be settled in shares of common stock from our calculation of diluted earnings per share as no exercise prices were greater than the average market prices for the applicable period.



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The following table shows the composition of our inventory balances:

| (\$ in millions)                        | At September 12, At January 3, |        |
|---|--------------------------------|--------|
|   | 2014                           | 2014   |
| Finished goods <sup>(1)</sup>           | \$ 446                         | \$ 369 |
| Work-in-progress <sup>(2)</sup>         |                                | 151    |
| Land and infrastructure <sup>(3)</sup>  | 348                            | 344    |
| Real estate inventory                   | 794                            | 864    |
| Operating supplies and retail inventory | 5                              | 6      |
|   | \$ 799                         | \$ 870 |

- (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 vacation ownership products under active construction for which a certificate of occupancy has not been received.
- (3) Includes sales centers that are expected to be converted into vacation ownership products to be sold in the future. 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.

| (\$ in millions)<br>Segment                       | Maximum Potential Liability for Expected<br>Amount of Future Fundings |                       |
|---|---|-----------------------|
|   | At September<br>12, 2014  | At September 12, 2014 |
| Asia Pacific                                      | \$ 10   | \$                    |
| North America                                     | 3   |                       |
| Total guarantees where we are the primary obligor | \$ 13   | \$                    |

We included our liability of less than \$1 million for expected future fundings for guarantees on our Balance Sheet at September 12, 2014 in the Other caption within Liabilities.

#### *Commitments and Letters of Credit*

In addition to the guarantees we describe in the preceding paragraphs, as of September 12, 2014, 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 \$39 million, of which we expect \$3 million, \$13 million, \$8 million, \$6 million, \$3 million and \$6 million will be paid in 2014, 2015, 2016, 2017, 2018 and thereafter, respectively.

Commitments to subsidize vacation ownership associations were \$3 million, which we expect will be paid in 2014.

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Surety bonds issued as of September 12, 2014 totaled \$76 million, the majority of which were requested by federal, state or local governments to secure payment of obligations related to our operations.

As of September 12, 2014, we had \$3 million of letters of credit outstanding under our \$200 million revolving credit facility (as amended, the Revolving Corporate Credit Facility ).

### *Loss Contingencies*

In 2012, we agreed to settle two lawsuits in which certain of our subsidiaries were defendants. The plaintiffs in the lawsuits, residential unit owners at The Ritz-Carlton Club and Residences, San Francisco (the RCC San Francisco ), a project within our North America segment, questioned the adequacy of disclosures made prior to 2008, when our business was part of Marriott International, regarding bonds issued for that project under California's Mello-Roos Community Facilities Act of 1982 (the Mello-Roos Act ) and their payment obligations with respect to such bonds. In 2013, we agreed to settle a third lawsuit in which another residential unit owner at the RCC San Francisco had asserted similar claims. As a result of these settlements, in 2013 we reversed \$1 million of the \$41 million previously recognized expense recorded in 2012 in connection with these matters.

On December 21, 2012, Jon Benner, an owner of fractional interests in 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 the Mello-Roos Act. The plaintiff alleges 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 constitute intentional and negligent misrepresentation, fraud and fraudulent concealment. The relief sought includes damages in an unspecified amount, rescission of the purchases, restitution and disgorgement of profits. Thomas Wanless and Matthew Jenner, owners of another fractional interest at the RCC San Francisco, filed a complaint in San Francisco Superior Court on October 15, 2013, that contains similar allegations and seeks similar relief. The Wanless complaint has been consolidated with the Benner action and with a similar action previously filed by fractional interest owner Elisabeth Gani. These three lawsuits are distinct from the other lawsuits described above relating to the RCC San Francisco because the disclosure process for the sale of fractional interests differs from that applicable to the sale of whole-ownership units. On September 5, 2014, we reached an agreement in principle to settle the Benner action, which agreement is subject to Court approval because the case is a putative class action. As a result of the agreement in principle, we recorded a charge of \$3 million, which is included in the Litigation settlement line on the Statements of Income for the twelve and thirty-six weeks ended September 12, 2014. Court approval of the settlement of the Benner action would not affect the Gani and Wanless cases because none of the plaintiffs in those actions are members of the stipulated Benner class. We dispute the material allegations of the Gani and Wanless complaints and intend to defend against these actions vigorously. Given the early stages of the Gani and Wanless actions and the inherent uncertainties of litigation, we cannot estimate a range of the potential liability, if any, at this time.

On December 11, 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 allege that program changes beginning in 2009 caused an actionable decrease in the value of the fractional interests purchased. The relief sought includes 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. We continue to dispute the material

allegations remaining in the amended complaint and intend to continue to defend against this action vigorously. Given the early stages of the action and the inherent uncertainties of litigation, we cannot estimate a range of the potential liability, if any, at this time.

On January 30, 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. On August 23, 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

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decision of the Intermediate Court of Appeals and heard oral argument in the case on April 3, 2014, but has not yet taken any action to affirm or reverse that decision. Given the inherent uncertainties of litigation, we cannot estimate a range of the potential liability, if any, at this time. In the second quarter of 2014, we recorded a nominal charge as a result of the agreement by owners of two residential units to release their claims in this action.

In the fourth quarter of 2013, we reached an agreement with several parties involved in Kapalua Bay, including the foreclosure purchasers of the unsold interests in the project, other entities that have equity investments in the Joint Venture, the Kapalua Bay Association, and the Kapalua Bay Vacation Owners Association (the fractional owners association), to mutually settle pending and threatened claims relating to the project (the Kapalua Bay Settlement). In connection with the Kapalua Bay Settlement, owners of 132 of the 177 developer-sold fractional interests (including owners of two fractional interests who were plaintiffs in the Charles action described below) provided full releases to us and other parties associated with the project. In addition, one residential owner provided a full release to us and other parties associated with the project. As a result, we recorded a charge of \$8 million in 2013, which was partially offset by \$7 million of income recorded for partial repayment of our previously fully reserved receivables due from the Joint Venture. Both were included in Impairment charges on equity investment on the consolidated statement of operations for the year ended January 3, 2014.

On June 19, 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 in connection with the Kapalua Bay Settlement described above.

On June 28, 2013, owners of 35 residences and lots at The Abaco Club 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. Plaintiffs also allege 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. Plaintiffs allege statutory and common law claims for breach of contract, breach of fiduciary duty, and fraud and seek compensatory and punitive damages. We have filed a motion to dismiss the complaint. We dispute the material allegations in this complaint and intend to defend against this action vigorously. 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. See Footnote No. 5, Dispositions, for information regarding the purchase and sale agreement subsequently executed by the parties to the letter of intent.

Although the abatement period provided by the letter of intent has elapsed, the civil action remains inactive. The transaction contemplated by the purchase and sale agreement is subject to a number of closing conditions, and we cannot be certain that the transaction will be completed in a timely manner, or at all. If the transaction is completed as contemplated by the purchase and sale agreement, we could incur a non-cash loss of up to \$25 million, and all claims asserted against us in this matter would be dismissed with prejudice.

On March 27, 2014, Salvatore DeSantis, an owner of a one-week vacation ownership interest at Marriott's Harbour Lake, a project within our North America segment, filed a complaint in Orange County, Florida, Circuit Court against us and certain of our subsidiaries on behalf of himself and a putative class consisting of all owners of weeks-based Marriott Vacation Club vacation ownership interests on June 20, 2010, the date of the launch of our North America points-based program, Marriott Vacation Club Destinations ( MVCD ). The plaintiff alleges that the introduction of the MVCD program caused an actionable decrease in the value of his vacation ownership interest. The relief sought includes compensatory and exemplary damages, restitution, injunctive relief, interest and attorneys' fees pursuant to the Florida Unfair and Deceptive Trade Practices Act and common-law theories of breach of contract and breach of an implied covenant of good faith and fair dealing. We removed the matter to the United States District Court for the Middle District of Florida. On May 30, 2014, we filed a motion to dismiss. In response, plaintiffs filed an amended complaint, to which we responded by filing a renewed motion to dismiss on July 31, 2014, which motion is currently pending before the Court. We dispute the material allegations in this complaint and intend to defend against this action vigorously. Given the early stages of the action and the inherent uncertainties of litigation, we cannot estimate a range of the potential liability, if any, at this time.

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On May 20, 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; two owners of such products at one of our resorts in California; and William Sterman, an owner of such products at one of our resorts in Massachusetts. The claimants, all of whom are represented by a single law firm, make allegations similar to those alleged by Mr. DeSantis discussed above 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 cannot 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 and Mr. Sterman filed claims based on the allegations listed above with the American Arbitration Association on August 6, 2014, and August 19, 2014, respectively. We filed answering statements in each proceeding, and initiated declaratory judgment actions in the United States District Courts of Hawaii and the Middle District of Florida against the Flynns and Mr. Sterman, respectively, seeking to enjoin the arbitration proceedings. We dispute the material allegations in the arbitration claims, as well as the allegations in the notice from the California owners, and intend to defend against them vigorously. Given the early stages of the arbitration proceedings and the related litigation, 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 \$19 million, of which \$9 million is included within liabilities on our Balance Sheet at September 12, 2014. This estimate is based on our current development plans, which remain subject to change, and we expect the phases currently under development will be completed by 2017.

During the second quarter of 2014, we agreed to settle a dispute with a service provider relating to services provided to us prior to 2011. In connection with the settlement, we received a one-time payment of \$8 million after the end of the second quarter from the service provider, which no longer provides services to us. We recorded a gain of \$8 million as a result of the settlement, which is included in the Litigation settlement line on the Statement of Income for the thirty-six weeks ended September 12, 2014.

**9. DEBT**

The following table provides detail on our debt balances:

| <i>(\$ in millions)</i>   | <b>At September 12,<br/>2014</b> | <b>At January 3,<br/>2014</b> |
|---|----------------------------------|-------------------------------|
| Vacation ownership notes receivable securitizations, interest rates ranging from 2.2% to 7.2% (weighted average interest rate of 3.5%) <sup>(1)</sup> | \$ 534                           | \$ 674                        |
| Other   | 4                                | 4                             |
|   | <b>\$ 538</b>                    | <b>\$ 678</b>                 |

(1) Interest rates are as of September 12, 2014.

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. As of the end of the third quarter of 2014, the Warehouse Credit Facility was scheduled to terminate on September 5, 2015 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. See Footnote No. 16, Subsequent Events, for a discussion of the renewal of the Warehouse Credit Facility, pursuant to which, among other things, the termination date was changed to September 15, 2016. 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 a year.

During the second quarter of 2014, we completed the securitization of a pool of \$24 million of primarily highly-seasoned vacation ownership notes receivable that we had previously classified as not being eligible for securitization. In connection with the securitization, investors purchased in a private placement \$23 million in vacation ownership loan backed notes from the Kyuka Owner Trust 2014-A (the 2014-A Trust ) with a per annum interest rate of 6.25 percent. We received gross cash proceeds of \$23 million, before transaction expenses and required reserves. In addition, we received a subordinated residual interest in



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the 2014-A Trust through which we expect to realize the remaining value of the securitized loans over time. Of the \$23 million, less than \$1 million was used to pay transaction expenses and fund required reserves. The remainder will be used for general corporate purposes. We accounted for the securitization as a secured borrowing and therefore did not recognize a gain or loss as a result of this transaction. The securitized loans had previously been classified as not being eligible for securitization using criteria applicable to then current securitization transactions in the ABS market because they did not meet certain representation criteria required in such securitizations, or because of other factors that may have reflected investor demand in a securitization transaction. See Footnote No. 16, Subsequent Events, for information on a securitization transaction completed subsequent to the end of the third quarter of 2014.

Although no cash borrowings were outstanding as of September 12, 2014 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 most of our entities that are organized in the U.S.), in each case including inventory, subject to certain exceptions.

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

| <i>(\$ in millions)</i>             | <b>Vacation<br/>Ownership<br/>Notes Receivable<br/>Securitizations <sup>(1)</sup></b> |     | <b>Other Debt</b> | <b>Total</b> |
|-------------------------------------|---|-----|-------------------|--------------|
| <b>Debt Principal Payments Year</b> |   |     |                   |              |
| 2014                                | \$  | 34  | \$                | \$ 34        |
| 2015                                |   | 97  |                   | 97           |
| 2016                                |   | 92  |                   | 92           |
| 2017                                |   | 64  |                   | 64           |
| 2018                                |   | 54  |                   | 54           |
| Thereafter                          |   | 193 | 4                 | 197          |
| Balance at September 12, 2014       | \$  | 534 | \$ 4              | \$ 538       |

<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 \$19 million in the thirty-six weeks ended September 12, 2014 and \$26 million in the thirty-six weeks ended September 6, 2013.

*Debt Associated with Vacation Ownership Notes Receivable Securitizations*

Each of the transactions in which we have securitized vacation ownership notes receivable contains various triggers relating to the performance of the underlying vacation ownership notes receivable. If a pool of securitized vacation ownership notes receivable fails to perform within the pool's established parameters (default or delinquency thresholds

vary by transaction), transaction provisions effectively redirect the monthly excess spread we would otherwise receive from that pool (attributable to the interests we retained) to accelerate the principal payments to investors (taking into account the subordination of the different tranches to the extent there are multiple tranches) until the performance trigger is cured. During the thirty-six weeks ended September 12, 2014, and as of September 12, 2014, no pools failed to perform within the established parameters. As of September 12, 2014, we had 7 securitized vacation ownership notes receivable pools outstanding.

*Revolving Corporate Credit Facility*

On September 10, 2014, we amended and restated the Revolving Corporate Credit Facility. The amendment and restatement resulted in, among other things, an extension of the final maturity of the lenders' commitments from November 21, 2016 to September 10, 2019, a decrease in the interest margin on borrowings, lower commitment fees on unused availability and additional flexibility on determining whether to pledge certain collateral. Terms of the Revolving Corporate Credit Facility as amended and restated are described below.

The Revolving Corporate Credit Facility has a borrowing capacity of \$200 million, including a letter of credit sub-facility of \$100 million, and provides support for our business, including ongoing liquidity and letters of credit. Borrowings under the Revolving Corporate Credit Facility generally bear interest at a floating rate at the Eurodollar rate plus an applicable margin that varies from 1.625 percent to 3.125 percent depending on our credit rating. In addition, we pay a commitment fee on the unused availability under the Revolving Corporate Credit Agreement at a rate that varies from 20 basis points per annum to 50 basis points per annum.

