

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-K**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the Fiscal Year Ended December 30, 2016

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 No. 001-35219

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**MARRIOTT VACATIONS WORLDWIDE CORPORATION**  
(Exact name of registrant as specified in its charter)

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Delaware  
(State or other jurisdiction of  
incorporation or organization)  
  
6649 Westwood Blvd.  
Orlando, FL  
(Address of Principal Executive Offices)

45-2598330  
(IRS Employer  
Identification No.)

32821

(Zip Code)

Registrant's Telephone Number, Including Area Code (407) 206-6000

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, \$0.01 par value (27,097,068 shares outstanding as of February 17, 2017)	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: NONE

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>

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

The aggregate market value of shares of common stock held by non-affiliates at June 17, 2016, was \$1,407,942,434.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Proxy Statement prepared for the 2017 Annual Meeting of Shareholders are incorporated by reference into Part III of this report.

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Throughout this Annual Report on Form 10-K (this “Annual Report”), we refer to Marriott Vacations Worldwide Corporation, together with its subsidiaries, as “Marriott Vacations Worldwide,” “we,” “us,” or “the Company.” Unless otherwise specified, each reference to a particular year means the fiscal year ended on the date shown in the table below, rather than the corresponding calendar year. All fiscal years included 52 weeks, except for 2013, which included 53 weeks.

<b>Fiscal Year</b>	<b>Fiscal Year-End Date</b>
2016	December 30, 2016
2015	January 1, 2016
2014	January 2, 2015
2013	January 3, 2014
2012	December 28, 2012

In December 2016, our Board of Directors approved a resolution changing our financial reporting year-end to a calendar year-end beginning with our 2017 fiscal year. Our 2017 fiscal year will begin on December 31, 2016 (the day after the end of the 2016 fiscal year) and will end on December 31, 2017. Subsequent fiscal years will begin on January 1 and end on December 31. Our financial quarters will be the three-month periods ending March 31, June 30, September 30, and December 31, except that the period ending March 31, 2017 will also include December 31, 2016.

In addition, in order to make this Annual Report easier to read, we refer throughout to (i) our Consolidated Financial Statements as our “Financial Statements,” (ii) our Consolidated Statements of Income as our “Statements of Income,” (iii) our Consolidated Balance Sheets as our “Balance Sheets” and (iv) our Consolidated Statements of Cash Flows as our “Cash Flows.” References throughout to numbered “Footnotes” refer to the numbered Notes to our Financial Statements that we include in the Financial Statements section of this Annual Report.

Throughout this Annual 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<sup>®</sup>, Marriott Vacation Club Destinations<sup>™</sup>, Marriott Vacation Club Pulse<sup>SM</sup>, Marriott Grand Residence Club<sup>®</sup>, Grand Residences by Marriott<sup>®</sup>, and The Ritz-Carlton Club<sup>®</sup>. We also refer to Marriott International’s Marriott Rewards<sup>®</sup> and The Ritz-Carlton Rewards<sup>®</sup> customer loyalty programs. 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.

By referring to our corporate website, [www.marriottvacationsworldwide.com](http://www.marriottvacationsworldwide.com), or any other website, we do not incorporate any such website or its contents in this Annual Report.

#### **SPECIAL NOTE ABOUT FORWARD-LOOKING STATEMENTS**

We make forward-looking statements throughout this Annual Report, including in, among others, the sections entitled “Business,” “Risk Factors,” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” 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 Annual Report. We do not have any intention or obligation to update forward-looking statements after the date of this Annual Report, except as required by law.

The risk factors discussed in “Risk Factors” 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.

## PART I

### Item 1. Business

#### Overview

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

Our business is grouped into three reportable segments: North America, Europe and Asia Pacific. As of December 30, 2016, 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.

Our strategic goal is to further strengthen our leadership position in the vacation ownership industry through initiatives to drive profitable contract sales growth, focus on our owners, guests and associates, maximize cash flow and optimize our capital structure, including by selectively pursuing capital efficient deal structures, and selectively pursue compelling new business opportunities. We believe that we have significant competitive advantages, including our scale and global reach, the quality and strength of the Marriott and Ritz-Carlton brands, our system of high-quality resorts, our loyal and highly satisfied customer base, our long-standing track record and our experienced management team and associates.

#### The Vacation Ownership Industry

The vacation ownership industry (also known as the timeshare industry) enables customers to share ownership and use of fully-furnished vacation accommodations. Typically, a purchaser acquires an interest (known as a "vacation ownership interest") that is either a real estate ownership interest (known as a "timeshare estate") or a contractual right-to-use interest (known as a "timeshare license") in a single resort or a collection of resort properties. In the United States, most vacation ownership products are sold as timeshare estates, which can be structured in a variety of ways including, but not limited to, a deeded interest in a specified accommodation unit, an undivided interest in a building or an entire resort, or a beneficial interest in a trust that owns one or more resort properties. By purchasing a vacation ownership interest, owners make a commitment to vacation. For many purchasers, vacation ownership provides an attractive alternative to traditional lodging accommodations (such as hotels, resorts and condominium rentals). In addition to avoiding the volatility in room rates to which traditional lodging customers are subject, vacation ownership purchasers also enjoy accommodations that are, on average, more than twice the size of traditional hotel rooms and typically have more features, such as kitchens and separate living areas. Purchasers who might otherwise buy a second home find vacation ownership a preferable alternative because it is more affordable and reduces maintenance and upkeep concerns.

Typically, developers sell vacation ownership interests for a fixed purchase price that is paid in full at closing or financed with a loan. Many vacation ownership companies provide financing or facilitate access to third-party bank financing for customers. Vacation ownership resorts are often managed by a nonprofit property owners' association of which owners of vacation ownership interests are members. Most property owners' associations are governed by a board of directors that includes owners and which may include representatives of the developer. Some vacation ownership resorts are held through a trust structure in which a trustee holds title and manages the property. The board of the property owners' association, or trustee, as applicable, typically delegates much of the responsibility for managing the resort to a management company, which is often affiliated with the developer.

After the initial purchase, most vacation ownership programs require the owner of the vacation ownership interest to pay an annual maintenance fee. This fee represents the owner's allocable share of the costs and expenses of operating and maintaining the vacation ownership property and providing program services. This fee typically covers expenses such as housekeeping, landscaping, taxes, insurance and resort labor, a property management fee payable to the management company for providing management services, and an assessment to fund a capital asset reserve account used to renovate, refurbish and replace furnishings, common areas and other assets (such as parking lots or roofs) as needed over time. Owners typically reserve their usage of vacation accommodations in advance through a reservation system (often provided by the management company or an affiliated entity), unless a vacation ownership interest specifies fixed usage dates and a particular unit every year.

The vacation ownership industry has grown through expansion of established vacation ownership developers as well as entrance into the market of well-known lodging and entertainment brands, including Marriott, Sheraton, Hilton, Hyatt and Disney. The industry's growth can also be attributed to increased market acceptance of vacation ownership products, stronger consumer protection laws and the evolution of vacation ownership interests from a fixed- or floating-week product, which provides the right to use the same property every year, to membership in multi-resort vacation networks, which offer a more flexible vacation experience. These vacation networks often issue their members an annual allotment of points that can be redeemed for stays at affiliated vacation ownership resorts or for alternative vacation experiences available through the program.

To enhance the flexibility and appeal of their products, many vacation ownership developers affiliate their projects with vacation ownership exchange service providers so that owners may exchange their rights to use the developer's resorts for accommodation at other resorts in the exchange service provider's broader network of properties. The two leading exchange service providers are Interval International, with which we are associated, and RCI. According to their websites, Interval International's and RCI's networks include approximately 3,000 and 4,300 affiliated resorts, respectively, as identified on each company's website.

According to the American Resort Development Association ("ARDA"), a trade association representing the vacation ownership and resort development industries, as of December 31, 2015, the U.S. vacation ownership community was comprised of over 1,500 resorts, representing over 200,000 units and an estimated 9.2 million vacation ownership week equivalents. According to ARDA, sales in the U.S. market were \$8.6 billion in 2015. We believe there is considerable potential for further growth in the industry both in the U.S. and globally.

## **Our History**

For more than 30 years we have been providing memorable vacation experiences to millions of families. Prior to the incorporation of Marriott Vacations Worldwide Corporation in Delaware in June 2011, our operations were the vacation ownership division of Marriott International. We recently celebrated the fifth anniversary of our November 2011 spin-off (the "Spin-Off") from Marriott International. Since the Spin-Off, we have been an independent public company, with our common stock listed on the New York Stock Exchange under the symbol "VAC" and our corporate headquarters located in Orlando, Florida.

Since 1984, when Marriott became the first major lodging company to enter the vacation ownership industry with its acquisition of American Resorts, a small vacation ownership company, we have been recognized as a leader and innovator in the vacation ownership industry. Marriott International leveraged its well-known "Marriott" brand to sell vacation ownership intervals, which were frequently located at resorts developed adjacent to Marriott International hotels. Over time, the company differentiated its offerings through its high-quality resorts that were purpose-built for vacation ownership, exchange opportunities available under its Marriott Rewards customer loyalty program that increased the flexibility of use of ownership, its dedication to excellent customer service and its commitment to ethical business practices. These qualities encouraged repeat business and word-of-mouth customer referrals.

We have proactively worked with ARDA to encourage the enactment of responsible consumer-protection legislation and state regulation that enhances the reputation and respectability of the overall vacation ownership industry. We believe that, over time, our vacation ownership products and services helped improve the public perception of the vacation ownership industry. A number of other major lodging companies later entered the vacation ownership business, further enhancing the industry's image and credibility.

In connection with the Spin-Off, we entered into a License, Services, and Development Agreement (the "Marriott License Agreement") with Marriott International and its subsidiary Marriott Worldwide Corporation and a License, Services, and Development Agreement (the "Ritz-Carlton License Agreement" and, together with the Marriott License Agreement, the "License Agreements") with The Ritz-Carlton Hotel Company, L.L.C. ("The Ritz-Carlton Hotel Company"), a subsidiary of Marriott International. Under the License Agreements, we are granted the exclusive right, for the terms of the License Agreements, to use certain Marriott and Ritz-Carlton marks and intellectual property in our vacation ownership business, the exclusive right to use the Grand Residences by Marriott marks and intellectual property in our residential real estate business and the non-exclusive right to use certain Ritz-Carlton marks and intellectual property in our residential real estate business. We also entered into a Non-Competition Agreement with Marriott International (the "Non-Competition Agreement"), which generally prohibits Marriott International and its subsidiaries from engaging in the vacation ownership business and prohibits us and our subsidiaries from engaging in the hotel business until the earlier of November 21, 2021 or the termination of the Marriott License Agreement.

Under the Marriott Rewards Affiliation Agreement that we and certain of our subsidiaries entered into with Marriott International and its subsidiary Marriott Rewards, LLC (the “Marriott Rewards Agreement”), we are allowed to continue to participate in the Marriott Rewards customer loyalty program following the Spin-Off; this participation includes the ability to purchase and use Marriott Rewards Points in connection with our Marriott-branded vacation ownership business. The Marriott Rewards Agreement is coterminous with the Marriott License Agreement.

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 Strategy**

Our strategic goal is to further strengthen our leadership position in the vacation ownership industry. To achieve this goal, we are pursuing the following initiatives:

### *Drive profitable contract sales growth*

We intend to continue to generate growth in vacation ownership sales by leveraging our globally recognized brand names and targeting high-quality inventory that allows us to add desirable new destinations to our system with new on-site sales locations. We expect to focus our efforts to generate growth through our Marriott Vacation Club points-based ownership programs focused in North America and Asia Pacific. We will also continue to focus on our approximately 400,000 owners around the world. In 2016, approximately 65 percent of our sales of vacation ownership products were to our existing owners. In addition, we are concentrating on growing our tour flow cost effectively as we seek to generate more first-time buyer tours and achieve our longer term goal of selling to an equal mix of new buyers and existing buyers. Our strategy includes an emphasis on new sales distributions and new marketing channels geared toward driving first-time buyer tour growth. We are also committed to maximizing development margin through efficient marketing and sales spending and managing inventory costs and development activities.

### *Focus on our owners, guests and associates*

We are in the business of providing high-quality vacation experiences to our owners and guests around the world. We intend to maintain and improve their satisfaction with our products and services, particularly because our owners and guests are our most cost-effective sales channels. We intend to continue to sell our products through these very effective channels and believe that maintaining a high level of engagement across all of our customer groups is key to our success. We intend to provide innovative offerings in new destinations to meet the needs of current and future customers. We also intend to develop new offerings to attract the next generation of travelers looking for a greater variety of experiences with the high quality standards expected from a brand they trust.

Engaging our associates in the success of our business continues to be one of our long-term core strategies. We understand the connection between the engagement of our associates and the satisfaction and engagement of our owners and guests. At the heart of our culture is the belief that if we take care of our associates, they will take care of our owners and guests and the owners and guests will return again and again.

### *Maximize cash flow and optimize our capital structure, including by selectively pursuing capital efficient deal structures*

Through the use of our points-based products, we are able to more closely match inventory investment with sales pace and reduce inventory levels, thereby generating strong cash flows over time. Additionally, by limiting the amount of completed inventory on hand, we are able to reduce the maintenance fees that we pay on unsold inventory. Over the last few years, we have significantly reduced our costs, and we intend to continue to control costs as sales volumes grow. We also seek to optimize our inventory investments by targeting high-quality inventory that allows us to add desirable new destinations to our system as well as new on-site sales locations. We seek to use capital efficient deal structures that may include working with third parties to develop new inventory or convert previously built units to be sold to us close to when we need such inventory. We also proactively buy back previously sold vacation ownership interests at lower costs than would be required to develop new inventory.

We expect our modest level of debt and the use of capital efficient structures will enable us to maintain a level of liquidity that ensures financial flexibility, giving us the ability to pursue strategic growth opportunities, withstand potential future economic downturns, optimize our cost of capital, and pursue strategies for returning capital to shareholders. We intend to meet our liquidity needs through operating cash flow, our \$200 million revolving credit facility (the “Revolving Corporate Credit Facility”), our \$250 million non-recourse warehouse credit facility (the “Warehouse Credit Facility”), and continued access to the asset-backed securities (“ABS”) term financing market.

*Selectively pursue compelling new business opportunities*

We are positioned to explore new business opportunities, such as the continued enhancement of our exchange programs, new management affiliations and acquisitions of existing vacation ownership and related businesses. We intend to selectively pursue these types of opportunities, focusing on opportunities that drive recurring revenue and profit streams. Prior to entering into any new business opportunity, we will evaluate its strategic fit and assess whether it is complementary to our current business, has strong expected financial returns and complements our existing competencies.

**Our Brands**

We design, build, manage and maintain our properties at upscale and luxury levels under four brands in accordance with the Marriott and Ritz-Carlton brand standards with which we must comply under the License Agreements.

The **Marriott Vacation Club** brand is our signature offering in the upscale tier of the vacation ownership industry. Marriott Vacation Club resorts typically combine many of the comforts of home, such as spacious accommodations with one, two and three bedroom options, living and dining areas, in-unit kitchens and laundry facilities, with resort amenities such as large feature swimming pools, restaurants and bars, convenience stores, fitness facilities and spas, as well as sports and recreation facilities appropriate for each resort's unique location. Marriott Vacation Club Pulse, an extension to the Marriott Vacation Club brand, 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. Because of their urban locations, Marriott Vacation Club Pulse properties typically offer limited on-site amenities and may include smaller guest rooms without separate living areas and kitchens.

**Grand Residences by Marriott** is an upscale tier vacation ownership and whole ownership residence brand. The accommodations for this brand are similar to those we offer under the Marriott Vacation Club brand, but the duration of the vacation ownership interest is longer, ranging between three and thirteen weeks. We also offer whole ownership residential products under the Grand Residences by Marriott brand.

**The Ritz-Carlton Destination Club** is a luxury tier vacation ownership brand. The Ritz-Carlton Destination Club provides luxurious vacation experiences commensurate with the legacy of the Ritz-Carlton brand. The Ritz-Carlton Destination Club resorts typically feature two, three and four bedroom units that generally include marble foyers, walk-in closets, custom kitchen cabinetry and luxury resort amenities such as large feature pools and access to full service restaurants and bars. On-site management and services, which usually include daily housekeeping service, valet, in-residence dining, and access to fitness facilities as well as spa and sports facilities as appropriate for each destination, are provided by The Ritz-Carlton Hotel Company.

**The Ritz-Carlton Residences** is a luxury tier whole ownership residence brand. The Ritz-Carlton Residences includes whole ownership luxury residential condominiums co-located with The Ritz-Carlton Destination Club resorts. Owners can typically purchase condominiums that vary in size from one-bedroom apartments to spacious penthouses. Owners of The Ritz-Carlton Residences can avail themselves of the services and facilities that are associated with the co-located The Ritz-Carlton Destination Club resort on an a la carte basis. On-site management and services are provided by The Ritz-Carlton Hotel Company.

**Our Products**

*Our Points-Based Vacation Ownership Products*

We sell the majority of our products through our Marriott Vacation Club points-based ownership programs focused in North America and Asia Pacific. While the structural characteristics of each of our points-based programs differ, in each program, owners receive an annual allotment of points representing owners' usage rights, and owners can use these points to access vacation ownership units across multiple destinations within their program's portfolio of resort locations. Each program permits shorter or longer stays than a traditional weeks-based vacation ownership product and provides for flexibility with respect to check-in days and size of accommodations. In addition to traditional resort stays, the programs enable our owners to utilize their points for the wide variety of innovative vacation experiences included in our Explorer Collection, such as cruises, airline travel, guided tours, safaris and other unique vacation alternatives. Members of our points-based programs typically pay annual fees in exchange for the ability to participate in the program.

Our points programs allow owners to bank and borrow their annual point allotments, access other Marriott Vacation Club locations through internal exchange programs that we and Interval International operate, and access Interval International's approximately 3,000 affiliated resorts. Owners can also trade their vacation ownership usage rights for Marriott Rewards Points, which can be used to access the vast majority of Marriott International's system of over 4,000 participating hotels or redeem their Marriott Rewards Points for airline miles or other merchandise offered through the Marriott Rewards

customer loyalty program. Our points-based products offer usage in perpetuity or for a term of years, and may consist of real estate interests or contractual rights to use.

#### *Our Weeks-Based Vacation Ownership Products*

We continue to sell Marriott Vacation Club branded weeks-based vacation ownership products in select markets, including in countries where legal and tax constraints currently limit our ability to include those locations in one of our points-based programs. We offer multi-week vacation ownership interests in specific Grand Residences by Marriott and The Ritz-Carlton Destination Club resorts, but we also intend to continue placing luxury branded inventory into our points-based ownership program focused in North America, Marriott Vacation Club Destinations (“MVCD”). Our Marriott Vacation Club, Grand Residences by Marriott and The Ritz-Carlton Destination Club weeks-based vacation ownership products in the United States and select Caribbean locations are typically sold as fee simple deeded real estate interests at a specific resort representing an ownership interest in perpetuity, except where restricted by leasehold or other structural limitations. We sell vacation ownership interests as a right-to-use product subject to a finite term under the Marriott Vacation Club brand in Europe and Asia Pacific and under the Grand Residences by Marriott brand in Europe.

#### *Global Exchange Opportunities*

As part of the launch of the MVCD program in 2010, we began offering our existing Marriott Vacation Club owners who hold weeks-based products in the United States and Caribbean the opportunity to participate, on a voluntary basis, in MVCD’s exchange program through which many of MVCD’s vacation experiences are offered. We began offering the opportunity to participate in the exchange program to owners who hold weeks-based products in Europe in 2012 and to owners who hold weeks-based products in Asia Pacific in 2016. All existing owners, whether or not they elected to participate in the MVCD exchange program, retained their existing rights and privileges of vacation ownership. Owners who elected to participate in the exchange program received the ability to trade their weeks-based interval usage for vacation club points usage each year, typically subject to payment of an initial enrollment fee and annual fees. As of the end of 2016, over 154,000 weeks-based owners have enrolled nearly 263,000 weeks in MVCD’s exchange program since its launch.

### **Our Sources of Revenue**

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.

#### *Sale of Vacation Ownership Products*

Our principal source of revenue is the sale of vacation ownership interests. See “—Marketing and Sales Activities” below for information regarding our marketing and sales activities.

#### *Resort Management and Other Services*

We generate revenue from fees we earn for managing each of our resorts. See “—Management Activities” below for additional information on the terms of our management agreements. 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.

#### *Financing*

We earn interest income on loans that we provide to purchasers of our vacation ownership interests, as well as loan servicing and other fees. See “—Consumer Financing” below for further information regarding our consumer financing activities.

#### *Rental*

We generate revenue from rentals of inventory that we hold for sale as interests in our vacation ownership programs or as residences, or inventory that we control because our owners have elected alternative usage options permitted under our vacation ownership programs.

### **Marketing and Sales Activities**

We sell our upscale tier vacation ownership products under the Marriott Vacation Club brand primarily through our worldwide network of resort-based sales centers and certain off-site sales locations. Marriott Vacation Club products are currently marketed for sale throughout the United States and in 30 countries around the world, targeting customers who vacation regularly with a focus on family, relaxation and recreational activities. In 2016, approximately 86 percent of our sales originated at sales centers that are co-located with one of our resorts. We maintain a range of different off-site sales centers, including our central telesales organization based in Orlando, our network of third-party brokers in Latin America and Europe,



and our city-based sales centers, such as our sales centers in Dubai and Singapore. We have nearly 60 global sales locations focused on the sale of Marriott Vacation Club products. We utilize a number of marketing channels to attract qualified customers to our sales locations for our Marriott Vacation Club products.

We solicit our owners primarily while they are staying in our resorts, but also offer our owners the opportunity to make additional purchases through direct phone sales, owner events and inquiries from our central customer service center located in Salt Lake City, Utah. In 2016, approximately 65 percent of our sales of vacation ownership products were to our existing owners. In addition, we are concentrating on growing our tour flow cost effectively as we seek to generate more first-time buyer tours and achieve our longer term goal of selling to an equal mix of new buyers and existing owners. Our strategy includes an emphasis on new marketing channels geared toward driving first-time buyer tour growth.

We offer customers who are referred to us by our owners discounted stays at our resorts and conduct scheduled sales tours while they are on site. Where allowed by applicable law, we offer Marriott Rewards Points to our owners when their referral candidates tour with us or buy vacation ownership interests from us.

We also market to existing Marriott Rewards customer loyalty program members and travelers who are staying in locations where we have resorts. We market extensively to guests in Marriott International hotels that are located near one of our sales locations and have marketing partnerships with Marriott International for certain of its reservation centers. In addition, we operate other local marketing venues in various high-traffic areas. A significant part of our direct marketing activities are focused on prospects in the Marriott Rewards customer loyalty program database and our in-house database of qualified prospects. We offer guests who do not buy a vacation ownership interest during their initial tour an “Encore” package for a future stay at our resorts. These return guests are nearly twice as likely to purchase as a first-time visitor.

Our Marriott Vacation Club sales tours are designed to provide our guests with an overview of our company and our products, as well as a customized presentation to explain how our products and services can meet their vacationing needs. Our sales force is highly trained in a consultative sales approach designed to ensure that we meet customers’ needs on an individual basis. We hire our Marriott Vacation Club sales executives based on stringent selection criteria. After they are hired, they spend a minimum of four weeks in product and sales training before interacting with any customers. We manage our sales executives’ consistency of presentation and professionalism using a variety of sales tools and technology and through a post-presentation survey of our guests that measures many aspects of each guest’s interaction with us.

We believe consumers place a great deal of trust in the Marriott and Ritz-Carlton brands and the strength of these brands is important to our ability to attract qualified prospects in the marketplace. We maintain a prominent presence on the [www.marriott.com](http://www.marriott.com) and [www.ritzcarlton.com](http://www.ritzcarlton.com) websites. Our proprietary sites, which include [www.marriottvacationsworldwide.com](http://www.marriottvacationsworldwide.com), [www.marriottvacationclub.com](http://www.marriottvacationclub.com) and [www.ritzcarltonclub.com](http://www.ritzcarltonclub.com), had over 5.7 million visits in 2016.

### **Inventory and Development Activities**

We secure inventory by building additional phases at our existing resorts, repurchasing inventory in the secondary market, repurchasing inventory as a result of owner loan or maintenance fee defaults, or developing or acquiring resorts in strategic markets. We proactively buy back previously sold vacation ownership interests under our repurchase program at lower costs than would be required to develop new inventory. Efficient use of our capital is achieved through our points-based business model, which allows us to supply many sales locations with new inventory sourced from a small number of resort locations.

We intend to continue to selectively pursue 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 in ways that optimize the timing of our capital investments. These capital efficient deal structures may include working with third parties to develop new inventory or to convert previously built units to be sold to us close to when we need such inventory.

Approximately one-quarter of our vacation ownership resorts are co-located with Marriott International and Ritz-Carlton hotel properties. Co-location of our resorts with Marriott International or Ritz-Carlton branded hotels can provide several advantages from development, operations, customer experience and marketing perspectives, including sharing amenities, infrastructure and staff, integration of services, and other cost efficiencies. The larger campus of an integrated vacation ownership and hotel resort often can afford our owners more varied and elaborate amenities than those that would generally be available at a stand-alone resort. Shared infrastructure can also reduce our overall development costs for our resorts on a per unit basis. Integration of services and sharing staff and other expenses can lower overhead and operating costs for our resorts. Our on-site access to hotel customers, including Marriott Rewards customer loyalty program members, who are visiting co-located hotels also provides us with a cost-effective marketing channel for our vacation ownership products.

Co-located resorts require cooperation and coordination among all parties and are subject to cost sharing and integration agreements among us, the applicable property owners' association and managers and owners of the co-located hotel. Our License Agreements with Marriott International and Ritz-Carlton allow for the development of co-located properties in the future, and we intend to opportunistically pursue co-located projects with them.

Owners generally can offer their vacation ownership interests for resale on the secondary market, which can create pricing pressure on the sale of developer inventory. However, owners who purchase vacation ownership interests on the secondary market typically do not receive all of the benefits that owners who purchase products directly from us receive. When an owner purchases a vacation ownership interest directly from us, the owner receives certain entitlements that are tied to the underlying vacation ownership interest, such as the right to reserve a resort unit that underlies their vacation ownership interest in order to occupy that unit or exchange its use for use of a unit at another resort through an outside exchange service provider, as well as benefits that are incidental to the purchase of the vacation ownership interest. While a purchaser on the secondary market will receive all of the entitlements that are tied to the underlying vacation ownership interest, the purchaser is not entitled to receive certain incidental benefits. For example, owners who purchase our products on the secondary market have restricted access to our internal exchange programs and are not entitled to trade their usage rights for Marriott Rewards Points. Therefore, those owners are only entitled to use the inventory that underlies the vacation ownership interests they purchased. Additionally, most of our vacation ownership interests provide us with a right of first refusal on secondary market sales. We monitor sales that occur in the secondary market and exercise our right of first refusal when it is advantageous for us to do so, whether due to pricing, desire for the particular inventory, or other factors. All owners, whether they purchase directly from us or on the secondary market, are responsible for the annual maintenance fees, property taxes and any assessments that are levied by the relevant property owners' association, as well as any exchange service membership dues or service fees.

## **Management Activities**

We enter into a management agreement with the property owners' association or other governing body at each of our resorts and, when a trust holds resorts or interests in resorts, with the trust's governing body. In exchange for a management fee, we typically provide owner account management (reservations and usage selection), housekeeping, check-in, maintenance and billing and collections services. The management fee is typically based on either a percentage of the budgeted costs to operate such resorts or a fixed fee arrangement. We earn these fees regardless of usage or occupancy. We also receive revenues that represent reimbursement for certain costs we incur under our management agreements, principally payroll-related costs, at the locations where we employ the associates providing on-site services.

The terms of our management agreements generally range from three to ten years and are generally subject to periodic renewal for one to five year terms. Many of these agreements renew automatically unless either party provides advance notice of termination before the expiration of the term. When our management agreement for a Marriott Vacation Club branded resort is not renewed or is terminated, the resort loses the ability to use the Marriott name and trademarks. The owners at such resorts also lose their ability to trade their vacation ownership usage rights for Marriott Rewards Points and to access other Marriott Vacation Club resorts through our internal exchange system.

The Ritz-Carlton Hotel Company manages the on-site operations for The Ritz-Carlton Destination Club and The Ritz-Carlton Residences properties in our portfolio under separate management agreements with us. We provide property owners' association governance and vacation ownership program management services for The Ritz-Carlton Destination Club and co-located The Ritz-Carlton Residences properties, including preparing association budgets, facilitating association meetings, billing and collecting maintenance fees, and supporting reservations, vacation experience planning and other off-site member services. We and The Ritz-Carlton Hotel Company typically split the management fees equally for these resorts. If a management agreement for a resort expires or is terminated, the resort loses the ability to use the Ritz-Carlton name and trademarks. The owners at such resorts also lose their ability to access other usage benefits, such as access to accommodations at other The Ritz-Carlton Destination Club resorts, preferential access to Ritz-Carlton hotels worldwide and access to our internal exchange and vacation travel options.

