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

# FORM 10-Q

**(Mark One)**

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

**For the quarterly period ended March 31, 2017**
**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** | **45-2598330** |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| **6649 Westwood Blvd. Orlando, FL** | **32821** |
| (Address of principal executive offices) | (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 x 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 x No ☐

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

| | | | |
|---|---|---|---|
| Large accelerated filer | x | Accelerated filer | ☐ |
| Non-accelerated filer | ☐ (Do not check if a smaller reporting company) | Smaller reporting company | ☐ |
| | | Emerging growth company | ☐ |

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

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

The number of shares outstanding of the issuer's common stock, par value $0.01 per share, as of April 28, 2017 was 27,148,564.

**MARRIOTT VACATIONS WORLDWIDE CORPORATION**
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Throughout this report, we refer to brands that we own, as well as those brands that we license from Marriott International, Inc. (“Marriott International”) or its affiliates, as our brands. Brand names, trademarks, service marks and trade names that we own or license from Marriott International include Marriott Vacation Club®, Marriott Vacation Club Destinations™, Marriott Vacation Club Pulse℠, Marriott Grand Residence Club®, Grand Residences by Marriott®, and The Ritz-Carlton Club®. We also refer to Marriott International’s Marriott Rewards® customer loyalty program. We may also refer to brand names, trademarks, service marks and trade names of other companies and organizations, and these brand names, trademarks, service marks and trade names are the property of their respective owners.

## PART I. FINANCIAL INFORMATION

### Item 1. Financial Statements

**MARRIOTT VACATIONS WORLDWIDE CORPORATION**
**INTERIM CONSOLIDATED STATEMENTS OF INCOME**
(In thousands, except per share amounts)
(Unaudited)

| | Quarters Ended | |
|---|---|---|
| | March 31, 2017 (91 days) | March 25, 2016 (84 days) |
| **REVENUES** | | |
| Sale of vacation ownership products | $ 172,155 | $ 138,369 |
| Resort management and other services | 74,339 | 63,757 |
| Financing | 32,111 | 29,224 |
| Rental | 85,256 | 80,288 |
| Cost reimbursements | 123,633 | 107,533 |
| **TOTAL REVENUES** | 487,494 | 419,171 |
| **EXPENSES** | | |
| Cost of vacation ownership products | 42,620 | 35,617 |
| Marketing and sales | 100,661 | 78,412 |
| Resort management and other services | 41,831 | 39,863 |
| Financing | 5,206 | 4,629 |
| Rental | 70,432 | 64,660 |
| General and administrative | 27,539 | 25,359 |
| Litigation settlement | — | (303) |
| Consumer financing interest | 5,938 | 5,362 |
| Royalty fee | 16,070 | 13,357 |
| Cost reimbursements | 123,633 | 107,533 |
| **TOTAL EXPENSES** | 433,930 | 374,489 |
| (Losses) gains and other (expense) income | (59) | 7 |
| Interest expense | (781) | (1,982) |
| Other | (369) | (2,542) |
| **INCOME BEFORE INCOME TAXES** | 52,355 | 40,165 |
| Provision for income taxes | (18,655) | (15,757) |
| **NET INCOME** | $ 33,700 | $ 24,408 |
| | | |
| **EARNINGS PER SHARE** | | |
| Earnings per share - basic | $ 1.24 | $ 0.84 |
| Earnings per share - diluted | $ 1.21 | $ 0.82 |
| | | |
| **CASH DIVIDENDS DECLARED PER SHARE** | $ 0.35 | $ 0.30 |

**See Notes to Interim Consolidated Financial Statements**

**MARRIOTT VACATIONS WORLDWIDE CORPORATION**
**INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
(In thousands)
(Unaudited)

| | Quarters Ended | |
|---|---|---|
| | **March 31, 2017 (91 days)** | **March 25, 2016 (84 days)** |
| Net income | $ 33,700 | $ 24,408 |
| Other comprehensive income: | | |
| Foreign currency translation adjustments | 4,548 | 1,147 |
| Derivative instrument adjustment, net of tax | (307) | 409 |
| Total other comprehensive income, net of tax | 4,241 | 1,556 |
| **COMPREHENSIVE INCOME** | $ 37,941 | $ 25,964 |

**See Notes to the Interim Consolidated Financial Statements**

**MARRIOTT VACATIONS WORLDWIDE CORPORATION**
**INTERIM CONSOLIDATED BALANCE SHEETS**
(In thousands, except share and per share data)

| | (Unaudited) March 31, 2017 | December 30, 2016 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ 101,841 | $ 147,102 |
| Restricted cash (including $32,762 and $27,525 from VIEs, respectively) | 64,033 | 66,000 |
| Accounts and contracts receivable, net (including $4,522 and $4,865 from VIEs, respectively) | 127,347 | 161,733 |
| Vacation ownership notes receivable, net (including $659,191 and $717,543 from VIEs, respectively) | 997,419 | 972,311 |
| Inventory | 692,757 | 712,536 |
| Property and equipment | 202,380 | 202,802 |
| Other (including $8,427 and $0 from VIEs, respectively) | 160,397 | 128,935 |
| **TOTAL ASSETS** | $ 2,346,174 | $ 2,391,419 |
| **LIABILITIES AND EQUITY** | | |
| Accounts payable | $ 72,277 | $ 124,439 |
| Advance deposits | 61,685 | 55,542 |
| Accrued liabilities (including $564 and $584 from VIEs, respectively) | 154,056 | 147,469 |
| Deferred revenue | 127,607 | 95,495 |
| Payroll and benefits liability | 81,175 | 95,516 |
| Deferred compensation liability | 67,022 | 62,874 |
| Debt, net (including $684,023 and $738,362 from VIEs, respectively) | 683,767 | 737,224 |
| Other | 15,762 | 15,873 |
| Deferred taxes | 149,574 | 149,168 |
| **TOTAL LIABILITIES** | 1,412,925 | 1,483,600 |
| Contingencies and Commitments (Note 8) | | |
| Preferred stock — $0.01 par value; 2,000,000 shares authorized; none issued or outstanding | — | — |
| Common stock — $0.01 par value; 100,000,000 shares authorized; 36,787,613 and 36,633,868 shares issued, respectively | 368 | 366 |
| Treasury stock — at cost; 9,640,067 and 9,643,562 shares, respectively | (606,411) | (606,631) |
| Additional paid-in capital | 1,159,454 | 1,162,283 |
| Accumulated other comprehensive income | 9,701 | 5,460 |
| Retained earnings | 370,137 | 346,341 |
| **TOTAL EQUITY** | 933,249 | 907,819 |
| **TOTAL LIABILITIES AND EQUITY** | $ 2,346,174 | $ 2,391,419 |

*The abbreviation VIEs above means Variable Interest Entities.*

**See Notes to Interim Consolidated Financial Statements**

**MARRIOTT VACATIONS WORLDWIDE CORPORATION**
**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**
(In thousands)
(Unaudited)

| | Quarters Ended | |
|---|---|---|
| | March 31, 2017 (91 days) | March 25, 2016 (84 days) |
| **OPERATING ACTIVITIES** | | |
| Net income | $ 33,700 | $ 24,408 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 5,191 | 5,125 |
| Amortization of debt issuance costs | 1,386 | 1,300 |
| Provision for loan losses | 12,042 | 8,287 |
| Share-based compensation | 3,276 | 2,524 |
| Deferred income taxes | 5,472 | 5,549 |
| Net change in assets and liabilities: | | |
| Accounts and contracts receivable | 34,586 | 21 |
| Notes receivable originations | (112,832) | (57,524) |
| Notes receivable collections | 76,068 | 60,532 |
| Inventory | 21,944 | (14,970) |
| Other assets | (27,119) | (5,285) |
| Accounts payable, advance deposits and accrued liabilities | (30,179) | (32,204) |
| Deferred revenue | 31,861 | 30,317 |
| Payroll and benefit liabilities | (14,500) | (28,586) |
| Deferred compensation liability | 4,147 | 4,406 |
| Other liabilities | (242) | 6,665 |
| Other, net | 903 | (687) |
| Net cash provided by operating activities | 45,704 | 9,878 |
| **INVESTING ACTIVITIES** | | |
| Capital expenditures for property and equipment (excluding inventory) | (5,055) | (6,331) |
| Purchase of company owned life insurance | (8,200) | — |
| Dispositions, net | 1 | 9 |
| Net cash used in investing activities | (13,254) | (6,322) |
| **FINANCING ACTIVITIES** | | |
| Borrowings from securitization transactions | — | 51,130 |
| Repayment of debt related to securitization transactions | (54,340) | (47,711) |
| Debt issuance costs | (1,219) | — |
| Repurchase of common stock | — | (73,228) |
| Payment of dividends | (19,010) | (17,585) |
| Payment of withholding taxes on vesting of restricted stock units | (6,644) | (3,864) |
| Other, net | (16) | 591 |
| Net cash used in financing activities | (81,229) | (90,667) |
| Effect of changes in exchange rates on cash, cash equivalents and restricted cash | 1,551 | 464 |
| DECREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH | (47,228) | (86,647) |
| CASH, CASH EQUIVALENTS AND RESTRICTED CASH, beginning of period | 213,102 | 248,512 |
| CASH, CASH EQUIVALENTS AND RESTRICTED CASH, end of period | $ 165,874 | $ 161,865 |
| **SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES** | | |
| Property acquired via capital lease | $ — | $ 7,221 |
| Non-cash transfer from Property and equipment to assets held for sale, within Other assets | — | 45,201 |
| Non-cash issuance of treasury stock for employee stock purchase plan | 331 | — |

**See Notes to Interim Consolidated Financial Statements**

**MARRIOTT VACATIONS WORLDWIDE CORPORATION**
**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*Our Business*

Marriott Vacations Worldwide Corporation ("we," "us," "Marriott Vacations Worldwide" or the "Company," 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. In 2016, we introduced Marriott Vacation Club Pulse, an extension to the Marriott Vacation Club brand. 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, provides on-site management for Ritz-Carlton branded properties.

Our business is grouped into three reportable segments: North America, Asia Pacific and Europe. As of March 31, 2017, our portfolio consisted of over 60 properties in the United States and eight other countries and territories. We generate most of our revenues from four primary sources: selling vacation ownership products; managing our resorts; financing consumer purchases of vacation ownership products; and renting vacation ownership inventory.

*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.

Beginning with our 2017 fiscal year, we changed our financial reporting cycle to a calendar year-end and end-of-month quarterly reporting cycle. Accordingly, our 2017 fiscal year began on December 31, 2016 (the day after the end of the 2016 fiscal year) and will end on December 31, 2017, and our 2017 quarters include the three month periods ended March 31, June 30, September 30, and December 31, except that the period ended March 31, 2017 also includes December 31, 2016. Our future fiscal years will begin on January 1 and end on December 31. Historically, our fiscal year was a 52 or 53 week fiscal year that ended on the Friday nearest to December 31, and our quarterly reporting cycle included twelve week periods for the first, second, and third quarters and a sixteen week period (or in some cases a seventeen week period) for the fourth quarter. We have not restated, and do not plan to restate, historical results.

The table below shows the reporting periods as we refer to them in this report, their date ranges, and the number of days in each:

| Reporting Period | Date Range | Number of Days |
|---|---|---|
| 2017 first quarter | December 31, 2016 — March 31, 2017 | 91 |
| 2016 first quarter | January 2, 2016 — March 25, 2016 | 84 |
| 2017 fiscal year | December 31, 2016 — December 31, 2017 | 366 |
| 2016 fiscal year | January 2, 2016 — December 30, 2016 | 364 |

As a result of the change in our financial reporting cycle, our 2017 first quarter had seven more days of activity than our 2016 first quarter. While our 2017 full fiscal year will have only two additional days of activity as compared to our 2016 full fiscal year, our 2017 second quarter will have seven additional days of activity, our 2017 third quarter will have eight additional days of activity, and our 2017 fourth quarter will have 20 fewer days of activity than the corresponding periods in our 2016 fiscal year.

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

These Financial Statements have not been audited. Amounts as of December 30, 2016 included in these Financial Statements have been derived from the audited consolidated financial statements as of that date. We have condensed or omitted certain information and footnote disclosures normally included in financial statements presented in accordance with GAAP. Although we believe our footnote disclosures are adequate to make the information presented not misleading, you should read these Financial Statements in conjunction with the consolidated financial statements and notes to those consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended December 30, 2016.

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, loss contingencies and income taxes. Accordingly, actual amounts may differ from these estimated amounts.

We have reclassified certain prior year amounts to conform to our current period presentation. Our Financial Statements include adjustments for the 2016 first quarter to correct immaterial presentation errors, consistent with those reported in our Annual Report on Form 10-K for the fiscal year ended December 30, 2016, within the following line items on our Statements of Income: Resort management and other services revenues, Resort management and other services expenses and General and administrative expenses. Correction of these immaterial errors had no impact on our consolidated Net income.

The impact of these adjustments on the Financial Statements is as follows:

| | Quarter Ended March 25, 2016 (84 days) | |
|---|---|---|
| *($ in thousands)* | **As Revised** | **Previous Filing** |
| Resort management and other services | $ 63,757 | $ 69,629 |
| TOTAL REVENUES | $ 419,171 | $ 425,043 |
| Resort management and other services | $ 39,863 | $ 45,797 |
| General and administrative | $ 25,359 | $ 25,297 |
| TOTAL EXPENSES | $ 374,489 | $ 380,361 |

*Deferred Compensation Plan*

Beginning in our 2017 fiscal year, participants in the Marriott Vacations Worldwide Deferred Compensation Plan (the “Deferred Compensation Plan”), may select a rate of return based on various market-based investment alternatives for a portion of their contributions, as well as any future Company contributions, to the Deferred Compensation Plan, and may also select such a rate for a portion of their existing account balances. To support our ability to meet a portion of our obligations under the Deferred Compensation Plan, we acquired company owned insurance policies (the “COLI policies”) on the lives of certain participants in the Deferred Compensation Plan, the proceeds of which are intended to be aligned with the investment alternatives elected by plan participants and are payable to a rabbi trust with the Company as grantor. A portion of a participant’s contributions to the Deferred Compensation Plan must be subject to a fixed rate of return, which for our 2017 fiscal year was reduced to 3.5 percent.

We consolidate the liabilities of the Deferred Compensation Plan and the related assets, which consist of the COLI policies held in the rabbi trust. The rabbi trust is considered a variable interest entity (“VIE”). We are considered the primary beneficiary of the rabbi trust because we direct the activities of the trust and are the beneficiary of the trust. At March 31, 2017, the value of the assets held in the rabbi trust was $8.4 million, which is included in the Other line within assets on our Balance Sheets.

*New Accounting Standards*

Accounting Standards Update No. 2016-18 – *"Restricted Cash"* ("ASU 2016-18")

In November 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-18, which requires entities to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. As a result, we will no longer present changes in restricted cash as a component of investing activities. The update is effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. We adopted ASU 2016-18 on a retrospective basis commencing in the 2017 first quarter.