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The Revolving Corporate Credit Facility contains affirmative and negative covenants and representations and warranties customary for financings of this type. In addition, the Revolving Corporate Credit Facility contains financial covenants, including covenants requiring us to maintain (1) a minimum consolidated tangible net worth (as defined in the Revolving Corporate Credit Facility); (2) a maximum ratio of consolidated total debt to consolidated adjusted EBITDA (as defined in the Revolving Corporate Credit Facility) of 5.25 to 1; (3) a minimum consolidated adjusted EBITDA to interest expense ratio of not less than 3 to 1 and a ratio of our borrowing base amount (as defined in the Revolving Corporate Credit Facility) to the sum of (i) total extensions of credit under the Revolving Corporate Credit Facility and (ii) the excess (if any) of all unrealized losses over all unrealized profits of certain swap agreements of at least 1.25 to 1.

The Revolving Corporate Credit Facility is guaranteed by Marriott Vacations Worldwide and by each of our direct and indirect, existing and future, domestic subsidiaries (excluding certain bankruptcy remote special purpose subsidiaries), and is secured by a perfected first priority security interest in substantially all of our assets and the assets of the guarantors, subject to certain exceptions. As of September 12, 2014, we were in compliance with the requirements of applicable financial and operating covenants.

**10. MANDATORILY REDEEMABLE PREFERRED STOCK OF CONSOLIDATED SUBSIDIARY**

In October 2011, our subsidiary, MVW US Holdings, Inc. ( MVW US Holdings ) issued \$40 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. For the first five years after issuance, 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. On the fifth anniversary of issuance, 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 million plus any accrued and unpaid dividends and an additional premium if liquidation occurs during the first five years after the issuance of the preferred stock. As of September 12, 2014, 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.

**11. SHAREHOLDERS EQUITY**

Marriott Vacations Worldwide has 100,000,000 authorized shares of common stock, par value of \$.01 per share. At September 12, 2014, there were 35,961,779 shares of Marriott Vacations Worldwide common stock issued, of which 32,998,759 shares were outstanding and 2,963,020 shares were held as treasury stock. At January 3, 2014, there were 35,637,765 shares of Marriott Vacations Worldwide common stock issued, of which 35,132,742 shares were outstanding and 505,023 shares were held as treasury stock.

Marriott Vacations Worldwide has 2,000,000 authorized shares of preferred stock, par value of \$.01 per share, none of which were issued or outstanding as of September 12, 2014 or January 3, 2014.

The following table details changes in shareholders' equity during the thirty-six weeks ended September 12, 2014:

| (\$ in millions)   | Accumulated<br>Other |                 |        |                   | Total Equity |
|--|----------------------|-----------------|--------|-------------------|--------------|
|  | Treasury Stock       | Paid-In Capital | Income | Retained Earnings |              |
| Balance at January 3, 2014   | \$ (26)              | \$ 1,130        | \$ 23  | \$ 82             | \$ 1,209     |
| Net income   |                      |                 |        | 80                | 80           |
| Foreign currency translation adjustments   |                      |                 | (3)    |                   | (3)          |
| Amounts related to share-based compensation  |                      | 6               |        |                   | 6            |
| Adjustment to reclassification of Marriott International investment to Additional paid-in capital <sup>(1)</sup> |                      | (2)             |        |                   | (2)          |
| Repurchase of common stock   | (135)                | (25)            |        |                   | (160)        |
| Balance at September 12, 2014  | \$ (161)             | \$ 1,109        | \$ 20  | \$ 162            | \$ 1,130     |

- <sup>(1)</sup> Consists of an adjustment to Deferred tax liabilities for changes in the valuation of Marriott Vacations Worldwide at the time of the Spin-Off.

**Table of Contents***Share Repurchase Program*

On October 8, 2013, our Board of Directors authorized a share repurchase program under which we may purchase up to 3,500,000 shares of our common stock prior to March 28, 2015. The specific timing, amount and other terms of the repurchases will depend on market conditions, corporate and regulatory requirements and other factors. Acquired shares of our common stock are held as treasury shares carried at cost in our Financial Statements. In connection with the repurchase program, we are authorized to adopt one or more trading plans pursuant to the provisions of Rule 10b5-1 under the Securities Exchange Act of 1934, as amended.

The following table summarizes share repurchase activity under our current share repurchase program for the thirty-six weeks ended September 12, 2014:

| <i>(\$ in millions, except per share amounts)</i> | <b>Number of<br/>Shares<br/>Repurchased</b> | <b>Cost of<br/>Shares<br/>Repurchased</b> | <b>Average<br/>Price Paid<br/>per Share</b> |
|---|---|---|---|
| As of January 3, 2014                             | 505,023                                     | \$ 26                                     | \$ 50.76                                    |
| For the thirty-six weeks ended September 12, 2014 | 2,457,997                                   | 135                                       | 54.99                                       |
| As of September 12, 2014                          | 2,963,020                                   | \$ 161                                    | \$ 54.26                                    |

On September 11, 2014, pursuant to our share repurchase program, we entered into an agreement with a financial institution to repurchase \$25 million of our common stock under an accelerated share repurchase program. Upon completion of the program, subsequent to the end of the third quarter of 2014, the financial institution had delivered 401,291 shares of common stock, which are not included in the table above. See Footnote No. 16, Subsequent Events for additional information on our share repurchase program.

**12. SHARE-BASED COMPENSATION**

A total of 6 million shares were authorized for issuance under the Marriott Vacations Worldwide Corporation Stock and Cash Incentive Plan (the Marriott Vacations Worldwide Stock Plan). As of September 12, 2014, approximately 2 million shares were available for grants under the Marriott Vacations Worldwide 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 \$3 million for each of the twelve weeks ended September 12, 2014 and September 6, 2013, and \$9 million and \$8 million for the thirty-six weeks ended September 12, 2014 and September 6, 2013, respectively. Our deferred compensation liability related to unvested awards held by our employees totaled \$16 million and \$13 million at September 12, 2014 and January 3, 2014, respectively.

*Restricted Stock Units ( RSUs )*

We granted 163,685 RSUs, exclusive of RSUs with performance vesting conditions, to our employees and non-employee directors during the thirty-six weeks ended September 12, 2014. 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 on the date of grant. RSUs granted during the thirty-six weeks ended September 12, 2014 had a weighted average grant-date fair value of \$52.51.

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

*Stock Appreciation Rights ( SARs )*

We granted 57,906 SARs to members of management during the thirty-six weeks ended September 12, 2014. These SARs had a weighted average grant-date fair value of \$27.98 and an exercise price of \$52.09. 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 Marriott Vacations Worldwide Stock Plan during the thirty-six weeks ended September 12, 2014, 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 \$0 based on our expected dividend rate.

The following table outlines the assumptions used to estimate the fair value of grants during the thirty-six weeks ended September 12, 2014, all of which were issued in the first quarter of 2014:

|                          |        |
|--------------------------|--------|
| Expected volatility      | 55.10% |
| Dividend yield           | 0.00%  |
| Risk-free rate           | 1.84%  |
| 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 September 12, 2014:

| <i>(\$ in millions)</i>                              | <b>Vacation<br/>Ownership<br/>Notes Receivable<br/>Securitizations</b> | <b>Warehouse<br/>Credit<br/>Facility</b> | <b>Total</b>  |
|--|--|--|---------------|
| <b>Consolidated Assets</b>                           |  |  |               |
| Vacation ownership notes receivable, net of reserves | \$ 580   | \$                                       | \$ 580        |
| Interest receivable                                  | 3  |  | 3             |
| Restricted cash                                      | 36   |  | 36            |
| <b>Total</b>   | <b>\$ 619</b>  | <b>\$</b>                                | <b>\$ 619</b> |
| <b>Consolidated Liabilities</b>                      |  |  |               |
| Interest payable                                     | \$ 2   | \$                                       | \$ 2          |
| Debt   | 534  |  | 534           |
| <b>Total</b>   | <b>\$ 536</b>  | <b>\$</b>                                | <b>\$ 536</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 September 12, 2014:

| (\$ in millions)                | Vacation   |                                 | Total |
|---------------------------------|--|---------------------------------|-------|
|                                 | Ownership<br>Notes Receivable<br>Securitizations | Warehouse<br>Credit<br>Facility |       |
| Interest income                 | \$ 19  | \$                              | \$ 19 |
| Interest expense to investors   | \$ 4   | \$ 1                            | \$ 5  |
| Debt issuance cost amortization | \$ 1   | \$                              | \$ 1  |

The following table shows the interest income and expense recognized as a result of our involvement with these variable interest entities during the thirty-six weeks ended September 12, 2014:

| (\$ in millions)                | Vacation   |                                 | Total |
|---------------------------------|--|---------------------------------|-------|
|                                 | Ownership<br>Notes Receivable<br>Securitizations | Warehouse<br>Credit<br>Facility |       |
| Interest income                 | \$ 60  | \$                              | \$ 60 |
| Interest expense to investors   | \$ 14  | \$ 1                            | \$ 15 |
| Debt issuance cost amortization | \$ 2   | \$ 1                            | \$ 3  |

The following table shows cash flows between us and the vacation ownership notes receivable securitization variable interest entities during the thirty-six weeks ended September 12, 2014 and September 6, 2013:

**Thirty-Six Weeks Ended**

| (\$ in millions)   | September 12, 2014 | September 6, 2013 |
|--|--------------------|-------------------|
| <b>Cash Inflows</b>  |                    |                   |
| Net proceeds from vacation ownership notes receivable securitization   | \$ 23              | \$ 246            |
| Principal receipts   | 125                | 117               |
| Interest receipts  | 61                 | 63                |
| Reserve release  | 2                  |                   |
| Total  | 211                | 426               |
| <b>Cash Outflows</b>   |                    |                   |
| Principal to investors   | (118)              | (107)             |
| Voluntary repurchases of defaulted vacation ownership notes receivable | (18)               | (19)              |
| Voluntary clean-up call  | (27)               | (51)              |
| Interest to investors  | (14)               | (17)              |
| Total  | (177)              | (194)             |

|                       |    |    |    |     |
|-----------------------|----|----|----|-----|
| <b>Net Cash Flows</b> | \$ | 34 | \$ | 232 |
|-----------------------|----|----|----|-----|

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The following table shows cash flows between us and the Warehouse Credit Facility variable interest entity during the thirty-six weeks ended September 12, 2014 and September 6, 2013:

| (\$ in millions)   | Thirty-Six Weeks Ended |                   |
|--|------------------------|-------------------|
|  | September 12, 2014     | September 6, 2013 |
| <b>Cash Inflows</b>  |                        |                   |
| Net proceeds from vacation ownership notes receivable securitization | \$                     | \$ 109            |
| Principal receipts   |                        | 16                |
| Interest receipts  |                        | 7                 |
| Reserve release  |                        | 1                 |
| Total  |                        | 133               |
| <b>Cash Outflows</b>   |                        |                   |
| Principal to investors   |                        | (13)              |
| Repayment of Warehouse Credit Facility                               |                        | (98)              |
| Interest to investors  | (1)                    | (2)               |
| Total  | (1)                    | (113)             |
| <b>Net Cash Flows</b>  | \$ (1)                 | \$ 20             |

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 entities that 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.

*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. In 2010, the continued application of equity losses to our investment in the remaining outstanding notes receivable balance reduced its carrying value to zero. In addition, the Joint Venture was unable to pay promissory notes that matured on December 31, 2010 and August 1, 2011. Subsequently, the lenders issued a notice of default to the Joint Venture. The lenders initiated foreclosure proceedings with respect to unsold interests in the project. A foreclosure auction was held and, on January 31, 2013, a bid was accepted and confirmed. The sale was completed, and on June 13, 2013, we received \$7 million of cash as a partial repayment of our previously fully reserved receivables due from the Joint Venture. As a result of the Kapalua Bay Settlement discussed in Footnote No. 8, Contingencies and Commitments, the

Joint Venture's obligations with respect to the remaining receivables were terminated.

We gave notice of breach or termination of various agreements, including management agreements with the owners associations at the project, marketing and sales agreements with the Joint Venture, and other agreements pursuant to which we provided services to the Joint Venture and, as we were unable to reach agreement with the owners associations with respect to our continued provision of services, termination of these agreements was effective on December 31, 2012. At September 12, 2014, we have an accrual of \$8 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. ORGANIZATIONAL AND SEPARATION RELATED CHARGES**

Subsequent to the Spin-Off, Marriott International continued to provide us with certain information technology, payroll, human resources and other administrative services pursuant to transition services agreements, most of which we had ceased using as of the end of 2013. In connection with our continued organizational and separation related activities, we have incurred certain expenses to complete our separation from Marriott International. These costs primarily relate to establishing our own information technology systems and services, independent payroll and accounts payable functions and reorganizing existing human resources, information technology and related finance and accounting organizations to support our stand-alone public company needs. We expect these efforts to be substantially completed by the end of 2015. Organizational and separation related charges as reflected on our Statements of Income

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were \$1 million and \$4 million for the twelve weeks ended September 12, 2014 and September 6, 2013, respectively, and \$3 million and \$7 million for the thirty-six weeks ended September 12, 2014 and September 6, 2013, respectively. In addition, \$2 million and \$4 million of additional separation related charges were capitalized to Property and equipment on our Balance Sheets during the thirty-six weeks ended September 12, 2014 and September 6, 2013, respectively.

**15. 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 develop, market, sell and manage vacation ownership products in several locations in Europe. 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*

|                         | Twelve Weeks Ended |                   | Thirty-Six Weeks Ended |                                  |
|-------------------------|--------------------|-------------------|------------------------|----------------------------------|
| <i>(\$ in millions)</i> | September 12, 2014 | September 6, 2013 | September 12, 2014     | September 6, 2013 <sup>(1)</sup> |
| North America           | \$ 364             | \$ 365            | \$ 1,093               | \$ 1,077                         |
| Europe                  | 38                 | 36                | 97                     | 107                              |
| Asia Pacific            | 11                 | 11                | 35                     | 39                               |
| Total segment revenues  | 413                | 412               | 1,225                  | 1,223                            |

## Corporate and other

|        |    |     |          |    |       |
|--------|----|-----|----------|----|-------|
| \$ 413 | \$ | 412 | \$ 1,225 | \$ | 1,223 |
|--------|----|-----|----------|----|-------|

- (1) Europe and Asia Pacific segment revenues have been restated to correct certain immaterial prior period errors. For the thirty-six weeks ended September 12, 2014, \$1 million of cost reimbursements related to the twelve weeks ended March 28, 2014 were reclassified from the Asia Pacific segment to the Europe segment. For the twelve and thirty-six weeks ended September 6, 2013, \$2 million and \$5 million of cost reimbursements were reclassified from the Asia Pacific segment to the Europe segment, respectively.