Each management agreement requires the property owners' association or trust association to provide sufficient funds to pay for the vacation ownership program and operating costs. To satisfy this requirement, owners of vacation ownership interests pay an annual maintenance fee. This fee represents the owner's allocable share of the costs of operating and maintaining the resorts or interests in the timeshare plan in which they hold a vacation ownership interest, including management fees and expenses, taxes (in some locations), insurance, and other related costs, and the costs of providing program services (such as reservation services). This fee includes a management fee payable to us for providing management services as well as an assessment for funds to be deposited into a capital asset reserve fund and used to renovate, refurbish and replace furnishings, common areas and other resort assets (such as parking lots or roofs) as needed over time. As the owner of completed but unsold vacation ownership inventory, we also pay maintenance fees in accordance with the legal requirements of the jurisdictions applicable to such resorts and programs. In addition, in early phases of development at a resort, we sometimes enter into subsidy agreements with the property owners' associations under which we agree to pay costs that otherwise would

be covered by annual maintenance fees associated with vacation ownership interests or units that have not yet been built. These subsidy arrangements help keep maintenance fees at a reasonable level for owners who purchase in the early stages of development.

In the event of a default by an owner in payment of maintenance fees or other assessments, the property owners' association typically has the right to foreclose on or revoke the defaulting owner's vacation ownership interest. We have entered into arrangements with several property owners' associations to assist in reselling foreclosed or revoked vacation ownership interests in exchange for a fee, or to reacquire such foreclosed or revoked vacation ownership interests from the property owners' associations.

### **Consumer Financing**

We offer purchase money financing for purchasers of our vacation ownership products who meet our underwriting guidelines. By offering or eliminating financing incentives and modifying underwriting standards, we have been able to increase or decrease our financing activities depending on market conditions. We are not providing financing to buyers of our residential products.

In our North America segment in 2016, approximately 59 percent of Marriott Vacation Club customers financed their purchase with us. The average loan for our Marriott Vacation Club products totaled approximately \$23,400, which represented 86 percent of the average purchase price. Our policy is to require a minimum down payment of 10 percent of the purchase price, although down payments and interest rates are typically higher for applicants with credit scores below certain levels and for purchasers who do not have credit scores, such as non-U.S. purchasers. The average interest rate for loans for our Marriott Vacation Club products originated in 2016 was 12.48 percent and the average term was 10.2 years. Interest rates are fixed, and a loan fully amortizes over the life of the loan. The average monthly mortgage payment for a Marriott Vacation Club owner who received a loan in 2016 was \$388. We do not impose any prepayment penalties. Generally, loans for The Ritz-Carlton Destination Club products have a significantly higher balance, a longer term and a lower interest rate than loans for our Marriott Vacation Club products.

In 2016, approximately 87 percent of our loans were used to finance U.S.-based products. In our North American business, we perform a credit investigation or other review or inquiry to determine the purchaser's credit history before originating a loan. The interest rates on the loans we provide are based primarily upon the purchaser's credit score, the size of the purchase, and the term of the loan. We base our financing terms largely on a purchaser's FICO score, which is a branded version of a consumer credit score widely used in the United States by banks and lending institutions. FICO scores range from 300 to 850 and are calculated based on information obtained from one or more of the three major U.S. credit reporting agencies that compile and report on a consumer's credit history. In 2016, the average FICO score of our customers who were U.S. citizens or residents who financed a vacation ownership purchase was 741; 74 percent had a credit score of over 700, 91 percent had a credit score of over 650 and over 98 percent had a credit score of over 600.

We use other information to determine minimum down payments and interest rates applicable to loans made to purchasers who do not have a credit score or who do not reside within the United States, such as regional historical default rates and currency fluctuation risk.

In the event of a default, we generally have the right to foreclose on or revoke the defaulting owner's vacation ownership interest. We typically resell interests that we reacquire through foreclosure or revocation or place such interests into one of our points-based programs.

We securitize the majority of the consumer loans we originate in support of our North American business. Historically, we have sold these loans to institutional investors in the asset-backed securities, or ABS, market on a non-recourse basis, completing securitization transactions once or twice each year. These vacation ownership notes receivable securitizations provide funding for us at interest rates similar to those available to companies with investment grade credit ratings, 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. During 2016, we completed one securitization transaction, which is discussed in detail in Footnote No. 10, "Debt," to our Financial Statements. On an ongoing basis, we have the ability to use our Warehouse Credit Facility to securitize eligible consumer loans. Those loans may later be transferred to term securitization transactions in the ABS market, which we intend to continue to complete at least once per year. Since 2000, we have issued approximately \$4.7 billion of debt securities in securitization transactions in the ABS market, excluding amounts securitized through warehouse credit facilities or private bank transactions. We retain the servicing and collection responsibilities for the loans we securitize, for which we receive a servicing fee.

## **Our Competitive Advantages**

We believe that competition in the vacation ownership industry is based primarily on the quality, number and location of vacation ownership resorts, trust in the brand, pricing of product offerings and the availability of program benefits, such as exchange programs and access to affiliated hotel networks. Vacation ownership is a vacation option that is positioned and sold as an attractive alternative to vacation rentals (such as hotels, resorts and condominium rentals) and second home ownership. The various segments within the vacation ownership industry are differentiated by the quality level of the accommodations, range of services and ancillary offerings, and price. We believe that we have significant competitive advantages that support our leadership position in the vacation ownership industry.

### *A leading global “pure-play” vacation ownership company*

We are one of the world’s largest “pure-play” vacation ownership companies (that is, a company whose business is focused almost entirely on vacation ownership), based on number of owners, number of resorts and revenues. As a “pure-play” vacation ownership company, we are able to enhance our focus on the vacation ownership industry and tailor our business strategy to address our company’s industry-specific goals and needs.

We believe our scale and global reach, coupled with our renowned brands and development, marketing, sales and management expertise, help us achieve operational efficiencies and support future growth opportunities. Our size allows us to provide owners with the flexibility of a wide variety of experiences within our high-quality resort portfolio, coupled with the ease and certainty of working with a single trusted provider. We also believe our size helps us obtain better financing terms from lenders, achieve cost savings in procurement and attract talented management and associates.

The breadth and depth of our operations enables us to offer a variety of products and to continue to adapt those products to the ever changing needs and preferences of our existing and future customers. For example, in addition to traditional resort experiences, our recently introduced Marriott Vacation Club Pulse brand extension 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. We cater to a diverse range of customers through our upscale tier Marriott-branded resorts and our luxury tier Ritz-Carlton branded resorts.

### *Premier global brands*

We believe that our exclusive licenses of the Marriott and Ritz-Carlton brands for use in the vacation ownership business provide us with a meaningful competitive advantage. Marriott International is a leading lodging company with nearly 6,000 hotels in 120 countries, including over 4,000 that participate in the Marriott Rewards and Ritz-Carlton Rewards customer loyalty programs. Consumer confidence in these renowned brands helps us attract and retain guests and owners. In addition, we provide our customers with access to the award-winning Marriott Rewards customer loyalty program. We also utilize the Marriott and Ritz-Carlton websites, [www.marriott.com](http://www.marriott.com) and [www.ritzcarlton.com](http://www.ritzcarlton.com), as relatively low-cost marketing tools to introduce Marriott and Ritz-Carlton guests to our products and rent available inventory.

### *Loyal, highly satisfied customers*

We have a large, highly satisfied customer base. In 2016, based on over 226,000 survey responses, approximately 91 percent of respondents indicated that they were highly satisfied with our products, sales and owner services and their on-site experiences (by selecting 8, 9 or 10 on a 10-point scale). Owner satisfaction is also demonstrated by the fact that our average resort occupancy was over 89 percent in 2016, significantly higher than the overall vacation ownership industry average of nearly 80 percent in 2015, the most recent year for which average resort occupancy data was reported by ARDA. We believe that strong customer satisfaction and brand loyalty result in more frequent use of our products and encourage owners to purchase additional products and to recommend our products to friends and family, which in turn generates higher revenues.

### *Long-standing track record, experienced management and engaged associates*

We have been a pioneer in the vacation ownership industry since 1984, when Marriott International became the first company to introduce a lodging-branded vacation ownership product. Our seasoned management team is led by Stephen P. Weisz, our President and Chief Executive Officer. Mr. Weisz has served as President of our company since 1996 and has over 44 years of combined experience at Marriott International and Marriott Vacations Worldwide. William J. Shaw, the Chairman of our Board of Directors, is the former Vice Chairman, President and Chief Operating Officer of Marriott International and spent nearly 37 years with Marriott International. Our nine executive officers have an average of over 27 years of total combined experience at Marriott Vacations Worldwide and Marriott International, with half of such total combined experience spent leading our business. We believe our management team’s extensive public company and vacation ownership industry experience has enabled us to achieve solid operating results and will enable us to continue to respond quickly and effectively to changing market conditions and consumer trends. Our management’s experience in the highly regulated vacation ownership industry also provides us with a competitive advantage in expanding existing product forms and developing new ones.

We believe that our associates provide superior customer service, which enhances our competitive position. We leverage outstanding associate engagement and strong corporate culture to deliver positive customer experiences in sales, marketing and resort operations. We survey our associates regularly through an external survey provider to understand their satisfaction and engagement, defined as how passionate employees are about the company’s mission and their willingness to “go the extra mile” to see it succeed. We routinely rank highly compared to other companies participating in such surveys. In 2016, 85 percent of our associates indicated that they were “engaged,” which is seven points above Aon Hewitt’s “Global Best Employer” benchmark of 78 percent. This external benchmark is based on research conducted by Aon Hewitt of more than 500 organizations that are considered to be “Best Employers.”

## Segments

Our operations are grouped into three reportable business segments: North America, Europe and Asia Pacific. The “Corporate and Other” information described below includes activities that do not collectively comprise a separate reportable segment. The table below shows our revenue for 2016 for each of our segments and each of our revenue sources (dollars in thousands).

Revenue Source	North America	Europe	Asia Pacific	Total
Vacation ownership sales	\$ 572,305	\$ 24,534	\$ 40,664	\$ 637,503
Resort management and other services	268,766	24,290	10,514	303,570
Financing	118,646	3,293	4,187	126,126
Rental	276,008	19,592	16,471	312,071
Cost reimbursements	394,592	33,912	3,461	431,965
	<u>\$ 1,630,317</u>	<u>\$ 105,621</u>	<u>\$ 75,297</u>	<u>\$ 1,811,235</u>

Financial information by segment and geographic area for 2016, 2015 and 2014 appears in Footnote No. 15, “Business Segments,” to our Financial Statements.

We generally own the unsold vacation ownership inventory at our properties as either a deeded beneficial interest in a real estate land trust, a deeded interest at a specific resort, or a right to use interest in real estate owned or leased by a trust or other property owning or leasing vehicle (these forms of ownership are described in more detail in “Business—Our Products”). With respect to inventory that has not yet been converted into one of these forms of vacation ownership, we generally hold a fee, leasehold or other interest in the underlying real estate rights to the land parcel, building or units corresponding to such inventory. Further, we also own or lease other property at these resorts, including golf courses, fitness, spa and sports facilities, food and beverage outlets, resort lobbies and other common area assets. See Footnote No. 9, “Contingencies and Commitments,” to our Financial Statements for more information on our operating leases. Substantially all of our ownership and leasehold interests in these properties, subject to certain exceptions, are pledged as collateral for our Revolving Corporate Credit Facility.

### Our Properties

As of December 30, 2016, our portfolio consisted of over 60 properties, with 13,318 vacation ownership villas (“units”) and we had approximately 400,000 owners. The following table shows our vacation ownership and residential properties as of December 30, 2016, and indicates the segment with which such property is associated:

Property	Segment	Experience	Location	Vacation Ownership (VO) or Residential	Units Built <sup>(1)</sup>	Additional Planned Units <sup>(2)</sup>
47 Park Street - Grand Residences by Marriott	Europe	Urban	London, UK	VO	49	—
Grand Residences by Marriott - Kauai Lagoons	North America	Island/Beach	Kauai, HI	Residential	3	—
Marriott Grand Residence Club, Lake Tahoe	North America	Mountain/Ski	Lake Tahoe, CA	VO	199	—
Marriott Vacation Club at Surfers Paradise	Asia Pacific	Beach	Surfers Paradise, Australia	VO	88	—
Marriott Vacation Club at The Empire Place	Asia Pacific	Urban	Bangkok, Thailand	VO	55	—
Marriott Vacation Club Pulse at Custom House, Boston	North America	Urban	Boston, MA	VO	84	—
Marriott Vacation Club Pulse at The Mayflower, Washington, D.C.	North America	Urban	Washington, D.C.	VO	71	—
Marriott Vacation Club Pulse, New York City <sup>(3)</sup>	North America	Urban	New York, New York	VO	177	—

Property	Segment	Experience	Location	Vacation Ownership (VO) or Residential	Units Built <sup>(1)</sup>	Additional Planned Units <sup>(2)</sup>
Marriott Vacation Club Pulse, San Diego	North America	Urban	San Diego, CA	VO	126	138
Marriott Vacation Club Pulse, South Beach	North America	Urban/Beach	Miami, Beach, FL	VO	49	—
Marriott's Aruba Ocean Club	North America	Island/Beach	Aruba	VO	218	—
Marriott's Aruba Surf Club	North America	Island/Beach	Aruba	VO	450	—
Marriott's Barony Beach Club	North America	Beach	Hilton Head, SC	VO	255	—
Marriott's BeachPlace Towers	North America	Beach	Fort Lauderdale, FL	VO	206	—
Marriott's Canyon Villas	North America	Golf/Desert	Phoenix, AZ	VO	213	39
Marriott's Club Son Antem	Europe	Island/Golf	Mallorca, Spain	VO	224	—
Marriott's Crystal Shores	North America	Island/Beach	Marco Island, FL	VO	71	148
Marriott's Cypress Harbour	North America	Entertainment	Orlando, FL	VO	510	—
Marriott's Desert Springs Villas	North America	Golf/Desert	Palm Desert, CA	VO	236	—
Marriott's Desert Springs Villas II	North America	Golf/Desert	Palm Desert, CA	VO	402	—
Marriott's Fairway Villas	North America	Golf	Absecon, NJ	VO	180	90
Marriott's Frenchman's Cove	North America	Island/Beach	St. Thomas, USVI	VO	155	65
Marriott's Grand Chateau	North America / Asia Pacific	Entertainment	Las Vegas, NV	VO	656	224
Marriott's Grande Ocean	North America	Beach	Hilton Head, SC	VO	290	—
Marriott's Grande Vista	North America	Entertainment	Orlando, FL	VO	900	—
Marriott's Harbour Club	North America	Beach	Hilton Head, SC	VO	40	—
Marriott's Harbour Lake	North America	Entertainment	Orlando, FL	VO	312	588
Marriott's Harbour Point	North America	Beach	Hilton Head, SC	VO	86	—
Marriott's Heritage Club	North America	Golf	Hilton Head, SC	VO	30	—
Marriott's Imperial Palms	North America	Entertainment	Orlando, FL	VO	46	—
Marriott's Kauai Beach Club	North America	Island/Beach	Kauai, HI	VO	232	—
Marriott's Kauai Lagoons - Kalanipu'u	North America	Island/Beach	Kauai, HI	VO	74	—
Marriott's Ko Olina Beach Club	North America / Asia Pacific	Island/Beach	Oahu, HI	VO	546	202
Marriott's Lakeshore Reserve	North America	Entertainment	Orlando, FL	VO	85	254
Marriott's Legends Edge at Bay Point	North America	Golf	Panama City Beach, FL	VO	83	—
Marriott's Mai Khao Beach - Phuket	Asia Pacific	Beach	Phuket, Thailand	VO	133	—
Marriott's Manor Club at Ford's Colony	North America	Entertainment	Williamsburg, VA	VO	200	—
Marriott's Marbella Beach Resort	Europe	Beach	Marbella, Spain	VO	288	—
Marriott's Maui Ocean Club	North America	Island/Beach	Maui, HI	VO	458	—
Marriott's Monarch	North America	Beach	Hilton Head, SC	VO	122	—
Marriott's Mountain Valley Lodge	North America	Mountain/Ski	Breckenridge, CO	VO	78	—
Marriott's MountainSide	North America	Mountain/Ski	Park City, UT	VO	182	—
Marriott's Newport Coast Villas	North America	Beach	Newport Beach, CA	VO	699	—
Marriott's Ocean Pointe	North America	Beach	Palm Beach Shores, FL	VO	341	—
Marriott's OceanWatch Villas at Grande Dunes	North America	Beach	Myrtle Beach, SC	VO	361	—
Marriott's Oceana Palms	North America	Beach	Singer Island, FL	VO	159	—
Marriott's Phuket Beach Club	Asia Pacific	Beach	Phuket, Thailand	VO	144	—
Marriott's Playa Andaluza	Europe	Beach	Estepona, Spain	VO	173	—

Property	Segment	Experience	Location	Vacation Ownership (VO) or Residential	Units Built <sup>(1)</sup>	Additional Planned Units <sup>(2)</sup>
Marriott's Royal Palms	North America	Entertainment	Orlando, FL	VO	123	—
Marriott's Sabal Palms	North America	Entertainment	Orlando, FL	VO	80	—
Marriott's Shadow Ridge	North America	Golf/Desert	Palm Desert, CA	VO	569	430
Marriott's St. Kitts Beach Club	North America	Island/Beach	West Indies	VO	88	—
Marriott's StreamSide	North America	Mountain/Ski	Vail, CO	VO	96	—
Marriott's Summit Watch	North America	Mountain/Ski	Park City, UT	VO	135	—
Marriott's Sunset Pointe	North America	Beach	Hilton Head, SC	VO	25	—
Marriott's SurfWatch	North America	Beach	Hilton Head, SC	VO	195	—
Marriott's Timber Lodge	North America	Mountain/Ski	Lake Tahoe, CA	VO	264	—
Marriott's Village d'Ile-de-France	Europe	Entertainment	Paris, France	VO	185	—
Marriott's Villas at Doral	North America	Golf	Miami, FL	VO	141	—
Marriott's Waiohai Beach Club	North America / Asia Pacific	Island/Beach	Kauai, HI	VO	230	—
Marriott's Willow Ridge Lodge	North America	Entertainment	Branson, MO	VO	132	282
The Ritz-Carlton Club & Residences, San Francisco						
Vacation Ownership	North America	Urban	San Francisco, CA	VO	25	—
Residential	North America	Urban	San Francisco, CA	Residential	57	—
The Ritz-Carlton Club, Aspen Highlands	North America	Mountain/Ski	Aspen, CO	VO	73	—
The Ritz-Carlton Club, Lake Tahoe	North America	Mountain/Ski	Lake Tahoe, CA	VO	11	—
The Ritz-Carlton Club, St. Thomas	North America	Island/Beach	St. Thomas, USVI	VO	105	—
The Ritz-Carlton Club, Vail	North America	Mountain/Ski	Vail, CO	VO	45	—
<b>Total</b>					<b>13,318</b>	<b>2,460</b>
<b>Units Available for Sale<sup>(4)</sup></b>					<b>1,147</b>	

(1) "Units Built" represents units with a certificate of occupancy that have been constructed or converted under one of our brands.

(2) "Additional Planned Units" represents units that are being constructed or converted under one of our brands or that we expect to construct or convert in the future.

(3) During the first quarter of 2016, we entered into a commitment to purchase units at a property in New York, New York, subsequently assumed management of these units and expect to acquire these units, in their current form, over time. See Footnote No. 9, "Contingencies and Commitments," to our Financial Statements for additional information regarding this transaction.

(4) "Units Available for Sale" represents units to be sold as vacation ownership interests; includes units that we reacquired through foreclosure or our repurchase program.

#### *North America Segment*

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 of 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.

#### *Europe Segment*

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.

### *Asia Pacific Segment*

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. We believe opportunity exists to expand our Asia Pacific segment and are seeking to add inventory to support the growth of this business.

### *Corporate and Other*

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.

## **Intellectual Property**

We manage and sell properties under the Marriott Vacation Club, Grand Residences by Marriott, The Ritz-Carlton Destination Club and The Ritz-Carlton Residences brands under license agreements with Marriott International and The Ritz-Carlton Hotel Company. The foregoing segment descriptions specify the brands that are used by each of our segments. We operate in a highly competitive industry and our brand names, trademarks, service marks, trade names and logos are very important to the marketing and sales of our products and services. We believe that our licensed brand names and other intellectual property have come to represent the highest standards of quality, caring, service and value to our customers and the traveling public. We register and protect our intellectual property where we deem appropriate and otherwise seek to protect against its unauthorized use.

## **Seasonality**

In general, the vacation ownership business is modestly seasonal, with stronger revenue generation during traditional vacation periods, including summer months and major holidays. These seasonal patterns may cause fluctuations in quarterly revenues and margin. Our vacation ownership management business does not experience significant seasonality.

## **Competition**

Competition in the vacation ownership industry is based primarily on the quality, number and location of vacation ownership resorts, the quality and capability of the related property management program, trust in the brand, pricing of product offerings and the availability of program benefits, such as exchange programs and access to affiliated hotel networks. We believe that our focus on offering distinctive vacation experiences, combined with our financial strength, well-established and diverse market presence, strong brands, expertise and well-managed and maintained properties, will enable us to remain competitive. Vacation ownership is a vacation option that is positioned and sold as an attractive alternative to vacation rentals (such as hotels, resorts and condominium rentals) and second home ownership. The various segments within the vacation ownership industry can be differentiated by the quality level of the accommodations, range of services and ancillary offerings, and price. Our brands operate in the upscale and luxury tiers of the vacation ownership segment of the industry and the upscale and luxury tiers of the whole ownership segment (also referred to as the residential segment) of the industry.

Our competitors in the vacation ownership industry range from small vacation ownership companies to large branded hotel companies that operate vacation ownership businesses. In North America and the Caribbean, we typically compete with companies that sell upscale tier vacation ownership products under a lodging or entertainment brand umbrella, such as Westin Vacation Club, Sheraton Vacation Club, Hilton Grand Vacations Club, Hyatt Residence Club, and Disney Vacation Club, as well as numerous regional vacation ownership operators. Our luxury vacation ownership products compete with vacation ownership products offered by Four Seasons, Exclusive Resorts, Timbers Resorts and several other smaller independent companies. In addition, the vacation ownership industry competes generally with other vacation rental options (such as hotels, resorts and condominium rentals) offered by the lodging industry. Innovations that impact the industry may also lead to new products and services that could disrupt our business model and create new and stronger competitors.

Outside North America and the Caribbean, we operate in two primary regions, Europe and Asia Pacific. In both regions, we are one of the largest lodging-branded vacation ownership companies operating in the upscale tier, with regional operators dominating the competitive landscape. Where possible, our vacation ownership properties in these regions are co-located with Marriott International branded hotels. In Europe, our owner base is derived primarily from the North America, Europe and Middle East regions. In Asia Pacific, our owner base is derived primarily from the Asia Pacific region and secondarily from the Europe and North America regions.



Recent and potential future consolidation in the highly fragmented timeshare industry may increase competition. For example, ILG, Inc., which operates the Interval International exchange program, acquired Hyatt Residence Club in October 2014 and also acquired the vacation ownership operations of Starwood Hotels & Resorts Worldwide, Inc. (“Starwood,” which includes the Westin and Sheraton brands), now known as Vistana Signature Experiences, Inc. (“Vistana”), in May 2016. Diamond Resorts International, Inc. completed the acquisition of the vacation ownership business of Gold Key Resorts in October 2015 and the acquisition of the vacation ownership business of Intrawest Resort Club Group in January 2016. Consolidation may create competitors that enjoy significant advantages resulting from, among other things, a lower cost of, and greater access to, capital and enhanced operating efficiencies.

Competition in the timeshare industry may also increase as private competitors become publicly traded companies or existing publicly traded competitors spin-off their timeshare operations. For example, Hilton Worldwide Holdings Inc. recently completed the spin-off of its timeshare operations and Hilton Grand Vacations Inc. is now a separate publicly traded company. Competitors that are publicly traded companies may benefit from a lower cost of, and greater access to, capital, as well as more focused management attention.

## **Regulation**

Our business is heavily regulated. We are subject to a wide variety of complex international, national, federal, state and local laws, regulations and policies in jurisdictions around the world. Some laws, regulations and policies may impact multiple areas of our business, such as securities, anti-discrimination, anti-fraud, data protection and security and anti-corruption and bribery laws and regulations or government economic sanctions, including applicable regulations of the Consumer Financial Protection Bureau, the U.S. Department of the Treasury’s Office of Foreign Asset Control and the U.S. Foreign Corrupt Practices Act (“FCPA”). The FCPA and similar anti-corruption and bribery laws in other jurisdictions generally prohibit companies and their intermediaries from making improper payments to government officials for the purpose of obtaining or generating business. Other laws, regulations and policies primarily affect one of four areas of our business: real estate development activities; marketing and sales activities; lending activities; and resort management activities.

### *Real Estate Development Regulation*

Our real estate development activities are regulated under a number of different timeshare, condominium and land sales disclosure statutes in many jurisdictions. We are generally subject to laws and regulations typically applicable to real estate development, subdivision, and construction activities, such as laws relating to zoning, land use restrictions, environmental regulation, accessibility, title transfers, title insurance and taxation. In the United States, these include, with respect to some of our products, the Fair Housing Act and the Americans with Disabilities Act. In addition, we are subject to laws in some jurisdictions that impose liability on property developers for construction defects discovered or repairs made by future owners of property developed by the developer.

### *Marketing and Sales Regulation*

Our marketing and sales activities are closely regulated. In addition to regulations implementing laws enacted specifically for the vacation ownership and land sales industries, a wide variety of laws and regulations govern our marketing and sales activities in the jurisdictions in which we carry out such activities, including regulations implementing the USA PATRIOT Act, Foreign Investment In Real Property Tax Act, the Federal Interstate Land Sales Full Disclosure Act and fair housing statutes, U.S. Federal Trade Commission (the “FTC”) and state “Little FTC Act” and other regulations governing unfair, deceptive or abusive acts or practices including unfair or deceptive trade practices and unfair competition, state attorney general regulations, anti-fraud laws, prize, gift and sweepstakes laws, real estate, title agency or insurance, travel insurance and other licensing or registration laws and regulations, anti-money laundering, consumer information privacy and security, breach notification, information sharing and telemarketing laws, home solicitation sales laws, tour operator laws, lodging certificate and seller of travel laws, securities laws, and other consumer protection laws.

Many jurisdictions, including many jurisdictions in the United States, require that we file detailed registration or offering statements with regulatory authorities disclosing certain information regarding the vacation ownership interests and other real estate interests we market and sell, such as information concerning the interests being offered, the project, resort or program to which the interests relate, applicable condominium or vacation ownership plans, evidence of title, details regarding our business, the purchaser’s rights and obligations with respect to such interests, and a description of the manner in which we intend to offer and advertise such interests. Regulation outside the United States includes, for example, European regulations to which our vacation ownership activities within the European Union are subject and Singaporean regulations to which certain of our Asia Pacific operations are subject. Among other things, the European and Singaporean regulations: (1) require delivery of specified disclosure (some of which must be provided in a specific format or language) to purchasers; (2) require a specified “cooling off” rescission period after a purchase is made; and (3) prohibit any advance payments during the “cooling off” rescission period.

We must obtain the approval of numerous governmental authorities for our marketing and sales activities. Changes in circumstances or applicable law may necessitate the application for or modification of existing approvals. Currently, we are qualified to market and sell vacation ownership products in all 50 states and the District of Columbia in the United States and numerous countries in North and South America, the Caribbean, Europe, Asia and the Middle East. In some countries our vacation ownership products are marketed by third party brokers.

Laws in many jurisdictions in which we sell vacation ownership interests grant the purchaser of a vacation ownership interest the right to cancel a purchase contract during a specified rescission period following the later of the date the contract was signed or the date the purchaser received the last of the documents required to be provided by us.

In recent years, regulators in many jurisdictions have increased regulations and enforcement actions related to telemarketing operations, including requiring adherence to the federal Telephone Consumer Protection Act (the "TCPA") and similar "do not call" legislation. These measures have significantly increased the costs associated with telemarketing. While we continue to be subject to telemarketing risks and potential liability, we believe that our exposure to adverse effects from telemarketing legislation and enforcement is mitigated in some instances by the use of permission-based marketing, under which we obtain the permission of prospective purchasers to contact them in the future. We participate in various programs and follow certain procedures that we believe help reduce the possibility that we contact individuals who have requested to be placed on federal or state "do not call" lists, including subscribing to the federal and certain state "do not call" lists, and maintaining an internal "do not call" list.