Accounting Standards Update No. 2016-09 – "*Compensation – Stock Compensation (Topic 718)*" ("ASU 2016-09")

In March 2016, the FASB issued ASU 2016-09, which changes how entities account for certain aspects of share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. The new guidance requires all income tax effects of awards, including excess tax benefits, to be recorded as income tax expense (or benefit) in the income statement, which resulted in a $2.4 million benefit to our provision for income taxes in the 2017 first quarter. The new guidance requires excess tax benefits to be presented as an operating inflow rather than as a financing inflow in the statement of cash flows. Prior to the adoption of ASU 2016-09, excess tax benefits were recorded in additional paid-in-capital on the balance sheet. The update is effective for annual periods beginning after December 15, 2016 and interim periods within those annual periods. We adopted ASU 2016-09 in the 2017 first quarter. The adoption of ASU 2016-09 decreased our provision for income taxes, the amount of which depends on the vesting activity of our share-based compensation awards in any given period, and eliminated the presentation of excess tax benefits as a financing inflow on our statement of cash flows. Further, we made an accounting policy election to recognize forfeitures of share-based compensation awards as they occur, the cumulative effect of which resulted in an adjustment of $0.4 million to opening retained earnings. The adoption of ASU 2016-09 did not have any other material impacts on our financial statements and disclosures.

*Future Adoption of Accounting Standards*

Accounting Standards Update No. 2016-16 – "*Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory*" ("ASU 2016-16")

In October 2016, the FASB issued ASU 2016-16, which changes the timing of when certain intercompany transactions are recognized within the provision for income taxes. The update is effective for public companies for annual periods beginning after December 15, 2017, and for annual periods and interim periods thereafter, with early adoption permitted. We are evaluating the impact that ASU 2016-16, including the timing of implementation, will have on our financial statements and disclosures.

Accounting Standards Update No. 2016-13 – "*Financial Instruments – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments*" ("ASU 2016-13")

In June 2016, the FASB issued ASU 2016-13, which replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses. The update is intended to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. This update is effective for annual periods beginning after December 15, 2019, with early adoption permitted for annual periods beginning after December 15, 2018. We are evaluating the impact that ASU 2016-13, including the timing of implementation, will have on our financial statements and disclosures.

Accounting Standards Update No. 2016-02 – "*Leases (Topic 842)*" ("ASU 2016-02")

In February 2016, the FASB issued ASU 2016-02 to increase transparency and comparability of information regarding an entity's leasing activities by providing additional information to users of financial statements. ASU 2016-02 amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. The new standard requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. This update is effective for annual periods beginning after December 15, 2018, with early adoption permitted. Although we expect to adopt ASU 2016-02 commencing in fiscal year 2019, we continue to evaluate the impact that adoption of this accounting standards update will have on our financial statements and disclosures.

Accounting Standards Update No. 2016-01 – "*Financial Instruments – Overall (Subtopic 825-10)*" ("ASU 2016-01")

In January 2016, the FASB issued ASU 2016-01, which updates certain aspects of recognition, measurement, presentation and disclosure of financial instruments. For public business entities, the amendments in ASU 2016-01 will be effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. We do not expect the adoption of ASU 2016-01 to have a material impact on our financial statements.

Accounting Standards Update No. 2014-09 – "*Revenue from Contracts with Customers (Topic 606)*" ("ASU 2014-09"), as Amended

In May 2014, the FASB issued ASU 2014-09, which, as amended, supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, as well as most industry-specific guidance, and significantly enhances comparability of revenue recognition practices across entities and industries by providing a principle-based, comprehensive framework for addressing revenue recognition issues. In order for a provider of promised goods or services to recognize as revenue the consideration that it expects to receive in exchange for the promised goods or services, the provider should apply the following five steps: (1) identify the contract with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09, as amended, will be effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. The new standard may be applied retrospectively or on a modified retrospective basis with the cumulative effect recognized on the date of adoption. We will adopt ASU 2014-09, as amended, commencing in fiscal year 2018, on a retrospective basis. While we continue to evaluate the impact that adoption of this accounting standards update will have on our financial statements and disclosures, we expect the amount and timing of revenue recognition related to our accounting for management fee revenues, ancillary revenues and rental revenues will remain materially consistent with our current accounting. We anticipate disclosing additional detail on the impact of adoption of this accounting standards update later in 2017.

## 2. INCOME TAXES

We file income tax returns with U.S. federal and state and non-U.S. jurisdictions and are subject to audits in these jurisdictions. Although we do not anticipate that a significant impact to our unrecognized tax benefit balance will occur during the next fiscal year, the amount of our liability for unrecognized tax benefits could change as a result of audits in these jurisdictions. Our total unrecognized tax benefit balance that, if recognized, would impact our effective tax rate, was $1.5 million at both March 31, 2017 and December 30, 2016.

## 3. VACATION OWNERSHIP NOTES RECEIVABLE

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

| ***($ in thousands)*** | **At March 31, 2017** | **At December 30, 2016** |
|---|---|---|
| Vacation ownership notes receivable — securitized | $ 659,191 | $ 717,543 |
| Vacation ownership notes receivable — non-securitized | | |
| Eligible for securitization[1] | 189,567 | 98,508 |
| Not eligible for securitization[1] | 148,661 | 156,260 |
| Subtotal | 338,228 | 254,768 |
| Total vacation ownership notes receivable | $ 997,419 | $ 972,311 |

(1) Refer to Footnote No. 4, "Financial Instruments," for discussion of eligibility of our vacation ownership notes receivable for securitization.

The following tables show future principal payments, net of reserves, as well as interest rates for our non-securitized and securitized vacation ownership notes receivable at March 31, 2017:

| *($ in thousands)* | Non-Securitized Vacation Ownership Notes Receivable | Securitized Vacation Ownership Notes Receivable | Total |
|---|---|---|---|
| 2017, remaining | $ 39,788 | $ 69,096 | $ 108,884 |
| 2018 | 39,799 | 85,657 | 125,456 |
| 2019 | 33,288 | 79,940 | 113,228 |
| 2020 | 29,740 | 79,272 | 109,012 |
| 2021 | 27,302 | 77,744 | 105,046 |
| Thereafter | 168,311 | 267,482 | 435,793 |
| Balance at March 31, 2017 | $ 338,228 | $ 659,191 | $ 997,419 |
| Weighted average stated interest rate at March 31, 2017 | 11.7% | 12.7% | 12.4% |
| Range of stated interest rates at March 31, 2017 | 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 in our Statements of Income in the Financing revenues caption. The following table summarizes interest income associated with vacation ownership notes receivable:

| | Quarters Ended | |
|---|---|---|
| *($ in thousands)* | March 31, 2017 (91 days) | March 25, 2016 (84 days) |
| Interest income associated with vacation ownership notes receivable — securitized | $ 23,346 | $ 21,191 |
| Interest income associated with vacation ownership notes receivable — non-securitized | 7,010 | 6,583 |
| Total interest income associated with vacation ownership notes receivable | $ 30,356 | $ 27,774 |

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

The following table summarizes the activity related to our vacation ownership notes receivable reserve for the 2017 first quarter:

| *($ in thousands)* | Non-Securitized Vacation Ownership Notes Receivable | Securitized Vacation Ownership Notes Receivable | Total |
|---|---|---|---|
| Balance at December 30, 2016 | $ 56,628 | $ 53,735 | $ 110,363 |
| Provision for loan losses | 10,366 | 1,780 | 12,146 |
| Write-offs | (16,270) | — | (16,270) |
| Defaulted vacation ownership notes receivable repurchase activity[(1)] | 6,325 | (6,325) | — |
| Balance at March 31, 2017 | $ 57,049 | $ 49,190 | $ 106,239 |

(1) 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 defaulted securitized vacation ownership notes receivable.

Although we consider loans to owners to be past due if we do not receive payment within 30 days of the due date, we suspend accrual of interest only on those loans that are over 90 days past due. We consider loans over 150 days past due to be in default. We apply payments we receive for vacation ownership notes receivable on non-accrual status first to interest, then to principal and any remainder to fees. We resume accruing interest when vacation ownership notes receivable are less than 90 days past due. We do not accept payments for vacation ownership notes receivable during the foreclosure process unless the amount is sufficient to pay all past due principal, interest, fees and penalties owed and fully reinstate the note. We write off uncollectible vacation ownership notes receivable against the reserve once we receive title to the vacation ownership products through the foreclosure or deed-in-lieu process or, in Asia Pacific or Europe, when revocation is complete. For both non-securitized and securitized vacation ownership notes receivable, we estimated average remaining default rates of 7.14 percent and 7.09 percent as of March 31, 2017 and December 30, 2016, 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 $5.2 million and $5.0 million as of March 31, 2017 and December 30, 2016, respectively.

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 thousands)* | Non-Securitized Vacation Ownership Notes Receivable | Securitized Vacation Ownership Notes Receivable | Total |
|---|---|---|---|
| Investment in vacation ownership notes receivable on non-accrual status at March 31, 2017 | $ 37,880 | $ 7,978 | $ 45,858 |
| Investment in vacation ownership notes receivable on non-accrual status at December 30, 2016 | $ 43,792 | $ 6,687 | $ 50,479 |
| Average investment in vacation ownership notes receivable on non-accrual status during the 2017 first quarter | $ 40,836 | $ 7,333 | $ 48,169 |
| Average investment in vacation ownership notes receivable on non-accrual status during the 2016 first quarter | $ 46,359 | $ 9,425 | $ 55,784 |

The following table shows the aging of the recorded investment in principal, before reserves, in vacation ownership notes receivable as of March 31, 2017:

| *($ in thousands)* | Non-Securitized Vacation Ownership Notes Receivable | Securitized Vacation Ownership Notes Receivable | Total |
|---|---|---|---|
| 31 – 90 days past due | $ 7,384 | $ 16,069 | $ 23,453 |
| 91 – 150 days past due | 4,218 | 7,978 | 12,196 |
| Greater than 150 days past due | 33,662 | — | 33,662 |
| Total past due | 45,264 | 24,047 | 69,311 |
| Current | 350,013 | 684,334 | 1,034,347 |
| Total vacation ownership notes receivable | $ 395,277 | $ 708,381 | $ 1,103,658 |

The following table shows the aging of the recorded investment in principal, before reserves, in vacation ownership notes receivable as of December 30, 2016:

| *($ in thousands)* | Non-Securitized Vacation Ownership Notes Receivable | Securitized Vacation Ownership Notes Receivable | Total |
|---|---|---|---|
| 31 – 90 days past due | $ 7,780 | $ 16,468 | $ 24,248 |
| 91 – 150 days past due | 3,981 | 6,687 | 10,668 |
| Greater than 150 days past due | 39,811 | — | 39,811 |
| Total past due | 51,572 | 23,155 | 74,727 |
| Current | 259,824 | 748,123 | 1,007,947 |
| Total vacation ownership notes receivable | $ 311,396 | $ 771,278 | $ 1,082,674 |

**4. FINANCIAL INSTRUMENTS**

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

| | At March 31, 2017 | | At December 30, 2016 | |
|---|---|---|---|---|
| *($ in thousands)* | Carrying Amount | Fair Value[1] | Carrying Amount | Fair Value[1] |
| Vacation ownership notes receivable — securitized | $ 659,191 | $ 766,301 | $ 717,543 | $ 834,009 |
| Vacation ownership notes receivable — non-securitized | 338,228 | 365,877 | 254,768 | 269,161 |
| Other assets | 8,427 | 8,427 | — | — |
| Total financial assets | $ 1,005,846 | $ 1,140,605 | $ 972,311 | $ 1,103,170 |
| Non-recourse debt associated with vacation ownership notes receivable securitizations, net | $ (675,746) | $ (673,620) | $ (729,188) | $ (725,963) |
| Other debt, net | (800) | (800) | (815) | (815) |
| Other liabilities | (141) | (141) | (2,285) | (2,285) |
| Total financial liabilities | $ (676,687) | $ (674,561) | $ (732,288) | $ (729,063) |

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

*Vacation Ownership Notes Receivable*

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

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

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

| | At March 31, 2017 | | At December 30, 2016 | |
|---|---|---|---|---|
| *($ in thousands)* | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Vacation ownership notes receivable | | | | |
| Eligible for securitization | $ 189,567 | $ 217,216 | $ 98,508 | $ 112,901 |
| Not eligible for securitization | 148,661 | 148,661 | 156,260 | 156,260 |
| Total non-securitized | $ 338,228 | $ 365,877 | $ 254,768 | $ 269,161 |

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, discount rates and loan terms.

*Other Assets*

We estimate the fair value of our other assets that are financial instruments using Level 2 inputs. These assets consist of COLI policies held in a rabbi trust. The carrying value of the COLI policies is equal to their cash surrender value.

*Non-Recourse Debt Associated with Securitized Vacation Ownership Notes Receivable, Net*

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.

**5. ACQUISITIONS AND DISPOSITIONS**

*Miami Beach, Florida*

During the 2016 first quarter, we completed the acquisition of an operating property located in the South Beach area of Miami Beach, Florida, for $23.5 million. The acquisition was treated as a business combination, accounted for using the acquisition method of accounting and included within Operating activities on our Cash Flows and presented as Inventory. As consideration for the acquisition, we paid $23.5 million in cash; the value of the acquired property was allocated to inventory. We rebranded this property as Marriott Vacation Club Pulse, South Beach and intend to convert this property, in its entirety, into vacation ownership interests for future use in our Marriott Vacation Club Destinations (“MVCD”) program.

## 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.

| | Quarters Ended | |
|---|---|---|
| | March 31, 2017[1] | March 25, 2016[2] |
| *(in thousands, except per share amounts)* | (91 days) | (84 days) |
| **Computation of Basic Earnings Per Share** | | |
| Net income | $ 33,700 | $ 24,408 |
| Shares for basic earnings per share | 27,251 | 29,123 |
| Basic earnings per share | $ 1.24 | $ 0.84 |
| **Computation of Diluted Earnings Per Share** | | |
| Net income | $ 33,700 | $ 24,408 |
| Shares for basic earnings per share | 27,251 | 29,123 |
| Effect of dilutive shares outstanding | | |
| Employee stock options and SARs | 458 | 375 |
| Restricted stock units | 191 | 142 |
| Shares for diluted earnings per share | 27,900 | 29,640 |
| Diluted earnings per share | $ 1.21 | $ 0.82 |

(1) The computations of diluted earnings per share exclude approximately 312,000 shares of common stock, the maximum number of shares issuable as of March 31, 2017 upon the vesting of certain performance-based awards, because the performance conditions required for the shares subject to such awards to vest were not achieved by the end of the reporting period.

(2) The computations of diluted earnings per share exclude approximately 278,000 shares of common stock, the maximum number of shares issuable as of March 25, 2016 upon the vesting of certain performance-based awards, because the performance conditions required for the shares subject to such awards to vest were not achieved by the end of the reporting period.