**Table of Contents***Net Income*

|                                 | Twelve Weeks Ended |                   | Thirty-Six Weeks Ended |                   |
|---------------------------------|--------------------|-------------------|------------------------|-------------------|
| <i>(\$ in millions)</i>         | September 12, 2014 | September 6, 2013 | September 12, 2014     | September 6, 2013 |
| North America                   | \$ 86              | \$ 87             | \$ 267                 | \$ 249            |
| Europe                          | 6                  | 7                 | 13                     | 19                |
| Asia Pacific                    | 1                  |                   | 4                      | 5                 |
| Total segment financial results | 93                 | 94                | 284                    | 273               |
| Corporate and other             | (50)               | (54)              | (151)                  | (159)             |
| Provision for income taxes      | (18)               | (15)              | (53)                   | (40)              |
|                                 | \$ 25              | \$ 25             | \$ 80                  | \$ 74             |

*Assets*

| <i>(\$ in millions)</i> | At September 12, 2014 | At January 3, 2014 |
|-------------------------|-----------------------|--------------------|
| North America           | \$ 1,966              | \$ 2,125           |
| Europe                  | 98                    | 103                |
| Asia Pacific            | 82                    | 84                 |
| Total segment assets    | 2,146                 | 2,312              |
| Corporate and other     | 201                   | 320                |
|                         | \$ 2,347              | \$ 2,632           |

**16. SUBSEQUENT EVENTS***Renewal of Warehouse Credit Facility*

On September 15, 2014, we amended and restated the agreements associated with the Warehouse Credit Facility. As a result, the revolving period was extended to September 15, 2016, and borrowings under the Warehouse Credit Facility bear interest at a rate based on the one-month LIBOR and bank conduit commercial paper rates plus 1.0 percent per annum and are generally limited at any point to the sum of the products of the applicable advance rates and the eligible vacation ownership notes receivable at such time. Other terms of the Warehouse Credit Facility are substantially similar to those in effect prior to the amendment and restatement.

*Completion of Securitization Transaction*

On October 9, 2014, we completed a securitization of a pool of \$250 million of vacation ownership notes receivable. Of such securitized loans, \$205 million were purchased on October 9, 2014 by the MVW Owner Trust 2014-1 (the 2014-1 Trust ), and all or a portion of the remaining loans may be purchased by the 2014-1 Trust prior to February 16,

2015. In connection with the securitization, investors purchased in a private placement \$240 million in vacation ownership loan backed notes (the Notes ) from the 2014-1 Trust. Two classes of Notes were issued by the 2014-1 Trust: \$216 million of Class A Notes and \$24 million of Class B Notes. The Class A Notes have an interest rate of 2.25 percent and the Class B Notes have an interest rate of 2.70 percent, for an overall weighted average interest rate of 2.29 percent. Of the \$240 million gross cash proceeds we received, \$43 million will be held by the 2014-1 Trust until it purchases all or a portion of the remaining securitized loans or, if not used for such purpose, returned to the investors as a partial repayment of the Notes.

*Share Repurchase Program Approval by the Board*

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. The specific timing, amount and other terms of the repurchases will depend on market conditions, corporate and regulatory requirements and other factors. Acquired shares of our common stock are held as treasury shares carried at cost in our Financial Statements. In connection with the repurchase program, we are authorized to adopt one or more trading plans pursuant to the provisions of Rule 10b5-1 under the Securities Exchange Act of 1934, as amended.

*Declaration of Dividend*

On October 14, 2014 our Board of Directors declared a quarterly dividend of \$0.25 per share to be paid on November 12, 2014 to shareholders of record as of October 28, 2014.



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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). As a result of the Spin-Off, we are an independent public company, and our common stock is 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.

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

Subsequent to the Spin-Off, Marriott International continued to provide us with certain information technology, payroll, human resources and other administrative services pursuant to transition services agreements, most of which we had ceased using as of the end of 2013. In connection with our continued organizational and separation related activities, we have incurred certain expenses to complete our separation from Marriott International. These costs primarily relate to establishing our own information technology systems and services, independent payroll and accounts payable functions and reorganizing existing human resources, information technology, and related finance and accounting organizations to support our stand-alone public company needs. We expect these efforts to be

substantially completed in 2015.

Organizational and separation related charges as reflected on our Statements of Income, were \$1 million and \$4 million for the twelve weeks ended September 12, 2014 and September 6, 2013, respectively, and \$3 million and \$7 million for the thirty-six weeks ended September 12, 2014 and September 6, 2013, respectively. In addition, \$2 million and \$4 million of additional separation related charges were capitalized to Property and equipment on our Balance Sheets during the thirty-six weeks ended September 12, 2014 and September 6, 2013, respectively.

We expect to incur an additional \$7 million to \$9 million in connection with these organizational and separation related efforts by the end of 2015, of which we expect approximately \$6 million to be capitalized and amortized over the useful lives of the assets purchased to establish and support the functions and organizations described above. Once completed, we expect these efforts will generate over \$15 million of annualized savings. In addition to the \$10 million of annualized savings achieved through the end of 2013, \$3 million of incremental savings are reflected in our financial results for the thirty-six weeks ended September 12, 2014.

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### **Business Overview**

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. The Ritz-Carlton Hotel Company, L.L.C., a subsidiary of Marriott International, generally provides on-site management for Ritz-Carlton branded properties. 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.

Our business is grouped into three reportable segments: North America, Europe and Asia Pacific. As of September 12, 2014, we operated 62 properties in the United States and nine other countries and territories. We generate most of our revenues from four primary sources: selling vacation ownership products; managing our resorts; financing consumer purchases of vacation ownership products; and renting vacation ownership inventory.

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

#### *Sale of Vacation Ownership Products*

We recognize revenues from the sale of vacation ownership products when all of the following conditions exist:

A binding sales contract has been executed;

The statutory rescission period has expired;

The receivable is deemed collectible; and

The remainder of our obligations are substantially completed.

Sales of vacation ownership products may be made for cash or we may provide financing. For sales where we provide financing, we defer revenue recognition until we receive a minimum down payment equal to ten percent of the purchase price plus the fair value of 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. We calculate volume per guest ( VPG ) 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 in a given period. We believe that this operating metric is valuable in evaluating the effectiveness of our sales process as it combines the impact of average contract price with the number of touring guests who make a purchase.

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.

**Table of Contents***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 and certain transaction-based fees from owners and other third parties, including our external exchange company, for services we provide.

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 total 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, and certain transaction based expenses relating to our external exchange company.

*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>Thirty-Six Weeks Ended</b> |                          |
|--------------------|-------------------------------|--------------------------|
|                    | <b>September 12, 2014</b>     | <b>September 6, 2013</b> |
| Average FICO score | 729                           | 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.

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>Thirty-Six Weeks Ended</b> |                          |
|--------------------------|-------------------------------|--------------------------|
|                          | <b>September 12, 2014</b>     | <b>September 6, 2013</b> |
| Historical default rates | 2.9%                          | 3.2%                     |

*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 Marriott Vacation Club Destinations™ ( 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 alternate usage options, including Marriott Rewards Points and offerings available as part of the Explorer Collection, for owners who elect to exchange their inventory;

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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.

### *Other*

We also record other revenues and expenses which are primarily comprised of settlement fees and expenses from the sale of vacation ownership products.

### *Cost Reimbursements*

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

### *Consumer Financing Interest*

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 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

VPG.

*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 and thirty-six weeks ended September 12, 2014 compared to the twelve and thirty-six weeks ended September 6, 2013.

| (\$ in millions)                      | Twelve Weeks Ended |                   | Thirty-Six Weeks Ended |                   |
|---------------------------------------|--------------------|-------------------|------------------------|-------------------|
|                                       | September 12, 2014 | September 6, 2013 | September 12, 2014     | September 6, 2013 |
| <b>Revenues</b>                       |                    |                   |                        |                   |
| Sale of vacation ownership products   | \$ 156             | \$ 162            | \$ 453                 | \$ 472            |
| Resort management and other services  | 67                 | 65                | 197                    | 188               |
| Financing                             | 30                 | 32                | 90                     | 97                |
| Rental                                | 65                 | 65                | 191                    | 193               |
| Other                                 | 4                  | 4                 | 12                     | 13                |
| Cost reimbursements                   | 91                 | 84                | 282                    | 260               |
| Total revenues                        | 413                | 412               | 1,225                  | 1,223             |
| <b>Expenses</b>                       |                    |                   |                        |                   |
| Cost of vacation ownership products   | 49                 | 56                | 139                    | 157               |
| Marketing and sales                   | 74                 | 72                | 217                    | 220               |
| Resort management and other services  | 44                 | 45                | 132                    | 134               |
| Financing                             | 5                  | 5                 | 16                     | 16                |
| Rental                                | 54                 | 57                | 166                    | 169               |
| Other                                 | 4                  | 4                 | 9                      | 9                 |
| General and administrative            | 22                 | 23                | 67                     | 66                |
| Litigation settlement                 | 3                  |                   | (5)                    | (1)               |
| Organizational and separation related | 1                  | 4                 | 3                      | 7                 |
| Consumer financing interest           | 6                  | 7                 | 18                     | 22                |
| Royalty fee                           | 14                 | 13                | 41                     | 41                |
| Impairment                            |                    |                   | 1                      | 1                 |
| Cost reimbursements                   | 91                 | 84                | 282                    | 260               |
| Total expenses                        | 367                | 370               | 1,086                  | 1,101             |
| Gains and other income                |                    |                   | 2                      | 1                 |
| Interest expense                      | (3)                | (2)               | (8)                    | (9)               |
| Income before income taxes            | 43                 | 40                | 133                    | 114               |
| Provision for income taxes            | (18)               | (15)              | (53)                   | (40)              |
| Net income                            | \$ 25              | \$ 25             | \$ 80                  | \$ 74             |

**Contract Sales**

Twelve Weeks Ended September 12, 2014

| (\$ in millions)     | Twelve Weeks Ended |                   | Change | % Change |
|----------------------|--------------------|-------------------|--------|----------|
|                      | September 12, 2014 | September 6, 2013 |        |          |
| Contract Sales       |                    |                   |        |          |
| Vacation ownership   | \$ 167             | \$ 161            | \$ 6   | 3%       |
| Residential products | 5                  | 7                 | (2)    | NM       |
| Total contract sales | \$ 172             | \$ 168            | \$ 4   | 2%       |

NM = not meaningful

The \$4 million increase in total contract sales was driven by \$3 million of higher vacation ownership sales in our key North America segment, \$2 million of higher contract sales in our Europe segment and \$1 million of higher contract sales in our Asia Pacific segment, partially offset by \$2 million of lower residential contract sales in our North America segment.

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The increase in vacation ownership contract sales in our North America segment was driven by continued improvement at on-site sales locations, which resulted from a 7 percent increase in VPG to \$3,477 in the twelve weeks ended September 12, 2014 from \$3,252 in the prior year comparable period, partially offset by a 4 percent decline in the number of tours. Contract sales at off-site (non tour-based) sales locations were flat compared to the prior year comparable period. The increase in VPG was due to higher pricing and an increase in the average number of points purchased per contract as well as a nominal increase in closing efficiency. The decline in the number of tours continued to be driven by an increase in weeks-based owner utilization of the MVCD program, with owners taking advantage of the program's flexibility to take vacations of shorter duration and exercise alternative usage options. This trend has reduced our existing owner tour flow because fewer owners are in our resorts, and their stays in our resorts are shorter, than in prior years. We implemented new programs aimed at generating existing owner tours and new marketing programs targeted toward first-time buyers, which we expect will increase tour flow in 2015.

*Thirty-Six Weeks Ended September 12, 2014*

| (\$ in millions)     | Thirty-Six Weeks Ended |                   | Change | % Change |
|----------------------|------------------------|-------------------|--------|----------|
|                      | September 12, 2014     | September 6, 2013 |        |          |
| Contract Sales       |                        |                   |        |          |
| Vacation ownership   | \$ 487                 | \$ 473            | \$ 14  | 3%       |
| Residential products | 11                     | 8                 | 3      | NM       |
| Total contract sales | \$ 498                 | \$ 481            | \$ 17  | 3%       |

The \$17 million increase in total contract sales was driven by \$11 million of higher contract sales in our Europe segment, \$5 million of higher vacation ownership contract sales in our key North America segment and \$3 million of higher residential contract sales in our North America segment, partially offset by \$2 million of lower contract sales in our Asia Pacific segment.

The increase in vacation ownership contract sales in our North America segment reflected a \$9 million increase in sales at on-site sales locations, and a \$4 million decline in sales at off-site (non tour-based) sales locations, due in part to the closure or downsizing of certain under-performing locations since the prior year comparable period. The increase in sales at on-site sales locations resulted from a 6 percent increase in VPG to \$3,444 in the thirty-six weeks ended September 12, 2014 from \$3,243 in the prior year comparable period, partially offset by a 4 percent decline in the number of tours. The increase in VPG was due to a 0.4 percentage point increase in closing efficiency and higher pricing. The decline in the number of tours continued to be driven by an increase in weeks-based owner utilization of the MVCD program, with owners taking advantage of the program's flexibility to take vacations of shorter duration and exercise alternative usage options. This trend has reduced our existing owner tour flow because fewer owners are in our resorts, and their stays in our resorts are shorter, than in prior years. We implemented new programs aimed at generating existing owner tours and new marketing programs targeted toward first-time buyers, which we expect will increase tour flow in 2015.

**Development Margin***Twelve Weeks Ended September 12, 2014*

| (\$ in millions)                    | Twelve Weeks Ended |                   | Change  | % Change |
|-------------------------------------|--------------------|-------------------|---------|----------|
|                                     | September 12, 2014 | September 6, 2013 |         |          |
| Sale of vacation ownership products | \$ 156             | \$ 162            | \$ (6)  | (4%)     |
| Cost of vacation ownership products | (49)               | (56)              | 7       | 13%      |
| Marketing and sales                 | (74)               | (72)              | (2)     | (3%)     |
| Development margin                  | \$ 33              | \$ 34             | \$ (1)  | (2%)     |
| Development margin percentage       | 21.5%              | 21.1%             | 0.4 pts |          |

The decrease in revenues from the sale of vacation ownership products was due to \$9 million of lower revenue reportability compared to the prior year comparable period and \$2 million of higher sales incentives issued in the current period, partially offset by the \$4 million increase in contract sales, net of sales reserve, and \$1 million from lower vacation ownership notes receivable reserve activity due to a decrease in estimated default activity compared to the prior year comparable period. The \$9 million of lower revenue reportability resulted from \$4 million of lower revenue reportability in the twelve weeks ended September 12, 2014, compared to \$5 million of higher revenue reportability in the prior year comparable period. Revenue reportability was higher in the prior year comparable quarter because the rescission period related to certain sales had expired, of which \$2 million related to the impact of the extended rescission periods in our Europe segment, and certain sales made during that quarter or prior periods met the down payment requirement for revenue recognition purposes prior to the end of the period.