#### *Lending Regulation*

Our lending activities are subject to a number of laws and regulations including those of applicable supervisory agencies such as, in the United States, the Consumer Financial Protection Bureau, the FTC, and the Financial Crimes Enforcement Network. These laws and regulations, some of which contain exceptions applicable to the timeshare industry or may not apply to some of our products, may include, among others, the Real Estate Settlement Procedures Act and Regulation X, the Truth In Lending Act and Regulation Z, the Federal Trade Commission Act, the Equal Credit Opportunity Act and Regulation B, the Fair Credit Reporting Act, the Fair Housing Act and implementing regulations, the Fair Debt Collection Practices Act, the Electronic Funds Transfer Act and Regulation E, unfair, deceptive or abusive acts or practices regulations and the Consumer Protection Act, the USA PATRIOT Act, the Right to Financial Privacy Act, the Gramm-Leach-Bliley Act, the Servicemembers Civil Relief Act and the Bank Secrecy Act. Our lending activities are also subject to the laws and regulations of other jurisdictions, including, among others, laws and regulations related to consumer loans, retail installment contracts, mortgage lending, usury, fair debt collection practices, consumer debt collection practices, mortgage disclosure, lender or mortgage loan originator licensing and registration and anti-money laundering.

#### *Resort Management Regulation*

Our resort management activities are subject to laws and regulations regarding community association management, public lodging, food and beverage services, labor, employment, health care, health and safety, accessibility, discrimination, immigration, gaming, and the environment (including climate change). In addition, many jurisdictions in which we manage our resorts have statutory provisions that limit the duration of the initial and renewal terms of our management agreements for property owners' associations and/or permit the property owners' association for a resort to terminate our management agreement under certain circumstances (for example, upon a super-majority vote of the owners), even if we are not in default under the agreement.

### **Environmental Compliance and Awareness**

The properties we manage or develop are subject to national, state and local laws and regulations that govern the discharge of materials into the environment or otherwise relate to protecting the environment. These laws and regulations include requirements that address health and safety; the use, management and disposal of hazardous substances and wastes; and emission or discharge of wastes or other materials. We believe that our management and development of properties comply, in all material respects, with environmental laws and regulations. Our compliance with such provisions also has not had a material impact on our capital expenditures, earnings or competitive position, nor do we anticipate that such compliance will have a material impact in the future.

We take our commitment to protecting the environment seriously. We have collaborated with Audubon International to further the "greening" of our resorts in our North America segment through the Audubon Green Leaf Eco-Rating Program for Hotels. The Audubon partnership is just one of several programs incorporated into our green initiatives. We have more than 20 years of energy conservation experience that we have put to use in implementing our environmental strategy across all of our segments. This strategy includes further reducing energy and water consumption, expanding our portfolio of green resorts, including LEED (Leadership in Energy & Environmental Design) certification, educating and inspiring associates and guests to support the environment, and embracing innovation.

## Employees

As of December 30, 2016 we had nearly 11,000 employees with an average length of service of approximately seven years. We believe our relations with our employees are very good.

## Executive Officers

See Part III, Item 10. "Directors, Executive Officers and Corporate Governance" of this Annual Report for information about our executive officers.

## Available Information

Our website address is [www.marriottvacationsworldwide.com](http://www.marriottvacationsworldwide.com). Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any and all amendments thereto are available free of charge through our website as soon as reasonably practicable after they are filed or furnished to the Securities and Exchange Commission (the "SEC"). These materials are also accessible on the SEC's website at [www.sec.gov](http://www.sec.gov).

### Item 1A. Risk Factors

This section describes circumstances or events that could have a negative effect on our financial results or operations or that could change, for the worse, existing trends in our businesses. The occurrence of one or more of the circumstances or events described below could have a material adverse effect on our financial condition, results of operations and cash flows or on the trading prices of our common stock. The risks and uncertainties described in this Annual Report are not the only ones facing us. Additional risks and uncertainties that currently are not known to us or that we currently believe are immaterial also may adversely affect our businesses and operations.

#### ***Contraction in the global economy or low levels of economic growth could impact our financial results and growth.***

Our business and the vacation ownership industry are particularly affected by negative trends in the general economy, and the recovery period in our industry may lag behind overall economic improvement. Demand for vacation ownership industry products and services is closely linked to a number of factors relating to general global, national and regional economic conditions, including perceived and actual economic conditions, exchange rates, availability of credit and business and personal discretionary spending levels. Weakened consumer confidence and limited availability of consumer credit can cause demand for our vacation ownership products to decline, which may reduce our revenue and profitability. Because a significant portion of our expenses, including personnel costs, interest, property taxes and insurance, are relatively fixed, we may not be able to adjust spending quickly enough to offset revenue decreases. Adverse economic conditions may also cause purchaser defaults on our vacation ownership notes receivable to increase. In addition, adverse global and national economic events, as well as significant terrorist attacks, are likely to have a dampening effect on the economy in general, which could negatively affect our financial performance and our stock price.

#### ***The sale of vacation ownership interests in the secondary market by existing owners could cause our sales revenues and profits to decline.***

Existing owners have offered, and are expected to continue to offer, their vacation ownership interests for sale on the secondary market. The prices at which these interests are sold are typically less than the prices at which we would sell the interests. As a result, these sales create additional pricing pressure on our sale of vacation ownership products, which could cause our sales revenues and profits to decline. In addition, if the secondary market for vacation ownership interests becomes more organized and liquid than it currently is, the resulting availability of vacation ownership interests (particularly where the vacation ownership interests are available for sale at lower prices than the prices at which we would sell them) could adversely affect our sales and our sales revenues. Further, unlawful or deceptive third-party vacation ownership interest resale schemes involving interests in our resorts could damage our reputation and brand value and adversely impact our sales revenues.

Development of a viable secondary market may also cause the volume of vacation ownership interests inventory that we are able to repurchase to decline, which could adversely impact our development margin, as we utilize this lower cost inventory source to supplement our inventory needs and help manage our cost of vacation ownership products.

#### ***Our reliance on capital efficient transactions to satisfy a portion of our future needs for inventory and additional on-site sales locations may impact our ability to have inventory available for sale when needed.***

We have entered into capital efficient transactions in which third parties are responsible for delivering completed units which we will purchase at an agreed upon price in the future. As we continue to execute our strategy to deploy capital efficiently, we will seek to enter into additional transactions to source inventory using similar or new transaction structures. These structures may expose us to additional risk as we will not control development activities or timing of development completion. If third parties with whom we enter into capital efficient transactions do not fulfill their obligations to us, or if they

exercise their right to sell inventory to a third party other than us, the inventory we expect to acquire may not be delivered on time or at all, or may not otherwise be within agreed upon specifications. If our capital efficient transaction counterparties do not perform as expected and we do not purchase the expected inventory or obtain inventory from alternative sources on a timely basis, we may not be able to achieve sales forecasts. In addition, we anticipate opening new on-site sales locations in connection with some or all of our new resort locations. If third parties with whom we enter into transactions do not deliver these sales locations as expected, our future sales growth could be negatively impacted.

***Our ability to develop, acquire and repurchase vacation ownership inventory may be impaired if we or third parties with whom we do business are unable to access capital when necessary.***

The availability of funds for new investments, primarily developing, acquiring or repurchasing vacation ownership inventory, depends in part on liquidity factors and capital markets over which we can exert little, if any, control. We have historically securitized the majority of the consumer loans we originate in support of our North America segment in the ABS market, completing transactions once each year for the past several years. Instability in the financial markets could impact the timing and volume of any securitizations we undertake, as well as the financial terms of such securitizations. Any future deterioration in the financial markets could preclude, delay or increase the cost to us of future note securitizations. Such deterioration could also impact our ability to renew the Warehouse Credit Facility, which we must do in order to access funds under that facility after November 2017, on terms favorable to us, or at all. Further, any indebtedness we incur, including indebtedness under our Revolving Corporate Credit Facility or our Warehouse Credit Facility, may adversely affect our ability to obtain additional financing. If we are unable to access these sources of funds, our ability to acquire additional vacation ownership inventory, repurchase vacation ownership interests that our owners propose to sell to third parties, or make other investments in our business could be impaired.

In addition, as discussed above, we intend to continue to use capital efficient structures to optimize the timing of our capital investments. If developers or other third parties are not able to obtain or maintain financing necessary for their operations, we may not be able to enter into transactions using these capital efficient structures.

***If the default rates or other credit metrics underlying our vacation ownership notes receivable deteriorate, our vacation ownership notes receivable securitization program could be adversely affected.***

Our vacation ownership notes receivable securitization program could be adversely affected if a particular vacation ownership notes receivable pool fails to meet certain ratios, which could occur if the default rates or other credit metrics of the underlying vacation ownership notes receivable deteriorate. Our ability to sell securities backed by our vacation ownership notes receivable depends on the continued ability and willingness of capital market participants to invest in such securities. Asset-backed securities issued in our securitization programs could be downgraded by credit agencies in the future. If a downgrade occurs, our ability to complete other securitization transactions on acceptable terms or at all could be jeopardized, and we could be forced to rely on other potentially more expensive and less attractive funding sources, to the extent available. This would decrease our profitability and might require us to adjust our business operations, including by reducing or suspending our provision of financing to purchasers of vacation ownership interests. Sales of vacation ownership interests may decline if we reduce or suspend the provision of financing to purchasers, which may adversely affect our cash flows, revenues and profits.

***Purchaser defaults on the vacation ownership notes receivable our business generates could reduce our revenues, cash flows and profits.***

We are subject to the risk that purchasers of our vacation ownership interests may default on the financing that we provide. Purchaser defaults could cause us to foreclose on vacation ownership notes receivable and reclaim ownership of the financed interests, both for loans that we have not securitized and in our role as servicer for the vacation ownership notes receivable we have securitized through the ABS market or the Warehouse Credit Facility.

If default rates increase beyond current projections and result in higher than expected foreclosure activity, our results of operations could be adversely affected. In addition, the transactions in which we have securitized vacation ownership notes receivable contain certain portfolio performance requirements related to default and delinquency rates, which, if not met, would result in loss or disruption of cash flow until portfolio performance sufficiently improves to satisfy the requirements. In addition, we may not be able to resell foreclosed interests in a timely manner or for an attractive price.

***The terms of any future equity or debt financing may give holders of any preferred securities rights that are senior to rights of our common shareholders or impose more stringent operating restrictions on our company.***

Debt or equity financing may not be available to us on acceptable terms. If we incur additional debt or raise equity through the issuance of preferred stock, the terms of the debt or the preferred stock issued may give the holders rights, preferences and privileges senior to those of holders of our common stock, particularly in the event of liquidation. The terms of the debt may also impose additional and more stringent restrictions on our operations. If we raise funds through the issuance of additional equity, the ownership percentage of our existing shareholders would be diluted.

***The degree to which we are leveraged may have a material adverse effect on our financial position, results of operations and cash flows.***

We can borrow up to \$200 million under the Revolving Corporate Credit Facility and could also incur additional debt to the extent permitted under the Revolving Corporate Credit Facility. Our ability to make dividend payments to holders of our common stock and to make payments on and refinance our indebtedness, including any future debt that we may incur, will depend on our ability to generate cash in the future from operations, financings or asset sales. Our ability to generate cash is subject to general economic, financial, competitive, legislative, regulatory and other factors that we cannot control. If we cannot repay or refinance our debt as it becomes due, we may be forced to sell assets or take other disadvantageous actions, including (1) reducing capital expenditures, (2) limiting financing offered to customers, which could result in reduced sales, and (3) dedicating an unsustainable level of our cash flow from operations to the payment of principal and interest on our indebtedness. In addition, our ability to withstand competitive pressures and to react to changes in the vacation ownership industry could be impaired. The lenders who hold such debt could also accelerate amounts due, which could potentially trigger a default or acceleration of our other debt.

***A failure to keep pace with developments in technology could impair our operations or competitive position.***

Our business model and competitive conditions in the vacation ownership industry demand the use of sophisticated technology and systems, including those used for our sales, reservation, inventory management and property management systems, and technologies we make available to our owners. We must refine, update and/or replace these technologies and systems with more advanced systems on a regular basis. If we cannot do so as quickly as our competitors or within budgeted costs and time frames, our business could suffer. We also may not achieve the benefits that we anticipate from any new technology or system, and a failure to do so could result in higher than anticipated costs or could harm our operating results.

***A failure to keep pace with developments in social media could impair our competitive position.***

The proliferation and global reach of social media continues to expand rapidly and could cause us to suffer reputational harm. The continuing evolution of social media presents new challenges and requires us to keep pace with new developments, technology and trends. Negative posts or comments about us, the properties we manage or our brands on any social networking or user-generated review website, including travel and/or vacation property websites, could affect consumer opinions of us and our products, and we cannot guarantee that we will timely or adequately redress such instances.

***Inadequate or failed technologies could lead to interruptions in our operations, which may materially adversely affect our business, financial position, results of operations or cash flows.***

Our operations depend on our ability to maintain existing systems and implement new technology, which includes allocating sufficient resources to periodically upgrade our information technology systems, and to protect our equipment and the information stored in our databases against both manmade and natural disasters, as well as power losses, computer and telecommunications failures, technological breakdowns, unauthorized intrusions, cyber-attacks, and other events. Conversions to new information technology systems require effective change management processes and may result in cost overruns, delays or business interruptions. If our information technology systems are disrupted, become obsolete or do not adequately support our strategic, operational or compliance needs, our business, financial position, results of operations or cash flows may be adversely affected.

***Our business will be materially harmed if our License Agreements with Marriott International and The Ritz-Carlton Hotel Company are terminated or if we are unable to maintain our ongoing relationship with Marriott International.***

Our success depends, in part, on the maintenance of ongoing relationships with Marriott International that are governed by a number of agreements that we entered into with Marriott International in connection with the Spin-Off. In particular, our License Agreements with Marriott International and The Ritz-Carlton Hotel Company, among other things, provide us with the exclusive right to use the Marriott and Ritz-Carlton names, respectively, in our vacation ownership business. Each License Agreement has an initial term that expires in 2090; however, if we breach our obligations under either License Agreement, Marriott International and The Ritz-Carlton Hotel Company may be entitled to terminate the License Agreements.

The termination of the License Agreements would materially harm our business and results of operations and impair our ability to market and sell our products and maintain our competitive position, and could have a material adverse effect on our financial position, results of operations or cash flows. For example, we would not be able to rely on the strength of the Marriott and Ritz-Carlton brands to attract qualified prospects in the marketplace, which would cause our revenue and profits to decline and our marketing and sales expenses to increase. In addition, we would not be able to use [www.marriott.com](http://www.marriott.com) and [www.ritzcarlton.com](http://www.ritzcarlton.com) as channels through which to rent available inventory, which would cause our rental revenue to decline.

The Marriott Rewards Agreement would also terminate upon termination of the License Agreements, and we would not be able to offer Marriott Rewards Points to owners and potential owners, which would impair our ability to sell our products and would reduce the flexibility and options available in connection with our products.

In September 2016, Marriott International completed its acquisition of Starwood. While the acquisition does not impact our rights under the License Agreements, we cannot predict whether changes in the operations of Marriott International that result from the acquisition over time may impact our business. For example, Marriott International announced in September 2016 that it is permitting Marriott Rewards members to link their Marriott Rewards and Starwood Preferred Guest accounts and to transfer points between the two programs. If Marriott International pursues further integration of these loyalty programs, Marriott International may seek changes to the License Agreements. Any changes to the License Agreements could unfavorably impact our business. In addition, our relationship with Marriott International could be adversely impacted by negotiations regarding potential changes to the License Agreements.

***If Marriott International or The Ritz-Carlton Hotel Company terminates our rights to use the Marriott or Ritz-Carlton marks at any properties that do not meet applicable brand standards, our reputation could be harmed and our ability to market and sell our products at those properties could be impaired.***

Marriott International and The Ritz-Carlton Hotel Company can terminate our rights under the License Agreements to use the Marriott or Ritz-Carlton marks at any properties that do not meet applicable brand standards. The termination of such rights could harm our reputation and impair our ability to market and sell our products at the subject properties, either of which could harm our business, and we could be subject to claims by Marriott International and The Ritz-Carlton Hotel Company, property owners, third parties with whom we have contracted and others.

***Our ability to expand our business and remain competitive could be harmed if Marriott International or The Ritz-Carlton Hotel Company do not consent to our use of their trademarks at new resorts we acquire or develop in the future.***

Under the terms of our License Agreements with Marriott International and The Ritz-Carlton Hotel Company, we must obtain Marriott International's or The Ritz-Carlton Hotel Company's consent, as applicable, to use the Marriott or Ritz-Carlton trademarks in connection with resorts, residences or other accommodations that we acquire or develop in the future. Marriott International or The Ritz-Carlton Hotel Company may reject a proposed project if, among other things, the project does not meet Marriott International's or The Ritz-Carlton Hotel Company's respective construction and design standards or Marriott International or The Ritz-Carlton Hotel Company reasonably believes the project will breach contractual or legal restrictions applicable to them and their affiliates. In addition, The Ritz-Carlton Hotel Company may reject a proposed project if The Ritz-Carlton Hotel Company will not be able to provide services that comply with Ritz-Carlton brand standards at the proposed project. If Marriott International or The Ritz-Carlton Hotel Company do not permit us to use their trademarks in connection with our development or acquisition plans, our ability to expand our Marriott and Ritz-Carlton businesses and remain competitive may be materially adversely affected. The requirement to obtain Marriott International's or The Ritz-Carlton Hotel Company's consent to our expansion plans, or the need to identify and secure alternative expansion opportunities because Marriott International or The Ritz-Carlton Hotel Company do not allow us to use their trademarks with proposed new projects, may delay implementation of our expansion plans and cause us to incur additional expense.

***Our business depends on the quality and reputation of the Marriott and Ritz-Carlton brands, and any deterioration in the quality or reputation of these brands could have an adverse impact on our market share, reputation, business, financial condition or results of operations.***

Currently, our products and services are predominantly offered under Marriott or Ritz-Carlton brand names, and we intend to continue to offer products and services under these brands in the future. If the quality of these brands deteriorates, or the reputation of these brands declines, our market share, reputation, business, financial condition or results of operations could be materially adversely affected.

***Our industry is competitive, which may impact our ability to compete successfully with other vacation ownership brands and with other vacation rental options for customers.***

A number of highly competitive companies participate in the vacation ownership industry, including several branded hotel companies. Our brands compete with the vacation ownership brands of major hotel chains in national and international venues, as well as with the vacation rental options (such as hotels, resorts and condominium rentals) offered by the lodging industry. Innovations that impact the industry may also lead to new products and services that could disrupt our business model and create new and stronger competitors.

Recent and potential future consolidation in the highly fragmented timeshare industry may increase competition. For example, ILG, Inc., which operates the Interval International exchange program, acquired Hyatt Residence Club in October 2014 and the vacation ownership operations of Starwood (which includes the Westin and Sheraton brands), now known as Vistana Signature Experiences, Inc., in May 2016. Diamond Resorts International, Inc. completed the acquisition of the vacation ownership business of Gold Key Resorts in October 2015 and the acquisition of the vacation ownership business of

Intrawest Resort Club Group in January 2016. Consolidation may create competitors that enjoy significant advantages resulting from, among other things, a lower cost of, and greater access to, capital and enhanced operating efficiencies.

Competition in the timeshare industry may also increase as private competitors become publicly traded companies or existing publicly traded competitors spin-off their timeshare operations. For example, Hilton Worldwide Holdings Inc. recently completed the spin-off of its timeshare operations and Hilton Grand Vacations Inc. is now a separate publicly traded company. Competitors that are publicly traded companies may benefit from a lower cost of, and greater access to, capital, as well as more focused management attention.

In addition, under our License Agreements with Marriott International and The Ritz-Carlton Hotel Company, if other international hotel operators offer new products and services as part of their respective hotel businesses that may directly compete with our vacation ownership products and services in the future, then Marriott International and The Ritz-Carlton Hotel Company may also offer such new products and services, and use their respective trademarks in connection with such offers. If Marriott International or The Ritz-Carlton Hotel Company offer new vacation ownership products and services under their trademarks, our vacation ownership products and services may compete directly with those of Marriott International or The Ritz-Carlton Hotel Company, and we may not be able to distinguish our vacation ownership products and services from those offered by Marriott International and The Ritz-Carlton Hotel Company. Our ability to remain competitive and to attract and retain owners depends on our success in distinguishing the quality and value of our products and services from those offered by others. If we cannot compete successfully in these areas, this could limit our operating margins, diminish our market share and reduce our earnings.

***If a Marriott International or Ritz-Carlton hotel property with which one of our resorts is co-located ceases to be operated by Marriott International or The Ritz-Carlton Hotel Company or one of their affiliates, our business could be harmed.***

Approximately one-quarter of our vacation ownership resorts are co-located with Marriott International and Ritz-Carlton hotel properties. If a Marriott International or Ritz-Carlton branded hotel property with which one of our resorts is co-located ceases to be operated by Marriott International or The Ritz-Carlton Hotel Company or one of their affiliates, we could lose the benefits derived from co-location of our resorts, such as the sharing of amenities, infrastructure and staff, integration of services, and other cost efficiencies. Our owners could lose access to the more varied and elaborate amenities that are generally available at the larger campus of an integrated vacation ownership and hotel resort. We expect our overhead and operating costs for resorts that are no longer co-located with a Marriott International or Ritz-Carlton hotel property would increase. We would also lose our on-site access to hotel customers, including Marriott Rewards customer loyalty program members, at such resorts, which is a cost-effective marketing channel for our vacation ownership products, and our sales may decline.

***If we are not able to maintain relationships with third parties that support our marketing activities, our business could be harmed.***

Many of our marketing activities require us to maintain relationships with third parties. For example, we market to existing Marriott Rewards customer loyalty program members and travelers who are staying in locations where we have resorts. We also market extensively to guests in Marriott International hotels that are located near one of our sales locations and have marketing partnerships with Marriott International's North American reservation centers. In addition, we operate other local marketing venues in various high-traffic areas. If we are not able to maintain these marketing arrangements with these third parties on terms that are favorable to us or at all, our sales may decline, which could adversely affect our financial conditions and result of operations.

***Our operations outside of the United States make us susceptible to the risks of doing business internationally, which could lower our revenues, increase our costs, reduce our profits or disrupt our business.***

We conduct business in 30 countries and territories, and our operations outside the United States represented approximately 14 percent of our revenues, excluding cost reimbursements, in 2016. International properties and operations expose us to a number of additional challenges and risks, including the following, any of which could reduce our revenues or profits, increase our costs, or disrupt our business:

- complex and changing laws, regulations and policies of governments that may impact our operations, including foreign ownership restrictions, import and export controls, and trade restrictions;
- increases in anti-American sentiment and the identification of our brands as American brands;
- U.S. laws that affect the activities of U.S. companies abroad;
- the presence and acceptance of varying levels of business corruption in international markets and the effect of various anti-corruption and other laws;
- limitations on our ability to repatriate non-U.S. earnings in a tax-effective manner;

- the difficulties involved in managing an organization doing business in many different countries;
- uncertainties as to the enforceability of contract and intellectual property rights under local laws;
- rapid changes in government policy, political or civil unrest, acts of terrorism or the threat of international boycotts or U.S. anti-boycott legislation;
- changes in foreign currency exchange rates or currency restructurings and hyperinflation or deflation in the countries in which we operate;
- forced nationalization of resort properties by local, state or national governments; and
- other exposure to local economic risks.

We also derive revenue from sales to customers from outside the United States that are transacted in United States dollars. As a result, factors such as changes in foreign currency exchange rates or weak economic conditions in the markets in which our customers reside could reduce our revenues or profits.

***Our business may be adversely affected by factors that disrupt or deter travel.***

The profitability of the vacation ownership resorts that we develop and manage may be adversely affected by a number of factors that can disrupt or deter travel. A substantial amount of our sales activity occurs at our resorts, and sales volume is impacted by the number of prospective owners who visit our resorts. Fear of exposure to contagious and other diseases, such as Ebola virus, H1N1 Flu, Avian Flu, the Zika virus and Severe Acute Respiratory Syndrome, or natural or man-made disasters, such as earthquakes, tsunamis, hurricanes, floods, fires, volcanic eruptions, radiation releases and oil spills, may deter travelers from scheduling sales tours at our resorts or cause them to cancel travel plans. Actual or threatened war, civil unrest and terrorist activity, as well as heightened travel security measures instituted in response to the same, could also interrupt or deter travel plans. In addition, demand for vacation options such as our vacation ownership products may decrease if the cost of travel, including the cost of transportation and fuel, increases or if general economic conditions decline. Changes in the desirability of the locations where we develop and manage resorts as vacation destinations and changes in vacation and travel patterns may adversely affect our cash flows, revenue and profits.

***Third-party reservation channels may negatively affect our rental revenues.***

Some of our rental customers book their stays at our resorts through third-party internet travel intermediaries, such as expedia.com, orbitz.com and booking.com, as well as lesser-known and/or newly emerging online travel service providers. If the percentage of bookings through these intermediaries increases, they may be able to obtain higher commissions, reduced room rates or other significant contract concessions from us. Moreover, some of these internet travel intermediaries are attempting to commoditize lodging by increasing the importance of price and general indicators of quality (such as “three-star property”) at the expense of brand identification. These intermediaries also generally employ aggressive marketing strategies, including expending significant resources for online and television advertising campaigns to drive consumers to their websites. Additionally, consumers can book stays at our resorts through other distribution channels, including travel agents, travel membership associations and meeting procurement firms. Over time, consumers may develop loyalties to these third-party reservation systems rather than to our booking channels. Although we expect to derive most of our business from traditional channels and our websites (and those of Marriott International and the Ritz-Carlton Hotel Company), our business and profitability could be adversely affected if customer loyalties change significantly, diverting bookings away from our resorts.

***Our business is subject to extensive regulation, and any failure to comply with applicable laws and regulations could have a material adverse effect on our business.***

Our business is heavily regulated. We are subject to a wide variety of complex international, national, federal, state and local laws, regulations and policies in jurisdictions around the world. Some laws, regulations and policies impact multiple areas of our business, such as securities, anti-discrimination, anti-fraud, data protection and security and anti-corruption and bribery laws and regulations or government economic sanctions, including applicable regulations of the Consumer Financial Protection Bureau, the U.S. Department of the Treasury’s Office of Foreign Asset Control and the FCPA. Other laws, regulations and policies primarily affect one of four areas of our business: real estate development activities; marketing and sales activities; lending activities; and resort management activities. For more information regarding laws, regulations and policies to which we are subject, see “Business—Regulation.”

The FCPA and similar anti-corruption and bribery laws in other jurisdictions generally prohibit companies and their intermediaries from making improper payments to government officials for the purpose of obtaining or generating business. Our internal controls and procedures may not always protect us from the reckless or criminal acts that may be committed by our employees or third parties with whom we work. If we are found to be liable for violations of the FCPA or similar anti-corruption laws in international jurisdictions, criminal or civil penalties could be imposed on us.



Our real estate development activities are subject to laws and regulations typically applicable to real estate development, subdivision and construction activities, such as laws relating to zoning, land use restrictions, environmental regulation, accessibility, title transfers, title insurance and taxation. In addition, we are subject to laws in some jurisdictions that impose liability on property developers for construction defects discovered or repairs made by future owners of property developed by the developer.

A number of laws and regulations govern our marketing and sales activities, such as vacation ownership and land sales acts, regulations implementing the USA PATRIOT Act and fair housing statutes, as well as rules governing unfair, deceptive or abusive acts or practices including unfair or deceptive trade practices and unfair competition, anti-fraud laws, prize, gift and sweepstakes laws, real estate, insurance and other licensing or registration laws and regulations, anti-money laundering, consumer information privacy and security, breach notification, information sharing and telemarketing laws, home solicitation sales laws, tour operator laws, seller of travel laws, securities laws, and other consumer protection laws. In addition, laws in many jurisdictions in which we sell vacation ownership interests grant the purchaser of a vacation ownership interest the right to cancel a purchase contract during a specified rescission period.

In recent years, the TCPA and similar “do not call” legislation has significantly increased the costs associated with telemarketing. We have implemented procedures that we believe will help reduce the possibility that we contact individuals on regulatory “do not call” lists, but such procedures may not be effective in ensuring regulatory compliance. Additionally, we are not considered an affiliate of Marriott International for purposes of “do not call” legislation in some jurisdictions, which may make it more difficult for us to utilize customer information we obtain from Marriott International.

Many jurisdictions, including many jurisdictions in the United States, require that we file detailed registration or offering statements with regulatory authorities disclosing certain information regarding the vacation ownership interests and other real estate interests we market and sell. Regulation outside the United States includes, for example, European regulations to which our vacation ownership activities within the European Union are subject and Singaporean regulations to which certain of our Asia Pacific operations are subject. Among other things, the European and Singaporean regulations: (1) require delivery of specified disclosure (some of which must be provided in a specific format or language) to purchasers; (2) require a specified “cooling off” rescission period after a purchase is made; and (3) prohibit any advance payments during the “cooling off” rescission period.