In accordance with the applicable accounting guidance for calculating earnings per share, for the 2017 first quarter, we excluded from our calculation of diluted earnings per share 81,977 shares underlying stock appreciation rights (“SARs”) that may be settled in shares of common stock, with an exercise price of $97.53, because this exercise price was greater than the average market price for the applicable period. For the 2016 first quarter, we excluded from our calculation of diluted earnings per share 194,615 shares underlying SARs that may be settled in shares of common stock, with exercise prices ranging from $61.71 to $77.42, because these exercise prices were greater than the average market price for the applicable period.

## 7. INVENTORY

The following table shows the composition of our inventory balances:

| ($ in thousands) | At March 31, 2017 | At December 30, 2016 |
|---|---|---|
| Finished goods[1] | $ 324,431 | $ 337,949 |
| Work-in-progress | 28,677 | 39,486 |
| Land and infrastructure[2] | 335,155 | 330,728 |
| Real estate inventory | 688,263 | 708,163 |
| Operating supplies and retail inventory | 4,494 | 4,373 |
| | $ 692,757 | $ 712,536 |

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(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 $69.2 million of inventory related to estimated future foreclosures at March 31, 2017.

We value vacation ownership and residential products at the lower of cost or fair market value less costs to sell, in accordance with applicable accounting guidance, and we record operating supplies at the lower of cost (using the first-in, first-out method) or net realizable value. Product cost true-up activity relating to vacation ownership products decreased carrying values of inventory by $0.9 million during the 2017 first quarter and increased carrying values of inventory by $3.2 million during the 2016 first quarter.

During the 2016 first quarter, $27.3 million was transferred from Property and equipment to Inventory when we commenced the conversion of portions of the operating properties in Surfers Paradise, Australia and San Diego, California to vacation ownership inventory. The acquisition of these operating properties was previously included within Operating Activities on our Cash Flows and presented as Purchase of operating properties for future conversion to inventory within Operating Activities.

## 8. CONTINGENCIES AND COMMITMENTS

*Commitments and Letters of Credit*

As of March 31, 2017, 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 $24.8 million, of which we expect $9.0 million, $8.6 million, $3.4 million, $1.6 million, $0.8 million and $1.4 million will be paid in 2017, 2018, 2019, 2020, 2021 and thereafter, respectively.
- We have a commitment to purchase an operating property located in New York, New York, for $158.5 million, of which $7.2 million is attributed to a related capital lease arrangement and recorded in Debt. We expect to acquire the units in the property, in their current form, over time, and we expect to make payments for these units of $96.8 million and $61.7 million in 2018 and 2019, respectively. We currently manage this property, which we have rebranded as Marriott Vacation Club Pulse, New York City. See Footnote No. 12, “Variable Interest Entities,” for additional information on this transaction.
- We have commitments to purchase vacation ownership units located in two resorts in Bali, Indonesia in two separate transactions, contingent upon completion of construction to agreed upon standards within specified timeframes, for use in our Asia Pacific segment. We expect to complete the acquisition of 51 vacation ownership units in 2017 pursuant to one of the commitments, and to make remaining payments of $15.4 million in 2017 with respect to these units, when specific construction milestones are completed. We expect to complete the acquisition of 88 vacation ownership units in 2019 pursuant to the other commitment, and to make payments with respect to these units, when specific construction milestones are completed, as follows: $7.8 million in 2017, $5.9 million in 2018 and $25.4 million in 2019.
- We have a commitment of $137.1 million to purchase vacation ownership units located at our resort in Marco Island, Florida, of which we expect $33.3 million, $50.0 million and $53.8 million will be paid in 2017, 2018 and 2019, respectively. See Footnote No. 12, “Variable Interest Entities,” and Footnote No. 14, “Subsequent Events,” for additional information on this transaction.

- We have a commitment of $91.1 million to purchase vacation ownership units located on the Big Island of Hawaii, contingent upon the completion of renovations to the vacation ownership units. We expect to acquire the completed vacation ownership units in 2017 and to pay the purchase price as follows: $27.5 million in 2017, $32.7 million in 2018 and $30.9 million in 2019.
- We have a new operating lease commitment that expires in 2029. Our aggregate minimum lease payment under this contract is $15.5 million, of which we expect $1.3 million, $1.3 million, $1.4 million and $11.5 million will be paid in 2019, 2020, 2021 and thereafter, respectively.

Surety bonds issued as of March 31, 2017 totaled $43.3 million, the majority of which were requested by federal, state or local governments in connection with our operations.

Additionally, as of March 31, 2017, we had $1.1 million of letters of credit outstanding under our $200 million revolving credit facility (as amended, the "Revolving Corporate Credit Facility").

*Loss Contingencies*

In April 2013, Krishna and Sherrie Narayan and other owners of 12 residential units (owners of two of which subsequently agreed to release their claims) at the resort formerly known as The Ritz-Carlton Residences, Kapalua Bay ("Kapalua Bay") filed an amended complaint in Circuit Court for Maui County, Hawaii 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 the action vigorously. We filed a motion in the Circuit Court to compel arbitration of plaintiffs' claims. That motion was denied, but on appeal the Hawaii Intermediate Court of Appeals reversed. The Hawaii Supreme Court reversed the decision of the Intermediate Court of Appeals and reinstated the action in Circuit Court, which set the case for trial. We filed a petition with the United States Supreme Court seeking review of the Hawaii Supreme Court's decision. On January 11, 2016, the U.S. Supreme Court issued an order vacating the Hawaii Supreme Court's decision and remanding the case with instructions to reconsider its ruling in light of a recent U.S. Supreme Court decision reiterating the obligation of courts to enforce arbitration agreements. The Circuit Court has stayed proceedings pending action by the Hawaii Supreme Court. Given the inherent uncertainties of litigation, we cannot estimate a range of the potential liability, if any, at this time.

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

On May 26, 2015, we and certain of our subsidiaries were named as defendants in an action filed in the Superior Court of San Francisco County, California, by William and Sharon Petrick and certain other present and former owners of 69 fractional interests at the RCC San Francisco. The plaintiffs allege that the affiliation of the RCC San Francisco with our points-based MVCD program, certain alleged sales practices, and other acts we and the other defendants allegedly took caused an actionable decrease in the value of their fractional interests. The relief sought includes, among other things, compensatory and punitive damages, rescission, and pre- and post-judgment interest. Plaintiffs filed an amended complaint on April 25, 2016. We filed a motion to dismiss. The Court held a hearing and the parties are awaiting a decision. We dispute the material allegations in the amended complaint and intend to defend against the action vigorously. Given the early stages of the action and the inherent uncertainties of litigation, we cannot estimate a range of the potential liability, if any, at this time.

On March 31, 2017, following an order of the U.S. District Court for the District of Colorado that no further amendments would be permitted, RCHFU, L.L.C. and other owners of 232 fractional interests at The Ritz-Carlton Club, Aspen Highlands ("RCC Aspen Highlands") served an amended complaint in an action pending in the court against us, certain of our subsidiaries, and other third party defendants. The amended complaint alleges that the plaintiffs' fractional interests were devalued by the affiliation of RCC Aspen Highlands and other Ritz-Carlton Clubs with our points-based MVCD program. The relief sought includes, among other things, unspecified damages, pre- and post-judgment interest, and attorneys' fees. We filed a motion to dismiss the amended complaint, which remains pending. We dispute the plaintiffs' material allegations and intend to defend against the action vigorously. Given the early stages of the action and the inherent uncertainties of litigation, we cannot estimate a range of the potential liability, if any, at this time.

On May 20, 2016, we, certain of our subsidiaries, and other third parties were named as defendants in an action filed in the U.S. District Court for the Middle District of Florida by Anthony and Beth Lennen. The case is filed as a putative class action; the plaintiffs seek to represent a class consisting of themselves and all other purchasers of MVCD points, from inception of the MVCD program in June 2010 to the present, as well as all individuals who own or have owned weeks in any resorts for which weeks have been added to the MVCD program. Plaintiffs challenge the characterization of the beneficial interests in the MVCD trust that are sold to customers as real estate interests under Florida law. They also challenge the structure of the trust and associated operational aspects of the trust product. The relief sought includes, among other things, declaratory relief, an unwinding of the MVCD product, and punitive damages. On September 15, 2016, we filed a motion to dismiss the complaint and a motion to stay the case pending referral of certain questions to Florida state regulators, which motions remain pending. We dispute the material allegations in the complaint and intend to defend against the action vigorously. Given the early stages of the action and the inherent uncertainties of litigation, we cannot estimate a range of the potential liability, if any, at this time.

## 9. DEBT

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

| *($ in thousands)* | At March 31, 2017 | At December 30, 2016 |
|---|---|---|
| Vacation ownership notes receivable securitizations, gross[(1)] | $ 684,023 | $ 738,362 |
| Unamortized debt issuance costs | (8,277) | (9,174) |
| | 675,746 | 729,188 |
| Other debt, gross | 818 | 834 |
| Unamortized debt issuance costs | (18) | (19) |
| | 800 | 815 |
| Capital leases | 7,221 | 7,221 |
| | $ 683,767 | $ 737,224 |

(1) Interest rates as of March 31, 2017 range from 2.2% to 6.3% with a weighted average interest rate of 2.5%.

See Footnote No. 12, "Variable Interest Entities," for a discussion of the collateral for the non-recourse debt associated with the securitized vacation ownership notes receivable and the Warehouse Credit Facility. All of our other debt was, and to the extent currently outstanding is, recourse to us but unsecured.

The following table shows scheduled future principal payments, net of debt issuance costs, for our debt as of March 31, 2017:

| ($ in thousands) | Vacation Ownership Notes Receivable Securitizations[1] | Other Debt | Capital Leases | Total |
|---|---|---|---|---|
| **Debt Principal Payments Year** | | | | |
| 2017, remaining | $ 71,501 | $ 604 | $ — | $ 72,105 |
| 2018 | 87,053 | 4 | 7,221 | 94,278 |
| 2019 | 80,578 | 4 | — | 80,582 |
| 2020 | 79,520 | 4 | — | 79,524 |
| 2021 | 78,321 | 5 | — | 78,326 |
| Thereafter | 287,050 | 197 | — | 287,247 |
| Balance at March 31, 2017 | $ 684,023 | $ 818 | $ 7,221 | $ 692,062 |

(1) 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 $4.8 million and $4.6 million in the 2017 first quarter and the 2016 first quarter, respectively.

*Debt Associated with Vacation Ownership Notes Receivable Securitizations*

Each of the transactions in which we have securitized vacation ownership notes receivable contains various triggers relating to the performance of the underlying vacation ownership notes receivable. If a pool of securitized vacation ownership notes receivable fails to perform within the pool's established parameters (default or delinquency thresholds vary by transaction), transaction provisions effectively redirect the monthly excess spread we would otherwise receive from that pool (attributable to the interests we retained) to accelerate the principal payments to investors (taking into account the subordination of the different tranches to the extent there are multiple tranches) until the performance trigger is cured. During the 2017 first quarter, and as of March 31, 2017, no securitized vacation ownership notes receivable pools were out of compliance with their respective established parameters. As of March 31, 2017, we had 7 securitized vacation ownership notes receivable pools outstanding.

*Revolving Corporate Credit Facility*

The Revolving Corporate Credit Facility, which terminates on September 10, 2019, 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 depending on our credit rating.

No cash borrowings were outstanding as of March 31, 2017 under our Revolving Corporate Credit Facility. Any amounts that are borrowed under that facility, as well as obligations with respect to letters of credit issued pursuant to that facility, are secured by a perfected first priority security interest in substantially all of the assets of the borrower under, and guarantors of, that facility (which include Marriott Vacations Worldwide and each of our direct and indirect, existing and future, domestic subsidiaries, excluding certain bankruptcy remote special purpose subsidiaries), in each case including inventory, subject to certain exceptions. As of March 31, 2017, we were in compliance with the requirements of applicable financial and operating covenants under the facility.

*Warehouse Credit Facility*

The Warehouse Credit Facility, which has a borrowing capacity of $250 million, allows for the securitization of vacation ownership notes receivable on a non-recourse basis. The Warehouse Credit Facility terminates on March 7, 2019 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. The advance rate for vacation ownership

notes receivable securitized using the Warehouse Credit Facility varies based on the characteristics of the securitized vacation ownership notes receivable. We also pay unused facility and other fees under the Warehouse Credit Facility.

As of March 31, 2017, there were no cash borrowings outstanding under our Warehouse Credit Facility. We generally expect to securitize our vacation ownership notes receivable, including any vacation ownership notes receivable held in the Warehouse Credit Facility, in the ABS market once per year.

**10. SHAREHOLDERS' EQUITY**

Marriott Vacations Worldwide has 100,000,000 authorized shares of common stock, par value of $0.01 per share. At March 31, 2017, there were 36,787,613 shares of Marriott Vacations Worldwide common stock issued, of which 27,147,546 shares were outstanding and 9,640,067 shares were held as treasury stock. At December 30, 2016, there were 36,633,868 shares of Marriott Vacations Worldwide common stock issued, of which 26,990,306 shares were outstanding and 9,643,562 shares were held as treasury stock. Marriott Vacations Worldwide has 2,000,000 authorized shares of preferred stock, par value of $0.01 per share, none of which were issued or outstanding as of March 31, 2017 or December 30, 2016.

The following table details changes in shareholders' equity during the quarter ended March 31, 2017:

| ***($ in thousands)*** | **Common Stock** | **Treasury Stock** | **Additional Paid-In Capital** | **Accumulated Other Comprehensive Income** | **Retained Earnings** | **Total Equity** |
|---|---|---|---|---|---|---|
| Balance at December 30, 2016 | $ 366 | $ (606,631) | $ 1,162,283 | $ 5,460 | $ 346,341 | $ 907,819 |
| Impact of adoption of ASU 2016-09 | — | — | 371 | — | (371) | — |
| Opening balance 2017 | 366 | (606,631) | 1,162,654 | 5,460 | 345,970 | 907,819 |
| Net income | — | — | — | — | 33,700 | 33,700 |
| Foreign currency translation adjustments | — | — | — | 4,548 | — | 4,548 |
| Derivative instrument adjustment | — | — | — | (307) | — | (307) |
| Amounts related to share-based compensation | 2 | — | (3,311) | — | — | (3,309) |
| Dividends | — | — | — | — | (9,533) | (9,533) |
| Employee stock plan issuance | — | 220 | 111 | — | — | 331 |
| Balance at March 31, 2017 | $ 368 | $ (606,411) | $ 1,159,454 | $ 9,701 | $ 370,137 | $ 933,249 |

*Share Repurchase Program*

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

| ***($ in thousands, except per share amounts)*** | **Number of Shares Repurchased** | **Cost of Shares Repurchased** | **Average Price Paid per Share** |
|---|---|---|---|
| As of December 30, 2016 | 9,672,629 | $ 608,439 | $ 62.90 |
| For the quarter ended March 31, 2017 | — | — | — |
| As of March 31, 2017 | 9,672,629 | $ 608,439 | $ 62.90 |

On February 9, 2017, our Board of Directors extended the duration of our existing share repurchase program to September 30, 2017. As of March 31, 2017, our Board of Directors had authorized the repurchase of an aggregate of up to 10,900,000 shares of our common stock under the share repurchase program since the initiation of the program in October 2013. Share repurchases may be made through open market purchases, privately negotiated transactions, block transactions, tender offers, accelerated share repurchase agreements or otherwise. 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.