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The decrease in development margin reflected \$4 million from lower revenue reportability year-over-year (of which \$1 million related to the impact of the extended rescission periods in our Europe segment) and nearly \$3 million of favorable product cost true-ups in the prior year comparable period, partially offset by a \$5 million net increase in vacation ownership contract sales volume net of lower direct variable expenses (i.e., cost of vacation ownership products and marketing and sales) driven by \$7 million from a favorable mix of lower cost real estate inventory being sold, partially offset by \$2 million higher marketing and sales spending. The higher marketing and sales spending was due to costs incurred to generate more first-time buyer tours as well as inflationary cost increases. In addition, the development margin reflects the \$1 million decrease in vacation ownership notes receivable reserve activity.

The 0.4 percentage point improvement in the development margin percentage reflected a nearly 5 percentage point increase due to a favorable mix of lower cost vacation ownership real estate inventory being sold in the twelve weeks ended September 12, 2014, partially offset by a 2 percentage point decrease due to lower revenue reportability year-over-year, a 1.5 percentage point decrease due to the higher favorable product cost true-up activity in the prior year period and a less than 1 percentage point decrease due to the higher marketing and sales spending.

*Thirty-Six Weeks Ended September 12, 2014*

| (\$ in millions)                    | Thirty-Six Weeks Ended |                   | Change  | % Change |
|-------------------------------------|------------------------|-------------------|---------|----------|
|                                     | September 12, 2014     | September 6, 2013 |         |          |
| Sale of vacation ownership products | \$ 453                 | \$ 472            | \$ (19) | (4%)     |
| Cost of vacation ownership products | (139)                  | (157)             | 18      | 11%      |
| Marketing and sales                 | (217)                  | (220)             | 3       | 1%       |
| Development margin                  | \$ 97                  | \$ 95             | \$ 2    | 2%       |
| Development margin percentage       | 21.4%                  | 20.3%             | 1.1 pts |          |

The decrease in revenues from the sale of vacation ownership products was due to \$36 million of lower revenue reportability compared to the prior year comparable period and \$3 million of higher sales incentives issued in the current period, partially offset by the \$16 million increase in contract sales, net of sales reserve, and \$4 million from lower vacation ownership notes receivable reserve activity due to a decrease in estimated default activity compared to the prior year comparable period. The \$36 million of lower revenue reportability resulted from \$8 million of lower revenue reportability in the thirty-six weeks ended September 12, 2014, compared to \$28 million of higher revenue reportability in the prior year comparable period. Revenue reportability was higher in the prior year comparable quarter because the rescission period related to certain sales had expired, of which \$20 million related to the impact of the extended rescission periods in our Europe segment.

The increase in development margin reflected a \$24 million net increase from higher contract sales volume net of lower direct variable expenses (i.e., cost of vacation ownership products and marketing and sales) driven mainly by \$19 million from a favorable mix of lower cost real estate inventory being sold, \$4 million from more efficient marketing and sales spending and less than \$1 million from higher residential contract sales in the current period. In addition, the development margin reflected a \$3 million impact from the decrease in vacation ownership notes receivable reserve activity and \$2 million of severance related to the restructuring of sales locations in Europe in the prior year comparable period. These increases were partially offset by \$20 million from lower revenue reportability year-over-year (of which \$11 million related to the impact of the extended rescission periods in our Europe segment) and \$7 million of lower favorable product cost true-ups (\$2 million in the thirty-six weeks ended September 12, 2014

compared to \$9 million in the prior year comparable period).

The 1.1 percentage point improvement in the development margin percentage reflected a 4 percentage point increase due to a favorable mix of lower cost vacation ownership real estate inventory being sold in the thirty-six weeks ended September 12, 2014, a 1 percentage point increase due to increased efficiency in marketing and sales spending and a less than 1 percentage point increase from the lower vacation ownership notes receivable reserve activity. These increases were partially offset by a 3 percentage point decrease due to lower revenue reportability year-over-year and a 1.5 percentage point decrease due to the lower favorable product cost true-up activity year-over-year.

**Table of Contents****Resort Management and Other Services Revenues, Expenses and Margin***Twelve Weeks Ended September 12, 2014*

| (\$ in millions)                              | Twelve Weeks Ended |                   | Change | % Change |
|---|--------------------|-------------------|--------|----------|
|   | September 12, 2014 | September 6, 2013 |        |          |
| Management fee revenues                       | \$ 17              | \$ 16             | \$ 1   | 7%       |
| Other services revenues                       | 50                 | 49                | 1      | 3%       |
| Resort management and other services revenues | 67                 | 65                | 2      | 4%       |
| Resort management and other services expenses | (44)               | (45)              | 1      | 1%       |
| Resort management and other services margin   | \$ 23              | \$ 20             | \$ 3   | 15%      |

Resort management and other services margin percentage 33.0% 29.9% 3.1 pts

The increase in resort management and other services revenues was driven by \$1 million of higher management fees, \$2 million of higher fees from our third party exchange company and less than \$1 million of additional annual club dues earned in connection with the MVCD program due to the cumulative increase in owners enrolled in the program. These increases were partially offset by a less than \$1 million decline in ancillary revenues driven by the disposition of a golf course in Orlando, Florida during the first quarter of 2014.

The improvement in the resort management and other services margin reflected the increases in revenue as well as a \$1 million decline in ancillary expenses driven by the disposition of a golf course in Orlando, Florida during the first quarter of 2014.

*Thirty-Six Weeks Ended September 12, 2014*

| (\$ in millions)                              | Thirty-Six Weeks Ended |                   | Change | % Change |
|---|------------------------|-------------------|--------|----------|
|   | September 12, 2014     | September 6, 2013 |        |          |
| Management fee revenues                       | \$ 51                  | \$ 48             | \$ 3   | 7%       |
| Other services revenues                       | 146                    | 140               | 6      | 4%       |
| Resort management and other services revenues | 197                    | 188               | 9      | 5%       |
| Resort management and other services expenses | (132)                  | (134)             | 2      | 1%       |
|   | \$ 65                  | \$ 54             | \$ 11  | 21%      |

Resort management and other services  
margin

|   |       |       |         |
|---|-------|-------|---------|
| Resort management and other services<br>margin percentage | 32.8% | 28.4% | 4.4 pts |
|---|-------|-------|---------|

The increase in resort management and other services revenues was driven by \$3 million of higher management fees, \$2 million of additional annual club dues earned in connection with the MVCD program due to the cumulative increase in owners enrolled in the program, \$2 million of higher fees from our third party exchange company, \$1 million of higher resales commission and nearly \$1 million of higher ancillary revenues. The increase in ancillary revenues included a \$3 million increase in ancillary revenues from food and beverage and golf offerings at our resorts, partially offset by a \$2 million decline due to the disposition of a golf course in Orlando, Florida during the first quarter of 2014.

The improvement in the resort management and other services margin reflected the increases in revenue, as well as \$1 million of lower customer service and MVCD program expenses and \$1 million of lower other expenses in the thirty-six weeks ended September 12, 2014 compared to the prior year comparable period.



**Table of Contents****Financing Revenues, Expenses and Margin***Twelve Weeks Ended September 12, 2014*

| (\$ in millions)                    | Twelve Weeks Ended |                   | Change | % Change |
|-------------------------------------|--------------------|-------------------|--------|----------|
|                                     | September 12, 2014 | September 6, 2013 |        |          |
| Interest income                     | \$ 29              | \$ 30             | \$ (1) | (7%)     |
| Other financing revenues            | 1                  | 2                 | (1)    | NM       |
| Financing revenues                  | 30                 | 32                | (2)    | (6%)     |
| Financing expenses                  | (5)                | (5)               |        | NM       |
| Consumer financing interest expense | (6)                | (7)               | 1      | 19%      |
| Financing margin                    | \$ 19              | \$ 20             | \$ (1) | (3%)     |
| Financing propensity                | 46%                | 47%               |        |          |

The decrease in financing revenues was due to an \$81 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 due to lower outstanding debt balances of securitized vacation ownership notes receivable and associated interest costs as well as a lower average interest rate. 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.

*Thirty-Six Weeks Ended September 12, 2014*

| (\$ in millions)                    | Thirty-Six Weeks Ended |                   | Change | % Change |
|-------------------------------------|------------------------|-------------------|--------|----------|
|                                     | September 12, 2014     | September 6, 2013 |        |          |
| Interest income                     | \$ 86                  | \$ 93             | \$ (7) | (8%)     |
| Other financing revenues            | 4                      | 4                 |        | NM       |
| Financing revenues                  | 90                     | 97                | (7)    | (7%)     |
| Financing expenses                  | (16)                   | (16)              |        | NM       |
| Consumer financing interest expense | (18)                   | (22)              | 4      | 17%      |
| Financing margin                    | \$ 56                  | \$ 59             | \$ (3) | (5%)     |
| Financing propensity                | 43%                    | 42%               |        |          |

The decrease in financing revenues was due to an \$88 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 due to lower outstanding debt balances of securitized vacation ownership notes receivable and associated interest costs as well as a lower average interest rate. 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 September 12, 2014*

| (\$ in millions)                | Twelve Weeks Ended |                   | Change  | % Change |
|---------------------------------|--------------------|-------------------|---------|----------|
|                                 | September 12, 2014 | September 6, 2013 |         |          |
| Rental revenues                 | \$ 65              | \$ 65             | \$      | NM       |
| Unsold maintenance fees upscale | (12)               | (13)              | 1       | 7%       |
| Unsold maintenance fees luxury  | (3)                | (3)               |         | NM       |
| Unsold maintenance fees         | (15)               | (16)              | 1       | 6%       |
| Other expenses                  | (39)               | (41)              | 2       | 3%       |
| Rental margin                   | \$ 11              | \$ 8              | \$ 3    | 28%      |
| Rental margin percentage        | 16.8%              | 13.1%             | 3.7 pts |          |

|                                      | Twelve Weeks Ended |                   | Change    | % Change |
|--------------------------------------|--------------------|-------------------|-----------|----------|
|                                      | September 12, 2014 | September 6, 2013 |           |          |
| Transient keys rented <sup>(1)</sup> | 263,835            | 256,760           | 7,075     | 3%       |
| Average transient key rate           | \$222.21           | \$221.71          | \$ 0.50   | NM       |
| Resort occupancy                     | 91.2%              | 92.7%             | (1.5 pts) |          |

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

Rental revenues were unchanged from the prior year comparable period and reflected \$2 million of lower plus points revenue (which is recognized upon utilization of plus points for stays at our resorts or upon expiration of the points), partially offset by a company-wide 3 percent increase in transient keys rented (\$2 million) which was driven by stronger consumer demand and a favorable mix of available inventory.

The increase in rental margin reflected \$5 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, partially offset by the \$2 million decline in plus points revenue resulting from the decline in new enrollments in the MVCD program by existing owners (due to the maturity of the MVCD program).

*Thirty-Six Weeks Ended September 12, 2014*

| (\$ in millions)                | Thirty-Six Weeks Ended |                   | Change | % Change |
|---------------------------------|------------------------|-------------------|--------|----------|
|                                 | September 12, 2014     | September 6, 2013 |        |          |
| Rental revenues                 | \$ 191                 | \$ 193            | \$ (2) | (1%)     |
| Unsold maintenance fees upscale | (34)                   | (38)              | 4      | 10%      |

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|                          |        |       |       |         |      |
|--------------------------|--------|-------|-------|---------|------|
| Unsold maintenance fees  | luxury | (8)   | (8)   |         | NM   |
| Unsold maintenance fees  |        | (42)  | (46)  | 4       | 9%   |
| Other expenses           |        | (124) | (123) | (1)     | (1%) |
| Rental margin            |        | \$ 25 | \$ 24 | \$ 1    | 2%   |
| Rental margin percentage |        | 12.9% | 12.5% | 0.4 pts |      |

|                                      | Thirty-Six Weeks Ended |                      |           |          |
|--------------------------------------|------------------------|----------------------|-----------|----------|
|                                      | September 12,<br>2014  | September 6,<br>2013 | Change    | % Change |
| Transient keys rented <sup>(1)</sup> | 793,903                | 776,005              | 17,898    | 2%       |
| Average transient key rate           | \$214.99               | \$212.10             | \$ 2.89   | 1%       |
| Resort occupancy                     | 89.6%                  | 90.2%                | (0.6 pts) |          |

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

The decrease in rental revenues was due to \$8 million of lower plus points revenue (which is recognized upon utilization of plus points for stays at our resorts or upon expiration of the points), partially offset by a company-wide 2 percent increase in transient keys rented (\$4 million) and a company-wide 1 percent increase in average transient rate (\$2 million), both of which were driven by stronger consumer demand and a favorable mix of available inventory.

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The increase in rental margin reflected \$9 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, partially offset by the \$8 million decline in plus points revenue resulting from the decline in new enrollments in the MVCD program by existing owners (due to the maturity of the MVCD program).

**Other***Twelve Weeks Ended September 12, 2014*

| (\$ in millions)                | Twelve Weeks Ended    |                      |
|---------------------------------|-----------------------|----------------------|
|                                 | September 12,<br>2014 | September 6,<br>2013 |
| Other revenues                  | \$ 4                  | \$ 4                 |
| Other expenses                  | (4)                   | (4)                  |
| Other revenues, net of expenses | \$                    | \$                   |

Other revenues net of expenses of \$0 in the twelve weeks ended September 12, 2014 was unchanged from the prior year comparable period.

*Thirty-Six Weeks Ended September 12, 2014*

| (\$ in millions)                | Thirty-Six Weeks Ended |                      |
|---------------------------------|------------------------|----------------------|
|                                 | September 12,<br>2014  | September 6,<br>2013 |
| Other revenues                  | \$ 12                  | \$ 13                |
| Other expenses                  | (9)                    | (9)                  |
| Other revenues, net of expenses | \$ 3                   | \$ 4                 |

Other revenues net of expenses was \$1 million below the prior year comparable period due to a slight decline in other revenues in the thirty-six weeks ended September 12, 2014 compared to the prior year comparable period.

**Cost Reimbursements***Twelve Weeks Ended September 12, 2014*

Cost reimbursements increased \$7 million, or 8 percent, over the prior year comparable period, reflecting \$5 million of higher costs and \$2 million due to timing of expenses compared to the prior year comparable period.

*Thirty-Six Weeks Ended September 12, 2014*

Cost reimbursements increased \$22 million, or 9 percent, over the prior year comparable period, reflecting \$14 million of higher costs, \$6 million due to timing of expenses compared to the prior year comparable period and \$2 million due to additional managed unit weeks in the thirty-six weeks ended September 12, 2014.