Our lending activities are subject to a number of U.S. laws and regulations, including those of applicable supervisory agencies such as, in the United States, the Consumer Financial Protection Bureau, the FTC, and the Financial Crimes Enforcement Network, as well as laws and regulations of other jurisdictions, including, among others, laws and regulations related to consumer loans, retail installment contracts, mortgage lending, usury, fair debt collection practices, consumer debt collection practices, mortgage disclosure, lender or mortgage loan originator licensing and registration and anti-money laundering.

Our resort management activities are subject to laws and regulations regarding community association management, public lodging, food and beverage services, labor, employment, health care, health and safety, accessibility, discrimination, immigration, gaming and the environment (including climate change). In addition, many jurisdictions in which we manage our resorts have statutory provisions that limit the duration of the initial and renewal terms of our management agreements for property owners’ associations and/or permit the property owners’ association for a resort to terminate our management agreement under certain circumstances (for example, upon a super-majority vote of the owners), even if we are not in default under the agreement. Such statutory provisions expose us to a risk that one or more of our management agreements may not be renewed or may be terminated prior to the end of the term specified in such agreements.

We may not be successful in maintaining compliance with all laws, regulations and policies to which we are currently subject, and the cost of compliance with such laws, regulations and policies could be significant. The laws, regulations and policies to which we are subject may change or be subject to different interpretation in the future, including in ways that could negatively impact our business. Failure to comply with current or future applicable laws, regulations and policies could have a material adverse effect on our business. For example, if we do not comply with applicable laws, governmental authorities in the jurisdictions where the violations occurred may revoke or refuse to renew licenses or registrations we must have in order to operate our business. Failure to comply with applicable laws could also render sales contracts for our products void or voidable, subject us to fines or other sanctions and increase our exposure to litigation.

***Changes in tax regulations or their interpretation could reduce our profits or increase our costs.***

Jurisdictions in which we do business may at any time review tax and other revenue raising laws, regulations and policies, and any resulting changes could impose new restrictions, costs or prohibitions on our current practices and reduce our profits. In particular, governments may revise tax laws, regulations or official interpretations in ways that could have a significant impact on us, including modifications that could reduce the profits that we can effectively realize from our non-U.S. operations, or that could require costly changes to those operations, or the way that we structure them. For example, the effective tax rates of most U.S. companies reflect the fact that income earned and reinvested outside the United States is

generally taxed at local rates, which are often much lower than U.S. tax rates. In addition, interpretation of tax regulations requires us to exercise our judgment and taxing authorities or our independent registered public accounting firm may reach conclusions about the application of such regulations that differ from our conclusions. If changes in tax laws, regulations or interpretations were to significantly increase the tax rates on non-U.S. income, our effective tax rate could increase, our profits could be reduced, and if such increases were a result of our status as a U.S. company, we could be placed at a disadvantage to our non-U.S. competitors if those competitors remain subject to lower local tax rates.

***Changes in privacy laws could adversely affect our ability to market our products effectively.***

We rely on a variety of direct marketing techniques, including telemarketing, email marketing and postal mailings. Adoption of new state or federal laws regulating marketing and solicitation, or international data protection laws that govern these activities, or changes to existing laws, such as the Telemarketing Sales Rule and the CANSPAM Act, could adversely affect the continuing effectiveness of telemarketing, email and postal mailing techniques and could force us to make further changes in our marketing strategy. If this occurs, we may not be able to develop adequate alternative marketing strategies, which could impact the amount and timing of our sales of vacation ownership interests and other products. We also obtain access to potential customers from travel service providers or other companies with whom we have relationships and market to some individuals on these lists directly or by including our marketing message in the other companies' marketing materials. If access to these lists was prohibited or otherwise restricted, our ability to develop new customers and introduce our products to them could be impaired.

***Failure to maintain the integrity of internal or customer data could result in faulty business decisions or operational inefficiencies, damage our reputation and/or subject us to costs, fines or lawsuits.***

We collect and retain large volumes of internal and customer data, including social security numbers, credit card numbers and other personally identifiable information of our customers in various information systems and those of our service providers. We also maintain personally identifiable information about our employees. The integrity and protection of that customer, employee and company data is critical to us. We could make faulty decisions if that data is inaccurate or incomplete. Our customers and employees also have a high expectation that we and our service providers will adequately protect their personal information. The regulatory environment as well as the requirements imposed on us by the payment card industry surrounding information, security and privacy is also increasingly demanding, in both the United States and other jurisdictions in which we operate. Our systems may be unable to satisfy changing regulatory and payment card industry requirements and employee and customer expectations, or may require significant additional investments or time in order to do so.

Our information systems and records, including those we maintain with our service providers, may be subject to security breaches, cyber attacks, system failures, viruses, operator error or inadvertent releases of data. A significant theft, loss, or fraudulent use of customer, employee or company data maintained by us or by a service provider could adversely impact our reputation and could result in remedial and other expenses, fines or litigation. A breach in the security of our information systems or those of our service providers could lead to an interruption in the operation of our systems, resulting in operational inefficiencies and a loss of profits.

***Our points-based product form exposes us to an increased risk of temporary inventory depletion.***

Selling vacation ownership interests in a system of resorts under a points-based business model increases the risk of temporary inventory depletion. We currently sell vacation ownership interests denominated in points from a small number of trust entities in each of our North America and Asia Pacific business segments, which concentrates the primary source of inventory for each of these segments. In contrast, under our prior business model, we sold weeks-based vacation ownership interests tied to specific resorts; we thus had more sources of inventory (i.e., resorts), and the risk of inventory depletion was diffused among those sources of inventory.

Temporary depletion of inventory available for sale can be caused by three primary factors: (1) delayed delivery of inventory under construction by us or third parties; (2) delayed receipt of required governmental registrations of inventory for sale; and (3) significant unanticipated increases in sales pace. If the inventory available for sale for a particular trust were to be depleted before new inventory is added and available for sale, we would be required to temporarily suspend sales until inventory is replenished. While we seek to avoid the risk of temporary inventory depletion by maintaining a surplus supply of completed inventory based on our forecasted sales pace, as well as by employing other mitigation strategies such as accelerating completion of resorts under construction, acquiring vacation ownership interests on the secondary market, or reducing sales pace by adjusting prices or sales incentives, any temporary suspension of sales due to lack of inventory could reduce our cash flow and have a negative impact on our results of operations.

***Our development activities expose us to project cost and completion risks.***

Our ongoing development of new vacation ownership properties and new phases of existing vacation ownership properties presents a number of risks. Our profits may be adversely affected if construction costs escalate faster than the pace at which we can increase the price of vacation ownership interests. Construction delays, zoning and other local approvals, cost overruns, lender financial defaults, or natural or man-made disasters, such as earthquakes, tsunamis, hurricanes, floods, fires, volcanic eruptions, radiation releases and oil spills, may increase overall project costs or result in project cancellations. In addition, any liability or alleged liability associated with latent defects in projects we have constructed or that we construct in the future may adversely affect our business, financial condition and reputation.

***The maintenance and refurbishment of vacation ownership properties depends on maintenance fees paid by the owners of vacation ownership interests.***

The maintenance fees that are levied on owners of our vacation ownership interests by property owners' association boards are used to maintain and refurbish the vacation ownership properties and to keep the properties in compliance with Marriott and Ritz-Carlton brand standards. If property owners' association boards do not levy sufficient maintenance fees, or if owners of vacation ownership interests do not pay their maintenance fees, not only could our management fee revenue be adversely affected, but the vacation ownership properties could fall into disrepair and fail to comply with applicable brand standards. If a resort fails to comply with applicable brand standards, Marriott International or The Ritz-Carlton Hotel Company could terminate our rights under the applicable License Agreement to use its trademarks at the non-compliant resort, which would result in the loss of management fees, decrease customer satisfaction and impair our ability to market and sell our products at the non-compliant locations.

***If maintenance fees at our resorts are required to be increased, our product could become less attractive and our business could be harmed.***

The maintenance fees that are levied on owners of our vacation ownership interests by property owners' association boards may increase as the costs to maintain and refurbish the vacation ownership properties and to keep the properties in compliance with Marriott and Ritz-Carlton brand standards increase. Increased maintenance fees could make our products less desirable, which could have a negative impact on sales of our products.

***Disagreements with the owners of vacation ownership interests and property owners' associations may result in litigation and the loss of management contracts.***

The nature of our relationships with our owners and our responsibilities in managing our vacation ownership properties will from time to time give rise to disagreements with the owners of vacation ownership interests and property owners' associations. Owners of our vacation ownership interests may also disagree with changes we make to our products or programs. We seek to expeditiously resolve any disagreements in order to develop and maintain positive relations with current and potential owners and property owners' associations, but cannot always do so. Failure to resolve such disagreements has resulted in litigation, and could do so again in the future. If any such litigation results in a significant adverse judgment, settlement or court order, we could suffer significant losses, our profits could be reduced, our reputation could be harmed and our future ability to operate our business could be constrained. Disagreements with property owners' associations have in the past and could in the future result in the loss of management contracts.

***The expiration, termination or renegotiation of our management contracts could adversely affect our cash flows, revenues and profits.***

We enter into a management agreement with the property owners' association or other governing body at each of our resorts and, when a trust holds resorts or interests in resorts, with the trust's governing body. The management fee is typically based on either a percentage of the budgeted costs to operate such resorts or a fixed fee arrangement. We also receive revenues that represent reimbursement for certain costs we incur under our management agreements, principally payroll-related costs at the locations where we employ the associates providing on-site services. The terms of our management agreements typically range from three to ten years and are generally subject to periodic renewal for one to five year terms. Many of these agreements renew automatically unless either party provides notice of termination before the expiration of the term. Any of these management contracts may expire at the end of its then-current term (following notice by a party of non-renewal) or be terminated, or the contract terms may be renegotiated in a manner adverse to us. Upon non-renewal or termination of our management agreement for a particular resort, the resort ceases to be part of our system and we lose the management fee revenue associated with the resort. If a management agreement is terminated or not renewed on favorable terms, our cash flows, revenues and profits could be adversely affected.

***Damage to, or other potential losses involving, properties that we own or manage may not be covered by insurance.***

Market forces beyond our control may limit the scope of the insurance coverage we can obtain or our ability to obtain coverage at reasonable rates. Certain types of losses, generally of a catastrophic nature, such as earthquakes, hurricanes and floods, or terrorist acts, may be uninsurable or the price of coverage for such losses may be too expensive to justify obtaining insurance. As a result, the cost of our insurance may increase and our coverage levels may decrease. In addition, in the event of a substantial loss, the insurance coverage we carry may not be sufficient to pay the full market value or replacement cost of our lost investment or that of owners of vacation ownership interests or in some cases may not provide a recovery for any part of a loss due to deductible limits, policy limits, coverage limits or other factors. As a result, we could lose some or all of the capital we have invested in a property, as well as the anticipated future revenue from the property, and we could remain obligated under guarantees or other financial obligations related to the property.

***Our pursuit of new business opportunities to grow our business may not be successful.***

One of our strategic initiatives is to selectively pursue new business opportunities, such as the continued enhancement of our exchange programs, new management affiliations and acquisitions of existing vacation ownership and related businesses. There are substantial risks and uncertainties associated with these efforts, particularly in connection with opportunities in locations where the markets for vacation ownership products are not fully developed. We may invest significant time and resources in developing and marketing new businesses. Initial timetables for the introduction and development of new businesses may not be achieved and price and profitability targets may not prove feasible. External factors, such as compliance with regulations, competitive alternatives and shifting market preferences, may also impact the successful implementation of new businesses. Furthermore, any new business could strain our system of internal controls and diminish its effectiveness. Failure to successfully manage these risks in the development and implementation of new businesses could have a material adverse effect on our business, results of operations and financial condition.

***Our share repurchase program may not enhance long-term stockholder value, and could increase the volatility of the market price of our common stock and diminish our cash reserves.***

The share repurchase program authorized by our Board of Directors does not obligate us to repurchase any specific dollar amount, or to acquire any specific number, of shares of our common stock. The timing and amount of repurchases, if any, will depend upon several factors, including market conditions, business conditions, statutory and contractual restrictions, the trading price of our common stock and the nature of other investment opportunities available to us. The repurchase program may be limited, suspended or discontinued at any time without prior notice. In addition, repurchases of our common stock pursuant to our share repurchase program could affect our stock price and increase its volatility. The existence of a share repurchase program could cause our stock price to be higher than it would be in the absence of such a program and could potentially reduce the market liquidity for our stock. Additionally, our share repurchase program could diminish our cash reserves, which may impact our ability to finance future growth, pursue possible future strategic opportunities and acquisitions, and discharge liabilities. Our share repurchases may not enhance stockholder value because the market price of our common stock may decline below the prices at which we repurchased shares of stock and short-term stock price fluctuations could reduce the program's effectiveness.

***Our ability to pay dividends on our stock is limited.***

We intend to pay a regular quarterly dividend to our stockholders. However, we may not declare or pay such dividends in the future at the prior rate or at all. All decisions regarding our payment of dividends will be made by our Board of Directors from time to time and will be subject to an evaluation of our financial condition, results of operations and capital requirements, as well as applicable law, regulatory constraints, industry practice, contractual restraints 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. We may not have sufficient surplus under Delaware law to be able to pay any dividends, which may result from extraordinary cash expenses, actual expenses exceeding contemplated costs, funding of capital expenditures or increases in reserves.

***Our stock price may fluctuate significantly.***

Our common stock has a limited trading history. The market price of our common stock may fluctuate widely, depending on many factors, some of which may be beyond our control, including:

- actual or anticipated fluctuations in our operating results due to factors related to our business;
- success or failure of our business strategy;
- our quarterly or annual earnings, or those of other companies in our industry;
- our ability to obtain financing as needed;

- announcements by us or our competitors of significant new business developments or significant acquisitions or dispositions;
- changes in accounting standards, policies, guidance, interpretations or principles, including a new standard regarding revenue recognition that we will adopt in the first quarter of 2018;
- the failure of securities analysts to continue to cover our common stock;
- changes in earnings estimates by securities analysts or our ability to meet those estimates;
- the operating and stock price performance of other comparable companies;
- investor perception of our company and the vacation ownership industry;
- overall market fluctuations;
- initiation of or developments in legal proceedings;
- changes in laws and regulations affecting our business; and
- general economic conditions and other external factors.

Stock markets in general have experienced volatility that has often been unrelated to the operating performance of a particular company. These broad market fluctuations could adversely affect the trading price of our common stock.

***The growth of our business and the execution of our business strategies depend on the services of our senior management and our associates.***

We believe that our future growth depends, in part, on the continued services of our senior management team, including our President and Chief Executive Officer, Stephen P. Weisz, and on our ability to successfully implement succession plans for members of our senior management team. The loss of any members of our senior management team for whom we do not have a succession plan, or the failure to identify successors for such positions, could adversely affect our strategic and customer relationships and impede our ability to execute our business strategies.

In addition, insufficient numbers of talented associates could constrain our ability to maintain and expand our business. We compete with other companies both within and outside of our industry for talented personnel. If we cannot recruit, train, develop or retain sufficient numbers of talented associates, we could experience increased associate turnover, decreased guest satisfaction, low morale, inefficiency or internal control failures.

***If we identify additional excess land and inventory in the future, or if our estimates of the fair value of our excess land and inventory change, our financial position and results of operations could be adversely affected.***

Since the Spin-Off, we have identified excess land and inventory and have disposed of a significant portion of the land and inventory we identified. We may also conclude in the future that additional land and inventory are excess, in which case we would likely terminate plans to develop such land and instead seek to dispose of such excess land and inventory through bulk sales or other methods. If we identify additional excess land and inventory in the future, we may have to record additional non-cash impairment charges to write-down the value of such assets. Any such impairment charges may have an adverse impact on our financial position and results of operations. In addition, if real estate market conditions change, our estimates of the fair value of our excess land and inventory may change. If our estimates of the fair value of these assets decline, we may have to record additional non-cash impairment charges to write-down the value of such assets to the estimated fair value. Any such impairment charges may have an adverse impact on our financial position and results of operations.

***If we are not able to conclude that our internal control over financial reporting is effective, or if our independent registered public accounting firm is not able to provide an unqualified report on the effectiveness of our internal control over financial reporting, our business, financial condition or results of operations could be materially adversely affected.***

As a public entity, we are subject to the reporting requirements of the Securities Exchange Act of 1934 (the “Exchange Act”) and requirements of the Sarbanes-Oxley Act of 2002 (the “Sarbanes-Oxley Act”), including the obligation of our management to report on its assessment of the effectiveness of our internal control over financial reporting. Establishment of new infrastructure and systems may impact our ability to favorably assess the effectiveness of our internal control over financial reporting. If we cannot favorably assess the effectiveness of our internal control over financial reporting, or our independent registered public accounting firm cannot provide an unqualified report on the effectiveness of our internal control over financial reporting, investor confidence and, in turn, the market price of our common stock could decline.

***Our use of different estimates and assumptions in the application of our accounting policies could result in material changes to our reported financial condition and results of operations, and changes in accounting standards or their interpretation could significantly impact our reported results of operations.***

Our accounting policies are critical to the manner in which we present our results of operations and financial condition. Many of these policies, including policies relating to the recognition of revenue and determination of cost of sales, are highly complex and involve many assumptions, estimates and judgments. We are required to review these assumptions, estimates and judgments regularly and revise them when necessary. Our actual results of operations vary from period to period based on revisions to these estimates. In addition, the regulatory bodies that establish accounting and reporting standards, including the SEC and the Financial Accounting Standards Board, periodically revise or issue new financial accounting and reporting standards that govern the preparation of our consolidated financial statements. Changes to these standards or their interpretation could significantly impact our reported results in future periods. For example, we are currently assessing the impact that the issuance of Accounting Standards Update No. 2014-09, “*Revenue from Contracts with Customers (Topic 606)*,” as amended, which is intended to significantly enhance comparability of revenue recognition practices across entities and industries by providing a principles-based, comprehensive framework for addressing revenue recognition issues, will have on our financial statements.

***Anti-takeover provisions in our organizational documents and Delaware law and in our agreements with Marriott International could delay or prevent a change in control.***

Provisions of our Charter and Bylaws may delay or prevent a merger or acquisition that a shareholder may consider favorable. For example, our Charter and Bylaws provide for a classified board, require advance notice for shareholder proposals and nominations, place limitations on convening shareholder meetings and authorize our Board of Directors to issue one or more series of preferred stock. These provisions may also discourage acquisition proposals or delay or prevent a change in control, which could harm our stock price. In addition, Delaware law also imposes some restrictions on mergers and other business combinations between any holder of 15 percent or more of our outstanding common stock and us.

In addition, provisions in our agreements with Marriott International may delay or prevent a merger or acquisition that a shareholder may consider favorable. Under the Tax Sharing and Indemnification Agreement, we agreed not to enter into any transaction involving an acquisition or issuance of our common stock or any other transaction (or, to the extent we have the right to prohibit it, to permit any such transaction) that could reasonably be expected to cause the distribution of our common stock to be taxable to Marriott International. We are required to indemnify Marriott International for any tax resulting from any such prohibited transaction, and we are required to meet various requirements, including obtaining the approval of Marriott International or obtaining an Internal Revenue Service (“IRS”) ruling or unqualified opinion of tax counsel acceptable to Marriott International, before engaging in such transactions. Further, our License Agreements with Marriott International and The Ritz-Carlton Hotel Company provide that a change in control may not occur without the consent of Marriott International or The Ritz-Carlton Hotel Company, respectively. A change in control for purposes of these agreements would occur if, among other things, a person or group acquires beneficial ownership of, or the power to exercise effective control over, shares of our common stock representing more than 15 percent of the combined voting power of the then-outstanding securities entitled to vote generally in elections of directors.

***The Spin-Off may expose us to potential liabilities arising out of our contractual arrangements with Marriott International.***

Pursuant to a Separation and Distribution Agreement that we entered into with Marriott International in connection with the Spin-Off, from and after the Spin-Off, each of us and Marriott International is responsible for the debts, liabilities and other obligations related to the business or businesses it owns and operates following the consummation of the Spin-Off. Although we do not expect to be liable for any obligations that were not allocated to us under such agreement, a court could disregard the allocation agreed to between the parties, and require that we assume responsibility for obligations allocated to Marriott International (for example, tax and/or environmental liabilities), particularly if Marriott International were to refuse or were unable to pay or perform the allocated obligations.

In connection with the Spin-Off, we agreed to indemnify Marriott International for certain taxes and related losses resulting from, among other things, breach of our covenants and representations in the documents submitted to the IRS and the separation documents between Marriott International and us. In addition, if the distribution fails to qualify as a tax-free transaction for reasons other than those specified in the Spin-Off tax indemnification provisions, liability for any resulting taxes related to the distribution will be apportioned between Marriott International and us based on the relative fair market values of Marriott International and us. We also agreed to indemnify Marriott International for certain lost tax benefits if Marriott International is not able to recognize, for U.S. federal income tax purposes, significant built-in losses in properties used in the vacation ownership and related residential businesses. The amount of any future indemnification payments could be substantial.

***Certain of our executive officers and directors may have actual or potential conflicts of interest because of their ownership of Marriott International equity or their former positions with Marriott International.***

Certain of our executive officers and directors are former officers and employees of Marriott International and thus have professional relationships with Marriott International's executive officers and directors. In addition, many of our executive officers and directors have financial interests in Marriott International that are substantial to them as a result of their ownership of Marriott International stock, options and other equity awards. These relationships and personal financial interests may create, or may create the appearance of, conflicts of interest when these directors and officers face decisions that could have different implications for Marriott International than for us.

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

As of December 30, 2016, our portfolio consisted of over 60 properties in the United States and eight other countries and territories. These properties are described in Part I, Item 1, "Business," of this Annual Report. Except as indicated in Part I, Item 1, "Business," we own all unsold inventory at these properties. We also own, manage or lease golf courses, fitness, spa and sports facilities, undeveloped and partially developed land and other common area assets at some of our resorts, including resort lobbies and food and beverage outlets.

In addition, we own or lease our regional offices and sales centers, both in the United States and internationally. Our corporate headquarters in Orlando, Florida consists of approximately 160,000 square feet of leased space in two buildings, under a lease expiring in August 2021. We also own an office facility in Lakeland, Florida consisting of approximately 125,000 square feet.

**Item 3. 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. 9, "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 4. Mine Safety Disclosures**

Not applicable.

**PART II**
**Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**
**Market Information and Dividends**

Our common stock currently is traded on the New York Stock Exchange, or the “NYSE,” under the symbol “VAC.” We have not made any unregistered sales of our equity securities. The following table sets forth the high and low sales prices for our common stock and the per share cash dividends we declared for each fiscal quarter during the last two years.

	Stock Price		Dividends Declared Per Share
	High	Low	
<b>2016</b>			
Quarter ended March 25, 2016	\$ 70.29	\$ 45.95	\$ 0.30
Quarter ended June 17, 2016	\$ 69.97	\$ 56.33	\$ 0.30
Quarter ended September 9, 2016	\$ 80.27	\$ 61.87	\$ 0.30
Quarter ended December 30, 2016	\$ 89.94	\$ 59.36	\$ 0.35
<b>2015</b>			
Quarter ended March 27, 2015	\$ 83.85	\$ 70.00	\$ 0.25
Quarter ended June 19, 2015	\$ 90.88	\$ 77.70	\$ 0.25
Quarter ended September 11, 2015	\$ 93.40	\$ 65.70	\$ 0.25
Quarter ended January 1, 2016	\$ 74.63	\$ 55.27	\$ 0.30

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.

**Holders of Record**

On February 10, 2017, there were 24,435 holders of record of our common stock. Because many of the shares of our common stock are held by brokers and other institutions on behalf of shareholders, we are unable to determine the total number of shareholders represented by these record holders; however, we believe that there were approximately 38,000 beneficial owners of our common stock as of February 10, 2017.

**Issuer Purchases of Equity Securities**

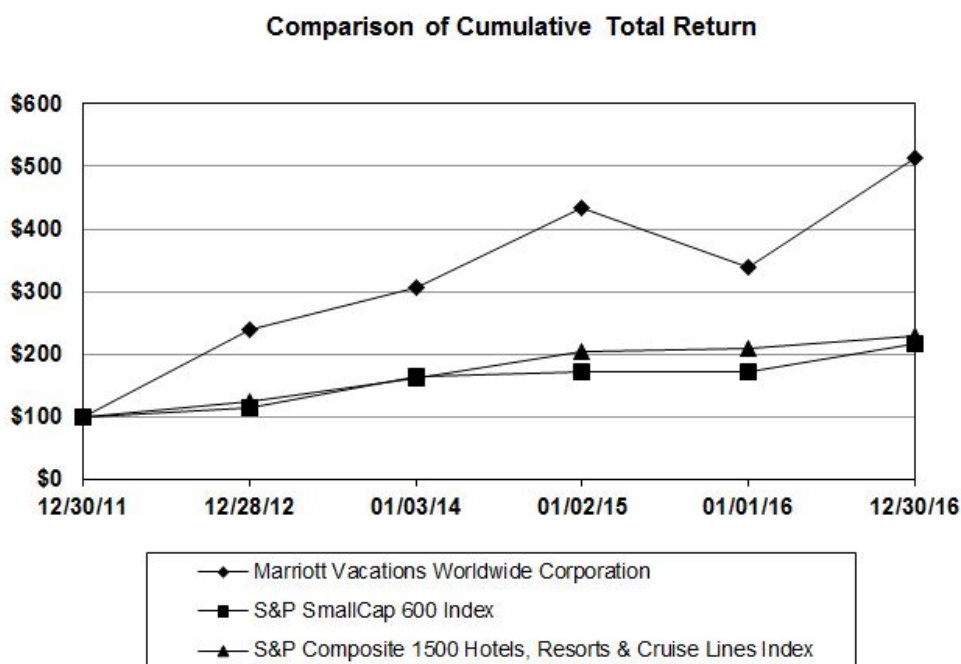
Period	Total Number of Shares Purchased	Average Price per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>(1)</sup>	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs <sup>(1)</sup>
September 10, 2016 – October 7, 2016	—	\$ —	—	1,244,882
October 8, 2016 – November 4, 2016	17,511	\$ 826.36 <sup>(2)</sup>	17,511	1,227,371
November 5, 2016 – December 2, 2016	—	\$ —	—	1,227,371
December 3, 2016 – December 30, 2016	—	\$ —	—	1,227,371
<b>Total</b>	<b>17,511</b>	<b>\$ 826.36</b>	<b>17,511</b>	<b>1,227,371</b>

<sup>(1)</sup> On February 9, 2017, our Board of Directors extended our existing share repurchase program to September 30, 2017. On February 11, 2016, our Board of Directors approved the repurchase of up to an additional 2,000,000 shares of our common stock under our existing share repurchase program. Prior to that authorization, our Board of Directors had authorized the repurchase of an aggregate of up to 8,900,000 shares of our common stock under the share repurchase program since the initiation of the program in October 2013.



(2) During the second quarter of 2016, pursuant to our existing share repurchase program, we entered into an accelerated share repurchase agreement (the “ASR”) with a financial institution to repurchase shares of our common stock. Under the agreement, we paid \$85.0 million to the financial institution and received 1,186,428 shares at an average price of \$71.64 per share. Because we accounted for the ASR as two separate transactions, a purchase of treasury stock and a forward contract indexed to our common stock, we recorded \$70.5 million as the purchase price for the 1,168,917 shares we received on June 16, 2016 upon the commencement of the ASR, and \$14.5 million as the purchase price for the 17,511 shares we received on October 12, 2016 upon the completion of the ASR.

**Performance Graph**



The above graph compares the relative performance of our common stock, the S&P SmallCap 600 Index and the S&P Composite 1500 Hotels, Resorts & Cruise Lines Index. The graph assumes that \$100 was invested in our common stock and each index on December 30, 2011. The stock price performance reflected above is not necessarily indicative of future stock price performance. The foregoing performance graph is being furnished as part of this Annual Report solely in accordance with the requirement under Rule 14a-3(b)(9) to furnish our stockholders with such information, and therefore, shall not be deemed to be filed or incorporated by reference into any filings by the Company under the Securities Act of 1933, as amended, or the Exchange Act.

**Item 6. Selected Financial Data**

The following tables present a summary of selected historical consolidated financial data for the periods indicated below. The selected historical consolidated statements of income data for fiscal years 2016, 2015 and 2014 and the selected consolidated balance sheet data for fiscal years 2016 and 2015 are derived from our audited consolidated financial statements included elsewhere in this Annual Report. The selected historical consolidated statement of income data for fiscal years 2013 and 2012 and the selected consolidated balance sheet data for fiscal years 2014, 2013 and 2012 are derived from our audited consolidated financial statements not included in this Annual Report.

The following selected historical financial and other data should be read in conjunction with “Item 7—Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and our Financial Statements and related notes included elsewhere in this Annual Report. All fiscal years included 52 weeks, except for 2013, which included 53 weeks.