As of March 31, 2017, 1.2 million shares remained available for repurchase under the authorization approved by our Board of Directors. The authorization for the share repurchase program may be suspended, terminated, increased or decreased by our Board of Directors at any time without prior notice.

*Dividends*

We declared cash dividends to holders of common stock during the quarter ended March 31, 2017 as follows:

| Declaration Date | Shareholder Record Date | Distribution Date | Dividend per Share |
|---|---|---|---|
| February 9, 2017 | February 23, 2017 | March 9, 2017 | $0.35 |

Any future dividend payments will be subject to Board approval, and there can be no assurance that we will pay dividends in the future.

**11. SHARE-BASED COMPENSATION**

We maintain the Marriott Vacations Worldwide Corporation Stock and Cash Incentive Plan (the "Stock Plan") for the benefit of our officers, directors and employees. Under the Stock Plan, we award: (1) restricted stock units ("RSUs") of our common stock, (2) SARs and (3) stock options to purchase our common stock. A total of 6 million shares are authorized for issuance pursuant to grants under the Stock Plan. As of March 31, 2017, 1.3 million shares were available for grants under the Stock Plan.

The following table details our share-based compensation expense related to award grants to our officers, directors and employees for the 2017 first quarter and the 2016 first quarter:

| | Quarters Ended | |
|---|---|---|
| | March 31, 2017 | March 25, 2016 |
| ***($ in thousands)*** | **(91 days)** | **(84 days)** |
| Service based RSUs | $ 1,966 | $ 1,567 |
| Performance based RSUs | 851 | 610 |
| | 2,817 | 2,177 |
| SARs | 459 | 347 |
| Stock options | — | — |
| | $ 3,276 | $ 2,524 |

The following table details our deferred compensation costs related to unvested awards:

| ***($ in thousands)*** | At March 31, 2017 | At December 30, 2016 |
|---|---|---|
| Service based RSUs | $ 16,337 | $ 9,000 |
| Performance based RSUs | 7,452 | 3,307 |
| | 23,789 | 12,307 |
| SARs | 2,927 | 1,146 |
| Stock options | — | — |
| | $ 26,716 | $ 13,453 |

*Restricted Stock Units*

We granted 103,001 service based RSUs, with a weighted average grant-date fair value of $94.10, to our employees and non-employee directors during the 2017 first quarter. During the 2017 first quarter, we also granted performance based RSUs to members of management. A maximum of 94,436 RSUs may be earned under the performance based RSUs granted during the 2017 first quarter.

*Stock Appreciation Rights*

We granted 81,977 SARs, with a weighted average grant-date fair value of $27.63 and a weighted average exercise price of $97.53, to members of management during the 2017 first quarter. We use the Black-Scholes model to estimate the fair value of the SARs granted. The average expected life was calculated using the simplified method. The risk-free interest rate was calculated based on U.S. Treasury zero-coupon issues with a remaining term equal to the expected life assumed at the date of grant. The dividend yield assumption listed below is based on the expectation of future payouts.

The following table outlines the assumptions used to estimate the fair value of grants during the 2017 first quarter:

| | |
|---|---|
| Expected volatility | 30.41% |
| Dividend yield | 1.44% |
| Risk-free rate | 2.06% |
| Expected term (in years) | 6.25 |

**12. VARIABLE INTEREST ENTITIES**

*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 consumer loans we originate to third parties. In a vacation ownership notes receivable securitization, various classes of debt securities issued by a special purpose entity are generally collateralized by a single tranche of transferred assets, which consist of 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 bankruptcy remote special purpose entities to serve as a mechanism for holding assets and related liabilities, and the entities have no equity investment at risk, making them variable interest entities. We continue to service the vacation ownership notes receivable, transfer all proceeds collected to these special purpose entities, and retain rights to receive benefits that are potentially significant to the entities. Accordingly, we concluded that we are the entities' primary beneficiary and, therefore, consolidate them.

The following table shows consolidated assets, which are collateral for the obligations of these variable interest entities, and consolidated liabilities included on our Balance Sheet at March 31, 2017:

| *($ in thousands)* | **Vacation Ownership Notes Receivable Securitizations** | **Warehouse Credit Facility** | **Total** |
|---|---|---|---|
| **Consolidated Assets:** | | | |
| Vacation ownership notes receivable, net of reserves | $ 659,191 | $ — | $ 659,191 |
| Interest receivable | 4,522 | — | 4,522 |
| Restricted cash | 32,762 | — | 32,762 |
| Total | $ 696,475 | $ — | $ 696,475 |
| **Consolidated Liabilities:** | | | |
| Interest payable | $ 518 | $ 46 | $ 564 |
| Debt | 684,023 | — | 684,023 |
| Total | $ 684,541 | $ 46 | $ 684,587 |

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

The following table shows the interest income and expense recognized as a result of our involvement with these variable interest entities during the 2017 first quarter:

| *($ in thousands)* | **Vacation Ownership Notes Receivable Securitizations** | **Warehouse Credit Facility** | **Total** |
|---|---|---|---|
| Interest income | $ 23,346 | $ — | $ 23,346 |
| Interest expense to investors | $ 4,473 | $ 347 | $ 4,820 |
| Debt issuance cost amortization | $ 898 | $ 220 | $ 1,118 |
| Administrative expenses | $ 121 | $ 43 | $ 164 |

The following table shows cash flows between us and the vacation ownership notes receivable securitization variable interest entities during the 2017 first quarter and the 2016 first quarter:

| ($ in thousands) | Quarters Ended March 31, 2017 (91 days) | Quarters Ended March 25, 2016 (84 days) |
|---|---|---|
| **Cash inflows:** | | |
| Principal receipts | $ 55,854 | $ 40,224 |
| Interest receipts | 23,659 | 20,906 |
| Reserve release | 187 | 161 |
| Total | 79,700 | 61,291 |
| **Cash outflows:** | | |
| Principal to investors | (48,015) | (39,939) |
| Voluntary repurchases of defaulted vacation ownership notes receivable | (6,325) | (7,371) |
| Interest to investors | (4,472) | (4,323) |
| Total | (58,812) | (51,633) |
| **Net Cash Flows** | $ 20,888 | $ 9,658 |

The following table shows cash flows between us and the Warehouse Credit Facility variable interest entity during the 2017 first quarter and the 2016 first quarter:

| ($ in thousands) | Quarters Ended March 31, 2017 (91 days) | Quarters Ended March 25, 2016 (84 days) |
|---|---|---|
| **Cash inflows:** | | |
| Proceeds from vacation ownership notes receivable securitizations | $ — | $ 51,130 |
| Principal receipts | — | 932 |
| Interest receipts | — | 647 |
| Reserve release | — | 6 |
| Total | — | 52,715 |
| **Cash outflows:** | | |
| Principal to investors | — | (259) |
| Voluntary repurchases of defaulted vacation ownership notes receivable | — | (142) |
| Interest to investors | (344) | (387) |
| Funding of restricted cash | — | (386) |
| Total | (344) | (1,174) |
| **Net Cash Flows** | $ (344) | $ 51,541 |

Under the terms of our vacation ownership notes receivable securitizations, we have the right at our option to repurchase defaulted vacation ownership notes receivable at the outstanding principal balance. The transaction documents typically limit such repurchases to 15 to 20 percent of the transaction's initial vacation ownership notes receivable principal balance. Our maximum exposure to loss relating to the special purpose entities that purchase, sell and own these vacation ownership notes receivable is the overcollateralization amount (the difference between the loan collateral balance and the balance on the outstanding vacation ownership notes receivable), plus cash reserves and any residual interest in future cash flows from collateral. In addition, we could be required to fund up to an aggregate of $5.0 million upon presentation of demand notes related to certain vacation ownership notes receivable securitization transactions outstanding at March 31, 2017.

*Other Variable Interest Entities*

We have a commitment to purchase an operating property located in New York, New York, that we currently manage as Marriott Vacation Club Pulse, New York City. Refer to Footnote No. 8, "Contingencies and Commitments" for additional information on the commitment. We are required to purchase the completed property from the third party developer unless the developer has sold the property to another party. The property is held by a variable interest entity for which we are not the primary beneficiary as we cannot prevent the variable interest entity from selling the property at a higher price. Accordingly, we have not consolidated the variable interest entity. As of March 31, 2017, our Balance Sheet reflected a $6.9 million capital lease asset and a $7.2 million capital lease liability for ancillary and operations space we lease from the variable interest entity. In addition, our Balance Sheet reflected a note receivable of $0.5 million from this variable interest entity, which we believe is our maximum exposure to loss as a result of our involvement with this variable interest entity as of March 31, 2017.

We have a commitment to repurchase an operating property located in Marco Island, Florida, that was previously sold to a third-party developer. Refer to Footnote No. 8, "Contingencies and Commitments" for additional information on the commitment. The developer is a variable interest entity for which we are not the primary beneficiary as we do not control the variable interest entity's development activities and cannot prevent the variable interest entity from selling the property at a higher price. Accordingly, we have not consolidated the variable interest entity. We are obligated to repurchase the completed property from the developer contingent upon the property meeting our brand standards, provided that the third-party developer has not sold the property to another party. As of March 31, 2017, our Balance Sheet reflected $10.0 million of Other liabilities that relate to the deferral of gain recognition on the previous sale transaction and the deferral of revenue for development management services, both of which will reduce our basis in the asset if we repurchase the property. In addition, the note receivable of $0.5 million is included in the Accounts and contracts receivable line on the Balance Sheet as of March 31, 2017. We believe that our maximum exposure to loss as a result of our involvement with this variable interest entity is our interest in the note receivable discussed above as of March 31, 2017.

## 13. 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. In 2016, we introduced Marriott Vacation Club Pulse, an extension to the Marriott Vacation Club brand. 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 Asia Pacific segment, we develop, market, sell and manage two points-based programs that we specifically designed to appeal to the vacation preferences of the market, Marriott Vacation Club, Asia Pacific and Marriott Vacation Club Destinations, Australia, as well as a weeks-based right-to-use product.
- In our Europe segment, we are focusing on selling our existing projects and managing existing resorts. We do not have any current plans for new development in this segment.

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 and other gains or losses that are not allocable to our segments.

*Revenues*

| ($ in thousands) | Quarters Ended March 31, 2017 (91 days) | Quarters Ended March 25, 2016 (84 days) |
|---|---|---|
| North America | $ 449,809 | $ 380,164 |
| Asia Pacific | 18,027 | 19,446 |
| Europe | 19,658 | 19,561 |
| Total segment revenues | 487,494 | 419,171 |
| Corporate and other | — | — |
| | $ 487,494 | $ 419,171 |

*Net Income*

| ($ in thousands) | Quarters Ended March 31, 2017 (91 days) | Quarters Ended March 25, 2016 (84 days) |
|---|---|---|
| North America | $ 105,726 | $ 89,586 |
| Asia Pacific | 1,104 | 1,010 |
| Europe | 747 | 386 |
| Total segment financial results | 107,577 | 90,982 |
| Corporate and other | (55,222) | (50,817) |
| Provision for income taxes | (18,655) | (15,757) |
| | $ 33,700 | $ 24,408 |

*Assets*

| ($ in thousands) | At March 31, 2017 | At December 30, 2016 |
|---|---|---|
| North America | $ 2,002,039 | $ 1,968,021 |
| Asia Pacific | 106,365 | 102,348 |
| Europe | 65,311 | 62,245 |
| Total segment assets | 2,173,715 | 2,132,614 |
| Corporate and other | 172,459 | 258,805 |
| | $ 2,346,174 | $ 2,391,419 |

**14. SUBSEQUENT EVENTS**

*Revolving Corporate Credit Facility Borrowing*

Subsequent to the end of the 2017 first quarter, we borrowed $30.0 million under our Revolving Corporate Credit Facility to facilitate the funding of our short-term working capital needs.

*Warehouse Credit Facility Borrowing*

Subsequent to the end of the 2017 first quarter, we securitized vacation ownership notes receivable under our Warehouse Credit Facility. The carrying amount of the vacation ownership notes receivable securitized was $59.1 million. The advance rate was 85 percent, which resulted in gross proceeds of $50.3 million. Net proceeds were $50.0 million due to the funding of reserve accounts in the amount of $0.3 million.

*Acquisitions*

Subsequent to the end of the 2017 first quarter, we paid $33.3 million, related to a commitment outstanding at March 31, 2017, to purchase 36 vacation ownership units, a parking garage and other amenities located at our resort in Marco Island, Florida. See to Footnote No. 8, “Contingencies and Commitments,” for additional information on this commitment.

## 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," "predict," "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, and which may be discussed in subsequent Quarterly Reports on Form 10-Q, 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.

### Business Overview

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

In 2016, we introduced Marriott Vacation Club Pulse, an extension to the Marriott Vacation Club brand, which features unique properties that embrace the spirit and culture of their urban locations, creating an authentic sense of place while delivering easy access to local interests, attractions and transportation.

Our business is grouped into three reportable segments: North America, Asia Pacific and Europe. As of March 31, 2017, our portfolio consisted of over 60 properties in the United States and eight other countries and territories. We generate most of our revenues from four primary sources: selling vacation ownership products; managing our resorts; financing consumer purchases of vacation ownership products; and renting vacation ownership inventory.

As further detailed in Footnote No. 1, "Summary of Significant Accounting Policies," to our Financial Statements, beginning with our 2017 fiscal year, we changed our financial reporting cycle to a calendar year-end and end-of-month quarterly reporting cycle. Accordingly, our 2017 fiscal year began on December 31, 2016 (the day after the end of the 2016 fiscal year) and will end on December 31, 2017, and our 2017 first quarter is the period from December 31, 2016 through March 31, 2017 (91 days), while our 2016 first quarter is the period from January 2, 2016 through March 26, 2016 (84 days). As a result, we had seven more days in the 2017 first quarter than we had in the 2016 first quarter. We estimate that 2016 first quarter contract sales would have been approximately $14 million higher on a comparable basis. Prior year results have not been restated for the impact of the change in the company's financial reporting calendar.

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 or for use in the Explorer Collection, generally up 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 requirement with respect to financed sales and the requirement that the statutory rescission period has expired, we often defer revenues associated with the sale of vacation ownership products from the date of the purchase agreement to a future period. When comparing results year-over-year, this deferral frequently generates significant variances, which we refer to as the impact of revenue reportability.

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

We report, on a supplemental basis, contract sales for each of our three segments. Contract sales consist of 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. In circumstances where a customer applies any or all of their existing ownership interests as part of the purchase price for additional interests, we include only the incremental value purchased as contract sales. Contract sales differ from revenues from the sale of vacation ownership products that we report on our Statements of Income due to the requirements for revenue recognition described above. We consider contract sales to be an important operating measure because it reflects the pace of sales in our business.