### **General and Administrative**

#### *Twelve Weeks Ended September 12, 2014*

General and administrative expenses decreased \$1 million (from \$23 million to \$22 million) from the prior year comparable period due to \$1 million of lower legal related expenses and \$1 million of savings related to organizational and separation related efforts in the human resources, information technology and finance and accounting organizations, partially offset by \$1 million of higher personnel related costs.

#### *Thirty-Six Weeks Ended September 12, 2014*

General and administrative expenses increased \$1 million (from \$66 million to \$67 million) over the prior year comparable period due to \$2 million of higher personnel related costs and \$1 million from the favorable resolution of an international tax (non-income tax) matter in the prior year comparable period, partially offset by \$2 million of savings related to organizational and separation relation efforts in the human resources, information technology and finance and accounting organizations.

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### **Litigation Settlement**

#### *Twelve and Thirty-Six Weeks Ended September 12, 2014*

During the third quarter of 2014, an agreement in principle was reached to settle an action related to The Ritz-Carlton Club and Residences, San Francisco (the RCC San Francisco). As a result of the agreement in principle, we recorded a charge of \$3 million, which is included in the Litigation settlement line on the Statements of Income for the twelve and thirty-six weeks ended September 12, 2014. See Footnote No. 8, Contingencies and Commitments, to our Financial Statements for further information related to this pending action.

During the second quarter of 2014, we agreed to settle a dispute with a service provider relating to services provided to us prior to 2011. The dispute related to certain lawsuits and claims asserted by several residential unit and fractional interest owners at the RCC San Francisco, a project within our North America segment, who questioned the adequacy of disclosures made regarding bonds issued for that project under California's Mello-Roos Community Facilities Act of 1982 and their payment obligations with respect to such bonds. In connection with the settlement, we received a one-time payment of \$8 million after the end of the second quarter from the service provider, which no longer provides services to us. We recorded a gain of \$8 million as a result of the settlement, which is included in the Litigation settlement line on the Statement of Income for the thirty-six weeks ended September 12, 2014.

### **Interest Expense**

#### *Twelve Weeks Ended September 12, 2014*

Interest expense increased \$1 million (from \$2 million to \$3 million) due to a decrease in capitalized interest costs.

#### *Thirty-Six Weeks Ended September 12, 2014*

Interest expense decreased \$1 million (from \$9 million to \$8 million) due to a \$1 million decline in expense associated with our liability for the Marriott Rewards customer loyalty program under the Marriott Rewards Agreement.

### **Royalty Fee**

#### *Twelve Weeks Ended September 12, 2014*

Royalty fee expense increased \$1 million (from \$13 million to \$14 million) due to a lower 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), as compared to the prior year comparable period.

#### *Thirty-Six Weeks Ended September 12, 2014*

Royalty fee expense of \$41 million was unchanged from the prior year comparable period.

### **Impairment**

#### *Twelve Weeks Ended September 12, 2014*

There were no impairment charges in the third quarter of 2013 or the third quarter of 2014.

*Thirty-Six Weeks Ended September 12, 2014*

During the second quarter of 2014, we recorded an impairment charge of \$1 million with respect to a building as a result of a termination of a land lease at one of our projects in our North America segment. In the second quarter of 2013, we recorded an impairment charge of \$1 million with respect to a golf course in our Europe segment.

**Income Tax**

*Twelve Weeks Ended September 12, 2014*

The provision for income taxes increased by \$3 million (from \$15 million to \$18 million) from the prior year comparable period. The increase related to higher consolidated net income before income taxes and the change in the geographic composition of income before income taxes. There was lower net income before income taxes in our foreign jurisdictions for the twelve weeks ended September 12, 2014 compared to the prior year comparable period due to the cumulative impact of the extended rescission periods in our Europe segment and an increase in the net income before income taxes attributable to the United States.



**Table of Contents***Thirty-Six Weeks Ended September 12, 2014*

The provision for income taxes increased by \$13 million (from \$40 million to \$53 million) from the prior year comparable period. The increase related to higher consolidated net income before income taxes and the change in the geographic composition of income before income taxes. There was lower net income before income taxes in our foreign jurisdictions for the thirty-six weeks ended September 12, 2014 compared to the prior year comparable period due to the cumulative impact of the extended rescission periods in our Europe segment and an increase in the net income before income taxes attributable to the United States.

**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 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 millions)                | Twelve Weeks Ended    |                      | Thirty-Six Weeks Ended |                      |
|---------------------------------|-----------------------|----------------------|------------------------|----------------------|
|                                 | September 12,<br>2014 | September 6,<br>2013 | September 12,<br>2014  | September 6,<br>2013 |
| Net income                      | \$ 25                 | \$ 25                | \$ 80                  | \$ 74                |
| Interest expense <sup>(1)</sup> | 3                     | 2                    | 8                      | 9                    |
| Tax provision                   | 18                    | 15                   | 53                     | 40                   |
| Depreciation and amortization   | 4                     | 5                    | 13                     | 16                   |
| <b>EBITDA</b>                   | <b>\$ 50</b>          | <b>\$ 47</b>         | <b>\$ 154</b>          | <b>\$ 139</b>        |

(1) Interest expense excludes consumer financing interest expense.

**Business Segments**

Our business is grouped into three reportable business segments: North America, Europe and Asia Pacific. See Footnote No. 15, Business Segments, to our Financial Statements for further information on our segments.

As of September 12, 2014, we operated the following 62 properties by segment:

|               | U.S. <sup>(1)</sup> | Non-U.S. | Total |
|---------------|---------------------|----------|-------|
| North America | 47                  | 6        | 53    |
| Europe        |                     | 5        | 5     |
| Asia Pacific  |                     | 4        | 4     |
| Total         | 47                  | 15       | 62    |

(1) Includes properties located in the 48 contiguous states, Hawaii and Alaska.

**Table of Contents***North America*

| (\$ in millions)                      | Twelve Weeks Ended    |                      | Thirty-Six Weeks Ended |                      |
|---------------------------------------|-----------------------|----------------------|------------------------|----------------------|
|                                       | September 12,<br>2014 | September 6,<br>2013 | September 12,<br>2014  | September 6,<br>2013 |
| <b>Revenues</b>                       |                       |                      |                        |                      |
| Sale of vacation ownership products   | \$ 138                | \$ 145               | \$ 404                 | \$ 407               |
| Resort management and other services  | 58                    | 55                   | 172                    | 163                  |
| Financing                             | 28                    | 30                   | 84                     | 91                   |
| Rental                                | 55                    | 56                   | 169                    | 172                  |
| Other                                 | 4                     | 4                    | 12                     | 13                   |
| Cost reimbursements                   | 81                    | 75                   | 252                    | 231                  |
| Total revenues                        | 364                   | 365                  | 1,093                  | 1,077                |
| <b>Expenses</b>                       |                       |                      |                        |                      |
| Cost of vacation ownership products   | 41                    | 51                   | 120                    | 137                  |
| Marketing and sales                   | 64                    | 61                   | 188                    | 187                  |
| Resort management and other services  | 36                    | 37                   | 111                    | 113                  |
| Rental                                | 47                    | 49                   | 146                    | 148                  |
| Other                                 | 3                     | 3                    | 8                      | 8                    |
| Litigation settlement                 | 3                     |                      | (5)                    | (1)                  |
| Organizational and separation related |                       |                      | 1                      |                      |
| Royalty fee                           | 3                     | 2                    | 6                      | 6                    |
| Impairment                            |                       |                      | 1                      |                      |
| Cost reimbursements                   | 81                    | 75                   | 252                    | 231                  |
| Total expenses                        | 278                   | 278                  | 828                    | 829                  |
| Gains and other income                |                       |                      | 2                      | 1                    |
| Segment financial results             | \$ 86                 | \$ 87                | \$ 267                 | \$ 249               |

**Contract Sales***Twelve Weeks Ended September 12, 2014*

| (\$ in millions)      | Twelve Weeks Ended    |                      | Change | % Change |
|-----------------------|-----------------------|----------------------|--------|----------|
|                       | September 12,<br>2014 | September 6,<br>2013 |        |          |
| <b>Contract Sales</b> |                       |                      |        |          |
| Vacation ownership    | \$ 148                | \$ 145               | \$ 3   | 2%       |

|                      |    |     |    |     |    |     |    |
|----------------------|----|-----|----|-----|----|-----|----|
| Residential products |    | 5   |    | 7   |    | (2) | NM |
| Total contract sales | \$ | 153 | \$ | 152 | \$ | 1   | NM |

The increase in contract sales in our North America segment reflects a \$3 million increase in vacation ownership contract sales and a \$2 million decline in residential contract sales.

The increase in vacation ownership contract sales in our North America segment was driven by continued improvement at on-site sales locations, which resulted from a 7 percent increase in VPG to \$3,477 in the twelve weeks ended September 12, 2014 from \$3,252 in the prior year comparable period, partially offset by a 4 percent decline in the number of tours. Contract sales at off-site (non tour-based) sales locations were flat compared to the prior year comparable period. The increase in VPG was due to higher pricing and an increase in the average number of points purchased per contract as well as a nominal increase in closing efficiency. The decline in the number of tours continued to be driven by an increase in weeks-based owner utilization of the MVCD program, with owners taking advantage of the program's flexibility to take vacations of shorter duration and exercise alternative usage options. This trend has reduced our existing owner tour flow because fewer owners are in our resorts, and their stays in our resorts are shorter, than in prior years. We implemented new programs aimed at generating existing owner tours and new marketing programs targeted toward first-time buyers, which we expect will increase tour flow in 2015.

**Table of Contents***Thirty-Six Weeks Ended September 12, 2014*

| (\$ in millions)     | Thirty-Six Weeks Ended |                      | Change | % Change |
|----------------------|------------------------|----------------------|--------|----------|
|                      | September 12,<br>2014  | September 6,<br>2013 |        |          |
| Contract Sales       |                        |                      |        |          |
| Vacation ownership   | \$ 434                 | \$ 429               | \$ 5   | 1%       |
| Residential products | 11                     | 8                    | 3      | 33%      |
| Total contract sales | \$ 445                 | \$ 437               | \$ 8   | 2%       |

The increase in contract sales in our North America segment includes a \$5 million increase in vacation ownership contract sales and \$3 million of higher residential contract sales.

The increase in vacation ownership contract sales in our North America segment reflected a \$9 million increase in sales at on-site sales locations, and a \$4 million decline in sales at off-site (non tour-based) sales locations, due in part to the closure or downsizing of certain under-performing locations since the prior year comparable period. The increase in sales at on-site sales locations resulted from a 6 percent increase in VPG to \$3,444 in the thirty-six weeks ended September 12, 2014 from \$3,243 in the prior year comparable period, partially offset by a 4 percent decline in the number of tours. The increase in VPG was due to a 0.4 percentage point increase in closing efficiency and higher pricing. The decline in the number of tours continued to be driven by an increase in weeks-based owner utilization of the MVCD program, with owners taking advantage of the program's flexibility to take vacations of shorter duration and exercise alternative usage options. This trend has reduced our existing owner tour flow because fewer owners are in our resorts, and their stays in our resorts are shorter, than in prior years. We implemented new programs aimed at generating existing owner tours and new marketing programs targeted toward first-time buyers, which we expect will increase tour flow in 2015.

**Development Margin***Twelve Weeks Ended September 12, 2014*

| (\$ in millions)                    | Twelve Weeks Ended    |                      | Change | % Change |
|-------------------------------------|-----------------------|----------------------|--------|----------|
|                                     | September 12,<br>2014 | September 6,<br>2013 |        |          |
| Sale of vacation ownership products | \$ 138                | \$ 145               | \$ (7) | (4%)     |
| Cost of vacation ownership products | (41)                  | (51)                 | 10     | 18%      |
| Marketing and sales                 | (64)                  | (61)                 | (3)    | (3%)     |
| Development margin                  | \$ 33                 | \$ 33                | \$     | NM       |

|                               |       |       |         |
|-------------------------------|-------|-------|---------|
| Development margin percentage | 24.4% | 22.7% | 1.7 pts |
|-------------------------------|-------|-------|---------|

The decrease in revenues from the sale of vacation ownership products was due to \$6 million of lower revenue reportability compared to the prior year comparable period and \$2 million of higher sales incentives issued in the current period, partially offset by the \$1 million increase in contract sales net of sales reserve. The \$6 million of lower revenue reportability resulted from \$4 million of lower revenue reportability in the twelve weeks ended September 12, 2014, compared to \$2 million of higher revenue reportability in the prior year comparable period. Revenue reportability was lower in the current period because certain sales made in the current or prior periods did not meet the down payment requirement for revenue recognition purposes prior to the end of the period.

The development margin of \$33 million was flat compared to the prior year comparable period and included \$3 million from lower revenue reportability year-over-year and nearly \$3 million of favorable product cost true-ups in the prior year comparable period, partially offset by a \$6 million net increase in vacation ownership contract sales volume net of lower direct variable expenses (i.e., cost of vacation ownership products and marketing and sales) driven by \$8 million from a favorable mix of lower cost real estate inventory being sold and \$1 million from the higher contract sales volume, partially offset by \$2 million higher marketing and sales spending and \$1 million from the higher sales incentives issued in the current period. The higher marketing and sales spending was due to costs incurred to generate more first-time buyer tours as well as inflationary cost increases.

The 1.7 percentage point improvement in the development margin percentage reflected a nearly 6 percentage point increase due to a favorable mix of lower cost vacation ownership real estate inventory being sold in the twelve weeks ended September 12, 2014, partially offset by a nearly 2 percentage point decrease due to lower revenue reportability year-over-year, a 2 percentage point decrease due to the higher favorable product cost true-up activity in the prior year period and 1 percentage point decrease due to the higher marketing and sales spending.

**Table of Contents***Thirty-Six Weeks Ended September 12, 2014*

| (\$ in millions)                    | Thirty-Six Weeks Ended |                      | Change  | % Change |
|-------------------------------------|------------------------|----------------------|---------|----------|
|                                     | September 12,<br>2014  | September 6,<br>2013 |         |          |
| Sale of vacation ownership products | \$ 404                 | \$ 407               | \$ (3)  | (1%)     |
| Cost of vacation ownership products | (120)                  | (137)                | 17      | 12%      |
| Marketing and sales                 | (188)                  | (187)                | (1)     | (1%)     |
| Development margin                  | \$ 96                  | \$ 83                | \$ 13   | 16%      |
| Development margin percentage       | 23.8%                  | 20.4%                | 3.4 pts |          |

The decrease in revenues from the sale of vacation ownership products was due to \$10 million of lower revenue reportability compared to the prior year comparable period and \$3 million of higher sales incentives issued in the current period, partially offset by the \$8 million increase in contract sales net of sales reserve and \$2 million from lower vacation ownership notes receivable reserve activity due to a decrease in estimated default activity compared to the prior year comparable period.