<i>(in thousands, except per share amounts)</i>	<b>Fiscal Years</b>				
	<b>2016</b>	<b>2015<sup>(1)</sup></b>	<b>2014<sup>(1)</sup></b>	<b>2013</b>	<b>2012</b>
<b>Statement of Income Data:</b>					
Total revenues	\$ 1,811,235	\$ 1,813,781	\$ 1,716,016	\$ 1,749,688	\$ 1,638,775
Total revenues net of total expenses	225,271	218,003	156,498	143,920	37,971
Net income	137,348	122,799	80,756	79,730	6,149
Basic earnings per common share	\$ 4.93	\$ 3.90	\$ 2.40	\$ 2.25	\$ 0.19
Shares used in computing basic earnings per share	27,882	31,487	33,665	35,373	34,357
Diluted earnings per common share	\$ 4.83	\$ 3.82	\$ 2.33	\$ 2.18	\$ 0.18
Shares used in computing diluted earnings per share	28,422	32,168	34,635	36,621	36,183
<b>Balance Sheet Data:</b>					
Total assets	\$ 2,391,419	\$ 2,399,718	\$ 2,530,579	\$ 2,623,230	\$ 2,604,571
Total debt, net	737,224	678,793	703,013	670,619	671,300
Total mandatorily redeemable preferred stock of consolidated subsidiary, net	—	38,989	38,816	38,643	38,470
Total liabilities	1,483,600	1,423,451	1,450,876	1,414,493	1,466,175
Total equity	907,819	976,267	1,079,703	1,208,737	1,138,396
Cash dividends declared per common share	\$ 1.25	\$ 1.05	\$ 0.25	\$ —	\$ —
<b>Other Data:</b>					
<b>Contract sales<sup>(2)</sup>:</b>					
Vacation ownership	\$ 723,634	\$ 699,884	\$ 698,765	\$ 679,089	\$ 686,768
Residential products	—	28,420	14,514	14,813	996
Total contract sales	\$ 723,634	\$ 728,304	\$ 713,279	\$ 693,902	\$ 687,764

<sup>(1)</sup> Data presented herein has been restated for certain previously unrecorded immaterial presentation errors to our Financial Statements. Refer to Footnote No. 1, “Summary of Significant Accounting Policies,” to our Financial Statements for further information.

<sup>(2)</sup> 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 in our Statements of Income due to the requirements for revenue recognition described in Footnote No. 1, “Summary of Significant Accounting Policies,” to our Financial Statements. We consider contract sales to be an important operating measure because it reflects the pace of sales in our business.

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

*You should read the following discussion of our results of operations and financial condition together with our audited historical consolidated financial statements and accompanying notes that we have included elsewhere in this Annual Report, as well as the discussion in the section of this Annual Report entitled "Business." This discussion contains forward-looking statements that involve risks and uncertainties. The forward-looking statements are not historical facts, but rather are based on our current expectations, estimates, assumptions and projections about our industry, business and future financial results. Our actual results could differ materially from the results contemplated by these forward-looking statements due to a number of factors, including those we discuss in the sections of this Annual Report entitled "Risk Factors" and "Special Note About Forward-Looking Statements."*

*Our consolidated financial statements, which we discuss below, reflect our historical financial condition, results of operations and cash flows. The financial information discussed below and included in this Annual Report may not, however, necessarily reflect what our financial condition, results of operations and cash flows may be in the future.*

### 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, Europe and Asia Pacific. As of December 30, 2016, 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. See "Business—Segments" for further details regarding our individual properties by segment.

As described in Footnote No. 1, "Summary of Significant Accounting Policies," to our Financial Statements included in this Annual Report, the Financial Statements discussed below reflect our historical financial position, results of operations and cash flows as we have historically operated, in conformity with GAAP. In addition, beginning in 2017, our fiscal year will be the same as the corresponding calendar year, except that the 2017 fiscal year will begin on December 31, 2016 and end on December 31, 2017.

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

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

We report, on a supplemental basis, contract sales for each of our three segments. Contract sales 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:

	<b>Fiscal Years</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
Average FICO score	741	736	730

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

Financing revenues include interest income earned on vacation ownership notes receivable as well as fees earned from servicing the existing vacation ownership notes receivable portfolio. Financing expenses include costs in support of the financing, servicing and securitization processes. The amount of interest income earned in a period depends on the amount of outstanding vacation ownership notes receivable, which is impacted positively by the origination of new vacation ownership notes receivable and negatively by principal collections. Due to weakened economic conditions and our elimination of historical financing incentive programs, financing propensity declined significantly through 2009 and then remained stable at 40 to 45 percent through early 2015. 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 2016, following our implementation of new incentive programs in the first half of 2015 to help increase financing propensity. We expect financing propensity in 2017 to continue at similar levels to 2016 as we 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 annual defaults as a percentage of each year's beginning gross vacation ownership notes receivable balance, were as follows:

	Fiscal Years		
	2016	2015	2014
Historical default rates	3.8%	3.5%	3.9%

#### *Rental*

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

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

*Rounding*

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

## Consolidated Results

The following discussion presents an analysis of our results of operations for 2016, 2015 and 2014.

(\$ in thousands)	Fiscal Years		
	2016	2015	2014
<b>REVENUES</b>			
Sale of vacation ownership products	\$ 637,503	\$ 675,329	\$ 647,488
Resort management and other services	303,570	295,547	278,517
Financing	126,126	124,033	128,909
Rental	312,071	312,997	264,307
Cost reimbursements	431,965	405,875	396,795
<b>TOTAL REVENUES</b>	<b>1,811,235</b>	<b>1,813,781</b>	<b>1,716,016</b>
<b>EXPENSES</b>			
Cost of vacation ownership products	155,093	204,299	196,444
Marketing and sales	353,295	330,599	315,410
Resort management and other services	174,311	180,072	177,138
Financing	21,380	24,194	24,148
Rental	260,752	259,729	237,920
General and administrative	104,833	106,104	100,916
Litigation settlement	(303)	(232)	19,494
Organizational and separation related	—	1,174	3,438
Consumer financing interest	23,685	24,658	26,464
Royalty fee	60,953	58,982	59,970
Impairment	—	324	1,381
Cost reimbursements	431,965	405,875	396,795
<b>TOTAL EXPENSES</b>	<b>1,585,964</b>	<b>1,595,778</b>	<b>1,559,518</b>
Gains and other income	11,201	9,557	5,171
Interest expense	(8,912)	(12,810)	(11,692)
Other	(4,632)	(8,253)	614
<b>INCOME BEFORE INCOME TAXES</b>	<b>222,928</b>	<b>206,497</b>	<b>150,591</b>
Provision for income taxes	(85,580)	(83,698)	(69,835)
<b>NET INCOME</b>	<b>\$ 137,348</b>	<b>\$ 122,799</b>	<b>\$ 80,756</b>

**Contract Sales**
*2016 Compared to 2015*

(\$ in thousands)	Fiscal Years		Change	% Change
	2016	2015		
<b>Contract Sales</b>				
Vacation ownership				
North America	\$ 645,277	\$ 631,403	\$ 13,874	2%
Europe	31,174	34,376	(3,202)	(9%)
Asia Pacific	47,183	34,105	13,078	38%
	723,634	699,884	23,750	3%
Residential products				
Asia Pacific	—	28,420	(28,420)	(100%)
	—	28,420	(28,420)	(100%)
<b>Total contract sales</b>	<b>\$ 723,634</b>	<b>\$ 728,304</b>	<b>\$ (4,670)</b>	<b>(1%)</b>

We estimate that the effects of Hurricane Matthew negatively impacted North America contract sales by approximately \$8.1 million in the fourth quarter of 2016. Adjusting for that impact, total contract sales, excluding residential contract sales, would have increased by approximately 4.5 percent for the full year.

The changes in contract sales are described within the discussions of our segment results below.

*2015 Compared to 2014*

(\$ in thousands)	Fiscal Years		Change	% Change
	2015	2014		
<b>Contract Sales</b>				
Vacation ownership				
North America	\$ 631,403	\$ 619,688	\$ 11,715	2%
Europe	34,376	45,171	(10,795)	(24%)
Asia Pacific	34,105	33,906	199	1%
	699,884	698,765	1,119	—%
Residential products				
North America	—	14,514	(14,514)	
Asia Pacific	28,420	—	28,420	
	28,420	14,514	13,906	96%
<b>Total contract sales</b>	<b>\$ 728,304</b>	<b>\$ 713,279</b>	<b>\$ 15,025</b>	<b>2%</b>

The changes in contract sales are described within the discussions of our segment results below.



## Sale of Vacation Ownership Products

2016 Compared to 2015

(\$ in thousands)	Fiscal Years		Change	% Change
	2016	2015		
Contract sales	\$ 723,634	\$ 728,304	\$ (4,670)	(1%)
Revenue recognition adjustments:				
Reportability	(7,547)	(1,652)	(5,895)	
Sales reserve	(48,274)	(32,999)	(15,275)	
Other <sup>(1)</sup>	(30,310)	(18,324)	(11,986)	
Sale of vacation ownership products	\$ 637,503	\$ 675,329	\$ (37,826)	(6%)

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

Revenue reportability had a \$7.5 million negative impact in 2016, compared to a \$1.7 million negative impact in 2015. The unfavorable impact compared to 2015 was due to an increase in the amount of sales that remained in the rescission period at the end of 2016 as compared to 2015.

The higher sales reserve reflected an increase in sales reserve in our North America segment due to the higher financing propensity and Latin American default activity and, to a lesser extent, the higher vacation ownership contract sales, as well as a higher sales reserve in our Asia Pacific segment due to an unfavorable sales reserve adjustment to correct an immaterial error in 2016 with respect to historical static pool data as well as the increase in contract sales.

The increase in other adjustments was primarily driven by an increase in the utilization of plus points as a sales incentive in our North America segment compared to 2015. These revenues are deferred and recognized as rental revenue when those points are redeemed or expire.

2015 Compared to 2014

(\$ in thousands)	Fiscal Years		Change	% Change
	2015	2014		
Contract sales	\$ 728,304	\$ 713,279	\$ 15,025	2%
Revenue recognition adjustments:				
Reportability	(1,652)	(15,502)	13,850	
Sales reserve	(32,999)	(31,272)	(1,727)	
Other <sup>(1)</sup>	(18,324)	(19,017)	693	
Sale of vacation ownership products	\$ 675,329	\$ 647,488	\$ 27,841	4%

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

Revenue reportability had a \$1.7 million negative impact in 2015, compared to a \$15.5 million negative impact in 2014 due to fewer sales meeting the down payment requirements for revenue reportability and more sales in the rescission period at the end of 2014. The higher sales reserve was driven by the higher vacation ownership contract sales and the impact of higher financing propensity in our North America segment, partially offset by a decrease in the estimated default activity in our North America segment compared to 2014.

**Development Margin**
*2016 Compared to 2015*

(\$ in thousands)	Fiscal Years		Change	% Change
	2016	2015		
Sale of vacation ownership products	\$ 637,503	\$ 675,329	\$ (37,826)	(6%)
Cost of vacation ownership products	(155,093)	(204,299)	49,206	24%
Marketing and sales	(353,295)	(330,599)	(22,696)	(7%)
Development margin	\$ 129,115	\$ 140,431	\$ (11,316)	(8%)
Development margin percentage	20.3%	20.8%	(0.5 pts)	

The decrease in development margin reflected the following:

- \$12.0 million of pre-opening and startup expenses incurred in 2016 in support of six new sales locations, five in our North America segment and one in our Asia Pacific segment;
- \$10.2 million of higher sales reserves in 2016 due to the increase in financing propensity and Latin American default activity in our North America segment, higher contract sales in our North America and Asia Pacific segments and a higher reserve in our Asia Pacific segment due to an unfavorable sales reserve adjustment to correct an immaterial error in 2016 with respect to historical static pool data;
- \$8.6 million of additional deferred revenue in 2016 due to higher usage of plus points as a sales incentive in our North America segment; this revenue will be recognized as rental revenue when the plus points are redeemed or expire;
- \$5.9 million of lower residential contract sales volume net of expenses (there were no residential contract sales in 2016, compared to \$28.4 million of residential contract sales in our Asia Pacific segment in 2015);
- \$3.7 million of greater negative revenue reportability impact compared to 2015;
- \$0.6 million of higher development expenses in 2016 due to fewer costs being capitalized in 2016; and
- \$0.3 million of higher marketing and sales costs in 2016 due to investment in new programs to help generate future incremental tour volumes, partially offset by lower marketing and sales compensation related costs.

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

- \$17.4 million from a favorable mix of lower cost real estate inventory being sold in 2016;
- \$7.5 million of higher favorable product cost true-up activity (\$14.8 million in 2016 compared to \$7.3 million in 2015) of which \$4.1 million resulted from projected increases in development revenue primarily due to a reduction in our estimated future sales incentive costs and \$3.4 million resulted from lower development spending for completion of common elements at multiple projects; and
- \$5.1 million of higher vacation ownership contract sales volume net of direct variable expenses (i.e., cost of vacation ownership products and marketing and sales).

The 0.5 percentage point decrease in the development margin percentage reflected a 1.8 percentage point decline due to higher marketing and sales spending from pre-opening and startup expenses, a 1.2 percentage point decline due to the higher sales reserve activity, a 0.9 percentage point decline due to the higher usage of plus points as a sales incentive and a 0.3 percentage point decrease due to the higher unfavorable revenue reportability, in each case, year-over-year. These declines were partially offset by a 2.6 percentage point increase due to a favorable mix of lower cost vacation ownership real estate inventory being sold in 2016 and a 1.1 percentage point increase due to the higher favorable product cost true-up activity year-over-year.

## 2015 Compared to 2014

(\$ in thousands)	Fiscal Years		Change	% Change
	2015	2014		
Sale of vacation ownership products	\$ 675,329	\$ 647,488	\$ 27,841	4%
Cost of vacation ownership products	(204,299)	(196,444)	(7,855)	(4%)
Marketing and sales	(330,599)	(315,410)	(15,189)	(5%)
Development margin	\$ 140,431	\$ 135,634	\$ 4,797	4%
Development margin percentage	20.8%	20.9%	(0.1 pts)	

The increase in development margin reflected the following:

- \$8.6 million from higher revenue reportability compared to 2014;
- \$4.0 million of lower development expenses due to more costs being capitalized in 2015 compared to 2014 and the disposition of land and related assets in Kauai, Hawaii in the fourth quarter of 2014 and second quarter of 2015 and at The Abaco Club on Winding Bay (“The Abaco Club”), in the Bahamas, in the third quarter of 2014;
- \$3.1 million from higher residential contract sales (\$5.9 million from the sale of residential inventory in our Asia Pacific segment in 2015 compared to \$2.8 million from the sale of residential inventory in our North America segment in 2014); and
- \$0.8 million from higher favorable product cost true-up activity (\$7.3 million in 2015 compared to \$6.5 million in 2014).

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

- \$9.9 million decline from the change in vacation ownership contract sales volume net of higher direct variable expenses (i.e., cost of vacation ownership products and marketing and sales), including \$14.3 million from higher marketing and sales costs due to an inability to leverage fixed costs on lower sales volumes in our Europe segment, investment in new programs to help generate future incremental tour volumes and higher marketing and sales related program costs in our North America segment, partially offset by \$3.3 million from a favorable mix of lower cost real estate inventory being sold and \$1.1 million from the higher vacation ownership contract sales volume; and
- \$1.8 million of higher sales reserves in 2015, including \$1.0 million in our Asia Pacific segment and \$0.7 million in our North America segment due to the increase in financing propensity.

The 0.1 percentage point decline in the development margin percentage reflected a 2.2 percentage point decline due to higher marketing and sales spending and a 0.2 percentage point decline from the higher vacation ownership notes receivable reserve activity. This was partially offset by a 0.9 percentage point increase due to the favorable revenue reportability year-over-year, a 0.7 percentage point increase from the lower development expenses, a 0.5 percentage point increase due to a favorable mix of lower cost vacation ownership real estate inventory being sold in 2015, a 0.1 percentage point increase due to the higher favorable product cost true-up activity year-over-year, and a 0.1 percentage point increase from the higher North America vacation ownership contract sales (which have a development margin that is higher than the company-wide average) and the lower Europe vacation ownership contract sales (which have a development margin that is lower than the company-wide average).

**Resort Management and Other Services Revenues, Expenses and Margin**
*2016 Compared to 2015*

(\$ in thousands)	Fiscal Years		Change	% Change
	2016	2015		
Management fee revenues	\$ 83,260	\$ 77,612	\$ 5,648	7%
Other services revenues	220,310	217,935	2,375	1%
Resort management and other services revenues	303,570	295,547	8,023	3%
Resort management and other services expenses	(174,311)	(180,072)	5,761	3%
Resort management and other services margin	\$ 129,259	\$ 115,475	\$ 13,784	12%
Resort management and other services margin percentage	42.6%	39.1%	3.5 pts	

The increase in resort management and other services revenues reflected \$6.1 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 as well as an increase in the dues charged for each owner recognition level, \$5.6 million of higher management fees (net of \$0.1 million negative foreign exchange impact in our Europe segment) and \$0.5 million of higher other revenues, as compared to 2015. These increases were partially offset by \$1.4 million of lower customer service fees, \$1.1 million of lower ancillary revenues, \$1.1 million of lower settlement and lien fees due to a decrease in the number of contracts closed and fewer lien fees assessed and \$0.7 million of lower brand fees due to fewer closings. The decrease in ancillary revenues included \$1.2 million of lower ancillary revenues from the operating property in Surfers Paradise, Australia due to the sale of the property, \$1.1 million of lower revenues due to outsourcing the operation of one restaurant in our North America segment, \$1.0 million of lower ancillary revenues from food and beverage and golf offerings at our other resorts and \$0.8 million of lower revenue at the operating property in San Diego, California due to the conversion of the property to vacation ownership inventory, partially offset by \$2.9 million of ancillary revenues in 2016 at the property in New York that we did not operate in 2015.

The improvement in the resort management and other services margin reflected the changes in revenue and \$5.8 million of lower expenses. The lower expenses included \$3.9 million of lower customer service and exchange company expenses, \$3.1 million of lower ancillary expenses from food and beverage and golf offerings at our resorts, \$0.9 million of lower expenses due to outsourcing the operation of one restaurant in our North America segment, \$0.6 million of lower expenses from the operation of the ancillary businesses at the operating property in Surfers Paradise, Australia, \$0.3 million of lower refurbishment management expenses incurred from managing the refurbishment projects at our properties and \$0.3 million of lower other expenses, partially offset by \$3.3 million of expenses from the operation of the ancillary businesses at the property in New York in 2016.

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. See Footnote No. 5, "Acquisitions and Dispositions" to our Financial Statements for further information related to this transaction.

*2015 Compared to 2014*

(\$ in thousands)	Fiscal Years		Change	% Change
	2015	2014		
Management fee revenues	\$ 77,612	\$ 73,936	\$ 3,676	5%
Other services revenues	217,935	204,581	13,354	7%
Resort management and other services revenues	295,547	278,517	17,030	6%
Resort management and other services expenses	(180,072)	(177,138)	(2,934)	2%
Resort management and other services margin	\$ 115,475	\$ 101,379	\$ 14,096	14%
Resort management and other services margin percentage	39.1%	36.4%	2.7 pts	

The increase in resort management and other services revenues reflected \$4.0 million of higher ancillary revenues, \$3.7 million of higher management fees (net of \$1.1 million negative foreign exchange impact in our Europe segment), \$3.4 million of higher refurbishment management revenues earned from managing the refurbishment projects at our properties, \$2.4 million of higher resales commission and other revenues, \$2.1 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 \$1.7 million of higher settlement and lien fees due to an increase in the number of contracts closed and higher assessed lien fees, partially offset by \$0.3 million of lower other revenues. The increase in ancillary revenues included a \$6.9 million increase in ancillary revenues from food and beverage and golf offerings at our existing resorts, \$7.4 million of ancillary revenues at the operating property in Surfers Paradise, Australia acquired in the third quarter of 2015 and \$2.0 million of ancillary revenues at the operating property in San Diego, California acquired in the first quarter of 2015. These increases were partially offset by an \$8.9 million decline due to the disposition of certain assets during the prior year, the closure of another ancillary operation during the prior year and outsourcing of the operation of a restaurant during the prior year, as well a \$3.4 million decline from the changes in foreign exchange rates in our Europe segment.

The improvement in the resort management and other services margin reflected the changes in revenue, partially offset by \$2.9 million of higher expenses, including \$9.8 million of higher ancillary, customer service, settlement and MVCD program expenses related to the higher revenues from our existing resorts in 2015, \$6.1 million from the operation of the ancillary businesses at the operating property in Surfers Paradise, Australia, \$2.5 million of higher refurbishment management expenses incurred from managing the refurbishment projects at our properties, \$1.6 million from the operation of the ancillary businesses at the operating property in San Diego, California and \$1.0 million of higher other expenses, partially offset by \$14.4 million of ancillary expense savings from the dispositions, closure and outsourcing noted above and \$3.7 million from the changes in foreign exchange rates in our Europe segment.

### Financing Revenues, Expenses and Margin

2016 Compared to 2015

(\$ in thousands)	Fiscal Years		Change	% Change
	2016	2015		
Interest income	\$ 120,113	\$ 118,020	\$ 2,093	2%
Other financing revenues	6,013	6,013	—	—%
Financing revenues	126,126	124,033	2,093	2%
Financing expenses	(21,380)	(24,194)	2,814	12%
Consumer financing interest expense	(23,685)	(24,658)	973	4%
Financing margin	\$ 81,061	\$ 75,181	\$ 5,880	8%
Financing propensity	60.1%	49.9%		

The increase in financing revenues was due to a \$22.8 million increase in the average gross vacation ownership notes receivable balance, partially offset by a slight decrease in the weighted average coupon rate of our vacation ownership notes receivable.

The increase in financing margin reflected the higher financing revenues, as well as lower financing expenses and lower consumer financing interest expense. The lower consumer financing interest expense was due to a lower average interest rate on outstanding debt balances (\$1.4 million), partially offset by a higher average outstanding debt balance including draw downs on the Warehouse Credit Facility in 2016 (\$0.4 million). The lower average interest rate reflected the continued pay-down of older securitization transactions that carried higher overall interest rates and the benefit of lower interest rates applicable to our more recently completed securitizations of vacation ownership notes receivable.

The increase in financing propensity resulted from the use of incentive programs during all of 2016 as compared to during only a portion of 2015. We expect financing propensity in 2017 to continue at similar levels to 2016 as we 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.

2015 Compared to 2014

(\$ in thousands)	Fiscal Years		Change	% Change
	2015	2014		
Interest income	\$ 118,020	\$ 122,551	\$ (4,531)	(4%)
Other financing revenues	6,013	6,358	(345)	(5%)
Financing revenues	124,033	128,909	(4,876)	(4%)
Financing expenses	(24,194)	(24,148)	(46)	—%
Consumer financing interest expense	(24,658)	(26,464)	1,806	7%
Financing margin	\$ 75,181	\$ 78,297	\$ (3,116)	(4%)
Financing propensity	49.9%	43.6%		

The decrease in financing revenues was due to a \$48.4 million decline in the average gross vacation ownership notes receivable balance. This decline reflected our continued collection of existing vacation ownership notes receivable at a faster pace than our origination of new vacation ownership notes receivable.

The decline in financing margin reflects the lower financing revenues, partially offset by lower consumer financing interest expense. The lower consumer financing interest expense was due to a lower average interest rate on outstanding debt balances (\$2.2 million), partially offset by an increase in the outstanding debt balances of securitized vacation ownership notes receivable and associated interest costs (\$0.4 million). The lower average interest rate reflected the continued pay down of older securitization transactions that carried higher overall interest rates and the benefit of lower interest rates applicable to our more recently completed securitizations of vacation ownership notes receivable.

The increase in financing propensity resulted from new incentive programs implemented in the first half of 2015, which helped increase financing propensity from the 40 to 45 percent average achieved in recent years.

### Rental Revenues, Expenses and Margin

2016 Compared to 2015

(\$ in thousands)	Fiscal Years		Change	% Change
	2016	2015		
Rental revenues	\$ 312,071	\$ 312,997	\$ (926)	—%
Unsold maintenance fees — upscale	(66,111)	(55,397)	(10,714)	(19%)
Unsold maintenance fees — luxury	(2,391)	(7,733)	5,342	69%
Unsold maintenance fees	(68,502)	(63,130)	(5,372)	(9%)
Other rental expenses	(192,250)	(196,599)	4,349	2%
Rental margin	\$ 51,319	\$ 53,268	\$ (1,949)	(4%)
Rental margin percentage	16.4%	17.0%	(0.6 pts)	

	Fiscal Years		Change	% Change
	2016	2015		
Transient keys rented <sup>(1)</sup>	1,206,118	1,179,905	26,213	2%
Average transient key rate	\$ 216.57	\$ 219.45	\$ (2.88)	(1%)
Resort occupancy	89.1%	89.0%	0.1 pts	

<sup>(1)</sup> 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 decrease in rental revenues was due to \$4.3 million of lower revenue at our operating property in San Diego, California due to rooms being unavailable to rent during the conversion of the property to vacation ownership inventory and a company-wide 1 percent decrease in average transient rate (\$3.4 million) due to the mix of inventory available for rent, partially offset by a \$3.7 million increase in preview keys and other revenue and a company-wide 1 percent increase in transient keys rented (\$3.1 million), both of which were primarily due to a 1 percent increase in available keys.

The decrease in rental margin reflected a \$2.2 million favorable charge in 2015 associated with Marriott Rewards Points issued prior to the Spin-Off and a \$1.4 million decline at the operating property in Surfers Paradise, Australia primarily due to unsold maintenance fees in 2016 incurred after conversion of the property to vacation ownership inventory, partially offset by \$1.7 million of higher rental revenues net of direct variable expenses (such as housekeeping), expenses incurred due to owners choosing alternative usage options and unsold maintenance fees.

#### 2015 Compared to 2014

(\$ in thousands)	Fiscal Years		Change	% Change
	2015	2014		
Rental revenues	\$ 312,997	\$ 264,307	\$ 48,690	18%
Unsold maintenance fees — upscale	(55,397)	(51,328)	(4,069)	(8%)
Unsold maintenance fees — luxury	(7,733)	(9,639)	1,906	20%
Unsold maintenance fees	(63,130)	(60,967)	(2,163)	(4%)
Other rental expenses	(196,599)	(176,953)	(19,646)	(11%)
Rental margin	\$ 53,268	\$ 26,387	\$ 26,881	102%
Rental margin percentage	17.0%	10.0%	7.0 pts	

	Fiscal Years		Change	% Change
	2015	2014		
Transient keys rented <sup>(1)</sup>	1,179,905	1,114,370	65,535	6%
Average transient key rate	\$ 219.45	\$ 211.68	\$ 7.77	4%
Resort occupancy	89.0%	89.4%	(0.4 pts)	

<sup>(1)</sup> 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 company-wide 6 percent increase in transient keys rented (\$13.9 million) primarily sourced from a 7 percent increase in available keys, a company-wide 4 percent increase in average transient rate (\$9.2 million) driven by stronger consumer demand, \$5.2 million of higher plus points revenue (which is recognized when the points are redeemed or expire) and a \$4.0 million increase in preview keys and other revenue. In addition, we generated \$9.4 million of revenue at the operating property in San Diego, California acquired during the first quarter of 2015 and \$7.0 million of revenue at the operating property in Surfers Paradise, Australia acquired in the third quarter of 2015.

The increase in rental margin reflected \$19.1 million of higher rental revenues net of direct variable expenses (such as housekeeping), expenses incurred due to owners choosing alternative usage options, and unsold maintenance fees, as well as \$6.5 million of lower charges associated with Marriott Rewards Points issued prior to the Spin-Off (\$2.2 million favorable adjustment in 2015 compared to \$4.3 million unfavorable charge in 2014) and the \$5.2 million increase in plus points revenue, partially offset by a \$2.9 million loss at the operating property in San Diego, California and a \$1.0 million loss at the operating property in Surfers Paradise, Australia.

#### Cost Reimbursements

##### 2016 Compared to 2015

Cost reimbursements increased \$26.1 million, or 6.4 percent, over 2015, reflecting an increase of \$20.6 million due to higher costs and \$6.2 million due to additional managed unit weeks in 2016, partially offset by a \$0.7 million negative impact from foreign exchange rates in our Europe segment.

##### 2015 Compared to 2014

Cost reimbursements increased \$9.1 million, or 2.3 percent, over 2014, reflecting an increase of \$16.7 million due to higher costs and \$5.1 million due to additional managed unit weeks in 2015, partially offset by \$6.5 million of lower costs

associated with management contracts that were terminated prior to 2015 and a \$6.2 million negative impact from foreign exchange rates in our Europe segment.