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

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

*Resort Management and Other Services*

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

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

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

*Financing*

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

| | Quarters Ended | |
|---|---|---|
| | March 31, 2017 (91 days) | March 25, 2016 (84 days) |
| Average FICO score | 740 | 744 |

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. We calculate financing propensity as contract sales volume of financed contracts closed in the period divided by contract sales volume of all contracts closed in the period. Financing propensity was 60.1 percent in the 2016 fiscal year and 66.1 percent in the 2017 first quarter, reflecting successful incentive programs that have been helping to increase financing propensity. We expect financing propensity in 2017 to continue at similar levels to 2016 as we intend to continue to offer the financing incentive programs, and that interest income will continue to increase as new originations of vacation ownership notes receivable outpace the decline in principal of existing vacation ownership notes receivable.

In the event of a default, we generally have the right to foreclose on or revoke the 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:

| | Quarters Ended | |
|---|---|---|
| | March 31, 2017 (91 days) | March 25, 2016 (84 days) |
| Historical default rates | 0.9% | 0.9% |

*Rental*

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

Rental revenues are primarily the revenues we earn from renting this inventory. We also recognize rental revenue from the utilization of plus points under the Marriott Vacation Club Destinations (“MVCD”) program when the points are redeemed for rental stays at one of our resorts or in the Explorer Collection, or upon expiration of the points.

Rental expenses include:

- Maintenance fees on unsold inventory;
- Costs to provide alternative usage options, including Marriott Rewards Points and offerings available as part of the Explorer Collection, for owners who elect to exchange their inventory;
- 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 our points-based programs.

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

*Cost Reimbursements*

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

*Consumer Financing Interest Expense*

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

*Interest Expense*

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

*Other Items*

We measure operating performance using the following key metrics:

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

### Consolidated Results

The following discussion presents an analysis of our results of operations for the 2017 first quarter compared to the 2016 first quarter.

| ($ in thousands) | Quarters Ended March 31, 2017 (91 days) | Quarters Ended March 25, 2016 (84 days) |
|---|---|---|
| **REVENUES** | | |
| Sale of vacation ownership products | $ 172,155 | $ 138,369 |
| Resort management and other services | 74,339 | 63,757 |
| Financing | 32,111 | 29,224 |
| Rental | 85,256 | 80,288 |
| Cost reimbursements | 123,633 | 107,533 |
| **TOTAL REVENUES** | 487,494 | 419,171 |
| **EXPENSES** | | |
| Cost of vacation ownership products | 42,620 | 35,617 |
| Marketing and sales | 100,661 | 78,412 |
| Resort management and other services | 41,831 | 39,863 |
| Financing | 5,206 | 4,629 |
| Rental | 70,432 | 64,660 |
| General and administrative | 27,539 | 25,359 |
| Litigation settlement | — | (303) |
| Consumer financing interest | 5,938 | 5,362 |
| Royalty fee | 16,070 | 13,357 |
| Cost reimbursements | 123,633 | 107,533 |
| **TOTAL EXPENSES** | 433,930 | 374,489 |
| (Losses) gains and other (expense) income | (59) | 7 |
| Interest expense | (781) | (1,982) |
| Other | (369) | (2,542) |
| **INCOME BEFORE INCOME TAXES** | 52,355 | 40,165 |
| Provision for income taxes | (18,655) | (15,757) |
| **NET INCOME** | $ 33,700 | $ 24,408 |

### Contract Sales

*2017 First Quarter*

| ($ in thousands) | Quarters Ended March 31, 2017 (91 days) | Quarters Ended March 25, 2016 (84 days) | Change | % Change |
|---|---|---|---|---|
| Contract sales | | | | |
| Vacation ownership | | | | |
| North America | $ 177,436 | $ 139,650 | $ 37,786 | 27% |
| Asia Pacific | 11,948 | 9,426 | 2,522 | 27% |
| Europe | 4,450 | 4,418 | 32 | 1% |
| Total contract sales | $ 193,834 | $ 153,494 | $ 40,340 | 26% |

The changes in contract sales are described within the discussions of our segment results below. Our 2017 first quarter had seven more days than our 2016 first quarter due to the change to an end-of-month quarterly reporting cycle in 2017. We estimate that 2016 first quarter contract sales would have been approximately $14 million higher on a comparable basis.

**Sale of Vacation Ownership Products**

*2017 First Quarter*

| ($ in thousands) | Quarters Ended March 31, 2017 (91 days) | March 25, 2016 (84 days) | Change | % Change |
|---|---|---|---|---|
| Contract sales | $ 193,834 | $ 153,494 | $ 40,340 | 26% |
| Revenue recognition adjustments: | | | | |
| Reportability | (4,030) | 786 | (4,816) | |
| Sales reserve | (12,221) | (8,223) | (3,998) | |
| Other[1] | (5,428) | (7,688) | 2,260 | |
| Sale of vacation ownership products | $ 172,155 | $ 138,369 | $ 33,786 | 24% |

(1) Adjustment for sales incentives that will not be recognized as Sale of vacation ownership products revenue.

Revenue reportability had a $4.0 million negative impact in the 2017 first quarter due to an increase in the amount of sales that remained in the rescission period as of the end of the quarter, partially offset by an increase in the amount of sales that met the down payment requirement for revenue reportability during the quarter, compared to a $0.8 million positive revenue reportability impact in the 2016 first quarter.

The higher sales reserve reflected the higher vacation ownership contract sales volume ($2.4 million of the increase), an increase in the North America sales reserve due to the increase in financing propensity ($1.1 million of the increase) and changes in the Asia Pacific and Europe sales reserve rates due mainly to an unfavorable sales reserve adjustment to correct an immaterial error in 2016 with respect to historical static pool data ($0.5 million of the increase).

The decrease in other adjustments for sales incentives was driven by a decrease in the utilization of plus points as a sales incentive in our North America segment in the 2017 first quarter.

**Development Margin**

*2017 First Quarter*

| ($ in thousands) | Quarters Ended March 31, 2017 (91 days) | March 25, 2016 (84 days) | Change | % Change |
|---|---|---|---|---|
| Sale of vacation ownership products | $ 172,155 | $ 138,369 | $ 33,786 | 24% |
| Cost of vacation ownership products | (42,620) | (35,617) | (7,003) | (20%) |
| Marketing and sales | (100,661) | (78,412) | (22,249) | (28%) |
| Development margin | $ 28,874 | $ 24,340 | $ 4,534 | 19% |
| Development margin percentage | 16.8% | 17.6% | (0.8 pts) | |

The increase in development margin reflected $17.1 million from higher vacation ownership contract sales volume net of direct variable expenses (i.e., cost of vacation ownership products and marketing and sales), including $8.3 million from higher vacation ownership contract sales, $7.2 million from a favorable mix of lower cost real estate inventory being sold and $1.6 million from lower usage of plus points as a sales incentive in our North America segment, which resulted in less revenue being deferred that will be recognized as rental revenue when the points are redeemed or expire.

These increases in development margin were partially offset by the following:

- $4.1 million of unfavorable changes in product cost true-up activity ($0.9 million of unfavorable true-up activity in the 2017 first quarter compared to $3.2 million of favorable true-up activity in the 2016 first quarter);
- $3.3 million of unfavorable revenue reportability compared to the 2016 first quarter;
- $3.0 million of higher marketing and sales costs due to ramping up the company’s six new sales distributions;

- $1.4 million from higher sales reserve activity due to the increase in financing propensity in our North America segment and an increase in the sales reserve rates in our Asia Pacific and Europe segments due mainly to an unfavorable sales reserve adjustment to correct an immaterial error in 2016 with respect to historical static pool data; and
- $0.8 million from higher other development and inventory expenses.

The 0.8 percentage point decline in the development margin percentage reflected a 2.4 percentage point decrease due to the unfavorable changes in product cost true-up activity year-over-year, a 1.8 percentage point decline due to the higher ramp-up expenses associated with the new sales locations, a 1.5 percentage point decrease due to the unfavorable revenue reportability year-over-year, a 0.7 percentage point decline from the higher sales reserve rate and a 0.4 percentage point decrease from higher other development and inventory expenses. These declines were partially offset by a 4.2 percentage point increase due to a favorable mix of lower cost vacation ownership real estate inventory being sold in the 2017 first quarter, a 1.0 percentage point increase due to the leveraging of fixed costs on higher vacation ownership contract sales and a 0.8 percentage point increase from the lower usage of plus points as a sales incentive.

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

*2017 First Quarter*

| | Quarters Ended | | | |
|---|---|---|---|---|
| ***($ in thousands)*** | **March 31, 2017 (91 days)** | **March 25, 2016 (84 days)** | **Change** | **% Change** |
| Management fee revenues | $ 21,759 | $ 18,440 | $ 3,319 | 18% |
| Ancillary revenues | 27,269 | 27,299 | (30) | —% |
| Other services revenues | 25,311 | 18,018 | 7,293 | 40% |
| Resort management and other services revenues | 74,339 | 63,757 | 10,582 | 17% |
| Resort management and other services expenses | (41,831) | (39,863) | (1,968) | (5%) |
| Resort management and other services margin | $ 32,508 | $ 23,894 | $ 8,614 | 36% |
| Resort management and other services margin percentage | 43.7% | 37.5% | 6.2 pts | |

The increase in resort management and other services revenues reflected $3.3 million of higher management fees, $2.2 million of higher refurbishment revenue due to an increase in the number of projects being refurbished in the 2017 first quarter, $2.1 million of higher settlement and lien fees due to the timing of lien fees and an increase in the number of closed contracts in the 2017 first quarter, $1.8 million of additional annual club dues and other revenues earned in connection with the MVCD program due to the cumulative increase in owners enrolled in the program, and $1.2 million of higher resales commissions, brand fees and other revenues. The slight decline in ancillary revenues included $2.7 million of lower ancillary revenues from the operating property in Surfers Paradise, Australia (a portion of which was disposed of in the 2016 second quarter) and $0.7 million of lower revenue due to outsourcing the operation of one restaurant in our North America segment, offset by $3.4 million of higher revenues from food and beverage and golf offerings at our resorts.

The improvement in the resort management and other services margin reflected the increases in revenue, partially offset by $2.0 million of higher expenses including $2.3 million of higher ancillary expenses from food and beverage and golf offerings at our resorts, $1.3 million of higher refurbishment expenses due to an increase in the number of projects being refurbished in the 2017 first quarter, $1.3 million of higher expenses associated with the MVCD program and $0.2 million of higher other expenses, partially offset by $2.4 million of lower ancillary expenses from the operating property in Surfers Paradise, Australia and $0.7 million of lower ancillary expenses due to outsourcing the operation of a restaurant in our North America segment.

The ancillary revenue producing portions of the operating property in Surfers Paradise, Australia were included in the sale of the portion of the operating property completed in the second quarter of 2016. Therefore, we do not anticipate future ancillary revenues or expenses at this property.

**Financing Revenues, Expenses and Margin**

*2017 First Quarter*

| ($ in thousands) | Quarters Ended March 31, 2017 (91 days) | Quarters Ended March 25, 2016 (84 days) | Change | % Change |
|---|---|---|---|---|
| Interest income | $ 30,356 | $ 27,774 | $ 2,582 | 9% |
| Other financing revenues | 1,755 | 1,450 | 305 | 21% |
| Financing revenues | 32,111 | 29,224 | 2,887 | 10% |
| Financing expenses | (5,206) | (4,629) | (577) | (12%) |
| Consumer financing interest expense | (5,938) | (5,362) | (576) | (11%) |
| Financing margin | $ 20,967 | $ 19,233 | $ 1,734 | 9% |
| Financing propensity | 66.1% | 58.5% | | |

The increase in financing revenues was due to a $74.6 million increase in the average gross vacation ownership notes receivable balance ($5.1 million) and higher other financing revenues ($0.3 million), partially offset by financing program incentive costs ($1.8 million) and a slight decrease in the weighted average coupon rate of our vacation ownership notes receivable ($0.7 million).

The increase in financing margin reflected the higher financing revenues, partially offset by higher consumer financing interest expense and higher other expenses. The higher consumer financing interest expense was due to a higher average outstanding debt balance, partially offset by a lower average interest rate on the outstanding debt balances. 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 higher other expenses were due to the increase in the average gross vacation ownership notes receivable balance.

We expect financing propensity for the 2017 fiscal year to approximate 60 percent as we intend to continue to offer financing incentive programs, and that interest income will continue to increase as new originations of vacation ownership notes receivable outpace the decline in principal of existing vacation ownership notes receivable.

**Rental Revenues, Expenses and Margin**

*2017 First Quarter*

| ($ in thousands) | Quarters Ended March 31, 2017 (91 days) | Quarters Ended March 25, 2016 (84 days) | Change | % Change |
|---|---|---|---|---|
| Rental revenues | $ 85,256 | $ 80,288 | $ 4,968 | 6% |
| Unsold maintenance fees | (18,573) | (14,493) | (4,080) | (28%) |
| Other rental expenses | (51,859) | (50,167) | (1,692) | (3%) |
| Rental margin | $ 14,824 | $ 15,628 | $ (804) | (5%) |
| Rental margin percentage | 17.4% | 19.5% | (2.1 pts) | |

| | Quarters Ended March 31, 2017 (91 days) | Quarters Ended March 25, 2016 (84 days) | Change | % Change |
|---|---|---|---|---|
| Transient keys rented[(1)] | 326,339 | 292,649 | 33,690 | 12% |
| Average transient key rate | $ 227.80 | $ 228.80 | $ (1.00) | —% |
| Resort occupancy | 87.6% | 88.9% | (1.3 pts) | |

(1) Transient keys rented exclude those obtained through the use of plus points, preview stays and those associated with our operating properties in San Diego, California and Surfers Paradise, Australia prior to conversion to vacation ownership inventory.

The increase in rental revenues was due to a 12 percent increase in transient keys rented ($7.7 million) driven by a 16 percent increase in available keys, a $0.8 million increase in preview keys and other revenue and $0.4 million of higher plus points revenue (which is recognized when the points are redeemed or expire), partially offset by $2.6 million of lower revenue from the operating property in Surfers Paradise, Australia (a portion of which was disposed of in the second quarter of 2016), $1.0 million of revenue in the 2016 first quarter at our operating property in San Diego, California prior to the conversion of the property to vacation ownership inventory and a slightly lower average transient rate ($0.3 million). The lower average transient rate was driven in part by the fact that the 2016 first quarter included the week before Easter (approximately 1 percent impact on average transient rate year-over-year) and the 2017 first quarter did not.

The decrease in rental margin reflected a $0.6 million decline at the operating property in Surfers Paradise, Australia primarily due to unsold maintenance fees in the 2017 first quarter incurred after conversion of the property to vacation ownership inventory and $0.6 million from the 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 $0.4 million increase in plus points revenue. The decline in overall rental margin included a negative impact from the increase in preview keys as the revenue from these stays is less than the associated cost of the inventory. The inclusion of the week before Easter in the 2016 first quarter negatively impacted the year-over-year change in rental margin by approximately $1.1 million.

**Cost Reimbursements**

*2017 First Quarter*

Cost reimbursements increased $16.1 million, or 15 percent, over the 2016 first quarter, reflecting an increase of $7.8 million due to the change to an end-of-month quarterly reporting cycle in 2017, $5.7 million due to higher costs and $2.9 million due to additional managed unit weeks in the 2017 first quarter, partially offset by a $0.3 million negative impact from foreign exchange rates in our Europe segment.