The increase in development margin reflected a \$22 million net increase from higher contract sales volume net of lower direct variable expenses (i.e., cost of vacation ownership products and marketing and sales) driven by \$21 million from a favorable mix of lower cost real estate inventory being sold and \$1 million from the higher contract sales. Additionally, the increase in development margin reflected a \$2 million decrease in vacation ownership notes receivable reserve activity. These increases were partially offset by \$6 million of lower revenue reportability compared to the prior year comparable period and \$5 million of lower favorable product cost true-ups (\$2 million in the thirty-six weeks ended September 12, 2014 compared to \$7 million in the prior year comparable period).

The 3.4 percentage point improvement in the development margin percentage reflected a 5 percentage point increase due to a favorable mix of lower cost vacation ownership real estate inventory being sold in the thirty-six weeks ended September 12, 2014, partially offset by a 1 percentage point decrease due to the lower favorable product cost true-up activity year-over-year and a 1 percentage point decrease due to lower revenue reportability year-over-year.

**Resort Management and Other Services Revenues, Expenses and Margin***Twelve Weeks Ended September 12, 2014*

| (\$ in millions)        | Twelve Weeks Ended    |                      | Change | % Change |
|-------------------------|-----------------------|----------------------|--------|----------|
|                         | September 12,<br>2014 | September 6,<br>2013 |        |          |
| Management fee revenues | \$ 15                 | \$ 14                | \$ 1   | 6%       |

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|   |       |       |      |     |
|---|-------|-------|------|-----|
| Other services revenues                       | 43    | 41    | 2    | 3%  |
| Resort management and other services revenues | 58    | 55    | 3    | 4%  |
| Resort management and other services expenses | (36)  | (37)  | 1    | 2%  |
| Resort management and other services margin   | \$ 22 | \$ 18 | \$ 4 | 16% |

Resort management and other services margin percentage 35.6% 31.9% 3.7 pts

The increase in resort management and other services revenues was driven by \$1 million of higher management fees, \$1 million of higher fees from our third party exchange company and \$1 million of additional annual club dues earned in connection with the MVCD program due to the cumulative increase in owners enrolled in the program. These increases were partially offset by a less than \$1 million decline in ancillary revenues driven by the disposition of a golf course in Orlando, Florida during the first quarter of 2014.

The improvement in the resort management and other services margin reflected the increases in revenue as well as a \$1 million decline in ancillary expenses driven by the disposition of a golf course in Orlando, Florida during the first quarter of 2014.



**Table of Contents***Thirty-Six Weeks Ended September 12, 2014*

| (\$ in millions)                              | Thirty-Six Weeks Ended |                      | Change | % Change |
|---|------------------------|----------------------|--------|----------|
|   | September 12,<br>2014  | September 6,<br>2013 |        |          |
| Management fee revenues                       | \$ 45                  | \$ 42                | \$ 3   | 7%       |
| Other services revenues                       | 127                    | 121                  | 6      | 5%       |
| Resort management and other services revenues | 172                    | 163                  | 9      | 5%       |
| Resort management and other services expenses | (111)                  | (113)                | 2      | 2%       |
| Resort management and other services margin   | \$ 61                  | \$ 50                | \$ 11  | 21%      |

Resort management and other services margin percentage

35.2%                      30.5%                      4.7 pts

The increase in resort management and other services revenues was driven by \$3 million of higher management fees, \$2 million of additional annual club dues earned in connection with the MVCD program due to the cumulative increase in owners enrolled in the program, \$2 million of higher fees from our third party exchange company and \$2 million of higher resales commission. Ancillary revenues were flat compared to the prior year comparable period, and included a \$2 million increase in ancillary revenues from food and beverage and golf offerings at our resorts, offset by a \$2 million decline due to the disposition of a golf course in Orlando, Florida during the first quarter of 2014.

The improvement in the resort management and other services margin reflected the increases in revenue, as well as \$1 million of lower customer service and MVCD program expenses and \$1 million of lower other expenses in the thirty-six weeks ended September 12, 2014 compared to the prior year comparable period.

**Financing Revenues***Twelve Weeks Ended September 12, 2014*

| (\$ in millions)         | Twelve Weeks Ended    |                      | Change | % Change |
|--------------------------|-----------------------|----------------------|--------|----------|
|                          | September 12,<br>2014 | September 6,<br>2013 |        |          |
| Interest income          | \$ 27                 | \$ 28                | \$ (1) | (7%)     |
| Other financing revenues | 1                     | 2                    | (1)    | NM       |
| Financing revenues       | \$ 28                 | \$ 30                | \$ (2) | (7%)     |

Financing propensity 44% 45%

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.

*Thirty-Six Weeks Ended September 12, 2014*

| (\$ in millions)          | Thirty-Six Weeks Ended |                   | Change        | % Change    |
|---------------------------|------------------------|-------------------|---------------|-------------|
|                           | September 12, 2014     | September 6, 2013 |               |             |
| Interest income           | \$ 80                  | \$ 87             | \$ (7)        | (8%)        |
| Other financing revenues  | 4                      | 4                 |               | NM          |
| <b>Financing revenues</b> | <b>\$ 84</b>           | <b>\$ 91</b>      | <b>\$ (7)</b> | <b>(8%)</b> |

Financing propensity 40% 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.

**Table of Contents****Rental Revenues, Expenses and Margin***Twelve Weeks Ended September 12, 2014*

| (\$ in millions)                   | Twelve Weeks Ended    |                      | Change  | % Change |
|------------------------------------|-----------------------|----------------------|---------|----------|
|                                    | September 12,<br>2014 | September 6,<br>2013 |         |          |
| Rental revenues                    | \$ 55                 | \$ 56                | \$ (1)  | NM       |
| Unsold maintenance fees<br>upscale | (11)                  | (11)                 |         | NM       |
| Unsold maintenance fees<br>luxury  | (3)                   | (3)                  |         | NM       |
| Unsold maintenance fees            | (14)                  | (14)                 |         | NM       |
| Other expenses                     | (33)                  | (35)                 | 2       | 4%       |
| Rental margin                      | \$ 8                  | \$ 7                 | \$ 1    | 27%      |
| Rental margin percentage           | 14.9%                 | 11.7%                | 3.2 pts |          |

|                                      | Twelve Weeks Ended    |                      | Change    | % Change |
|--------------------------------------|-----------------------|----------------------|-----------|----------|
|                                      | September 12,<br>2014 | September 6,<br>2013 |           |          |
| Transient keys rented <sup>(1)</sup> | 238,463               | 232,272              | 6,191     | 3%       |
| Average transient key rate           | \$205.82              | \$ 206.04            | (\$0.22)  | NM       |
| Resort occupancy                     | 91.7%                 | 93.5%                | (1.8 pts) |          |

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

The decrease in rental revenues was due to nearly \$2 million of lower plus points revenue (which is recognized upon utilization of plus points for stays at our resorts or upon expiration of the points), partially offset by a 3 percent increase in transient keys rented (\$1 million), which was driven by stronger consumer demand and a favorable mix of available inventory.

The increase in rental margin reflected \$3 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, partially offset by the \$2 million decline in plus points revenue resulting from the decline in new enrollments in the MVCD program by existing owners (due to the maturity of the MVCD program).

*Thirty-Six Weeks Ended September 12, 2014***Thirty-Six Weeks Ended**

| <i>(\$ in millions)</i>            | <b>September 12,<br/>2014</b> | <b>September 6,<br/>2013</b> |           |      |
|------------------------------------|-------------------------------|------------------------------|-----------|------|
| Rental revenues                    | \$ 169                        | \$ 172                       | \$ (3)    | (1%) |
| Unsold maintenance fees<br>upscale | (30)                          | (33)                         | 3         | 11%  |
| Unsold maintenance fees<br>luxury  | (8)                           | (8)                          |           | NM   |
| Unsold maintenance fees            | (38)                          | (41)                         | 3         | 9%   |
| Other expenses                     | (108)                         | (107)                        | (1)       | (1%) |
| Rental margin                      | \$ 23                         | \$ 24                        | \$ (1)    | (2%) |
| Rental margin percentage           | 13.6%                         | 13.7%                        | (0.1 pts) |      |

|                                      | <b>Thirty-Six Weeks Ended</b> |                              |               |                 |
|--------------------------------------|-------------------------------|------------------------------|---------------|-----------------|
|                                      | <b>September 12,<br/>2014</b> | <b>September 6,<br/>2013</b> | <b>Change</b> | <b>% Change</b> |
| Transient keys rented <sup>(1)</sup> | 727,371                       | 709,553                      | 17,818        | 3%              |
| Average transient key rate           | \$207.00                      | \$ 204.92                    | \$ 2.08       | 1%              |
| Resort occupancy                     | 90.5%                         | 91.3%                        | (0.8 pts)     |                 |

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

The decrease in rental revenues was due to \$8 million of lower plus points revenue (which is recognized upon utilization of plus points for stays at our resorts or upon expiration of the points), partially offset by a 3 percent increase in transient keys rented (nearly \$4 million) and a 1 percent increase in average transient rate (nearly \$2 million), both of which were driven by stronger consumer demand and a favorable mix of available inventory.

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The decline in rental margin reflected the \$8 million decline in plus points revenue resulting from the decline in new enrollments in the MVCD program by existing owners (due to the maturity of the MVCD program), partially offset by \$7 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.

**Europe**

| (\$ in millions)                     | Twelve Weeks Ended    |                                     | Thirty-Six Weeks Ended               |                                     |
|--------------------------------------|-----------------------|-------------------------------------|--------------------------------------|-------------------------------------|
|                                      | September 12,<br>2014 | September 6,<br>2013 <sup>(1)</sup> | September 12,<br>2014 <sup>(1)</sup> | September 6,<br>2013 <sup>(1)</sup> |
| <b>Revenues</b>                      |                       |                                     |                                      |                                     |
| Sale of vacation ownership products  | \$ 10                 | \$ 10                               | \$ 27                                | \$ 42                               |
| Resort management and other services | 8                     | 9                                   | 22                                   | 22                                  |
| Financing                            | 1                     | 1                                   | 3                                    | 3                                   |
| Rental                               | 9                     | 8                                   | 17                                   | 16                                  |
| Cost reimbursements                  | 10                    | 8                                   | 28                                   | 24                                  |
| <b>Total revenues</b>                | <b>38</b>             | <b>36</b>                           | <b>97</b>                            | <b>107</b>                          |
| <b>Expenses</b>                      |                       |                                     |                                      |                                     |
| Cost of vacation ownership products  | 3                     | 2                                   | 7                                    | 11                                  |
| Marketing and sales                  | 6                     | 6                                   | 17                                   | 19                                  |
| Resort management and other services | 7                     | 7                                   | 19                                   | 19                                  |
| Rental                               | 5                     | 5                                   | 12                                   | 13                                  |
| Other                                | 1                     | 1                                   | 1                                    | 1                                   |
| Impairment                           |                       |                                     |                                      | 1                                   |
| Cost reimbursements                  | 10                    | 8                                   | 28                                   | 24                                  |
| <b>Total expenses</b>                | <b>32</b>             | <b>29</b>                           | <b>84</b>                            | <b>88</b>                           |
| <b>Segment financial results</b>     | <b>\$ 6</b>           | <b>\$ 7</b>                         | <b>\$ 13</b>                         | <b>\$ 19</b>                        |

- <sup>(1)</sup> Europe and Asia Pacific segment revenues and expenses have been restated to correct certain immaterial prior period errors. For the thirty-six weeks ended September 12, 2014, \$1 million of cost reimbursements related to the twelve weeks ended March 28, 2014 were reclassified from the Asia Pacific segment to the Europe segment. For the twelve and thirty-six weeks ended September 6, 2013, \$2 million and \$5 million of cost reimbursements were reclassified from the Asia Pacific segment to the Europe segment, respectively.

**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 September 12, 2014*

| (\$ in millions)            | Twelve Weeks Ended    |                      | Change | % Change |
|-----------------------------|-----------------------|----------------------|--------|----------|
|                             | September 12,<br>2014 | September 6,<br>2013 |        |          |
| <b>Contract Sales</b>       |                       |                      |        |          |
| Vacation ownership          | \$ 11                 | \$ 9                 | \$ 2   | 26%      |
| <b>Total contract sales</b> | \$ 11                 | \$ 9                 | \$ 2   | 26%      |

The increase in contract sales reflected stronger sales across most sites in the Europe region.

**Table of Contents***Thirty-Six Weeks Ended September 12, 2014*

| (\$ in millions)            | Thirty-Six Weeks Ended |                   | Change       | % Change   |
|-----------------------------|------------------------|-------------------|--------------|------------|
|                             | September 12, 2014     | September 6, 2013 |              |            |
| Contract Sales              |                        |                   |              |            |
| Vacation ownership          | \$ 31                  | \$ 20             | \$ 11        | 58%        |
| <b>Total contract sales</b> | <b>\$ 31</b>           | <b>\$ 20</b>      | <b>\$ 11</b> | <b>58%</b> |

The increase in contract sales reflected stronger sales from our Middle East sales location (\$5 million) and from our onsite sales locations in Spain (\$2 million), stronger fractional sales at our project in London, United Kingdom (\$1 million), and higher cancellation activity in the prior year comparable period associated with the extended rescission periods in this segment (\$3 million).

**Development Margin***Twelve Weeks Ended September 12, 2014*

| (\$ in millions)                    | Twelve Weeks Ended |                   | Change    | % Change |
|-------------------------------------|--------------------|-------------------|-----------|----------|
|                                     | September 12, 2014 | September 6, 2013 |           |          |
| Sale of vacation ownership products | \$ 10              | \$ 10             | \$        | NM       |
| Cost of vacation ownership products | (3)                | (2)               | (1)       | (19%)    |
| Marketing and sales                 | (6)                | (6)               |           | NM       |
| Development margin                  | \$ 1               | \$ 2              | \$ (1)    | (52%)    |
| Development margin percentage       | 9.6%               | 19.5%             | (9.9 pts) |          |

Revenues from the sale of vacation ownership products were unchanged from the prior year comparable period, with the \$2 million increase in contract sales offset by \$2 million of higher revenue reportability in the prior year comparable period. The \$2 million of higher revenue reportability in the prior year comparable quarter occurred because the rescission period related to certain sales had expired, all of which related to the impact of the extended rescission periods in this segment.