## **General and Administrative**

### *2016 Compared to 2015*

General and administrative expenses decreased \$1.3 million due to \$4.0 million of lower personnel related and other expenses, \$2.5 million of lower litigation costs and \$1.8 million of lower refurbishment costs compared to 2015, partially offset by \$7.0 million of higher information technology project costs. The lower personnel related and other expenses includes lower compensation related costs and savings due to cost containment efforts, partially offset by annual merit and inflationary cost increases.

### *2015 Compared to 2014*

General and administrative expenses increased \$5.2 million and were driven by \$3.4 million of higher personnel related and other costs net of lower depreciation and cost savings and \$1.8 million of refurbishment costs in 2015.

## **Litigation Settlement**

### *2016*

During the first quarter of 2016, we reversed the remaining \$0.3 million of an accrual related to the 2014 agreement in principle regarding The Ritz-Carlton Club and Residences, San Francisco (the "RCC San Francisco") discussed below because actual costs incurred were lower than expected.

### *2015*

During the first quarter of 2015, we reversed \$0.3 million of an accrual related to the sale of The Abaco Club in the Bahamas in the fourth quarter of 2014 discussed below because actual costs incurred were lower than expected.

### *2014*

During the fourth quarter of 2014, we completed the sale of The Abaco Club in the Bahamas. As a result of the sale we recorded a loss of \$23.8 million, which is included in the Litigation settlement line on the Statement of Income. See Footnote No. 5, "Acquisitions and Dispositions," to our Financial Statements for further information related to this transaction.

During the third quarter of 2014, an agreement in principle was reached to settle an action related to the RCC San Francisco. As a result of the agreement in principle, we recorded a charge of \$3.2 million, which is included in the Litigation settlement line on the Statement of Income.

During the second quarter of 2014, we agreed to settle a dispute with a service provider relating to services provided to us prior to 2011. The dispute related to certain lawsuits and claims asserted by several residential unit and fractional interest owners at the RCC San Francisco, a project within our North America segment, who questioned the adequacy of disclosures made regarding bonds issued for that project under California's Mello-Roos Community Facilities Act of 1982 and their payment obligations with respect to such bonds. In connection with the settlement, we received a one-time payment of \$7.6 million after the end of the second quarter from the service provider, which no longer provides services to us. We recorded a gain of \$7.6 million as a result of the settlement, which is included in the Litigation settlement line on the Statement of Income.

## **Royalty Fee**

### *2016 Compared to 2015*

Royalty fee expense increased \$2.0 million in 2016 (from \$59.0 million in 2015 to \$61.0 million in 2016), and included \$2.2 million of higher costs due to an increase in initial sales of our real estate inventory, which carry a higher royalty fee as compared to sales of pre-owned inventory (two percent compared to one percent), and a \$0.1 million increase in the fixed portion of the royalty fee late in 2016, partially offset by \$0.3 million of lower costs due to a lower number of closings in 2016 as compared to 2015.

### *2015 Compared to 2014*

Royalty fee expense decreased \$1.0 million in 2015 (from \$60.0 million in 2014 to \$59.0 million in 2015), and included \$2.0 million of lower costs due to a higher portion of sales of pre-owned inventory, which carry a lower royalty fee as compared to initial sales of our real estate inventory (one percent versus two percent), partially offset by \$1.0 million of higher costs due to higher closings in 2015. Royalty fee expense decreased despite higher sales of our real estate inventory, as the \$28.4 million of residential contract sales in our Asia Pacific segment were unbranded and did not require us to pay a royalty fee.



## **Gains and Other Income**

### *2016 Compared to 2015 and 2015 Compared to 2014*

Gains and other income of \$11.2 million during 2016 included a \$10.5 million gain on the disposition of excess inventory at the RCC San Francisco, the reversal of the remaining \$1.7 million accrual associated with the disposition of a golf course and related assets in Kauai, Hawaii because we no longer expect to incur additional costs in connection with this sale and a \$0.9 million loss on the sale of the portion of the operating property in Surfers Paradise, Australia that we did not intend to convert to vacation ownership inventory.

Gains and other income of \$9.6 million during 2015 included an \$8.7 million gain on the disposition of undeveloped land in Kauai, Hawaii and a \$0.9 million gain from the disposition of a golf course and adjacent undeveloped land in Orlando, Florida. We disposed of the golf course and undeveloped land in Orlando, Florida in the first quarter of 2014 and, as a condition of the sale, we continued to operate the golf course through the end of the first quarter of 2015 at our own risk. We utilized the performance of services method to record a gain of \$3.1 million over the period during which we operated the golf course, \$0.9 million of which was recorded in 2015.

Gains and other income of \$5.2 million during 2014 included a \$2.9 million gain on the disposition of undeveloped and partially developed land, an operating golf course and related assets, in Kauai, Hawaii and a \$2.2 million gain related to the disposition of the golf course and adjacent undeveloped land in Orlando, Florida.

## **Interest Expense**

### *2016 Compared to 2015*

Interest expense decreased \$3.9 million due to a \$3.4 million decline in expense associated with our liability for the Marriott Rewards customer loyalty program under our Marriott Rewards Affiliation Agreement with Marriott International and a \$0.5 million decrease in other interest expense. Due to the payoff of the liability associated with the Marriott Rewards customer loyalty program in 2015 and the redemption of the mandatorily redeemable preferred stock of a consolidated subsidiary in 2016, we will not incur further interest expense associated with these liabilities in the future.

### *2015 Compared to 2014*

Interest expense increased \$1.1 million due to \$2.5 million of lower capitalized interest costs because we had fewer projects under construction in 2015 compared to 2014 due to the use of capital efficient structures, partially offset by a \$0.7 million decline in expense associated with our liability for the Marriott Rewards customer loyalty program under our Marriott Rewards Affiliation Agreement with Marriott International and a \$0.7 million decline in other interest expense.

## **Other**

### *2016 Compared to 2015 and 2015 Compared to 2014*

In 2016, we incurred \$4.9 million of transaction related costs, including costs associated with the acquisition of an operating property in the South Beach area of Miami Beach, the anticipated future acquisition of the operating property in New York that we currently manage, the anticipated future acquisition of vacation ownership units located on the Big Island of Hawaii and 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. 9, "Contingencies and Commitments," to our Financial Statements for further information related to these transactions.

In 2015, we incurred \$5.7 million of transaction related costs associated with the completion of our purchase of an operating property located in Surfers Paradise, Australia, which was required to be accounted for as a business combination for which transaction costs are expensed. See Footnote No. 5, "Acquisitions and Dispositions," to our Financial Statements for further information related to this transaction. In addition, we incurred \$2.1 million associated with potential acquisition opportunities and \$0.6 million of costs associated with the anticipated future acquisition of the operating property in New York that we currently manage and the acquisition of an operating property in the South Beach area of Miami Beach. See Footnote No. 5, "Acquisitions and Dispositions," and Footnote No. 9, "Contingencies and Commitments," to our Financial Statements for further information related to these transactions.

In 2014, we reduced our accrual by \$0.5 million for remaining costs we expected to incur in connection with an interest in an equity method investment in a joint venture project in our North America segment. We did not incur any transaction related costs during 2014.

## Income Tax

Our effective tax rates for fiscal years 2016, 2015 and 2014 were 38.39%, 40.53% and 46.37%, respectively. Our tax rate is affected by recurring items, such as non-deductible expenses, tax rates in foreign jurisdictions and the relative amount of income we earn in different jurisdictions, which, with the exception of the loss on the disposition of The Abaco Club in the Bahamas in 2014, we expect to be fairly consistent in the near term. It is also affected by discrete items that may occur in any given year, but are not consistent from year to year. The following is a description of the items impacting our effective tax rate during the current and prior two years.

### *2016 Compared to 2015*

Our provision for income taxes increased \$1.9 million (from \$83.7 million to \$85.6 million) due to increases in U.S. income before taxes, partially offset by both U.S. federal tax incentives which related to multiple years and a decline in non-U.S. income before taxes.

### *2015 Compared to 2014*

Our provision for income taxes increased \$13.9 million (from \$69.8 million to \$83.7 million) due to higher consolidated income before income taxes in the United States and an increase in tax from foreign jurisdictions.

## 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.

(\$ in thousands)	Fiscal Years		
	2016	2015	2014
Net income	\$ 137,348	\$ 122,799	\$ 80,756
Interest expense	8,912	12,810	11,692
Tax provision	85,580	83,698	69,835
Depreciation and amortization	21,044	22,217	18,682
EBITDA	252,884	241,524	180,965
Non-cash share-based compensation	13,949	14,142	13,376
Certain items	(5,456)	(5,594)	18,754
Adjusted EBITDA	\$ 261,377	\$ 250,072	\$ 213,095

#### 2016

The certain items for 2016 consisted of \$11.2 million of gains and other income not associated with our on-going core operations, \$4.9 million of transaction costs associated with acquisitions, \$1.4 million of hurricane related expenses, \$0.3 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 settlement expense. In the aggregate, these exclusions decreased EBITDA by \$5.5 million.

We estimate that the effects of Hurricane Matthew negatively impacted Adjusted EBITDA by approximately \$3.6 million in the fourth quarter of 2016. Adjusting for that impact, Adjusted EBITDA in 2016 would have totaled approximately \$265.0 million.

#### 2015

The certain items for 2015 consisted of \$9.6 million of gains and other income not associated with our on-going core operations, \$8.4 million of transaction costs associated with acquisitions, \$5.9 million of development profit from the disposition of units in Macau as whole ownership residential units rather than through our Marriott Vacation Club, Asia Pacific points program, \$1.8 million of refurbishment costs, \$1.6 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, \$1.2 million of organizational and separation related costs, \$0.3 million of impairment charges and a \$0.2 million reversal of litigation settlement expense. In the aggregate, these exclusions decreased EBITDA by \$5.6 million.

#### 2014

The certain items for 2014 consisted of \$19.5 million of net litigation settlements, \$5.2 million of gains and other income not associated with our on-going core operations, \$3.4 million of organizational and separation related costs, \$1.4 million of impairment charges, \$0.5 million from the reversal of an impairment charge on equity investments and \$0.2 million of net severance activity. In the aggregate, these exclusions increased EBITDA by \$18.8 million.

### Business Segments

Our business is grouped into three reportable business segments: North America, Europe and Asia Pacific. See Footnote No. 15, "Business Segments," to our Financial Statements for further information on our segments, and "Business—Segments" for further details regarding our individual properties by segment.

## North America

The following discussion presents an analysis of our results of operations for 2016, 2015 and 2014.

(\$ in thousands)	Fiscal Years		
	2016	2015	2014
<b>REVENUES</b>			
Sale of vacation ownership products	\$ 572,305	\$ 586,774	\$ 577,781
Resort management and other services	268,766	258,761	246,344
Financing	118,646	115,738	120,111
Rental	276,008	277,348	234,668
Cost reimbursements	394,592	369,467	354,270
<b>TOTAL REVENUES</b>	<b>1,630,317</b>	<b>1,608,088</b>	<b>1,533,174</b>
<b>EXPENSES</b>			
Cost of vacation ownership products	134,079	164,200	170,012
Marketing and sales	304,099	288,260	272,302
Resort management and other services	145,036	149,257	150,027
Rental	225,281	225,043	209,371
Litigation settlement	(303)	(370)	19,244
Organizational and separation related	—	532	894
Royalty fee	9,867	7,971	8,825
Impairment	—	324	1,381
Cost reimbursements	394,592	369,467	354,270
<b>TOTAL EXPENSES</b>	<b>1,212,651</b>	<b>1,204,684</b>	<b>1,186,326</b>
Gains and other income	12,260	9,600	5,350
Other	(4,191)	(422)	745
<b>SEGMENT FINANCIAL RESULTS</b>	<b>\$ 425,735</b>	<b>\$ 412,582</b>	<b>\$ 352,943</b>

## Contract Sales

2016 Compared to 2015

(\$ in thousands)	Fiscal Years		Change	% Change
	2016	2015		
<b>Contract Sales</b>				
Vacation ownership	\$ 645,277	\$ 631,403	\$ 13,874	2%
<b>Total contract sales</b>	<b>\$ 645,277</b>	<b>\$ 631,403</b>	<b>\$ 13,874</b>	<b>2%</b>

The increase in vacation ownership contract sales in our North America segment reflected a \$23.2 million increase in sales at on-site sales locations, partially offset by a \$6.0 million decrease in sales at off-site (non tour-based) sales locations and a \$3.3 million decrease in fractional sales as we continue to sell through remaining luxury inventory.

We estimate that the effects of Hurricane Matthew negatively impacted contract sales by approximately \$8.1 million in the fourth quarter of 2016. Adjusting for that impact, total contract sales, excluding residential contract sales, would have increased by approximately 3.5 percent for the full year.

The increase in sales at on-site locations reflected a 2.3 percent increase in the number of tours and a 2.2 percent increase in VPG to \$3,462 in 2016 from \$3,386 in 2015. The increase in VPG resulted from an increase in the number of points sold per contract and higher pricing, partially offset by a 0.5 percentage point decrease in closing efficiency. The increase in the number of tours was driven by an increase in first time buyer tours due to the new sales locations that were opened in the latter part of 2016 and programs that were implemented over the past two years to generate additional tours. The sales at off-site locations were negatively impacted by the strength of the U.S. dollar, primarily in Latin America, which is a trend that negatively impacted the comparison to prior year results throughout most of 2016.

2015 Compared to 2014

(\$ in thousands)	Fiscal Years		Change	% Change
	2015	2014		
<b>Contract Sales</b>				
Vacation ownership	\$ 631,403	\$ 619,688	\$ 11,715	2%
Residential products	—	14,514	(14,514)	(100%)
Total contract sales	\$ 631,403	\$ 634,202	\$ (2,799)	—%

The increase in vacation ownership contract sales in our North America segment reflected a \$14.5 million increase in sales at on-site sales locations and a \$3.0 million increase in fractional sales as we continued to sell through remaining luxury inventory, partially offset by a \$5.8 million decrease in sales at off-site (non tour-based) sales locations. The increase at on-site sales locations included a \$3.7 million decline in sales to Latin American customers. The decline in sales at off-site sales locations included \$9.6 million of lower sales in our Latin American sales channels as a result of the strengthening of the U.S. dollar in the second half of 2015, partially offset by \$3.8 million of higher contract sales at our other off-site sales locations.

The increase in sales at on-site sales locations reflected a 2.5 percent increase in the number of tours. VPG remained flat at \$3,386 in both years, and was negatively impacted in the second half of 2015 by the strength of the U.S. dollar, primarily impacting Latin American customers purchasing in the U.S., as well as Japanese customers purchasing at our resort in Oahu. VPG benefitted from higher pricing and a 0.1 percentage point increase in closing efficiency, which was offset by a decrease in the number of points sold per contract due to the increase in sales to existing owners in 2015, as existing owners buy fewer points per contract than new owners. The increase in the number of tours was driven by an increase in existing owner tours. In the first quarter of 2015, we announced enhancements to our owner recognition levels that created a near-term incentive for existing owners to purchase additional points prior to the end of the second quarter of 2015, which resulted in an increase in existing owner tours. This was partially offset by the decrease in the number of tours in the third quarter of 2015 as a result of hurricane and threatened hurricane activity.

The decline in residential contract sales was due to the sale of \$14.5 million of excess residential inventory in the prior year comparable period.

### Sale of Vacation Ownership Products

2016 Compared to 2015

(\$ in thousands)	Fiscal Years		Change	% Change
	2016	2015		
<b>Contract sales</b>	\$ 645,277	\$ 631,403	\$ 13,874	2%
Revenue recognition adjustments:				
Reportability	(3,453)	(841)	(2,612)	
Sales reserve	(39,298)	(26,077)	(13,221)	
Other <sup>(1)</sup>	(30,221)	(17,711)	(12,510)	
Sale of vacation ownership products	\$ 572,305	\$ 586,774	\$ (14,469)	(2%)

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

Revenue reportability had a \$3.5 million negative impact in 2016, compared to a \$0.8 million negative impact in 2015. The unfavorable impact compared to the prior year comparable period was due to an increase in the amount of sales that remained in the rescission period as of the end of 2016 as compared to 2015 as a result of higher contract sales near the end of 2016, partially offset by an increase in the amount of sales meeting the down payment requirement for revenue reportability prior to the end of 2016.

The higher sales reserve was driven by the higher financing propensity and Latin American default activity and, to a lesser extent, the higher vacation ownership contract sales, as compared to 2015.

The increase in other adjustments was primarily driven by an increase in the utilization of plus points as a sales incentive in 2016. These revenues are deferred and recognized as rental revenue when those points are redeemed or expire.

2015 Compared to 2014

(\$ in thousands)	Fiscal Years		Change	% Change
	2015	2014		
Contract sales	\$ 631,403	\$ 634,202	\$ (2,799)	—%
Revenue recognition adjustments:				
Reportability	(841)	(12,911)	12,070	
Sales reserve	(26,077)	(24,753)	(1,324)	
Other <sup>(1)</sup>	(17,711)	(18,757)	1,046	
Sale of vacation ownership products	\$ 586,774	\$ 577,781	\$ 8,993	2%

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

Revenue reportability had a \$0.8 million negative impact in 2015, compared to a \$12.9 million negative impact in 2014 due to fewer sales meeting the down payment requirements for revenue reportability and more sales in the rescission period at the end of 2014. The higher sales reserve was driven by the higher vacation ownership contract sales and the impact of higher financing propensity, partially offset by a decrease in the estimated default activity compared to 2014.

### Development Margin

2016 Compared to 2015

(\$ in thousands)	Fiscal Years		Change	% Change
	2016	2015		
Sale of vacation ownership products	\$ 572,305	\$ 586,774	\$ (14,469)	(2%)
Cost of vacation ownership products	(134,079)	(164,200)	30,121	18%
Marketing and sales	(304,099)	(288,260)	(15,839)	(5%)
Development margin	\$ 134,127	\$ 134,314	\$ (187)	—%
Development margin percentage	23.4%	22.9%	0.5 pts	

The decrease in development margin reflected the following:

- \$9.0 million of additional deferred revenue in 2016 due to higher usage of plus points as a sales incentive; this revenue will be recognized as rental revenue when the plus points are redeemed or expire;
- \$8.9 million of higher sales reserves in 2016 due to higher vacation ownership contract sales, financing propensity, and Latin American default activity;
- \$8.5 million of pre-opening and startup expenses incurred in support of five new sales locations in 2016;
- \$1.5 million of greater negative revenue reportability impact compared to 2015; and
- \$0.5 million of higher marketing and sales costs due to investment in new programs to help generate future incremental tour volumes, partially offset by lower marketing and sales compensation related costs.

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

- \$16.4 million from a favorable mix of lower cost real estate inventory being sold in 2016;
- \$8.6 million of higher favorable product cost true-up activity (\$13.6 million in 2016 compared to \$5.0 million in 2015) of which \$4.6 million was due to lower development spending for completion of common elements at multiple projects and \$3.9 million resulted from projected increases in development revenue primarily due to a reduction in our estimated future sales incentive costs;
- \$2.6 million from higher vacation ownership contract sales volume net of direct variable expenses (i.e., cost of vacation ownership products and marketing and sales); and
- \$0.6 million of lower other development expenses.

The 0.5 percentage point increase in the development margin percentage reflected a 2.8 percentage point increase due to a favorable mix of lower cost vacation ownership real estate inventory being sold in 2016, a 1.5 percentage point increase due to the higher favorable product cost true-up activity year-over-year and a 0.1 percentage point increase due to the lower development expenses. These increases were partially offset by a 1.5 percentage point decline due to the higher marketing and

sales spending (including a 1.4 percentage point impact from the pre-opening and startup expenses), a 1.1 percentage point decline due to the higher usage of plus points as a sales incentive, a 1.1 percentage point decline due to the higher sales reserve rate, and a 0.2 percentage point decline due to the higher unfavorable revenue reportability, in each case, year-over-year.

#### 2015 Compared to 2014

(\$ in thousands)	Fiscal Years		Change	% Change
	2015	2014		
Sale of vacation ownership products	\$ 586,774	\$ 577,781	\$ 8,993	2%
Cost of vacation ownership products	(164,200)	(170,012)	5,812	3%
Marketing and sales	(288,260)	(272,302)	(15,958)	(6%)
Development margin	\$ 134,314	\$ 135,467	\$ (1,153)	(1%)
Development margin percentage	22.9%	23.4%	(0.5 pts)	

The decrease in development margin reflected the following:

- \$5.0 million from higher vacation ownership contract sales volume net of higher direct variable expenses (i.e., cost of vacation ownership products and marketing and sales), including \$10.3 million from higher marketing and sales costs due to investment in new programs to help generate future incremental tour volumes and higher marketing and sales related program costs, partially offset by \$2.8 million from the higher vacation ownership contract sales and \$2.5 million from a favorable mix of lower cost vacation ownership real estate inventory being sold;
- \$2.8 million from lower residential contract sales (no residential contract sales in 2015 compared to \$14.5 million from the sale of residential inventory in 2014);
- \$1.3 million from lower favorable product cost true-up activity (\$5.0 million in 2015 compared to \$6.3 million in 2014); and
- \$0.7 million of higher sales reserves in 2015 due to the increase in financing propensity.

These decreases in development margin were partially offset by \$7.4 million from higher revenue reportability compared to 2014 and \$1.2 million of lower development expenses primarily from the disposition of land and related assets in Kauai, Hawaii in the fourth quarter of 2014 and second quarter of 2015, and The Abaco Club in the Bahamas in the third quarter of 2014.

The 0.5 percentage point decline in the development margin percentage reflected a 1.8 percentage point decline due to higher marketing and sales spending and a 0.2 percentage point decrease due to the lower favorable product cost true-up activity year-over-year. These declines were partially offset by a 0.9 percentage point increase due to the favorable revenue reportability year-over-year, a 0.4 percentage point increase due to a favorable mix of lower cost vacation ownership real estate inventory being sold in 2015, and a 0.2 percentage point increase due to the lower development expenses as a result of the disposition of land and assets noted above.

**Resort Management and Other Services Revenues, Expenses and Margin**
*2016 Compared to 2015*

(\$ in thousands)	Fiscal Years		Change	% Change
	2016	2015		
Management fee revenues	\$ 74,159	\$ 68,770	\$ 5,389	8%
Other services revenues	194,607	189,991	4,616	2%
Resort management and other services revenues	268,766	258,761	10,005	4%
Resort management and other services expenses	(145,036)	(149,257)	4,221	3%
Resort management and other services margin	\$ 123,730	\$ 109,504	\$ 14,226	13%
Resort management and other services margin percentage	46.0%	42.3%	3.7 pts	

The increase in resort management and other services revenues reflected \$5.8 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 as well as an increase in the dues charged for each owner recognition level, \$5.4 million of higher management fees, \$1.3 million of higher ancillary revenues and \$0.3 million of higher other revenues, as compared to 2015. These increases were partially offset by \$1.2 million of lower settlement and lien fees due to a decrease in the number of contracts closed and fewer lien fees assessed, \$0.9 million of lower customer service fees, \$0.7 million of lower brand fees due to fewer closings, in each case, in 2016 as compared to 2015. The increase in ancillary revenues included \$2.9 million of ancillary revenues in 2016 at the property in New York that we did not operate in 2015 and a \$0.3 million increase in ancillary revenues from food and beverage and golf offerings at our other resorts, partially offset by \$1.1 million of lower revenues due to outsourcing the operation of one restaurant and \$0.8 million of lower revenue at the operating property in San Diego, California due to the conversion of the property to vacation ownership inventory.

The improvement in the resort management and other services margin reflected the changes in revenue and \$4.2 million of lower expenses. The lower expenses included \$4.5 million of lower customer service and exchange company expenses, \$1.8 million of lower ancillary expenses, \$0.9 million of lower expenses due to outsourcing the operation of one restaurant and \$0.3 million of lower refurbishment management expenses incurred from managing the refurbishment projects at our properties, partially offset by \$3.3 million of expenses in 2016 from the operation of the ancillary businesses at the property in New York.

*2015 Compared to 2014*

(\$ in thousands)	Fiscal Years		Change	% Change
	2015	2014		
Management fee revenues	\$ 68,770	\$ 64,324	\$ 4,446	7%
Other services revenues	189,991	182,020	7,971	4%
Resort management and other services revenues	258,761	246,344	12,417	5%
Resort management and other services expenses	(149,257)	(150,027)	770	1%
Resort management and other services margin	\$ 109,504	\$ 96,317	\$ 13,187	14%
Resort management and other services margin percentage	42.3%	39.1%	3.2 pts	

The increase in resort management and other services revenues reflected \$4.4 million of higher management fees, \$3.4 million of higher refurbishment management revenues earned from managing the refurbishment projects at our properties, \$2.1 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, \$1.1 million of higher resales commission and other revenues, \$1.7 million of higher settlement and lien fees due to an increase in the number of contracts closed and higher assessed lien fees and \$1.0 million of higher fees from external exchange service providers, partially offset by \$1.3 million of lower ancillary revenues. The decrease in ancillary revenues included an \$8.9 million decline due to the disposition of certain assets during the



prior year, the closure of another ancillary operation during the prior year and outsourcing the operation of a restaurant during the prior year, partially offset by a \$5.6 million increase in ancillary revenues from food and beverage and golf offerings at our existing resorts and \$2.0 million of ancillary revenues at the operating property in San Diego, California acquired in the first quarter of 2015.

The improvement in the resort management and other services margin reflected the changes in revenue as well as \$0.8 million of lower expenses, including \$9.5 million of higher ancillary, customer service, settlement and MVCD program expenses related to the higher revenues from our existing resorts in 2015, \$2.5 million of higher refurbishment management expenses incurred from managing the refurbishment projects at our properties, and \$1.6 million from the operation of the ancillary businesses at the operating property in San Diego, California, partially offset by \$14.4 million of ancillary expense savings from the dispositions, closure and outsourcing noted above.

### Financing Revenues, Expenses and Margin

2016 Compared to 2015

(\$ in thousands)	Fiscal Years		Change	% Change
	2016	2015		
Interest income	\$ 112,775	\$ 109,884	\$ 2,891	3%
Other financing revenues	5,871	5,854	17	—%
Financing revenues	\$ 118,646	\$ 115,738	\$ 2,908	3%
Financing propensity	58.9%	49.1%		

The increase in financing revenues was due to an increase in the average gross vacation ownership notes receivable balance, partially offset by a slight decrease in the weighted average coupon rate of our vacation ownership notes receivable. The increase in financing propensity resulted from the use of incentive programs during all of 2016 as compared to during only a portion of 2015. We expect financing propensity in 2017 to continue at similar levels to 2016 as we 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.

2015 Compared to 2014

(\$ in thousands)	Fiscal Years		Change	% Change
	2015	2014		
Interest income	\$ 109,884	\$ 113,958	\$ (4,074)	(4%)
Other financing revenues	5,854	6,153	(299)	(5%)
Financing revenues	\$ 115,738	\$ 120,111	\$ (4,373)	(4%)
Financing propensity	49.1%	41.5%		

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

The increase in financing propensity resulted from new incentive programs implemented in the first half of 2015, which helped increase financing propensity from the 40 to 45 percent average achieved in recent years.

### Rental Revenues, Expenses and Margin

We hold a significant amount of luxury inventory in the North America segment and as such, have a corresponding obligation to pay maintenance fees on the real estate interests we own. Because vacation ownership interests in our luxury inventory often consist of multiple weeks and require upscale fit and finishes and levels of service to meet Ritz-Carlton brand standards, maintenance fees for luxury inventory are much higher than for our other inventory. We mitigate the maintenance fee expense to the extent possible through open market rental and internal sales-related marketing programs; however, our opportunities to rent this inventory are limited due to contractual and legal restrictions.

## 2016 Compared to 2015

(\$ in thousands)	Fiscal Years		Change	% Change
	2016	2015		
Rental revenues	\$ 276,008	\$ 277,348	\$ (1,340)	—%
Unsold maintenance fees — upscale	(59,797)	(51,606)	(8,191)	(16%)
Unsold maintenance fees — luxury	(2,391)	(7,733)	5,342	69%
Unsold maintenance fees	(62,188)	(59,339)	(2,849)	(5%)
Other rental expenses	(163,093)	(165,704)	2,611	2%
Rental margin	\$ 50,727	\$ 52,305	\$ (1,578)	(3%)
Rental margin percentage	18.4%	18.9%	(0.5 pts)	

	Fiscal Years		Change	% Change
	2016	2015		
Transient keys rented <sup>(1)</sup>	1,111,039	1,088,206	22,833	2%
Average transient key rate	\$ 211.66	\$ 214.47	\$ (2.81)	(1%)
Resort occupancy	89.8%	90.2%	(0.4 pts)	

<sup>(1)</sup> 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 decrease in rental revenues was due to \$4.3 million of lower revenue at our operating property in San Diego, California due to rooms being unavailable to rent during the conversion of the property to vacation ownership inventory and a 1 percent decrease in average transient rate (\$3.1 million) due to the mix of inventory available for rent. These decreases were partially offset by a \$3.3 million increase in preview keys and other revenue and a 1 percent increase in transient keys rented (\$2.8 million), both of which were primarily due to a 4 percent increase in available keys.