**General and Administrative**

*2017 First Quarter*

General and administrative expenses increased $2.2 million due to approximately $2.0 million from the change to an end-of-month quarterly reporting cycle in 2017 that resulted in seven additional days in the 2017 first quarter and $1.3 million due to higher personnel related and other expenses, partially offset by $1.1 million of lower litigation related costs. The higher personnel related and other expenses included annual merit and inflationary cost increases.

**Royalty Fee**

*2017 First Quarter*

Royalty fee expense increased $2.7 million in the 2017 first quarter (from $13.4 million to $16.1 million) due to an increase in the dollar volume of closings ($1.1 million), the change to an end-of-month quarterly reporting cycle in 2017 that resulted in seven additional days in the 2017 first quarter ($1.0 million) and a $0.6 million increase in the fixed portion of the royalty fee late in 2016.

**Interest Expense**

*2017 First Quarter*

Interest expense decreased $1.2 million due to $1.1 million of 2016 first quarter expense associated with the mandatorily redeemable preferred stock of a consolidated subsidiary and $0.1 million of lower other expenses. Due to the redemption of the mandatorily redeemable preferred stock in 2016, we will not incur further interest expense associated with this liability in the future.

**Other**

*2017 First Quarter*

During the 2017 first quarter, we incurred $0.4 million of acquisition costs.

During the 2016 first quarter, we incurred $2.3 million of acquisition costs associated with an operating property in the South Beach area of Miami Beach and the anticipated future acquisition of the operating property in New York that we currently manage, and $0.2 million of transaction related costs associated with the sale of the portion of the operating property located in Surfers Paradise, Australia that we did not intend to convert to vacation ownership inventory. See Footnote No. 5, “Acquisitions and Dispositions” and Footnote No. 8, “Contingencies and Commitments,” to our Financial Statements for further information related to these transactions.

**Income Tax**

*2017 First Quarter*

Our provision for income taxes increased $2.9 million (from $15.8 million to $18.7 million) from the 2016 first quarter. The increase was primarily due to increases in U.S. income and the establishment of a $4.6 million foreign valuation allowance, partially offset by changes in tax rates in foreign jurisdictions ($4.1 million) and a favorable impact of the adoption of Accounting Standards Update 2016-09, "*Compensation - Stock Compensation (Topic 718)*," ($2.4 million).

**Earnings Before Interest Expense, Taxes, Depreciation and Amortization ("EBITDA") and Adjusted EBITDA**

EBITDA, a financial measure that is not prescribed 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 and Adjusted EBITDA calculations, 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 and Adjusted EBITDA to be indicators of operating performance, which we use to measure our ability to service debt, fund capital expenditures and expand our business. We also use EBITDA and Adjusted EBITDA, as do analysts, lenders, investors and others, because these measures exclude 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 and Adjusted EBITDA also exclude 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. Adjusted EBITDA reflects additional adjustments for certain items described below, and excludes non-cash share-based compensation expense to address considerable variability among companies in recording compensation expense because companies use share-based payment awards differently, both in the type and quantity of awards granted. We evaluate Adjusted EBITDA as an indicator of operating performance because it allows for period-over-period comparisons of our on-going core operations before the impact of the excluded items. Together, EBITDA and Adjusted EBITDA facilitate our comparison of results from our on-going core operations before the impact of these items with results from other vacation ownership companies.

EBITDA and Adjusted EBITDA have 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 and Adjusted EBITDA differently than we do or may not calculate them at all, limiting their usefulness as comparative measures. The table below shows our EBITDA and Adjusted EBITDA calculation and reconciles these measures with Net income, which is the most directly comparable GAAP financial measure.

| | Quarters Ended | |
|---|---|---|
| | **March 31, 2017** | **March 25, 2016** |
| ***($ in thousands)*** | **(91 days)** | **(84 days)** |
| Net income | $ 33,700 | $ 24,408 |
| Interest expense | 781 | 1,982 |
| Tax provision | 18,655 | 15,757 |
| Depreciation and amortization | 5,191 | 5,125 |
| EBITDA | 58,327 | 47,272 |
| Non-cash share-based compensation | 3,276 | 2,524 |
| Certain items | 471 | 1,795 |
| Adjusted EBITDA | $ 62,074 | $ 51,591 |

*2017 First Quarter*

The certain items for the 2017 first quarter consisted of $0.4 million of acquisition costs and $0.1 million of losses and other expense. These exclusions increased EBITDA by $0.5 million.

The certain items for the 2016 first quarter consisted of $2.6 million of acquisition costs, $0.5 million of profit from the operations of the portion of the property we acquired in Surfers Paradise, Australia in 2015 that we sold in the second quarter of 2016 and a $0.3 million reversal of litigation expense. These exclusions increased EBITDA by $1.8 million.

**Business Segments**

Our business is grouped into three reportable business segments: North America, Asia Pacific and Europe. See Footnote No. 13, "Business Segments," to our Financial Statements for further information on our segments.

***North America***

The following discussion presents an analysis of our results of operations for the North America segment for the 2017 first quarter, compared to the 2016 first quarter.

| | Quarters Ended | |
|---|---|---|
| | March 31, 2017 | March 25, 2016 |
| *($ in thousands)* | (91 days) | (84 days) |
| **REVENUES** | | |
| Sale of vacation ownership products | $ 156,657 | $ 124,684 |
| Resort management and other services | 68,818 | 56,382 |
| Financing | 30,239 | 27,408 |
| Rental | 79,140 | 72,508 |
| Cost reimbursements | 114,955 | 99,182 |
| **TOTAL REVENUES** | 449,809 | 380,164 |
| **EXPENSES** | | |
| Cost of vacation ownership products | 37,635 | 30,662 |
| Marketing and sales | 88,870 | 68,315 |
| Resort management and other services | 36,945 | 32,807 |
| Rental | 63,005 | 55,956 |
| Litigation settlement | — | (303) |
| Royalty fee | 2,690 | 1,686 |
| Cost reimbursements | 114,955 | 99,182 |
| **TOTAL EXPENSES** | 344,100 | 288,305 |
| (Losses) gains and other (expense) income | (34) | 7 |
| Other | 51 | (2,280) |
| **SEGMENT FINANCIAL RESULTS** | $ 105,726 | $ 89,586 |

**Contract Sales**

*2017 First Quarter*

| | Quarters Ended | | | |
|---|---|---|---|---|
| | March 31, 2017 | March 25, 2016 | | |
| *($ in thousands)* | (91 days) | (84 days) | Change | % Change |
| Contract sales | | | | |
| Vacation ownership | $ 177,436 | $ 139,650 | $ 37,786 | 27% |
| Total contract sales | $ 177,436 | $ 139,650 | $ 37,786 | 27% |

The increase in North America vacation ownership contract sales reflected a $38.5 million increase in sales at on-site sales locations, partially offset by a $0.5 million decrease in sales at off-site (non tour-based) sales locations and a $0.2 million decrease in fractional sales as we continue to sell through remaining luxury inventory. Our 2017 first quarter had seven more days than our 2016 first quarter due to the change to an end-of-month quarterly reporting cycle in 2017. We estimate that 2016 first quarter contract sales would have been approximately $12 million higher on a comparable basis, the majority of which would have occurred at on-site sales locations.

The increase in sales at North America on-site locations reflected a 23.6 percent increase in the number of tours and a 5.6 percent increase in VPG to $3,691 in the 2017 first quarter from $3,496 in the 2016 first quarter. The increase in the number of tours was due to increases in both owner tours and first time buyer tours, and was driven by programs that were implemented in 2015 or later to generate additional tours. The 23.6 percent increase in the number of total tours included an increase of approximately 10 percent due to the change in the financial reporting calendar in 2017, an increase of 7.9 percent from new sales locations and an increase of 5.6 percent from existing sales locations. The increase in VPG resulted from a 0.5 percentage point increase in closing efficiency and higher pricing. The sales at North America off-site locations were negatively impacted in part by the continued strength of the U.S. dollar, primarily in Latin America.

**Sale of Vacation Ownership Products**

*2017 First Quarter*

| | Quarters Ended | | | |
|---|---|---|---|---|
| | **March 31, 2017** | **March 25, 2016** | | |
| ***($ in thousands)*** | **(91 days)** | **(84 days)** | **Change** | **% Change** |
| Contract sales | $ 177,436 | $ 139,650 | $ 37,786 | 27% |
| Revenue recognition adjustments: | | | | |
| Reportability | (4,694) | 88 | (4,782) | |
| Sales reserve | (10,682) | (7,406) | (3,276) | |
| Other[(1)] | (5,403) | (7,648) | 2,245 | |
| Sale of vacation ownership products | $ 156,657 | $ 124,684 | $ 31,973 | 26% |

(1) Adjustment for sales incentives that will not be recognized as Sale of vacation ownership products revenue.

Revenue reportability negatively impacted the 2017 first quarter due to an increase in the amount of sales that remained in the rescission period as of the end of the quarter, partially offset by an increase in the amount of sales that met the down payment requirement for revenue reportability during the quarter.

The higher sales reserve reflected the higher vacation ownership contract sales volume ($2.2 million of the increase) and an increase in the sales reserve due to the increase in financing propensity ($1.1 million of the increase).

The decrease in other adjustments for sales incentives was driven by a decrease in the utilization of plus points as a sales incentive in our North America segment in the 2017 first quarter.

**Development Margin**

*2017 First Quarter*

| | Quarters Ended | | | |
|---|---|---|---|---|
| | **March 31, 2017** | **March 25, 2016** | | |
| ***($ in thousands)*** | **(91 days)** | **(84 days)** | **Change** | **% Change** |
| Sale of vacation ownership products | $ 156,657 | $ 124,684 | 31,973 | 26% |
| Cost of vacation ownership products | (37,635) | (30,662) | (6,973) | (23%) |
| Marketing and sales | (88,870) | (68,315) | (20,555) | (30%) |
| Development margin | $ 30,152 | $ 25,707 | $ 4,445 | 17% |
| Development margin percentage | 19.2% | 20.6% | (1.4 pts) | |

The increase in development margin reflected $16.9 million from higher vacation ownership contract sales volume net of direct variable expenses (i.e., cost of vacation ownership products and marketing and sales), including $8.2 million from higher vacation ownership contract sales, $6.7 million from a favorable mix of lower cost real estate inventory being sold, $1.6 million from lower usage of plus points as a sales incentive which resulted in less revenue being deferred that will be recognized as rental revenue when the points are redeemed or expire, and $0.4 million from lower marketing and sales costs.

These increases in development margin were partially offset by the following:

- $4.4 million of unfavorable changes in product cost true-up activity (more than $1.0 million of unfavorable true-up activity in the 2017 first quarter compared to $3.3 million of favorable true-up activity in the 2016 first quarter),
- $3.5 million of higher marketing and sales costs due to ramping up the new sales distributions;
- $3.2 million of unfavorable revenue reportability compared to the 2016 first quarter;
- $0.9 million from higher sales reserve activity in the 2017 first quarter due to the increase in financing propensity; and
- $0.5 million from higher other development and inventory expenses.

The 1.4 percentage point decline in the development margin percentage reflected a 2.8 percentage point decrease due to the unfavorable changes in product cost true-up activity year-over-year, a 2.2 percentage point decline due to the higher ramp-up expenses associated with the new sales locations, a 1.5 percentage point decrease due to the unfavorable revenue reportability year-over-year, a 0.5 percentage point decline from the higher sales reserve rate and a 0.3 percentage point decrease from higher other development and inventory expenses. These declines were partially offset by a 4.3 percentage point increase due to a favorable mix of lower cost vacation ownership real estate inventory being sold in the 2017 first quarter, a 0.8 percentage point increase due to the leveraging of fixed costs on higher vacation ownership contract sales and a 0.8 percentage point increase from the lower usage of plus points as a sales incentive.

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

*2017 First Quarter*

| | Quarters Ended | | | |
|---|---|---|---|---|
| | March 31, 2017 | March 25, 2016 | | |
| *($ in thousands)* | (91 days) | (84 days) | Change | % Change |
| Management fee revenues | $ 19,465 | $ 16,463 | $ 3,002 | 18% |
| Ancillary revenues | 24,688 | 22,441 | 2,247 | 10% |
| Other services revenues | 24,665 | 17,478 | 7,187 | 41% |
| Resort management and other services revenues | 68,818 | 56,382 | 12,436 | 22% |
| Resort management and other services expenses | (36,945) | (32,807) | (4,138) | (13%) |
| Resort management and other services margin | $ 31,873 | $ 23,575 | $ 8,298 | 35% |
| Resort management and other services margin percentage | 46.3% | 41.8% | 4.5 pts | |

The increase in resort management and other services revenues reflected $3.0 million of higher management fees, $2.2 million of higher refurbishment revenue due to an increase in the number of projects being refurbished in the 2017 first quarter, $2.2 million of higher ancillary revenues, $2.1 million of higher settlement and lien fees due to the timing of lien fees and an increase in the number of closed contracts in the 2017 first quarter, $1.7 million of additional annual club dues and other revenues earned in connection with the MVCD program due to the cumulative increase in owners enrolled in the program, and $1.2 million of higher resales commissions, brand fees and other revenues. The increase in ancillary revenues included $2.9 million of higher revenues from food and beverage and golf offerings at our resorts, partially offset by $0.7 million of lower revenue due to outsourcing the operation of one restaurant.

The increase in the resort management and other services margin reflected the increases in revenue, partially offset by $4.1 million of higher expenses, including $2.1 million of higher ancillary expenses from food and beverage and golf offerings at our resorts, $1.3 million of higher refurbishment expenses due to an increase in the number of projects being refurbished in the 2017 first quarter, $1.1 million of higher expenses associated with the MVCD program and $0.3 million of higher other expenses, partially offset by $0.7 million of lower ancillary expenses due to outsourcing the operation of one restaurant.

**Financing Revenues, Expenses and Margin**

*2017 First Quarter*

| ($ in thousands) | Quarters Ended March 31, 2017 (91 days) | Quarters Ended March 25, 2016 (84 days) | Change | % Change |
|---|---|---|---|---|
| Interest income | $ 28,523 | $ 25,993 | $ 2,530 | 10% |
| Other financing revenues | 1,716 | 1,415 | 301 | 21% |
| Financing revenues | $ 30,239 | $ 27,408 | $ 2,831 | 10% |
| Financing propensity | 66.1% | 56.9% | | |

The increase in financing revenues was due to an increase in the average gross vacation ownership notes receivable balance ($5.0 million) and higher other financing revenues ($0.3 million), partially offset by financing program incentive costs ($1.8 million) and a slight decrease in the weighted average coupon rate of our vacation ownership notes receivable ($0.7 million). We expect financing propensity for the 2017 fiscal year to approximate 60 percent as we intend to continue to offer financing incentive programs, and that interest income will continue to increase as new originations of vacation ownership notes receivable outpace the decline in principal of existing vacation ownership notes receivable.