The decrease in development margin reflected \$1 million from lower revenue reportability year-over-year (all of which related to the impact of the extended rescission periods in this segment). The higher vacation ownership contract sales volume did not impact development margin because the more efficient marketing and sales spending was offset by an unfavorable mix of higher cost real estate inventory being sold.

Thirty-Six Weeks Ended September 12, 2014

| (\$ in millions)                    | Thirty-Six Weeks Ended |                      | Change     | % Change |
|-------------------------------------|------------------------|----------------------|------------|----------|
|                                     | September 12,<br>2014  | September 6,<br>2013 |            |          |
| Sale of vacation ownership products | \$ 27                  | \$ 42                | \$ (15)    | (36%)    |
| Cost of vacation ownership products | (7)                    | (11)                 | 4          | 40%      |
| Marketing and sales                 | (17)                   | (19)                 | 2          | 10%      |
| Development margin                  | \$ 3                   | \$ 12                | \$ (9)     | (73%)    |
| Development margin percentage       | 12.4%                  | 29.2%                | (16.8 pts) |          |

The decrease in revenues from the sale of vacation ownership products was due to \$26 million of lower revenue reportability compared to the prior year comparable period, partially offset by \$11 million from the increase in contract sales net of sales reserve. The \$26 million of lower revenue reportability resulted from \$1 million of lower revenue reportability in the thirty-six weeks ended September 12, 2014, compared to \$25 million of higher revenue reportability in the prior year comparable period. Revenue reportability was higher in the prior year comparable period because the rescission period related to certain sales had expired during the prior year comparable period, of which \$20 million related to the impact of the extended rescission periods in this segment.

The decrease in development margin reflected \$14 million from lower revenue reportability year-over-year (of which \$11 million related to the impact of the extended rescission periods in this segment), partially offset by a \$3 million net increase from higher vacation ownership contract sales volume net of lower direct variable expenses (i.e., cost of vacation ownership products and marketing and sales) driven mainly by more efficient marketing and sales spending, as well as \$2 million of severance charges related to the restructuring of sales locations in the prior year comparable period.



**Table of Contents***Asia Pacific*

| <i>(\$ in millions)</i>              | Twelve Weeks Ended    |                                     | Thirty-Six Weeks Ended               |                                     |
|--------------------------------------|-----------------------|-------------------------------------|--------------------------------------|-------------------------------------|
|                                      | September 12,<br>2014 | September 6,<br>2013 <sup>(1)</sup> | September 12,<br>2014 <sup>(1)</sup> | September 6,<br>2013 <sup>(1)</sup> |
| <b>Revenues</b>                      |                       |                                     |                                      |                                     |
| Sale of vacation ownership products  | \$ 8                  | \$ 7                                | \$ 22                                | \$ 23                               |
| Resort management and other services | 1                     | 1                                   | 3                                    | 3                                   |
| Financing                            | 1                     | 1                                   | 3                                    | 3                                   |
| Rental                               | 1                     | 1                                   | 5                                    | 5                                   |
| Cost reimbursements                  |                       | 1                                   | 2                                    | 5                                   |
| <b>Total revenues</b>                | <b>11</b>             | <b>11</b>                           | <b>35</b>                            | <b>39</b>                           |
| <b>Expenses</b>                      |                       |                                     |                                      |                                     |
| Cost of vacation ownership products  | 3                     | 1                                   | 6                                    | 4                                   |
| Marketing and sales                  | 4                     | 5                                   | 12                                   | 14                                  |
| Resort management and other services | 1                     | 1                                   | 2                                    | 2                                   |
| Rental                               | 2                     | 3                                   | 8                                    | 8                                   |
| Royalty fee                          |                       |                                     | 1                                    | 1                                   |
| Cost reimbursements                  |                       | 1                                   | 2                                    | 5                                   |
| <b>Total expenses</b>                | <b>10</b>             | <b>11</b>                           | <b>31</b>                            | <b>34</b>                           |
| <b>Segment financial results</b>     | <b>\$ 1</b>           | <b>\$</b>                           | <b>\$ 4</b>                          | <b>\$ 5</b>                         |

- (1) Europe and Asia Pacific segment revenues and expenses have been restated to correct certain immaterial prior period errors. For the thirty-six weeks ended September 12, 2014, \$1 million of cost reimbursements related to the twelve weeks ended March 28, 2014 were reclassified from the Asia Pacific segment to the Europe segment. For the twelve and thirty-six weeks ended September 6, 2013, \$2 million and \$5 million of cost reimbursements were reclassified from the Asia Pacific segment to the Europe segment, respectively.

**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 distribution potential. Due to operational constraints, regulatory conditions and certain other conditions related to our 18 units in Macau, we have decided not to sell these units through our Marriott Vacation Club, Asia Pacific points program. We instead intend to dispose of the units as whole ownership residential units and to reinvest any proceeds from the disposition in new timeshare destinations in the

region with strong on site sales.

### Contract Sales

*Twelve Weeks Ended September 12, 2014*

| (\$ in millions)            | Twelve Weeks Ended    |                      | Change      | % Change  |
|-----------------------------|-----------------------|----------------------|-------------|-----------|
|                             | September 12,<br>2014 | September 6,<br>2013 |             |           |
| Contract Sales              |                       |                      |             |           |
| Vacation ownership          | \$ 8                  | \$ 7                 | \$ 1        | 2%        |
| <b>Total contract sales</b> | <b>\$ 8</b>           | <b>\$ 7</b>          | <b>\$ 1</b> | <b>2%</b> |

The increase in contract sales reflected a \$250 increase in VPG, partially offset by a 6 percent decrease in the number of tours, which was impacted by the ongoing political turmoil in Thailand.

**Table of Contents***Thirty-Six Weeks Ended September 12, 2014*

| (\$ in millions)            | Thirty-Six Weeks Ended |                      | Change        | % Change     |
|-----------------------------|------------------------|----------------------|---------------|--------------|
|                             | September 12,<br>2014  | September 6,<br>2013 |               |              |
| Contract Sales              |                        |                      |               |              |
| Vacation ownership          | \$ 22                  | \$ 24                | \$ (2)        | (10%)        |
| <b>Total contract sales</b> | <b>\$ 22</b>           | <b>\$ 24</b>         | <b>\$ (2)</b> | <b>(10%)</b> |

The decline in contract sales reflected an 8 percent decrease in the number of tours and an \$81 decrease in VPG, which were impacted by the continued political turmoil in Thailand.

**Development Margin***Twelve Weeks Ended September 12, 2014*

| (\$ in millions)                    | Twelve Weeks Ended    |                      | Change  | % Change |
|-------------------------------------|-----------------------|----------------------|---------|----------|
|                                     | September 12,<br>2014 | September 6,<br>2013 |         |          |
| Sale of vacation ownership products | \$ 8                  | \$ 7                 | \$ 1    | 7%       |
| Cost of vacation ownership products | (3)                   | (1)                  | (2)     | (21%)    |
| Marketing and sales                 | (4)                   | (5)                  | 1       | 4%       |
| Development margin                  | \$ 1                  | \$ 1                 | \$      | NM       |
| Development margin percentage       | 15.1%                 | 11.5%                | 3.6 pts |          |

The increase in revenues from the sale of vacation ownership products was due to the higher contract sales, as well as unfavorable notes receivable reserve adjustment in the prior year comparable period. The development margin was unchanged from the prior year comparable period.

*Thirty-Six Weeks Ended September 12, 2014*

| (\$ in millions)                    | Thirty-Six Weeks Ended |                      | Change | % Change |
|-------------------------------------|------------------------|----------------------|--------|----------|
|                                     | September 12,<br>2014  | September 6,<br>2013 |        |          |
| Sale of vacation ownership products | \$ 22                  | \$ 23                | \$ (1) | (4%)     |

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|                                     |       |       |           |       |
|-------------------------------------|-------|-------|-----------|-------|
| Cost of vacation ownership products | (6)   | (4)   | (2)       | (31%) |
| Marketing and sales                 | (12)  | (14)  | 2         | 11%   |
| Development margin                  | \$ 4  | \$ 5  | \$ (1)    | (13%) |
| Development margin percentage       | 17.6% | 19.6% | (2.0 pts) |       |

The decrease in sale of vacation ownership products was due to the \$2 million decline in contract sales, partially offset by a \$1 million unfavorable notes receivable reserve adjustment in the prior year comparable period. The decrease in the development margin was due to the lower sales volume net of direct variable expenses (i.e., cost of vacation ownership products and marketing and sales), and includes less efficient marketing and sales spending at our existing sales locations due to an inability to leverage fixed costs on the lower sales volumes, as well as a more than \$1 million favorable product cost true up in the prior year comparable period.

**Table of Contents****Corporate and Other**

| (\$ in millions)                      | Twelve Weeks Ended    |                      | Thirty-Six Weeks Ended |                      |
|---------------------------------------|-----------------------|----------------------|------------------------|----------------------|
|                                       | September 12,<br>2014 | September 6,<br>2013 | September 12,<br>2014  | September 6,<br>2013 |
| Cost of vacation ownership products   | \$ 2                  | \$ 2                 | \$ 6                   | \$ 5                 |
| Financing                             | 5                     | 5                    | 16                     | 16                   |
| General and administrative            | 22                    | 23                   | 67                     | 66                   |
| Organizational and separation related | 1                     | 4                    | 2                      | 7                    |
| Consumer financing interest           | 6                     | 7                    | 18                     | 22                   |
| Royalty fee                           | 11                    | 11                   | 34                     | 34                   |
| <b>Total Expenses</b>                 | <b>\$ 47</b>          | <b>\$ 52</b>         | <b>\$ 143</b>          | <b>\$ 150</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 supporting 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 September 12, 2014*

Total expenses decreased \$5 million from the prior year comparable period. The \$5 million decrease resulted from \$3 million of lower organizational and separation related expenses, \$1 million of lower general and administrative expenses and \$1 million of lower consumer financing interest expense.

The \$1 million decline in consumer financing interest expense was due to lower outstanding debt balances of securitized vacation ownership notes receivable and associated interest costs as well as a lower average interest rate. 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.

The \$1 million decline in general and administrative expense was due to \$1 million of lower legal related expenses and \$1 million of savings related to organizational and separation relation efforts in the human resources, information technology and finance and accounting organizations, partially offset by \$1 million of higher personnel related costs.

*Thirty-Six Weeks Ended September 12, 2014*

Total expenses decreased \$7 million from the prior year comparable period. The \$7 million decrease resulted from \$5 million of lower organizational and separation related expenses and \$4 million of lower consumer financing interest expense, partially offset by \$1 million of higher general and administrative expenses and \$1 million of higher cost of vacation ownership products expenses.

The \$4 million decline in consumer financing interest expense was due to lower outstanding debt balances of securitized vacation ownership notes receivable and associated interest costs as well as a lower average interest rate. 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.

The \$1 million of higher general and administrative expense was due to \$2 million of higher personnel related costs and \$1 million from the favorable resolution of an international tax (non-income tax) matter in the prior year comparable period. These increases were offset by \$2 million of savings related to organizational and separation relation efforts in the human resources, information technology and finance and accounting organizations.

### **New Accounting Standards**

See Footnote No. 1, Summary of Significant Accounting Policies, to our Financial Statements for information related to our adoption of new accounting standards.

**Table of Contents****Liquidity and Capital Resources**

Our capital needs are supported by cash on hand (\$146 million at the end of the third quarter of 2014), cash generated from operations, our ability to raise capital through securitizations in the asset-backed securities ( ABS ) market, and to the extent necessary, funds available under the Warehouse Credit Facility and our \$200 million revolving credit facility (as amended, 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 third quarter of 2014, \$534 million of the \$538 million of total debt outstanding was non-recourse debt associated with vacation ownership notes receivable securitizations. In addition, we have \$40 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.

We have sufficient real estate inventory to meet expected demand for our vacation ownership products for the next several years. At the end of the third quarter of 2014, we had \$794 million of real estate inventory on hand, comprised of \$446 million of finished goods and \$348 million of land and infrastructure. As a result, we expect our real estate inventory spending (discussed below) will be less than or in line with the cost of vacation ownership products for the near term. We also expect to continue to sell excess Ritz-Carlton branded inventory and dispose of certain undeveloped and partially developed land over the next few years, and plan to sell additional Ritz-Carlton branded inventory through the MVCD program in order to generate incremental cash and reduce related carrying costs.

Our vacation ownership product offerings also 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 do not need specific resort-based inventory at each sales location, we need to have only a few resorts under construction at any given time while leveraging 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 that our points-based programs enable us to align our construction of real estate inventory with the pace of sales of vacation ownership products by slowing down or accelerating construction, as demand across our portfolio and market conditions dictate.

We intend to selectively pursue growth opportunities in North America and Asia by targeting high-quality inventory sources that allow us to add desirable new locations to our system, as well as provide 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 could be structured as turn-key developments with third-party partners or purchases of constructed inventory just prior to sale.

During the thirty-six weeks ended September 12, 2014, we had a net decrease in cash and cash equivalents of \$54 million compared to a \$185 million net increase in cash and cash equivalents during the prior year comparable period. The following table summarizes these changes:

**Thirty-Six Weeks Ended**

*(\$ in millions)*

**September 12, 2014** **September 6, 2013**

|  |    |       |        |
|--|----|-------|--------|
| Cash (used in) provided by:                                      |    |       |        |
| Operating activities   | \$ | 206   | \$ 123 |
| Investing activities   |    | 46    | (4)    |
| Financing activities   |    | (305) | 66     |
| Effect of changes in exchange rates on cash and cash equivalents |    | (1)   | -      |
| Net change in cash and cash equivalents                          | \$ | (54)  | \$ 185 |

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 as well as funding our working capital needs.

We minimize 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, the rate at which owners finance their vacation ownership purchase with us, and cash outlays for real estate inventory acquisition and development.



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In the thirty-six weeks ended September 12, 2014, we generated \$206 million of cash flows from operating activities, compared to \$123 million in the prior year comparable period. The improvement in cash flows reflected the favorable timing of real estate inventory spending and lower payments on the liability for the Marriott Rewards customer loyalty program in the thirty-six weeks ended September 12, 2014, as well as the unfavorable impact in the prior year comparable period of payments of a previously accrued litigation settlement, the non-cash recognition of sales related to the Europe rescission adjustment, and payments of deferred compensation amounts.

We recorded \$10 million of residential contract sales in the thirty-six weeks ended September 12, 2014, associated with the sale of five of the units at the RCC San Francisco that we bought back as part of a legal settlement at the end of 2012. We expect to dispose of the remaining two units in 2014, which we expect will generate approximately \$3 million of net cash proceeds.