The decrease in rental margin reflected a \$2.2 million favorable charge in 2015 associated with Marriott Rewards Points issued prior to the Spin-Off, partially offset by \$0.5 million of higher rental revenues net of direct variable expenses (such as housekeeping), expenses incurred due to owners choosing alternative usage options, and unsold maintenance fees, and the \$0.1 million increase in plus points revenue.

## 2015 Compared to 2014

(\$ in thousands)	Fiscal Years		Change	% Change
	2015	2014		
Rental revenues	\$ 277,348	\$ 234,668	\$ 42,680	18%
Unsold maintenance fees — upscale	(51,606)	(45,722)	(5,884)	(13%)
Unsold maintenance fees — luxury	(7,733)	(9,639)	1,906	20%
Unsold maintenance fees	(59,339)	(55,361)	(3,978)	(7%)
Other rental expenses	(165,704)	(154,010)	(11,694)	(8%)
Rental margin	\$ 52,305	\$ 25,297	\$ 27,008	107%
Rental margin percentage	18.9%	10.8%	8.1 pts	

	Fiscal Years		Change	% Change
	2015	2014		
Transient keys rented <sup>(1)</sup>	1,088,206	1,022,846	65,360	6%
Average transient key rate	\$ 214.47	\$ 204.38	\$ 10.09	5%
Resort occupancy	90.2%	90.3%	(0.1 pts)	

<sup>(1)</sup> 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 a 6 percent increase in transient keys rented (\$13.4 million) primarily sourced from a 7 percent increase in available keys, a 5 percent increase in average transient rate (\$11.0 million) driven by stronger consumer demand, \$5.2 million of higher plus points revenue (which is recognized when the points are redeemed or expire) and a \$3.6 million increase in preview keys and other revenue. In addition, we generated \$9.4 million of revenue at the operating property in San Diego, California acquired during the first quarter of 2015.

The increase in rental margin reflected \$18.2 million of higher rental revenues net of direct variable expenses (such as housekeeping), expenses incurred due to owners choosing alternative usage options, and unsold maintenance fees, as well as \$6.5 million of lower charges associated with Marriott Rewards Points issued prior to the Spin-Off (\$2.2 million favorable adjustment in 2015 compared to \$4.3 million unfavorable charge in 2014) and the \$5.2 million increase in plus points revenue, partially offset by a \$2.9 million loss at the operating property in San Diego, California.

## Europe

The following discussion presents an analysis of our results of operations for 2016, 2015 and 2014.

(\$ in thousands)	Fiscal Years		
	2016	2015	2014
<b>REVENUES</b>			
Sale of vacation ownership products	\$ 24,534	\$ 28,963	\$ 35,062
Resort management and other services	24,290	25,122	28,133
Financing	3,293	3,949	4,300
Rental	19,592	20,679	21,997
Cost reimbursements	33,912	33,348	39,205
<b>TOTAL REVENUES</b>	<b>105,621</b>	<b>112,061</b>	<b>128,697</b>
<b>EXPENSES</b>			
Cost of vacation ownership products	5,889	6,509	8,711
Marketing and sales	19,142	21,974	24,401
Resort management and other services	19,220	20,447	24,333
Rental	15,008	15,431	16,161
Royalty fee	383	464	631
Cost reimbursements	33,912	33,348	39,205
<b>TOTAL EXPENSES</b>	<b>93,554</b>	<b>98,173</b>	<b>113,442</b>
Losses and other expense	—	(14)	(176)
<b>SEGMENT FINANCIAL RESULTS</b>	<b>\$ 12,067</b>	<b>\$ 13,874</b>	<b>\$ 15,079</b>

## Overview

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

## Contract Sales

2016 Compared to 2015

(\$ in thousands)	Fiscal Years			
	2016	2015	Change	% Change
<b>Contract Sales</b>				
Vacation ownership	\$ 31,174	\$ 34,376	\$ (3,202)	(9%)
<b>Total contract sales</b>	<b>\$ 31,174</b>	<b>\$ 34,376</b>	<b>\$ (3,202)</b>	<b>(9%)</b>

The decrease in vacation ownership contract sales in our Europe segment was due to \$9.4 million of lower fractional sales due to the near sell-out of developer inventory at our one fractional project in this segment in 2015, partially offset by \$6.2 million of higher timeshare sales. The higher timeshare sales are due to increases in tours and VPG as compared to 2015.

2015 Compared to 2014

(\$ in thousands)	Fiscal Years		Change	% Change
	2015	2014		
Contract Sales				
Vacation ownership	\$ 34,376	\$ 45,171	\$ (10,795)	(24%)
Total contract sales	\$ 34,376	\$ 45,171	\$ (10,795)	(24%)

The decrease in vacation ownership contract sales in our Europe segment was driven by \$9.6 million of lower sales from our Middle East sales location due to large multi-week purchases in 2014 that did not recur in 2015, as well as higher cancellations and fewer tours in 2015 and \$4.1 million from the changes in foreign exchange rates, partially offset by \$2.9 million of stronger fractional sales at our project in London, United Kingdom.

**Sale of Vacation Ownership Products**

2016 Compared to 2015

(\$ in thousands)	Fiscal Years		Change	% Change
	2016	2015		
Contract sales	\$ 31,174	\$ 34,376	\$ (3,202)	(9%)
Revenue recognition adjustments:				
Reportability	(3,001)	(1,144)	(1,857)	
Sales reserve	(3,860)	(3,680)	(180)	
Other <sup>(1)</sup>	221	(589)	810	
Sale of vacation ownership products	\$ 24,534	\$ 28,963	\$ (4,429)	(15%)

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

Revenue reportability had a larger unfavorable impact in 2016 compared to 2015 because fewer sales met the down payment requirement for revenue recognition purposes prior to the end of 2016 than in 2015. The increase in the sales reserve was due to an unfavorable adjustment in 2016 to correct an immaterial error of \$0.5 million related to historical static pool data, partially offset by the lower contract sales volume in 2016.

2015 Compared to 2014

(\$ in thousands)	Fiscal Years		Change	% Change
	2015	2014		
Contract sales	\$ 34,376	\$ 45,171	\$ (10,795)	(24%)
Revenue recognition adjustments:				
Reportability	(1,144)	(5,274)	4,130	
Sales reserve	(3,680)	(4,537)	857	
Other <sup>(1)</sup>	(589)	(298)	(291)	
Sale of vacation ownership products	\$ 28,963	\$ 35,062	\$ (6,099)	(17%)

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

Revenue reportability had a smaller negative impact in 2015 compared to 2014 because more sales met the down payment requirement for revenue recognition purposes prior to the end of 2015 compared to 2014.

**Development Margin***2016 Compared to 2015*

(\$ in thousands)	Fiscal Years		Change	% Change
	2016	2015		
Sale of vacation ownership products	\$ 24,534	\$ 28,963	\$ (4,429)	(15%)
Cost of vacation ownership products	(5,889)	(6,509)	620	10%
Marketing and sales	(19,142)	(21,974)	2,832	13%
Development margin	\$ (497)	\$ 480	\$ (977)	(204%)
Development margin percentage	(2.0%)	1.7%	(3.7 pts)	

The decrease in development margin reflected \$1.2 million of lower revenue reportability year-over-year, \$0.3 million of lower product cost true-up activity (no true-up activity in 2016 compared to \$0.3 million of favorable true-up activity in 2015) and \$0.3 million from the year-over-year change in the sales reserve, partially offset by \$0.8 million from the change in vacation ownership contract sales volume net of direct variable expenses (i.e., cost of vacation ownership products and marketing and sales) due to lower marketing and sales costs as compared to 2015.

*2015 Compared to 2014*

(\$ in thousands)	Fiscal Years		Change	% Change
	2015	2014		
Sale of vacation ownership products	\$ 28,963	\$ 35,062	\$ (6,099)	(17%)
Cost of vacation ownership products	(6,509)	(8,711)	2,202	25%
Marketing and sales	(21,974)	(24,401)	2,427	10%
Development margin	\$ 480	\$ 1,950	\$ (1,470)	(75%)
Development margin percentage	1.7%	5.6%	(3.9 pts)	

The decrease in development margin reflected \$4.3 million from the lower vacation ownership contract sales volume net of lower direct variable expenses (i.e., cost of vacation ownership products and marketing and sales) due in part to less efficient marketing and sales spending at our existing sales locations due to an inability to leverage fixed costs on the lower sales volumes. These decreases were partially offset by \$2.8 million from the higher revenue reportability year-over-year.

## Asia Pacific

The following discussion presents an analysis of our results of operations for 2016, 2015 and 2014.

(\$ in thousands)	Fiscal Years		
	2016	2015	2014
<b>REVENUES</b>			
Sale of vacation ownership products	\$ 40,664	\$ 59,592	\$ 34,645
Resort management and other services	10,514	11,664	4,040
Financing	4,187	4,346	4,498
Rental	16,471	14,970	7,642
Cost reimbursements	3,461	3,060	3,320
<b>TOTAL REVENUES</b>	<b>75,297</b>	<b>93,632</b>	<b>54,145</b>
<b>EXPENSES</b>			
Cost of vacation ownership products	7,606	26,877	8,318
Marketing and sales	30,054	20,365	18,707
Resort management and other services	10,055	10,368	2,778
Rental	20,463	19,255	12,388
Royalty fee	924	684	686
Cost reimbursements	3,461	3,060	3,320
<b>TOTAL EXPENSES</b>	<b>72,563</b>	<b>80,609</b>	<b>46,197</b>
Losses and other expense	(878)	(29)	(9)
Other	(230)	(5,731)	(131)
<b>SEGMENT FINANCIAL RESULTS</b>	<b>\$ 1,626</b>	<b>\$ 7,263</b>	<b>\$ 7,808</b>

### Overview

In our Asia Pacific segment, we continue to identify opportunities for development margin improvement. We plan to continue to focus on future inventory acquisitions with strong on-site sales locations. Due to operational constraints, regulatory conditions and certain other conditions related to the 18 units we previously owned in Macau, we decided not to sell these units through our Marriott Vacation Club, Asia Pacific points program, and instead disposed of the units as whole ownership residential units during the first quarter of 2015. In the third quarter of 2015, we reinvested the proceeds from this disposition into the purchase of an operating property located in Surfers Paradise, Australia. During the second quarter of 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 portion of this operating property that we intended to convert into vacation ownership inventory at the time of the acquisition, a portion of which has been contributed to our points-based programs within this segment. We began selling from this new location at the end of the first quarter of 2016.

### Contract Sales

2016 Compared to 2015

(\$ in thousands)	Fiscal Years		Change	% Change
	2016	2015		
<b>Contract Sales</b>				
Vacation ownership	\$ 47,183	\$ 34,105	\$ 13,078	38%
Residential products	—	28,420	(28,420)	(100%)
Total contract sales	<b>\$ 47,183</b>	<b>\$ 62,525</b>	<b>\$ (15,342)</b>	<b>(25%)</b>

The increase in vacation ownership contract sales in our Asia Pacific segment was driven by an 11 percent increase in VPG and a 25 percent increase in tours. These increases were both driven by an increase in sales to existing owners, and the increase in tours was also driven by the new sales location in Australia. The decrease in Asia Pacific residential contract sales

was due to the bulk sale of 18 whole ownership residential units in Macau during the first quarter of 2015 for \$28.4 million, following which no residential inventory remained in this segment.

*2015 Compared to 2014*

(\$ in thousands)	Fiscal Years		Change	% Change
	2015	2014		
<b>Contract Sales</b>				
Vacation ownership	\$ 34,105	\$ 33,906	\$ 199	1%
Residential products	28,420	—	28,420	100%
Total contract sales	<u>\$ 62,525</u>	<u>\$ 33,906</u>	<u>\$ 28,619</u>	84%

The increase in vacation ownership contract sales in our Asia Pacific segment reflected an increase in the cancellations rate in 2014 due to changes in the timeshare legislation in Singapore and political turmoil in Thailand, partially offset by lower sales to the existing owner base and the negative impact of local currency devaluations in 2015.

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

**Sale of Vacation Ownership Products**

*2016 Compared to 2015*

(\$ in thousands)	Fiscal Years		Change	% Change
	2016	2015		
Contract sales	\$ 47,183	\$ 62,525	\$ (15,342)	(25%)
Revenue recognition adjustments:				
Reportability	(1,093)	333	(1,426)	
Sales reserve	(5,116)	(3,242)	(1,874)	
Other <sup>(1)</sup>	(310)	(24)	(286)	
Sale of vacation ownership products	<u>\$ 40,664</u>	<u>\$ 59,592</u>	<u>\$ (18,928)</u>	(32%)

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

The increase in the sales reserve was due to an unfavorable adjustment to correct an immaterial error of \$1.3 million in 2016 with respect to historical static pool data as well as the higher vacation ownership contract sales volume in 2016. The unfavorable revenue reportability in 2016 as compared to 2015 was due to unclosed sales at the new sales location in Australia at the end of 2016.

*2015 Compared to 2014*

(\$ in thousands)	Fiscal Years		Change	% Change
	2015	2014		
Contract sales	\$ 62,525	\$ 33,906	\$ 28,619	84%
Revenue recognition adjustments:				
Reportability	333	2,683	(2,350)	
Sales reserve	(3,242)	(1,982)	(1,260)	
Other <sup>(1)</sup>	(24)	38	(62)	
Sale of vacation ownership products	<u>\$ 59,592</u>	<u>\$ 34,645</u>	<u>\$ 24,947</u>	72%

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

The lower favorable revenue reportability in 2015 is due to the recognition of sales in 2014 that were previously in the rescission period as a result of the change in timeshare legislation in Singapore. The increase in the sales reserve is due to an increase in the estimated default activity in 2015 compared to 2014.

**Development Margin**
*2016 Compared to 2015*

(\$ in thousands)	Fiscal Years		Change	% Change
	2016	2015		
Sale of vacation ownership products	\$ 40,664	\$ 59,592	\$ (18,928)	(32%)
Cost of vacation ownership products	(7,606)	(26,877)	19,271	72%
Marketing and sales	(30,054)	(20,365)	(9,689)	(48%)
Development margin	\$ 3,004	\$ 12,350	\$ (9,346)	(76%)
Development margin percentage	7.4%	20.7%	(13.3 pts)	

The decrease in development margin reflected the following:

- \$5.9 million of lower residential contract sales volume net of expenses (there were no residential contract sales in 2016, compared to \$28.4 million of residential contract sales in 2015);
- \$3.5 million of pre-opening and startup expenses incurred in support of the new sales location in Australia in 2016;
- \$1.0 million of lower revenue reportability compared to the prior year comparable period;
- \$0.9 million of the higher sales reserves compared to the prior year comparable period due to an unfavorable adjustment to correct an immaterial error in 2016 with respect to historical static pool data as well as the higher vacation ownership contract sales volume; and
- \$0.8 million of lower favorable product cost true-up activity (\$1.2 million in 2016 compared to \$2.0 million in 2015).

The decreases in development margin were partially offset by \$2.8 million of higher sales volume net of higher direct variable expenses (i.e., cost of vacation ownership products and marketing and sales) as compared to 2015.

*2015 Compared to 2014*

(\$ in thousands)	Fiscal Years		Change	% Change
	2015	2014		
Sale of vacation ownership products	\$ 59,592	\$ 34,645	\$ 24,947	72%
Cost of vacation ownership products	(26,877)	(8,318)	(18,559)	(223%)
Marketing and sales	(20,365)	(18,707)	(1,658)	(9%)
Development margin	\$ 12,350	\$ 7,620	\$ 4,730	62%
Development margin percentage	20.7%	22.0%	(1.3 pts)	

The increase in development margin reflected \$5.9 million from the residential contract sales volume net of expenses and \$1.8 million from higher favorable product cost true-up activity (\$2.0 million in 2015 compared to \$0.2 million in 2014). These increases were partially offset by \$1.6 million from the lower revenue reportability compared to the prior year comparable period, \$1.0 million from the increase in the sales reserve and \$0.4 million of higher marketing and sales expenses.



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

2016 Compared to 2015

(\$ in thousands)	Fiscal Years		Change	% Change
	2016	2015		
Management fee revenues	\$ 2,751	\$ 2,695	\$ 56	2%
Other services revenues	7,763	8,969	(1,206)	(13%)
Resort management and other services revenues	10,514	11,664	(1,150)	(10%)
Resort management and other services expenses	(10,055)	(10,368)	313	3%
Resort management and other services margin	\$ 459	\$ 1,296	\$ (837)	(65%)
Resort management and other services margin percentage	4.4%	11.1%	(6.7 pts)	

The decrease in resort management and other services revenues reflected \$1.2 million of lower ancillary revenues from the portion of the operating property in Surfers Paradise, Australia that was disposed of during the second quarter of 2016.

The decline in the resort management and other services margin reflected \$0.6 million of lower profit at the operating property in Surfers Paradise, Australia and \$0.2 million of higher other costs, as compared to 2015. 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. See Footnote No. 5, "Acquisitions and Dispositions" to our Financial Statements for further information related to this transaction.

2015 Compared to 2014

(\$ in thousands)	Fiscal Years		Change	% Change
	2015	2014		
Management fee revenues	\$ 2,695	\$ 2,594	\$ 101	4%
Other services revenues	8,969	1,446	7,523	520%
Resort management and other services revenues	11,664	4,040	7,624	189%
Resort management and other services expenses	(10,368)	(2,778)	(7,590)	(273%)
Resort management and other services margin	\$ 1,296	\$ 1,262	\$ 34	3%
Resort management and other services margin percentage	11.1%	31.2%	(20.1 pts)	

The increase in resort management and other services revenues reflected \$7.4 million of ancillary revenues at the operating property in Surfers Paradise, Australia acquired in the third quarter of 2015, \$0.1 million of higher management fees and \$0.1 million of higher other revenues.

The slight increase in the resort management and other services margin reflected \$1.3 million of ancillary margin at the operating property in Surfers Paradise, Australia, offset by spending in support of future growth in the business.

## Rental Revenues, Expenses and Margin

2016 Compared to 2015

(\$ in thousands)	Fiscal Years		Change	% Change
	2016	2015		
Rental revenues	\$ 16,471	\$ 14,970	\$ 1,501	10%
Rental expenses	(20,463)	(19,255)	(1,208)	(6%)
Rental margin	\$ (3,992)	\$ (4,285)	\$ 293	7%
Rental margin percentage	(24.2%)	(28.6%)	4.4 pts	

The increase in rental revenues included \$1.4 million from an increase in transient and preview keys rented and \$0.1 million of higher revenue at the operating property in Surfers Paradise, Australia that was purchased in the third quarter of 2015 (a portion of which was disposed of in the second quarter of 2016). The increase in rental margin reflected \$1.7 million of higher rental revenues net of direct variable expenses (such as housekeeping), expenses incurred due to owners choosing alternative usage options, and unsold maintenance fees, partially offset by a \$1.4 million decline at the operating results at the operating property in Surfers Paradise, Australia primarily due to unsold maintenance fees in 2016 incurred after conversion of the property to vacation ownership inventory.

#### 2015 Compared to 2014

(\$ in thousands)	Fiscal Years		Change	% Change
	2015	2014		
Rental revenues	\$ 14,970	\$ 7,642	\$ 7,328	96%
Rental expenses	(19,255)	(12,388)	(6,867)	(55%)
Rental margin	\$ (4,285)	\$ (4,746)	\$ 461	10%
Rental margin percentage	(28.6%)	(62.1%)	33.5 pts	

The increase in rental revenues was due to the operating property in Surfers Paradise, Australia acquired in the third quarter of 2015. The increase in rental margin reflected \$1.5 million of lower unsold maintenance fees and other expenses, partially offset by a \$1.0 million loss at the operating property in Surfers Paradise, Australia.

#### Other

##### 2016 Compared to 2015 and 2015 Compared to 2014

In 2016, we incurred \$0.2 million of transaction related costs associated with the then-anticipated 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," to our Financial Statements for further information related to this transaction.

In 2015, we incurred \$5.7 million of transaction related costs associated with the completion of our purchase of the operating property located in Surfers Paradise, Australia, which was required to be accounted for as a business combination for which transaction costs are expensed. We did not incur any transaction related costs during 2014.

#### Corporate and Other

The following discussion presents an analysis of our results of operations for 2016, 2015 and 2014.

(\$ in thousands)	Fiscal Years		
	2016	2015	2014
<b>EXPENSES</b>			
Cost of vacation ownership products	\$ 7,519	\$ 6,713	\$ 9,403
Financing	21,380	24,194	24,148
General and administrative	104,833	106,104	100,916
Litigation settlement	—	138	250
Organizational and separation related	—	642	2,544
Consumer financing interest	23,685	24,658	26,464
Royalty fee	49,779	49,863	49,828
<b>TOTAL EXPENSES</b>	<b>207,196</b>	<b>212,312</b>	<b>213,553</b>
(Losses) gains and other (expense) income	(181)	—	6
Interest expense	(8,912)	(12,810)	(11,692)
Other	(211)	(2,100)	—
<b>TOTAL FINANCIAL RESULTS</b>	<b>\$ (216,500)</b>	<b>\$ (227,222)</b>	<b>\$ (225,239)</b>

Corporate and Other consists of results not specifically attributable to an individual segment, including expenses in support of our financing operations, non-capitalizable development expenses incurred to support overall company development, company-wide general and administrative costs, 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 the Spin-Off.

## **Total Expenses**

### *2016 Compared to 2015*

Total expenses decreased \$5.1 million from the prior fiscal year. The \$5.1 million decrease resulted from \$2.8 million of lower financing expenses, \$1.3 million of lower general and administrative expenses, \$1.0 million of lower consumer financing interest expense, \$0.6 million of prior year organizational and separation related expenses and \$0.1 million of prior year litigation settlement expenses, partially offset by \$0.8 million of higher cost of vacation ownership products expenses due to higher non-capitalizable project expenses, and \$0.1 million of higher royalty fee due to an increase in the fixed portion of the royalty fee late in 2016.

The lower general and administrative expenses were driven by \$4.0 million of lower personnel related and other expenses, \$2.5 million of lower litigation costs and \$1.8 million of lower refurbishment costs compared to 2015, partially offset by \$7.0 million of higher information technology project costs. The lower personnel related and other expenses includes lower compensation related costs and savings due to cost containment efforts, partially offset by annual merit and inflationary cost increases.

The \$1.0 million decline in consumer financing interest expense was due to a lower average interest rate on outstanding debt balances (\$1.4 million), partially offset by a higher average outstanding debt balance including draw downs on the Warehouse Credit Facility in 2016 (\$0.4 million). The lower average interest rate reflected the continued pay-down of older securitization transactions that carried higher overall interest rates and the benefit of lower interest rates applicable to our more recently completed securitizations of vacation ownership notes receivable.

### *2015 Compared to 2014*

Total expenses decreased \$1.2 million from the prior year comparable period. The \$1.2 million decrease resulted from \$2.7 million of lower cost of vacation ownership products expenses due to lower pre-development spending associated with potential acquisitions and higher capitalization of other development expenses, \$1.9 million of lower organizational and separation related expenses due to the completion of many of the initiatives relating to our separation from Marriott International, \$1.8 million of lower consumer financing interest expense and \$0.1 million of lower litigation settlements, partially offset by \$5.2 million of higher general and administrative expenses.

The \$1.8 million decline in consumer financing interest expense was due to a lower average interest rate on outstanding debt balances (\$2.2 million), partially offset by an increase in the outstanding debt balances of securitized vacation ownership notes receivable and associated interest costs (\$0.4 million). The lower average interest rate reflected the continued pay-down of older securitization transactions that carried higher overall interest rates and the benefit of lower interest rates applicable to our more recently completed securitizations of vacation ownership notes receivable.

The higher general and administrative expenses were driven by \$3.4 million of higher personnel related and other costs net of lower depreciation and cost savings and \$1.8 million of refurbishment costs in 2015.

## **Liquidity and Capital Resources**

Our capital needs are supported by cash on hand (\$147.1 million at the end of 2016), cash generated from operations, our ability to raise capital through securitizations in the ABS market and, to the extent necessary, funds available under the Warehouse Credit Facility and the Revolving Corporate Credit Facility. We believe these sources of capital will be adequate to meet our short-term and long-term liquidity requirements, finance our long-term growth plans, satisfy debt service requirements, return capital to shareholders and fulfill other cash requirements. At the end of 2016, we had \$746.4 million of total gross debt outstanding, which included \$738.4 million of non-recourse debt associated with vacation ownership notes receivable securitizations.

At the end of 2016, we had \$708.2 million of real estate inventory on hand, comprised of \$338.0 million of finished goods, \$39.5 million of work-in-progress and \$330.7 million of land and infrastructure. We expect to continue to sell excess Ritz-Carlton branded inventory through the MVCD program in order to generate incremental cash and reduce related carrying costs.

Our vacation ownership product offerings allow us to utilize our real estate inventory efficiently. The majority of our sales are of 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 2016, 2015 and 2014, we had net changes in cash and cash equivalents of \$(30.0) million, \$(169.5) million and \$147.0 million, respectively. The following table summarizes these changes:

(\$ in thousands)	Fiscal Years		
	2016	2015	2014
Cash provided by (used in):			
Operating activities	\$ 140,172	\$ 109,034	\$ 291,411
Investing activities	39,021	(25,068)	43,126
Financing activities	(204,952)	(249,747)	(185,650)
Effect of change in exchange rates on cash and cash equivalents	(4,200)	(3,673)	(1,883)
Net change in cash and cash equivalents	\$ (29,959)	\$ (169,454)	\$ 147,004

#### 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 2016, we generated \$140.2 million of cash flows from operating activities, compared to \$109.0 million in 2015. Excluding the impact of changes in net income and adjustments for non-cash items, the increase in cash flows was attributable to the pay down of our liability for the Marriott Rewards customer loyalty program in 2015 and favorable timing of real estate inventory spending in 2016. This favorable impact was partially offset by a higher financing propensity due to the continued success of the financing programs implemented in the first half of 2015, lower collections due to the reduction in the portfolio of outstanding vacation ownership notes receivable and the timing of revenue reportability associated with our vacation ownership contract sales.

In 2015, we recorded residential contract sales of \$28.4 million associated with the sale of 18 units in Macau. In 2014, we recorded residential contract sales of \$13.8 million associated with the sale of seven units at the RCC San Francisco that we bought back as part of a legal settlement at the end of 2012.

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

*Real Estate Inventory Spending Less Than Cost of Sales*

(\$ in thousands)	Fiscal Years		
	2016	2015	2014
Real estate inventory spending	\$ (138,867)	\$ (119,067)	\$ (99,337)
Purchase of operating properties for future conversion to inventory	—	(61,554)	—
Real estate inventory costs	142,261	192,071	180,171
Real estate inventory spending less than cost of sales	\$ 3,394	\$ 11,450	\$ 80,834

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

Given the significant level of completed real estate inventory on hand, as well as the capital efficiency resulting from the MVCD program and capital efficient transactions, our spending for real estate inventory remained below the amount of real estate inventory costs in each of 2016, 2015 and 2014.

In 2016, 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 intend to convert 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.

In 2015, real estate inventory spending included \$32.0 million for the acquisition of 71 units at The Mayflower Hotel, Autograph Collection, an operating hotel, in Washington, D.C. We have included these vacation ownership units, in their current form, in our MVCD program. See Footnote No. 5, “Acquisitions and Dispositions,” to our Financial Statements for additional information regarding this transaction.

We also completed the acquisition of an operating property located in Surfers Paradise, Australia. At the time of the acquisition, we determined that we would convert a portion of this operating property into vacation ownership interests for future use in our Asia Pacific segment and \$14.9 million, the amount of the purchase price related to this portion, was included as an operating activity in Purchase of operating properties for future conversion to inventory on our Cash Flows for 2015. We have completed the conversion of this portion of the operating property, a portion of which has been contributed to our points-based programs in our Asia Pacific segment. See Footnote No. 5, “Acquisitions and Dispositions,” to our Financial Statements for additional information regarding this transaction.

We also capitalized on the opportunity to add a premier destination to our portfolio in 2015 through the acquisition of an operating property in San Diego, California, that we are in the process of converting, in its entirety, to vacation ownership interests for future use in our MVCD program. The \$46.6 million allocated to the portion of the operating property which we are converting to vacation ownership inventory was classified as an operating activity in Purchase of operating properties for future conversion to inventory on our Cash Flows for 2015. See Footnote No. 5, “Acquisitions and Dispositions,” to our Financial Statements for additional information regarding this transaction.

Real estate inventory costs for 2015 included \$21.6 million related to the sale of the residential units in Macau.