**Rental Revenues, Expenses and Margin**

*2017 First Quarter*

| ($ in thousands) | Quarters Ended March 31, 2017 (91 days) | Quarters Ended March 25, 2016 (84 days) | Change | % Change |
|---|---|---|---|---|
| Rental revenues | $ 79,140 | $ 72,508 | $ 6,632 | 9% |
| Unsold maintenance fees | (16,443) | (13,527) | (2,916) | (22%) |
| Other rental expenses | (46,562) | (42,429) | (4,133) | (10%) |
| Rental margin | $ 16,135 | $ 16,552 | $ (417) | (3%) |
| Rental margin percentage | 20.4% | 22.8% | (2.4 pts) | |

| | Quarters Ended March 31, 2017 (91 days) | Quarters Ended March 25, 2016 (84 days) | Change | % Change |
|---|---|---|---|---|
| Transient keys rented[(1)] | 304,946 | 274,371 | 30,575 | 11% |
| Average transient key rate | $ 227.57 | $ 229.83 | $ (2.26) | (1%) |
| Resort occupancy | 88.5% | 90.4% | (1.9 pts) | |

(1) Transient keys rented exclude those obtained through the use of plus points, preview stays and those associated with our operating property in San Diego, California prior to conversion to vacation ownership inventory.

The increase in rental revenues was due to an 11 percent increase in transient keys rented ($7.0 million) driven by an 18 percent increase in available keys, a $0.9 million increase in preview keys and other revenue and $0.4 million of higher plus points revenue (which is recognized when the points are redeemed or expire), partially offset by $1.0 million of revenue in the 2016 first quarter at our operating property in San Diego, California prior to the conversion of the property to vacation ownership inventory and a 1 percent decrease in average transient rate ($0.7 million). The lower average transient rate was driven in part by the fact that the 2016 first quarter included the week before Easter (approximately 1 percent impact on average transient rate year-over-year) and the 2017 first quarter did not.

The decrease in rental margin reflected negative $0.8 million from the 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 $0.4 million increase in plus points revenue. The decline in overall rental margin included a negative impact from the increase in preview keys as the revenue from these stays is less than the associated cost of the

inventory. The inclusion of the week before Easter in the 2016 first quarter negatively impacted the year-over-year change in rental margin by approximately $1.1 million.

***Asia Pacific***

The following discussion presents an analysis of our results of operations for the Asia Pacific segment for the 2017 first quarter, compared to the 2016 first quarter.

| *($ in thousands)* | Quarters Ended March 31, 2017 (91 days) | Quarters Ended March 25, 2016 (84 days) |
|---|---|---|
| **REVENUES** | | |
| Sale of vacation ownership products | $ 10,922 | $ 8,525 |
| Resort management and other services | 1,097 | 3,446 |
| Financing | 1,123 | 981 |
| Rental | 3,738 | 5,621 |
| Cost reimbursements | 1,147 | 873 |
| **TOTAL REVENUES** | 18,027 | 19,446 |
| **EXPENSES** | | |
| Cost of vacation ownership products | 2,089 | 1,709 |
| Marketing and sales | 8,201 | 6,211 |
| Resort management and other services | 1,093 | 3,501 |
| Rental | 4,137 | 5,788 |
| Royalty fee | 228 | 146 |
| Cost reimbursements | 1,147 | 873 |
| **TOTAL EXPENSES** | 16,895 | 18,228 |
| Losses and other expense | (20) | — |
| Other | (8) | (208) |
| **SEGMENT FINANCIAL RESULTS** | $ 1,104 | $ 1,010 |

**Overview**

In our Asia Pacific segment, we continue to identify opportunities for development margin growth and improvement. We plan to continue to focus on future inventory acquisitions with strong on-site sales locations. In 2015, we purchased an operating property located in Surfers Paradise, Australia and in 2016, we sold the portion of this operating property that we did not intend to convert to vacation ownership inventory. By the end of 2016, we completed the conversion of the remaining portion of this operating property to vacation ownership inventory, a portion of which was contributed to our points-based programs within this segment. We began selling from this new location at the end of the 2016 first quarter.

**Contract Sales**

*2017 First Quarter*

| *($ in thousands)* | Quarters Ended March 31, 2017 (91 days) | Quarters Ended March 25, 2016 (84 days) | Change | % Change |
|---|---|---|---|---|
| Contract sales | | | | |
| Vacation ownership | $ 11,948 | $ 9,426 | $ 2,522 | 27% |
| Total contract sales | $ 11,948 | $ 9,426 | $ 2,522 | 27% |

The increase in Asia Pacific vacation ownership contract sales was driven by a 68 percent increase in tours, partially offset by a 24 percent decrease in VPG. The increase in tours included a 53 percent increase from the new sales location in Surfers Paradise, Australia and a 15 percent increase at the existing sales locations. The decrease in VPG was driven by an

increase in sales to first time buyers, which generally have a lower VPG than sales to existing owners. Contract sales at the new sales location in Surfers Paradise, Australia are not reported as sale of vacation ownership products until closing.

**Sale of Vacation Ownership Products**

*2017 First Quarter*

| | Quarters Ended | | | |
|---|---|---|---|---|
| | March 31, 2017 (91 days) | March 25, 2016 (84 days) | Change | % Change |
| ***($ in thousands)*** | | | | |
| Contract sales | $ 11,948 | $ 9,426 | $ 2,522 | 27% |
| Revenue recognition adjustments: | | | | |
| Reportability | 81 | (267) | 348 | |
| Sales reserve | (1,085) | (619) | (466) | |
| Other[(1)] | (22) | (15) | (7) | |
| Sale of vacation ownership products | $ 10,922 | $ 8,525 | $ 2,397 | 28% |

(1) Adjustment for sales incentives that will not be recognized as Sale of vacation ownership products revenue.

The favorable change in reportability is due to the closing and recognition of sales from the Surfers Paradise, Australia sales location in the 2017 first quarter (compared to no sales or closings in the 2016 first quarter because we began selling from this new location at the end of the 2016 first quarter). The increase in the sales reserve is due to the higher vacation ownership contract sales as well as an unfavorable sales reserve adjustment to correct an immaterial error in 2016 with respect to historical static pool data.

**Development Margin**

*2017 First Quarter*

| | Quarters Ended | | | |
|---|---|---|---|---|
| | March 31, 2017 (91 days) | March 25, 2016 (84 days) | Change | % Change |
| ***($ in thousands)*** | | | | |
| Sale of vacation ownership products | $ 10,922 | $ 8,525 | $ 2,397 | 28% |
| Cost of vacation ownership products | (2,089) | (1,709) | (380) | (22%) |
| Marketing and sales | (8,201) | (6,211) | (1,990) | (32%) |
| Development margin | $ 632 | $ 605 | $ 27 | 4% |
| Development margin percentage | 5.8% | 7.1% | (1.3 pts) | |

The increase in development margin reflected the following:

- $0.3 million from the higher vacation ownership contract sales volume net of direct variable expenses (i.e., cost of vacation ownership products and marketing and sales) driven by $0.5 million of lower marketing and sales costs at the new sales location in Surfers Paradise, Australia due to startup costs incurred in the the 2016 first quarter and a lower average cost of real estate inventory being sold in the 2017 first quarter, partially offset by a $0.2 million increase in marketing and sales costs at the sites other than Surfers Paradise, Australia; and
- $0.2 million of favorable revenue reportability compared to the 2016 first quarter.

The increases were partially offset by $0.3 million from lower favorable product cost true-up activity ($0.1 million in the 2017 first quarter compared to $0.4 million in the 2016 first quarter) and $0.2 million from the higher sales reserve activity compared to the 2016 first quarter.

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

*2017 First Quarter*

| *($ in thousands)* | Quarters Ended March 31, 2017 (91 days) | Quarters Ended March 25, 2016 (84 days) | Change | % Change |
|---|---|---|---|---|
| Management fee revenues | $ 787 | $ 544 | $ 243 | 45% |
| Ancillary revenues | — | 2,658 | (2,658) | (100%) |
| Other services revenues | 310 | 244 | 66 | 27% |
| Resort management and other services revenues | 1,097 | 3,446 | (2,349) | (68%) |
| Resort management and other services expenses | (1,093) | (3,501) | 2,408 | 69% |
| Resort management and other services margin | $ 4 | $ (55) | $ 59 | 107% |
| Resort management and other services margin percentage | 0.4% | (1.6%) | 2.0 pts | |

The decrease in resort management and other services revenues reflected $2.7 million of lower ancillary revenues from the operating property in Surfers Paradise, Australia (a portion of which was disposed of in the second quarter of 2016), partially offset by increases in management fees ($0.2 million) and other services revenues ($0.1 million). The increase in the resort management and other services margin reflected the higher management fees as well as lower spending in support of future growth in the business in the 2017 first quarter compared to the 2016 first quarter, partially offset by $0.3 million of ancillary profit from the operating property in Surfers Paradise, Australia in the 2016 first quarter (compared to no activity in the 2017 first quarter).

The ancillary revenue producing portions of the operating property in Surfers Paradise, Australia were included in the sale of the portion of the operating property completed in the second quarter of 2016. Therefore, we do not anticipate future ancillary revenues or expenses at this property.

**Rental Revenues, Expenses and Margin**

*2017 First Quarter*

| *($ in thousands)* | Quarters Ended March 31, 2017 (91 days) | Quarters Ended March 25, 2016 (84 days) | Change | % Change |
|---|---|---|---|---|
| Rental revenues | $ 3,738 | $ 5,621 | $ (1,883) | (33%) |
| Rental expenses | (4,137) | (5,788) | 1,651 | 29% |
| Rental margin | $ (399) | $ (167) | $ (232) | (139%) |
| Rental margin percentage | (10.7%) | (3.0%) | (7.7 pts) | |

The decline in rental revenues was due to $2.6 million of lower revenue from the operating property in Surfers Paradise, Australia (a portion of which was disposed of in the second quarter of 2016), partially offset by $0.7 million of higher revenues at the other resorts in the region. The lower expenses were due to $2.0 million of lower expenses from the operating property in Surfers Paradise, Australia (a portion of which was disposed of in the second quarter of 2016), partially offset by $0.3 million of higher other rental expenses in the 2017 first quarter.

***Europe***

The following discussion presents an analysis of our results of operations for the Europe segment for the 2017 first quarter, compared to the 2016 first quarter.

| | Quarters Ended | |
|---|---|---|
| | **March 31, 2017** | **March 25, 2016** |
| ***($ in thousands)*** | **(91 days)** | **(84 days)** |
| **REVENUES** | | |
| Sale of vacation ownership products | $ 4,576 | $ 5,160 |
| Resort management and other services | 4,424 | 3,929 |
| Financing | 749 | 835 |
| Rental | 2,378 | 2,159 |
| Cost reimbursements | 7,531 | 7,478 |
| **TOTAL REVENUES** | 19,658 | 19,561 |
| **EXPENSES** | | |
| Cost of vacation ownership products | 661 | 1,291 |
| Marketing and sales | 3,590 | 3,886 |
| Resort management and other services | 3,793 | 3,555 |
| Rental | 3,290 | 2,916 |
| Royalty fee | 46 | 49 |
| Cost reimbursements | 7,531 | 7,478 |
| **TOTAL EXPENSES** | 18,911 | 19,175 |
| **SEGMENT FINANCIAL RESULTS** | $ 747 | $ 386 |

**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**

*2017 First Quarter*

| | Quarters Ended | | | |
|---|---|---|---|---|
| | **March 31, 2017** | **March 25, 2016** | | |
| ***($ in thousands)*** | **(91 days)** | **(84 days)** | **Change** | **% Change** |
| Contract sales | | | | |
| Vacation ownership | $ 4,450 | $ 4,418 | $ 32 | 1% |
| Total contract sales | $ 4,450 | $ 4,418 | $ 32 | 1% |

**Sale of Vacation Ownership Products**

*2017 First Quarter*

| | Quarters Ended | | | |
|---|---|---|---|---|
| | March 31, 2017 | March 25, 2016 | | |
| *($ in thousands)* | (91 days) | (84 days) | Change | % Change |
| Contract sales | $ 4,450 | $ 4,418 | $ 32 | 1% |
| Revenue recognition adjustments: | | | | |
| Reportability | 583 | 965 | (382) | |
| Sales reserve | (454) | (198) | (256) | |
| Other[1] | (3) | (25) | 22 | |
| Sale of vacation ownership products | $ 4,576 | $ 5,160 | $ (584) | (11%) |

(1) Adjustment for sales incentives that will not be recognized as Sale of vacation ownership products revenue.

**Development Margin**

*2017 First Quarter*

| | Quarters Ended | | | |
|---|---|---|---|---|
| | March 31, 2017 | March 25, 2016 | | |
| *($ in thousands)* | (91 days) | (84 days) | Change | % Change |
| Sale of vacation ownership products | $ 4,576 | $ 5,160 | $ (584) | (11%) |
| Cost of vacation ownership products | (661) | (1,291) | 630 | 49% |
| Marketing and sales | (3,590) | (3,886) | 296 | 8% |
| Development margin | $ 325 | $ (17) | $ 342 | 2,012% |
| Development margin percentage | 7.1% | (0.3%) | 7.4 pts | |

***Corporate and Other***

| | Quarters Ended | |
|---|---|---|
| | March 31, 2017 | March 25, 2016 |
| *($ in thousands)* | (91 days) | (84 days) |
| **EXPENSES** | | |
| Cost of vacation ownership products | $ 2,235 | $ 1,955 |
| Financing | 5,206 | 4,629 |
| General and administrative | 27,539 | 25,359 |
| Consumer financing interest | 5,938 | 5,362 |
| Royalty fee | 13,106 | 11,476 |
| **TOTAL EXPENSES** | 54,024 | 48,781 |
| Losses and other expense | (5) | — |
| Interest expense | (781) | (1,982) |
| Other | (412) | (54) |
| **TOTAL FINANCIAL RESULTS** | $ (55,222) | $ (50,817) |

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

**Total Expenses**

*2017 First Quarter*

Total expenses increased $5.2 million from the 2016 first quarter. The $5.2 million increase resulted from $2.2 million of higher general and administrative expenses, $1.6 million of higher royalty fees due to the change to an end-of-month quarterly reporting cycle in 2017 that resulted in seven additional days in the 2017 first quarter ($1.0 million) and a $0.6 million increase in the fixed portion of the royalty fee late in 2016, $0.6 million of higher financing expenses due to the increase in the average gross vacation ownership notes receivable balance, $0.6 million of higher consumer financing interest expense, and $0.3 million of higher cost of vacation ownership products expenses due to higher development expenses.

General and administrative expenses increased $2.2 million due to approximately $2.0 million from the change to an end-of-month quarterly reporting cycle in 2017 that resulted in seven additional days in the 2017 first quarter and $1.3 million due to higher personnel related and other expenses, partially offset by $1.1 million of lower litigation costs. The higher personnel related and other expenses included annual merit and inflationary cost increases.

The $0.6 million increase in consumer financing interest expense was due to a higher average outstanding debt balance, partially offset by a lower average interest rate on the outstanding debt balances. 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.