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 Less Than Cost of Sales*

|  | <b>Thirty-Six Weeks Ended</b> |                          |
|--|-------------------------------|--------------------------|
| <i>(\$ in millions)</i>                                | <b>September 12, 2014</b>     | <b>September 6, 2013</b> |
| Real estate inventory spending                         | \$ (68)                       | \$ (114)                 |
| Real estate inventory costs                            | 129                           | 147                      |
| Real estate inventory spending less than cost of sales | \$ 61                         | \$ 33                    |

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).

Given the significant level of completed real estate inventory on hand, as well as the capital efficiency resulting from the MVCD program, our spending for real estate inventory remained below the amount of real estate inventory costs in each of the thirty-six week periods ended September 12, 2014 and September 6, 2013.

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 for the next several years.

*Notes Receivable Collections in Excess of New Mortgages*

|                         | <b>Thirty-Six Weeks Ended</b> |  |
|-------------------------|-------------------------------|--|
| <i>(\$ in millions)</i> | <b>September 6, 2013</b>      |  |

**September 12, 2014**

|   |                 |       |       |
|---|-----------------|-------|-------|
| Vacation ownership notes receivable collections                           | non-securitized | \$ 79 | \$ 82 |
| Vacation ownership notes receivable collections                           | securitized     | 125   | 135   |
| Vacation ownership notes receivable originations                          |                 | (170) | (166) |
| Vacation ownership notes receivable collections in excess of originations |                 | \$ 34 | \$ 51 |

Vacation ownership notes receivable collections include principal from non-securitized and securitized vacation ownership notes receivable. Total collections declined due to the reduction in the portfolio of outstanding vacation ownership notes receivable. New vacation ownership notes receivable originated in the thirty-six weeks ended September 12, 2014 increased slightly due to an increase in financing propensity to nearly 43 percent compared to 42 percent for the prior year comparable period.

**Table of Contents***Cash from Investing Activities*

| (\$ in millions)  | Thirty-Six Weeks Ended |                   |
|---|------------------------|-------------------|
|   | September 12, 2014     | September 6, 2013 |
| Capital expenditures for property and equipment (excluding inventory) | \$ (8)                 | \$ (11)           |
| Decrease in restricted cash   | 21                     | 4                 |
| Dispositions, net   | 33                     | 3                 |
| Net cash provided by investing activities                             | \$ 46                  | \$ (4)            |

*Capital Expenditures for Property and Equipment*

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

In the thirty-six weeks ended September 12, 2014, capital expenditures for property and equipment of \$8 million included \$4 million of spending to support ancillary and business operations and \$4 million for technology spending. In the thirty-six weeks ended September 6, 2013, capital expenditures for property and equipment of \$11 million included \$7 million of spending to support ancillary and business operations and \$4 million for technology spending.

*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 legal requirements.

The decrease in restricted cash in the thirty-six weeks ended September 12, 2014, reflects payments to property owners associations for maintenance fees collected on their behalf prior to the end of 2013, partially offset by an increase in funds held in escrow related to tour package sales deposits.

The decrease in restricted cash in the thirty-six weeks ended September 6, 2013 reflects payments to property owners associations for maintenance fees collected on their behalf prior to the end of 2012, partially offset by cash collected in connection with securitized vacation ownership notes receivable that was not distributed to investors before the end of the third quarter of 2013.

The higher inflow in the thirty-six weeks ended September 12, 2014 compared to the prior year comparable period reflects changes in restricted cash driven by higher payments to property owners associations for maintenance fees collected on their behalf (\$16 million) as well as the timing of payments to investors for cash collected in connection with securitized vacation ownership notes receivable (\$11 million), partially offset by an increase in funds held in escrow related to tour package sales deposits (\$10 million).

We expect the fluctuation in restricted cash for maintenance fee activity to be relatively stable on an annual basis, with cash inflows occurring in the fourth quarter upon receipt of maintenance fees and cash outflows occurring in the first and second quarters upon remittance to property owners' associations.

*Dispositions*

Dispositions in the thirty-six weeks ended September 12, 2014 related to the sale of a golf course and adjacent undeveloped land in Orlando, Florida, the sale of undeveloped land on Singer Island, Florida, and the sale of several lots in St. Thomas, U.S. Virgin Islands. Dispositions in the thirty-six weeks ended September 6, 2013 related to the sale of a multi-family parcel and several lots in St. Thomas, U.S. Virgin Islands.

**Table of Contents**Cash from Financing Activities**Thirty-Six Weeks Ended**

| <i>(\$ in millions)</i>   | <b>September 12, 2014</b> |       | <b>September 6, 2013</b> |       |
|---|---------------------------|-------|--------------------------|-------|
| Borrowings from securitization transactions                       |                           |       |                          |       |
| Bonds payable on securitized vacation ownership notes receivable  | \$                        | 23    | \$                       | 250   |
| Borrowings on Warehouse Credit Facility                           |                           |       |                          | 111   |
| Subtotal  |                           | 23    |                          | 361   |
| Repayment of debt related to securitization transactions          |                           |       |                          |       |
| Bonds payable on securitized vacation ownership notes receivable  |                           | (163) |                          | (177) |
| Warehouse Credit Facility   |                           |       |                          | (111) |
| Subtotal  |                           | (163) |                          | (288) |
| Borrowings on Revolving Corporate Credit Facility                 |                           |       |                          | 25    |
| Repayments on Revolving Corporate Credit Facility                 |                           |       |                          | (25)  |
| Debt issuance costs   |                           | (2)   |                          | (5)   |
| Repurchase of common stock  |                           | (160) |                          |       |
| Proceeds from stock option exercises                              |                           | 2     |                          | 2     |
| Payment of withholding taxes on vesting of restricted stock units |                           | (5)   |                          | (4)   |
| Net cash (used in) provided by financing activities               | \$                        | (305) | \$                       | 66    |

*Warehouse Credit Facility*

At September 12, 2014, no amounts were outstanding under the Warehouse Credit Facility and \$205 million of gross vacation ownership notes receivable were eligible for securitization. See Footnote No. 16, Subsequent Events, to our Financial Statements for a discussion of the renewal of the Warehouse Credit Facility subsequent to the end of the third quarter of 2014.

*Borrowings from / Repayments of Debt Related to Securitization Transactions*

We reflect proceeds from securitizations of vacation ownership notes receivable, including draw downs on the Warehouse Credit Facility, as Borrowings from securitization transactions. We reflect payments of bonds associated with vacation ownership notes receivable securitizations and payments 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 \$163 million (including \$27 million for voluntary retirement clean-up calls) and \$288 million (including \$51 million for voluntary retirement clean-up calls) in the thirty-six weeks ended September 12, 2014 and September 6, 2013, respectively.

During the second quarter of 2014, we completed the securitization of a pool of \$24 million of primarily highly-seasoned vacation ownership notes receivable that we had previously classified as not being eligible for securitization using criteria applicable to then current securitization transactions in the ABS market because they did not meet certain representation criteria required in such securitizations, or because of other factors that may have reflected investor demand in a securitization transaction. In connection with the securitization, investors purchased in a private placement \$23 million in vacation ownership loan backed notes from the Kyuka Owner Trust 2014-A (the 2014-A Trust ) with a per annum interest rate of 6.25%. While we may consider any additional opportunities to sell other vacation ownership notes receivable classified as not eligible for securitization in the future, there can be no assurance that we will complete any such transactions.

We have accounted for the securitization as a secured borrowing and, therefore, did not recognize a gain or loss in the second quarter of 2014 as a result of this transaction. The results of operations of the 2014-A Trust are consolidated within our results of operations as the 2014-A Trust is a variable interest entity for which we are the primary beneficiary.

#### *Completion of Securitization Transaction*

On October 9, 2014, subsequent to the end of the third quarter of 2014, we completed a securitization of a pool of \$250 million of vacation ownership notes receivable. Of such securitized loans, \$205 million were purchased on October 9, 2014 by the MVW Owner Trust 2014-1 (the 2014-1 Trust ), and all or a portion of the remaining loans may be purchased by the 2014-1 Trust prior to February 16, 2015. In connection with the securitization, investors purchased in a private placement \$240 million in vacation ownership loan backed notes (the Notes ) from the 2014-1 Trust. Two classes of Notes were issued by the 2014-1 Trust: \$216 million of Class A Notes and \$24 million of Class B Notes. The Class A Notes have an interest rate of 2.25 percent and the Class B Notes have an interest rate of 2.70 percent, for an overall weighted average interest rate of 2.29 percent. Of the \$240 million gross cash proceeds we received, \$43 million will be held by the 2014-1 Trust until it purchases all or a portion of the remaining securitized loans or, if not used for such purpose, returned to the investors as a partial repayment of the Notes.

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We will account for the securitization as a secured borrowing and therefore will not recognize a gain or loss in the fourth quarter of 2014 as a result of this transaction. The results of operations of the 2014-1 Trust will be consolidated within our results of operations as the 2014-1 Trust is a variable interest entity for which we are the primary beneficiary.

### *Share Repurchase Program*

We repurchased 2,457,997 shares of our common stock for \$135 million, at an average price per share of \$54.99, during the thirty-six weeks ended September 12, 2014, under our share repurchase program. On September 11, 2014, pursuant to our share repurchase program, we entered into an agreement with a financial institution to repurchase \$25 million of our common stock under an accelerated share repurchase program. Upon completion of the program, subsequent to the end of the third quarter of 2014, the financial institution had delivered 401,291 shares of common stock, which are not included in the number of shares purchased during the thirty-six weeks ended September 12, 2014 referenced above. See Footnote No. 11, *Shareholders Equity*, to our Financial Statements for further information related to the share repurchase program, including the recent extension of that program.

### *Declaration of Dividend*

On October 14, 2014, subsequent to the end of the third quarter of 2014, our Board of Directors declared a quarterly dividend of \$0.25 per share to be paid on November 12, 2014 to shareholders of record as of October 28, 2014. Any future dividend payments will be subject to Board approval, and there can be no assurance that we will pay dividends in the future.

### *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 3, 2014, other than those resulting from changes in the amount of debt outstanding. As of September 12, 2014, debt decreased by \$140 million to \$538 million compared to \$678 million at January 3, 2014, all of which related to a decrease in non-recourse debt associated with vacation ownership notes receivable securitizations, net of the new securitization. As of September 12, 2014, future debt payments to be paid out of collections from our vacation ownership notes receivable, including principal and interest, totaled \$598 million and are due as follows: \$39 million in 2014; \$114 million in 2015; \$105 million in 2016; \$73 million in 2017; \$60 million in 2018; and \$207 million thereafter.

We have historically issued guarantees to certain lenders in connection with the provision of third-party financing for our sales of vacation ownership products, which guarantees generally have a stated maximum amount of funding and a term of five to ten years. 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 financed vacation ownership product securing the note payable. Our commitments under these guarantees expire as notes mature or are repaid. Our exposure under such guarantees as of September 12, 2014 in the Asia Pacific and North America segments was \$10 million and \$3 million, respectively, and the underlying debt to third-party lenders will mature between 2014 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.



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### **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 3, 2014.

### **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.

#### *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 3, 2014.

## 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> |
|--------------------|----------------------------------|-------------------------|---|---|
| June 21, 2014      |                                  |                         |   |   |
| July 18, 2014      | 285,726                          | \$ 57.52                | 285,726   | 1,039,050   |
| July 19, 2014      |                                  |                         |   |   |
| August 15, 2014    | 335,069                          | \$ 57.43                | 335,069   | 703,981   |
| August 16, 2014    |                                  |                         |   |   |
| September 12, 2014 | 167,001                          | \$ 60.05                | 167,001   | 536,980   |

- <sup>(1)</sup> 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 authorized the repurchase of up to 3,500,000 shares of our common stock prior to March 28, 2015 under the share repurchase program. Shares repurchased pursuant to our accelerated share repurchase program, which were delivered to us after the end of the third quarter of 2014, are not included in the table above.

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**Item 3. Defaults Upon Senior Securities**

None.

**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

October 16, 2014

/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

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| <b>Exhibit<br/>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                   | Second Amendment and Restatement Agreement, dated as of September 10, 2014, by and among Marriott Vacations Worldwide Corporation, Marriott Ownership Resorts, Inc., certain subsidiaries of Marriott Vacations Worldwide Corporation, JPMorgan Chase Bank, N.A., as administrative agent, and the several banks and other financial institutions or entities from time to time parties thereto, incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K filed on September 11, 2014.  |
| 10.2                   | Second Amended and Restated Credit Agreement, dated as of September 10, 2014, among Marriott Vacations Worldwide Corporation, Marriott Ownership Resorts, Inc., the several banks and other financial institutions or entities from time to time parties thereto, JPMorgan Chase Bank, N.A., as administrative agent, Bank of America, N.A. and Deutsche Bank Securities Inc., as co-syndication agents, and Bank of America, N.A. and Deutsche Bank Securities Inc., as co-documentation agents, incorporated by reference to Exhibit 10.2 of our Current Report on Form 8-K filed on September 11, 2014. |
| 10.3                   | Second Amended and Restated Guarantee and Collateral Agreement, dated as of September 10, 2014, made by each of Marriott Vacations Worldwide Corporation, Marriott Ownership Resorts, Inc. and certain subsidiaries of Marriott Vacations Worldwide Corporation, in favor of JPMorgan Chase Bank, N.A., as administrative agent for the banks and other financial institutions or entities from time to time parties to the Second Amended and Restated Credit Agreement filed as Exhibit 10.2, incorporated by reference to Exhibit 10.3 of our Current Report on Form 8-K filed on September 11, 2014.   |
| 10.4                   | Second Amended and Restated Sale Agreement, entered into September 15, 2014 and dated as of September 1, 2014, between MORI SPC Series Corp. and Marriott Vacations Worldwide Owner Trust 2011-1, incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K filed on September 16, 2014.   |
| 10.5                   | Third Amended and Restated Indenture and Servicing Agreement, entered into September 15, 2014 and dated as of September 1, 2014, among Marriott Vacations Worldwide Owner Trust 2011-1, Marriott Ownership Resorts, Inc., and Wells Fargo Bank, National Association, incorporated by reference to Exhibit 10.2 of our Current Report on Form 8-K filed on September 16, 2014.   |
| 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 and thirty-six weeks ended September 12, 2014 and September 6, 2013, respectively; (ii) the Interim Consolidated Statements of Comprehensive Income for the twelve and thirty-six weeks ended September 12, 2014 and September 6, 2013, respectively; (iii) the Interim Consolidated Balance Sheets at September 12, 2014 and January 3, 2014; and (iv) the Interim Consolidated Statements of Cash Flows for the thirty-six weeks ended September 12, 2014 and September 6, 2013, respectively.