**Recent Accounting Pronouncements**

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

**Liquidity and Capital Resources**

Our capital needs are supported by cash on hand ($101.8 million at the end of the 2017 first quarter), cash generated from operations, our ability to raise capital through securitizations in the asset-backed securities market and, to the extent necessary, funds available under the Warehouse Credit Facility and our $200 million revolving credit facility (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, fulfill other cash requirements and return capital to shareholders. At the end of the 2017 first quarter, we had $692.1 million of total gross debt outstanding, which included $684.0 million of non-recourse debt associated with vacation ownership notes receivable securitizations.

At the end of the 2017 first quarter, we had $688.3 million of real estate inventory on hand, comprised of $324.4 million of finished goods, $28.7 million of work-in-progress and $335.2 million of land and infrastructure.

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

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

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

During the 2017 first quarter, we had a net decrease in cash, cash equivalents and restricted cash of $47.2 million compared to a net decrease of $86.6 million during the 2016 first quarter. The following table summarizes these changes:

| | Quarters Ended | |
|---|---|---|
| ($ in thousands) | March 31, 2017 (91 days) | March 25, 2016 (84 days) |
| Cash, cash equivalents and restricted cash provided by (used in): | | |
| Operating activities | $ 45,704 | $ 9,878 |
| Investing activities | (13,254) | (6,322) |
| Financing activities | (81,229) | (90,667) |
| Effect of change in exchange rates on cash, cash equivalents and restricted cash | 1,551 | 464 |
| Net change in cash, cash equivalents and restricted cash | $ (47,228) | $ (86,647) |

*Cash from Operating Activities*

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

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

In the 2017 first quarter, we generated $45.7 million of cash flows from operating activities, compared to $9.9 million in the 2016 first quarter. Excluding the impact of changes in net income and adjustments for non-cash items, the increase in cash flows from operations reflected lower real estate inventory spending, higher closings on vacation ownership contract sales, higher collections due to an increasing portfolio of outstanding vacation ownership notes receivable and lower payments related to employee benefits programs, partially offset by higher originations driven by higher contract sales and higher financing propensity due to the continued success of the financing incentive programs offered in our North America segment and timing of payments related to unsold inventory.

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 (In Excess of) Cost of Sales*

| | Quarters Ended | |
|---|---|---|
| ($ in thousands) | March 31, 2017 (91 days) | March 25, 2016 (84 days) |
| Real estate inventory spending | $ (17,232) | $ (48,126) |
| Real estate inventory costs | 39,268 | 33,014 |
| Real estate inventory spending less than (in excess of) cost of sales | $ 22,036 | $ (15,112) |

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

Our real estate inventory spending was less than real estate inventory costs in the 2017 first quarter. However, we expect our inventory spending to increase throughout the remainder of 2017 as we satisfy our commitments to purchase vacation ownership units in our North America and Asia Pacific segments. We entered into these commitments in prior periods as part of our capital efficiency strategy to limit our up-front capital investment and purchase finished inventory closer to the time it is needed for sale. See Footnote No. 8, "Contingencies and Commitments," to our Financial Statements for additional information regarding these transactions.

Our real estate inventory spending exceeded real estate inventory costs in the 2016 first quarter, as a result of our opportunistic acquisition efforts. Real estate inventory spending included $23.5 million for the acquisition of an operating property located in the South Beach area of Miami Beach, Florida. We rebranded this property as Marriott Vacation Club Pulse, South Beach and are converting it, in its entirety, into vacation ownership interests for future use in our MVCD program. See Footnote No. 5, "Acquisitions and Dispositions," to our Financial Statements for additional information regarding this transaction.

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.

*Notes Receivable Collections (Less Than) In Excess of New Mortgages*

| | Quarters Ended | |
|---|---|---|
| ***($ in thousands)*** | **March 31, 2017 (91 days)** | **March 25, 2016 (84 days)** |
| Vacation ownership notes receivable collections — non-securitized | $ 20,214 | $ 19,376 |
| Vacation ownership notes receivable collections — securitized | 55,854 | 41,156 |
| Vacation ownership notes receivable originations | (112,832) | (57,524) |
| Vacation ownership notes receivable collections (less than) in excess of originations | $ (36,764) | $ 3,008 |

Vacation ownership notes receivable collections include principal from non-securitized and securitized vacation ownership notes receivable. Vacation ownership notes receivable collections increased during the 2017 first quarter, as compared to the 2016 first quarter due to an increase in the portfolio of outstanding vacation ownership notes receivable. Vacation ownership notes receivable originations in the 2017 first quarter increased due to higher vacation ownership contract sales, including the change in the quarterly reporting cycle, and an increase in financing propensity to 66.1 percent for the 2017 first quarter compared to 58.5 percent for the 2016 first quarter, due to the continued success of the financing incentive programs that we offer in our North America segment. Given the success of these incentives to date, we expect financing propensity levels during the 2017 fiscal year to approximate 60 percent as we intend to continue to offer financing incentive programs.

*Cash from Investing Activities*

| | Quarters Ended | |
|---|---|---|
| ***($ in thousands)*** | **March 31, 2017 (91 days)** | **March 25, 2016 (84 days)** |
| Capital expenditures for property and equipment (excluding inventory) | $ (5,055) | $ (6,331) |
| Purchase of company owned life insurance | (8,200) | — |
| Dispositions, net | 1 | 9 |
| Net cash used in investing activities | $ (13,254) | $ (6,322) |

*Capital Expenditures for Property and Equipment*

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

In the 2017 first quarter, capital expenditures for property and equipment of $5.1 million included $4.6 million to support business operations (including $2.5 million for sales locations and $2.1 million for ancillary and other operations assets) and $0.5 million for technology spending.

In the 2016 first quarter, capital expenditures for property and equipment of $6.3 million included $4.7 million to support business operations (including $3.8 million for sales locations and $0.9 million for ancillary and other operations assets) and $1.6 million for technology spending.

*Purchase of Company Owned Life Insurance*

To support our ability to meet a portion of our obligations under the Marriott Vacations Worldwide Corporation Deferred Compensation Plan (the "Deferred Compensation Plan"), we acquired company owned insurance policies on the lives of certain participants in the Deferred Compensation Plan. During the 2017 first quarter we paid $8.2 million for the acquisition of these policies.

*Cash from Financing Activities*

| | Quarters Ended | |
|---|---|---|
| | March 31, 2017 | March 25, 2016 |
| ***($ in thousands)*** | **(91 days)** | **(84 days)** |
| Borrowings from securitization transactions | $ — | $ 51,130 |
| Repayment of debt related to securitization transactions | (54,340) | (47,711) |
| Debt issuance costs | (1,219) | — |
| Repurchase of common stock | — | (73,228) |
| Payment of dividends | (19,010) | (17,585) |
| Payment of withholding taxes on vesting of restricted stock units | (6,644) | (3,864) |
| Other, net | (16) | 591 |
| Net cash used in financing activities | $ (81,229) | $ (90,667) |

*Revolving Corporate Credit Facility*

At March 31, 2017, no amounts were outstanding under the Revolving Corporate Credit Facility, however we had $1.1 million of letters of credit outstanding. See Footnote No. 9, "Debt," to our Financial Statements for additional information regarding our Revolving Corporate Credit Facility, and see Footnote No. 14, "Subsequent Events," to our Financial Statements for events that occurred subsequent to the end of the 2017 first quarter.

*Borrowings from / Repayment 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 repayments of bonds associated with vacation ownership notes receivable securitizations and repayments on the Warehouse Credit Facility (including vacation ownership notes receivable repurchases) as "Repayment of debt related to securitization transactions."

At March 31, 2017, no amounts were outstanding under the Warehouse Credit Facility and $201.5 million of gross vacation ownership notes receivable were eligible for securitization. See Footnote No. 9, "Debt," to our Financial Statements for additional information regarding our Warehouse Credit Facility, and see Footnote No. 14, "Subsequent Events," to our Financial Statements for events that occurred subsequent to the end of the 2017 first quarter.

In the 2016 first quarter, we securitized vacation ownership notes receivable under our Warehouse Credit Facility. The total carrying amount of the vacation ownership notes receivable securitized was $60.2 million. The advance rate was 85 percent, which resulted in gross proceeds of $51.1 million. The total net proceeds were $50.7 million due to the funding of reserve accounts in the amount of $0.4 million.

*Debt Issuance Costs*

In the 2017 first quarter, we incurred $1.2 million of debt issuance costs associated with the amendment and extension of the Warehouse Credit Facility.

*Share Repurchase Program*

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

| ***($ in thousands, except per share amounts)*** | **Number of Shares Repurchased** | **Cost of Shares Repurchased** | **Average Price Paid per Share** |
|---|---|---|---|
| As of December 30, 2016 | 9,672,629 | $ 608,439 | $ 62.90 |
| For the quarter ended March 31, 2017 | — | — | — |
| As of March 31, 2017 | 9,672,629 | $ 608,439 | $ 62.90 |

See Footnote No. 10, “Shareholders’ Equity,” to our Financial Statements for further information related to our share repurchase program.

*Dividends*

We distributed cash dividends to holders of common stock during the 2017 first quarter as follows:

| Declaration Date | Shareholder Record Date | Distribution Date | Dividend per Share |
|---|---|---|---|
| December 9, 2016 | December 22, 2016 | January 4, 2017 | $0.35 |
| February 9, 2017 | February 23, 2017 | March 9, 2017 | $0.35 |

We currently expect to pay quarterly cash dividends in the future, but any future dividend payments will be subject to Board approval, which will depend on our financial condition, results of operations and capital requirements, as well as applicable law, regulatory constraints, industry practice and other business considerations that our Board of Directors considers relevant. In addition, our Revolving Corporate Credit Facility contains restrictions on our ability to pay dividends, and the terms of agreements governing debt that we may incur in the future may also limit or prohibit dividend payments. Accordingly, there can be no assurance that we will pay dividends in the future at the same rate or at all.

*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 December 30, 2016, other than those discussed below.

As of March 31, 2017, net debt decreased by $53.4 million to $683.8 million compared to $737.2 million at December 30, 2016, due to repayments of non-recourse debt associated with vacation ownership notes receivable securitizations. As of March 31, 2017, future debt payments to be paid out of collections from our vacation ownership notes receivable, including principal and interest, totaled $761.5 million and were due as follows: $84.6 million remaining in 2017; $102.4 million in 2018; $92.6 million in 2019; $89.3 million in 2020; $86.2 million in 2021; and $306.4 million thereafter.

We have a new operating lease commitment that expires in 2029. Our aggregate minimum lease payment under this contract was $15.5 million, of which we expect $1.3 million, $1.3 million, $1.4 million and $11.5 million will be paid in 2019, 2020, 2021 and thereafter, respectively.

**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 consolidated financial position or results of operations. We have discussed those estimates that we believe are critical and require the use of complex judgment in their application in our most recent Annual Report on Form 10-K. Since the date of our most recent Annual Report on Form 10-K, there have been no material changes to our critical accounting policies or the methodologies or assumptions we apply under them.

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

Our exposure to market risk has not changed materially from that disclosed in our Annual Report on Form 10-K for the year ended December 30, 2016.

## 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 December 30, 2016.

## 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[(1)] | Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs[(1)] |
|---|---|---|---|---|
| December 31, 2016 – January 31, 2017 | — | $— | — | 1,227,371 |
| February 1, 2017 – February 28, 2017 | — | $— | — | 1,227,371 |
| March 1, 2017 – March 31, 2017 | — | $— | — | 1,227,371 |
| Total | — | $— | — | 1,227,371 |

(1) On February 9, 2017, our Board of Directors extended the duration of our existing share repurchase program to September 30, 2017. As of March 31, 2017, our Board of Directors had authorized the repurchase of an aggregate of up to 10,900,000 shares of our common stock under the share repurchase program since the initiation of the program in October 2013.

**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

| | |
|---|---|
| May 4, 2017 | /s/ Stephen P. Weisz |
| | Stephen P. Weisz<br>President and Chief Executive Officer |
| | /s/ John E. Geller, Jr. |
| | John E. Geller, Jr.<br>Executive Vice President and Chief Financial Officer |

## INDEX TO EXHIBITS

| Exhibit No. | Description |
|---|---|
| 3.1 | Restated Certificate of Incorporation of Marriott Vacations Worldwide Corporation (incorporated by reference to Exhibit 3.1 to the Company's 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 to the Company's Current Report on Form 8-K filed on November 22, 2011). |
| 10.1 | Omnibus Amendment No. 5, dated March 8, 2017, relating to, among other agreements, the Third Amended and Restated Indenture, by and among Marriott Vacations Worldwide Owner Trust 2011-1, Marriott Ownership Resorts, Inc., Wells Fargo Bank, National Association, MORI SPC Series Corp., Marriott Vacations Worldwide Corporation, the Purchasers signatory thereto, Deutsche Bank AG, New York Branch, Wilmington Trust, National Association, and MVCO Series LLC (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on March 14, 2017). |
| 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 - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL 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 91 days ended March 31, 2017 and the 84 days ended March 25, 2016; (ii) the Interim Consolidated Statements of Comprehensive Income for the 91 days ended March 31, 2017 and the 84 days ended March 25, 2016; (iii) the Interim Consolidated Balance Sheets at March 31, 2017 and December 30, 2016; and (iv) the Interim Consolidated Statements of Cash Flows for the 91 days ended March 31, 2017 and the 84 days ended March 25, 2016.

**Exhibit 31.1**

**Certificate of Chief Executive Officer**
**Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934**

I, Stephen P. Weisz, certify that:

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

Date: May 4, 2017

/s/ Stephen P. Weisz

Stephen P. Weisz
President and Chief Executive Officer
(Principal Executive Officer)

**Exhibit 31.2**

**Certificate of Chief Financial Officer**
**Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934**

I, John E. Geller, Jr., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Marriott Vacations Worldwide Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 4, 2017

/s/ John E. Geller, Jr.

John E. Geller, Jr.
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

**Exhibit 32.1**

**Certification**
**Pursuant to Rule 13a-14(b) and Section 906 of the Sarbanes-Oxley Act of 2002**
**(18 U.S.C. Sections 1350(a) and (b))**

I, Stephen P. Weisz, President and Chief Executive Officer of Marriott Vacations Worldwide Corporation (the "Company") certify that:

1. the Quarterly Report on Form 10-Q of the Company for the period ended March 31, 2017 (the "Quarterly Report"), fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

2. the information contained in the Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

May 4, 2017

/s/ Stephen P. Weisz

Stephen P. Weisz
President and Chief Executive Officer
(Principal Executive Officer)

**Exhibit 32.2**

**Certification**
**Pursuant to Rule 13a-14(b) and Section 906 of the Sarbanes-Oxley Act of 2002**
**(18 U.S.C. Sections 1350(a) and (b))**

I, John E. Geller, Jr., Executive Vice President and Chief Financial Officer of Marriott Vacations Worldwide Corporation (the “Company”) certify that:

1. the Quarterly Report on Form 10-Q of the Company for the period ended March 31, 2017 (the “Quarterly Report”), fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

2. the information contained in the Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

May 4, 2017

/s/ John E. Geller, Jr.

John E. Geller, Jr.
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)