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*

(\$ in thousands)	Fiscal Years		
	2016	2015	2014
Vacation ownership notes receivable collections — non-securitized	\$ 73,565	\$ 88,919	\$ 103,074
Vacation ownership notes receivable collections — securitized	180,057	181,251	184,166
Vacation ownership notes receivable originations	(356,859)	(311,195)	(267,917)
Vacation ownership notes receivable collections (less than) in excess of originations	\$ (103,237)	\$ (41,025)	\$ 19,323

Vacation ownership notes receivable collections include principal from non-securitized and securitized vacation ownership notes receivable. Vacation ownership notes receivable collections have continued to decline over the three years due to the reduction in the portfolio of outstanding vacation ownership notes receivable, partially offset by an increase in the vacation ownership product sales volumes. Vacation ownership notes receivable originations in 2016 increased due to an increase in financing propensity to 60.1 percent compared to 49.9 percent for 2015, due to the continued success of the new financing incentive programs that we began offering in our North America segment in the first half of 2015. Given the success of these incentives to date, we expect financing propensity levels in 2017 to continue at similar levels to 2016 as we continue to offer the financing incentive programs. Vacation ownership notes receivable originations increased in 2015 compared to 2014 due to a slight increase in financing propensity to 49.9 percent in 2015 from 43.6 percent in 2014.

During 2016, 2015 and 2014, and as of December 30, 2016, January 1, 2016 and January 2, 2015, no securitized vacation ownership notes receivable pools were out of compliance with established performance parameters.

#### Cash from Investing Activities

(\$ in thousands)	Fiscal Years		
	2016	2015	2014
Capital expenditures for property and equipment (excluding inventory)	\$ (34,770)	\$ (35,735)	\$ (15,202)
Purchase of operating property to be sold	—	(47,658)	—
Decrease (increase) in restricted cash	4,838	37,681	(24,019)
Dispositions, net	68,953	20,644	82,347
Net cash provided by (used in) investing activities	\$ 39,021	\$ (25,068)	\$ 43,126

#### *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 2016, capital expenditures for property and equipment of \$34.8 million included \$27.0 million to support business operations (including \$20.7 million for sales locations and \$6.3 million for ancillary and operations assets) and \$7.8 million for technology spending.

In 2015, capital expenditures for property and equipment of \$35.7 million included \$26.3 million to support business operations (including \$7.7 million associated with the assets purchased for the operating property in San Diego, California, \$13.0 million for sales locations other than the operating property in San Diego, California, and \$5.6 million for ancillary and other operations assets) and \$9.4 million for technology spending (including \$3.8 million for Spin-Off related initiatives). See Footnote No. 5, "Acquisitions and Dispositions," to our Financial Statements for additional information regarding the San Diego, California transaction.

In 2014, capital expenditures for property and equipment of \$15.2 million included \$9.9 million to support business operations (including \$6.7 million for ancillary and operations assets and \$3.2 million for sales locations) and \$5.3 million for technology spending (including \$3.0 million for Spin-Off related initiatives).

#### *Purchase of Operating Property to be Sold*

In 2015, we completed the acquisition of an operating property located in Surfers Paradise, Australia. At the time of the acquisition, we determined that we would convert a portion of this operating property into vacation ownership interests for future use in our Asia Pacific segment, and sell the remaining downsized portion of the operating property to a third party. We included \$47.7 million, the amount of the purchase price related to the remaining downsized portion of the operating property, in Purchase of operating property to be sold on our Cash Flows for 2015. In 2016, we completed the sale of this portion of the operating property to a third party and have included \$49.1 million as an investing activity in Dispositions, net on our Cash Flows for 2016. See Footnote No. 5, "Acquisitions and Dispositions," to our Financial Statements for additional information regarding this transaction.

#### *Decrease (Increase) in Restricted Cash*

Restricted cash primarily consists of cash held in reserve accounts related to vacation ownership notes receivable securitizations, cash collected for maintenance fees to be remitted to property owners' associations and deposits received,

primarily associated with tour package sales and vacation ownership product sales that are held in escrow until the associated contract has closed or the period in which it can be rescinded has expired, depending on applicable legal requirements.

The 2016 decrease in restricted cash reflected \$7.4 million of higher cash distributions for maintenance fees remitted to certain property owners' associations subsequent to the end of 2015 and \$2.5 million related to property refurbishment reserves transferred to the new owner of the Surfers Paradise, Australia property at the time of the sale. These decreases were partially offset by a \$3.3 million increase in cash associated with vacation ownership sales held in escrow and a \$1.8 million increase in cash that was collected for distribution to investors in connection with securitized vacation ownership notes receivable that was distributed to investors subsequent to the end of 2016.

The 2015 decrease in restricted cash reflected \$29.6 million of higher cash distributions for maintenance fees remitted to certain property owners' associations subsequent to the end of 2014, an \$8.4 million increase in cash that was collected for distribution to investors in connection with securitized vacation ownership notes receivable that was distributed to investors subsequent to the end of 2015 and a \$2.2 million increase in cash associated with vacation ownership sales held in escrow. These decreases were partially offset by a \$2.5 million related to property refurbishment reserves for the newly acquired Surfers Paradise, Australia property.

The 2014 increase in restricted cash reflected \$15.8 million of higher cash collections for maintenance fees remitted to certain property owners' associations subsequent to the end of 2014, a \$10.0 million increase in sales that are held in escrow related to Hawaiian requirements for tour package sales and \$0.7 million of higher cash collected in connection with securitized vacation ownership notes receivable that was distributed to investors subsequent to the end of 2014, partially offset by a \$2.5 million decrease in funds required to be held in escrow to guarantee our credit card business in the Asia Pacific segment.

We expect fluctuations in restricted cash for maintenance fee activity to be relatively stable on an annual basis, with cash inflows occurring in the fourth quarter upon receipt of maintenance fees and cash outflows occurring in the first and second quarters upon remittance to property owners' associations. However, in 2014 our restricted cash collections for maintenance fees increased significantly due to the timing of the large volume of payments at fiscal year-end and related banking transfers to property owners' associations occurring subsequent to year-end 2014.

#### *Dispositions*

Dispositions of property and assets generated cash proceeds of \$69.0 million in 2016, \$20.6 million in 2015 and \$82.3 million in 2014.

Dispositions in 2016 included the sale of the remaining downsized portion (216 rooms and resort amenities) of the operating property in Surfers Paradise, Australia for \$49.1 million, the sale of excess inventory at the RCC San Francisco for \$18.7 million, the sale of several lots in St. Thomas, U.S. Virgin Islands for \$1.0 million and the sale of undeveloped land in Absecon, New Jersey for \$0.1 million.

The 2015 dispositions included \$19.6 million from the sale of undeveloped land in Kauai, Hawaii, \$0.6 million from the sale of three lots in St. Thomas, U.S. Virgin Islands, \$0.4 million from the sale of an operations facility in Hilton Head, South Carolina and \$0.1 million from the sale of undeveloped land in Absecon, New Jersey.

The 2014 dispositions included \$39.3 million from the sale of undeveloped and partially developed land, an operating golf course and related assets in Kauai, Hawaii, \$22.5 million from the sale of an operating golf course and undeveloped land in Orlando, Florida, \$10.1 million from the sale of undeveloped land on Singer Island, Florida, \$7.8 million from the sale of undeveloped and partially developed land, an operating golf course, spa and clubhouse and related facilities at The Abaco Club in the Bahamas, \$1.4 million from the sale of undeveloped land in Paris, France, \$0.9 million from the sale of several lots in St. Thomas, U.S. Virgin Islands and \$0.3 million from the sale of undeveloped land in Absecon, New Jersey.

*Cash from Financing Activities*

(\$ in thousands)	Fiscal Years		
	2016	2015	2014
Borrowings from securitization transactions			
Bonds payable on securitized vacation ownership notes receivable	\$ 250,000	\$ 255,000	\$ 262,638
Borrowings on Warehouse Credit Facility	126,622	—	—
Subtotal	376,622	255,000	262,638
Repayment of debt related to securitization transactions			
Bonds payable on securitized vacation ownership notes receivable	(196,242)	(278,427)	(228,870)
Repayments on Warehouse Credit Facility	(126,622)	—	—
Subtotal	(322,864)	(278,427)	(228,870)
Borrowings on Revolving Corporate Credit Facility	85,000	—	—
Repayments on Revolving Corporate Credit Facility	(85,000)	—	—
Proceeds from vacation ownership inventory arrangement	—	5,375	—
Debt issuance costs	(4,065)	(5,335)	(6,498)
Repurchase of common stock	(177,830)	(201,380)	(203,596)
Redemption of mandatorily redeemable preferred stock of consolidated subsidiary	(40,000)	—	—
Payment of dividends	(34,195)	(23,793)	(8,179)
Proceeds from stock option exercises	7	97	2,977
Excess tax benefits from share-based compensation	1,207	9,380	4,519
Payment of withholding taxes on vesting of restricted stock units	(4,021)	(10,894)	(8,077)
Other	187	230	(564)
Net cash used in financing activities	\$ (204,952)	\$ (249,747)	\$ (185,650)

*Revolving Corporate Credit Facility*

At December 30, 2016, no amounts were outstanding under the Revolving Corporate Credit Facility, however we had \$3.3 million of letters of credit outstanding. See Footnote No. 10, “Debt,” to our Financial Statements for additional information regarding our Revolving Corporate Credit Facility.

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

We reflect proceeds from securitizations of vacation ownership notes receivable, including draw downs on the Warehouse Credit Facility, as “Borrowings from securitization transactions.” We reflect 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.” We account for our securitizations of vacation ownership notes receivable as secured borrowings and therefore do not recognize a gain or loss as a result of the transaction. The results of operations for the securitization entities are consolidated within our results of operations as these entities are variable interest entities for which we are the primary beneficiary.

In the third quarter of 2016, we completed the securitization of a pool of \$259.1 million of vacation ownership notes receivable generating gross cash proceeds of \$250 million. In connection with the securitization, investors purchased in a private placement \$250.0 million in vacation ownership loan backed notes from the MVW Owner Trust 2016-1 (the “2016-1 Trust”). Two classes of vacation ownership loan backed notes were issued by the 2016-1 Trust: \$230.6 million of Class A Notes and \$19.4 million of Class B Notes. The Class A Notes have an interest rate of 2.25 percent and the Class B Notes have an interest rate of 2.64 percent, for an overall weighted average interest rate of 2.28 percent.

During 2016, we also securitized vacation ownership notes receivable under our Warehouse Credit Facility. The total carrying amount of the vacation ownership notes receivable securitized was \$149.5 million. The advance rate was 85 percent, which resulted in total gross proceeds of \$126.6 million. The total net proceeds were \$125.7 million due to the funding of reserve accounts in the amount of \$0.9 million. At December 30, 2016, no amounts were outstanding under the Warehouse Credit Facility and \$103.4 million of gross vacation ownership notes receivable were eligible for securitization. See Footnote No. 10, “Debt,” to our Financial Statements for additional information regarding our Warehouse Credit Facility.

During 2015, we completed the securitization of a pool of \$264.2 million of vacation ownership notes receivable. In connection with the securitization, investors purchased in a private placement \$255.0 million in vacation ownership loan-



backed notes from the MVW Owner Trust 2015-1 (the “2015-1 Trust”). Two classes of vacation ownership loan backed notes were issued by the 2015-1 Trust: \$233.2 million of Class A Notes and \$21.8 million of Class B Notes. The Class A Notes have an interest rate of 2.52 percent and the Class B Notes have an interest rate of 2.96 percent, for an overall weighted average interest rate of 2.56 percent.

During 2014, we completed two securitization transactions. In the second quarter of 2014, we completed the securitization of a pool of \$23.8 million of primarily highly-seasoned vacation ownership notes receivable that we previously classified as not being eligible for securitization. In connection with the securitization, investors purchased in a private placement \$22.6 million in vacation ownership loan backed notes from the Kyuka Owner Trust 2014-A with an interest rate of 6.25 percent. The securitized loans previously were classified as not eligible for securitization using criteria applicable to then current securitization transactions in the ABS market because they did not meet certain representation criteria required in such securitizations, or because of other factors that may have reflected investor demand in a securitization transaction.

In the fourth quarter of 2014, we completed the securitization of a pool of \$250.0 million of vacation ownership notes receivable. In connection with the securitization, investors purchased in a private placement \$240.0 million in vacation ownership loan-backed notes from the MVW Owner Trust 2014-1 (the “2014-1 Trust”). Two classes of vacation ownership loan backed notes were issued by the 2014-1 Trust: \$216.2 million of Class A Notes and \$23.8 million of Class B Notes. The Class A Notes have an interest rate of 2.25 percent and the Class B Notes have an interest rate of 2.70 percent, for an overall weighted average interest rate of 2.29 percent.

#### *Proceeds from Vacation Ownership Inventory Arrangement*

In connection with our pursuit of growth opportunities in ways that optimize the timing of our capital investments, including working with third parties to develop new inventory or convert previously built units to be sold to us close to when we need such inventory, during the first quarter of 2015 we sold real property located in Marco Island, Florida to a third-party developer. We are obligated to repurchase the completed property from the developer contingent upon the property meeting our brand standards and provided that the third-party developer has not sold the property to another party. As discussed in Footnote No. 5, “Acquisitions and Dispositions,” to our Financial Statements, we received cash proceeds of \$5.4 million upon the sale of this real property. In accordance with the authoritative guidance on accounting for sales of real estate, our conditional obligation to repurchase the property constitutes continuing involvement and thus we were unable to account for this transaction as a sale, and as such have recorded these proceeds as a financing activity.

#### *Debt Issuance Costs*

Debt issuance costs in 2016 included \$3.8 million associated with the 2016 vacation ownership notes receivable securitization and \$0.2 million related to the amendment of the Revolving Corporate Credit Facility during the year. Debt issuance costs in 2015 included \$4.2 million associated with the 2015 vacation ownership notes receivable securitization and a combined \$1.1 million related to the renewal of the Warehouse Credit Facility and the amendment of the Revolving Corporate Credit Facility during the year. Debt issuance costs in 2014 included \$3.7 million associated with the two 2014 vacation ownership notes receivable securitizations and \$2.8 million associated with the amendment and restatement of the Warehouse Credit Facility and the Revolving Corporate Credit Facility during 2014.

#### *Share Repurchase Program*

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

<i>(\$ in thousands, except per share amounts)</i>	<b>Number of Shares Repurchased</b>	<b>Cost of Shares Repurchased</b>	<b>Average Price Paid per Share</b>
As of January 1, 2016	6,854,083	\$ 430,609	\$ 62.83
For the year ended December 30, 2016	2,818,546	177,830	63.09
As of December 30, 2016	9,672,629	\$ 608,439	\$ 62.90

See Footnote No. 12, “Shareholders’ Equity,” to our Financial Statements for further information related to the share repurchase program.

#### *Redemption of Mandatorily Redeemable Preferred Stock of Consolidated Subsidiary*

During 2016, we elected to exercise our option to redeem \$40.0 million of gross mandatorily redeemable preferred stock of a consolidated subsidiary that we were not required to redeem until October 2021. We redeemed the preferred stock on October 26, 2016 at par, plus accrued and unpaid dividends, using cash on hand.

### Dividends

We distributed cash dividends to holders of common stock for the year ended December 30, 2016 as follows:

Declaration Date	Shareholder Record Date	Distribution Date	Dividend per Share
December 8, 2015	December 21, 2015	January 6, 2016	\$0.30
February 11, 2016	February 25, 2016	March 10, 2016	\$0.30
May 12, 2016	May 26, 2016	June 9, 2016	\$0.30
September 8, 2016	September 22, 2016	October 6, 2016	\$0.30

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

The following table summarizes our contractual obligations as of year-end 2016:

(\$ in thousands)	Total	Payments Due by Period			
		Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Contractual Obligations					
Debt <sup>(1)</sup>	\$ 823,140	\$ 120,595	\$ 203,898	\$ 184,074	\$ 314,573
Operating leases	82,065	16,638	24,328	16,441	24,658
Purchase obligations <sup>(2)</sup>	475,113	103,558	366,761	3,361	1,433
Capital lease obligations <sup>(3)</sup>	7,582	361	7,221	—	—
Other long-term obligations	4,459	4,459	—	—	—
Total contractual obligations	\$ 1,392,359	\$ 245,611	\$ 602,208	\$ 203,876	\$ 340,664

(1) Includes principal as well as interest payments.

(2) Arrangements are considered purchase obligations if a contract specifies all significant terms, including fixed or minimum quantities to be purchased, a pricing structure, and approximate timing of the transaction. Amounts reflected herein represent expected funding under such contracts. Amounts reflected on the consolidated balance sheet as accounts payable and accrued liabilities are excluded from the table above.

(3) Includes interest.

We have joined in Marriott International's U.S. Federal tax consolidated filing for periods up to the date of the Spin-Off. Although we do not anticipate that a significant change in 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. See Footnote No. 2, "Income Taxes," to our Financial Statements for additional information.

We have historically issued guarantees to certain lenders in connection with the provision of third-party financing for our sales of vacation ownership products for the North America and Asia Pacific segments. The terms of these guarantees generally require us to fund if the purchaser fails to pay under the terms of its note payable. We are entitled to recover any payments we make to third-party lenders under these guarantees through reacquisition and resale of the vacation ownership product. Our commitments under these guarantees expire as the underlying notes mature or are repaid. The terms of the underlying debt to third-party lenders extend to 2022. At December 30, 2016, the maximum potential amount of future fundings for financing guarantees where we are the primary obligor was \$5.7 million.

For additional information on these guarantees and the circumstances under which they were entered into, see the "Guarantees" caption within Footnote No. 9, "Contingencies and Commitments," to our Financial Statements.

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

## 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.

## 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 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.

Please see Footnote No. 1, “Summary of Significant Accounting Policies,” to our Financial Statements for further information on accounting policies that we believe to be critical, including our policies on:

*Revenue recognition for vacation ownership products*, including how we recognize revenue using the percentage-of-completion method of accounting;

*Inventories and cost of vacation ownership products*, which requires estimation of future revenues, including incremental revenues from future price increases or from the sale of reacquired inventory resulting from defaulted vacation ownership notes receivable, and development costs to apply a relative sales value method specific to the vacation ownership industry and how we evaluate the fair value of our vacation ownership inventory;

*Valuation of property and equipment*, including when we record impairment losses;

*Loan loss reserves for vacation ownership notes receivable*, including information on how we estimate reserves for losses;

*Loss contingencies*, including information on how we account for loss contingencies; and

*Income taxes*, including information on how we determine our current year amounts payable or refundable, as well as our estimate of deferred tax assets and liabilities.

## Item 7A. Quantitative and Qualitative Disclosures About Market Risk

### *Quantitative and Qualitative Disclosures About Market Risk.*

We are exposed to market risk from changes in interest rates, currency exchange rates, and debt prices. We manage our exposure to these risks by monitoring available financing alternatives, through pricing policies that may take into account currency exchange rates, and by entering into derivative arrangements. We do not foresee any significant changes in either our exposure to fluctuations in interest rates or currency rates or how we manage such exposure in the future.

Our Warehouse Credit Facility provides variable rate financing when we place consumer loans we originate primarily in support of our North American business into that facility. We may manage the interest rate risk of this facility by entering into derivative contracts such as swaps or caps that are traditionally utilized in warehouse funding arrangements. We intend to securitize vacation ownership notes receivable in the ABS market at least once per year. For these types of transactions or arrangements, we expect to secure fixed rate funding to match our fixed rate vacation ownership notes receivable. However, if we have floating rate debt in the future, we plan to hedge the interest rate risk using derivative instruments. Changes in interest rates may impact the fair value of our fixed rate long-term debt.

From time to time, we may use derivative instruments to reduce market risks due to changes in interest rates and currency exchange rates, including interest rate derivatives that we may be required to enter into as a condition of the Warehouse Credit Facility. As of December 30, 2016, we were not party to any material derivative interest rates or hedges.

Please see Footnote No. 1, “Summary of Significant Accounting Policies,” to our Financial Statements for additional information associated with derivative instruments.

The following table sets forth the scheduled maturities and the total fair value as of year-end 2016 for our financial instruments that are impacted by market risks:

(\$ in thousands)	Average Interest Rate	Maturities by Period						Total Carrying Value	Total Fair Value
		2017	2018	2019	2020	2021	Thereafter		
<b>Assets – Maturities represent expected principal receipts; fair values represent assets</b>									
Vacation ownership notes receivable — non-securitized	11.7%	\$ 46,471	\$ 32,027	\$ 25,698	\$ 21,967	\$ 18,951	\$ 109,654	\$ 254,768	\$ 269,161
Vacation ownership notes receivable — securitized	12.7%	\$ 97,726	\$ 89,728	\$ 83,909	\$ 83,264	\$ 81,654	\$ 281,262	\$ 717,543	\$ 834,009
<b>Liabilities – Maturities represent expected principal payments; fair values represent liabilities</b>									
Non-recourse debt associated with vacation ownership notes receivable securitizations	2.5%	\$ (101,214)	\$ (91,223)	\$ (84,988)	\$ (83,516)	\$ (82,256)	\$ (295,165)	\$ (738,362)	\$ (725,963)
Other debt	8.3%	\$ (604)	\$ (4)	\$ (4)	\$ (5)	\$ (5)	\$ (212)	\$ (834)	\$ (815)

## Item 8. Financial Statements and Supplementary Data

The financial statements required by this item commence on page F-2 of this Annual Report.

## Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

## Item 9A. Controls and Procedures

### Disclosure Controls and Procedures

As of the end of the period covered by this Annual Report, 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 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.

### Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f). Management's annual report on internal control over financial reporting and the independent registered public accounting firm's report on the effectiveness of our internal control over financial reporting are incorporated by reference to pages F-2 and F-3 of this Annual Report.

### Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the fourth quarter of 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## Item 9B. Other Information

On February 22, 2017, we entered into an amendment to the Revolving Corporate Credit Facility that, among other things, amends the financial covenants that require us to maintain a maximum ratio of consolidated debt to consolidated

adjusted EBITDA (as defined in the Revolving Corporate Credit Facility) of 5.25 to 1 and a minimum consolidated adjusted EBITDA to interest expense ratio of not less than 3 to 1. The amendment eliminates certain adjustments used in calculating adjusted EBITDA related to product costs and development capital investments so that adjusted EBITDA for purposes of the Revolving Corporate Credit Facility will more closely resemble adjusted EBITDA as we report it for other purposes.

From time to time, the several banks and other financial institutions or entities from time to time parties to the Revolving Corporate Credit Facility, JPMorgan Chase Bank, N.A., the administrative agent under such facility, Bank of America, N.A. and Deutsche Bank Securities Inc., the co-syndication and co-documentation agents under such facility, or any of their affiliates may have performed, and may in the future perform, various commercial banking, investment banking and other financial advisory services for us for which they have or will receive customary fees and expenses. In particular, some of these financial institutions or their affiliates participate, or may in the future participate, in the Warehouse Credit Facility and may also have participated, or may in the future participate, in our vacation ownership notes receivable securitization transactions.

**PART III**

As described below, we incorporate certain information appearing in the Proxy Statement we will furnish to our shareholders in connection with our 2017 Annual Meeting of Shareholders (the “Proxy Statement”) by reference in this Annual Report.

**Item 10. Directors, Executive Officers and Corporate Governance**

We incorporate this information by reference to the “Our Board of Directors,” “Section 16(a) Beneficial Ownership Reporting Compliance,” “Committees of our Board,” “Transactions with Related Persons” and “Selection of Director Nominees” sections of our Proxy Statement. We have included information regarding our executive officers and our Code of Conduct below.

**Executive Officers**

Set forth below is certain information with respect to our executive officers. The information set forth below is as of February 10, 2017, except where indicated.

<b>Name and Title</b>	<b>Age</b>	<b>Business Experience</b>
Stephen P. Weisz President and Chief Executive Officer	66	Stephen P. Weisz has served as our President since 1996 and as our Chief Executive Officer since 2011; he has also been a member of our Board of Directors since 2011. Mr. Weisz joined Marriott International in 1972. Over his 39-year career with Marriott International, he held a number of leadership positions in the Lodging division, including Regional Vice President of the Mid-Atlantic Region, Senior Vice President of Rooms Operations, and Vice President of the Revenue Management Group. Mr. Weisz became Senior Vice President of Sales and Marketing for Marriott Hotels, Resorts & Suites in 1992 and Executive Vice President-Lodging Brands in 1994 before being named to lead the Company in 1996. He currently serves as Chairman of the Board of Directors of the American Resort Development Association. Mr. Weisz is also the Immediate Past Chairman of the Board of Trustees of Children’s Miracle Network.
R. Lee Cunningham Executive Vice President and Chief Operating Officer	57	R. Lee Cunningham has served as our Executive Vice President and Chief Operating Officer since December 2012. From 2007 to December 2012, he served as our Executive Vice President and Chief Operating Officer – North America and Caribbean. Mr. Cunningham joined Marriott International in 1982 and held various front office assignments at Marriott hotels in Atlanta, Scottsdale, Miami, Kansas City, and Washington, D.C. In 1990, he became one of Marriott International’s first revenue management-focused associates and held roles at property, regional and corporate levels. Mr. Cunningham joined our company in 1997 as Vice President of Revenue Management and Owner Service Operations.
Clifford M. Delorey Executive Vice President and Chief Resort Experience Officer	56	Clifford M. Delorey has served as our Executive Vice President and Chief Resort Experience Officer since October 2012. From May 2011 to October 2012, Mr. Delorey served as Vice President of Operations for the Middle East and Africa region for Marriott International. From April 2006 to May 2011, he served as our Vice President of Operations for the East region. Mr. Delorey joined Marriott International in 1981 and served in a number of operational roles, including Director of International Operations.
John E. Geller, Jr. Executive Vice President and Chief Financial Officer	49	John E. Geller, Jr. has served as our Executive Vice President and Chief Financial Officer since 2009. Mr. Geller joined Marriott International in 2005 as Senior Vice President and Chief Audit Executive and Information Security Officer. In 2008, he led finance and accounting for Marriott International’s North American Lodging Operation’s West region as Chief Financial Officer. Mr. Geller began his professional career at Arthur Andersen, where he was promoted to audit partner in its real estate and hospitality practice in 2000. During 2002 and 2003, he was an audit partner with Ernst & Young in its real estate and hospitality practice. Mr. Geller served as Chief Financial Officer at AutoStar Realty in 2004.

James H Hunter, IV Executive Vice President and General Counsel	54	James H Hunter, IV has served as our Executive Vice President and General Counsel since November 2011. Prior to that time, he had served as Senior Vice President and General Counsel since 2006. Mr. Hunter joined Marriott International in 1994 as Corporate Counsel and was promoted to Senior Counsel in 1996 and Assistant General Counsel in 1998. While at Marriott International, he held several leadership positions supporting development of Marriott’s lodging brands in all regions worldwide. Prior to joining Marriott International, Mr. Hunter was an associate at the law firm of Davis, Graham & Stubbs in Washington, D.C.
Lizabeth Kane-Hanan Executive Vice President and Chief Growth and Inventory Officer	50	Lizabeth Kane-Hanan has served as our Executive Vice President and Chief Growth and Inventory Officer since November 2011. Prior to that time, she had served as our Senior Vice President, Resort Development and Planning, Inventory and Revenue Management and Product Innovation since 2009. Ms. Kane-Hanan joined our company in 2000, and has over 25 years of hospitality industry experience. Before joining Marriott International, she spent 14 years in public accounting and advisory firms, including Arthur Andersen and Horwath Hospitality, where she specialized in real estate strategic planning, acquisitions and development. At our company, she has held several leadership positions of increasing responsibility.
Brian E. Miller Executive Vice President and Chief Sales and Marketing Officer	53	Brian E. Miller has served as our Executive Vice President and Chief Sales and Marketing Officer since November 2011. Prior to that time, he had served as our Senior Vice President, Sales and Marketing and Service Operations since 2007. Mr. Miller joined our company in 1991 as National Director of Marketing Operations and has more than 25 years of vacation ownership marketing and sales expertise. In 1994, he was promoted to Vice President of Marketing. From 1995 to 2000, he served as Regional Vice President of Sales and Marketing for the Europe and Middle East region based in London. He left our company briefly, but returned in 2001 to assume the role of Senior Vice President, Sales and Marketing.
Dwight D. Smith Executive Vice President and Chief Information Officer	56	Dwight D. Smith has served as our Executive Vice President and Chief Information Officer since December 2011. Prior to that time, he served as our Senior Vice President and Chief Information Officer since 2006. Mr. Smith joined Marriott International in 1988 as Senior Manager and then Director of Information Resources for Roy Rogers Restaurants. He worked from 1982 to 1988 at Andersen Consulting as Staff Consultant and then Consulting Manager in the advanced technology group. Mr. Smith moved to our corporate headquarters in 1990.
Michael E. Yonker Executive Vice President and Chief Human Resources Officer	58	Michael E. Yonker has served as our Executive Vice President and Chief Human Resources Officer since December 2011. Prior to that time, he served as our Chief Human Resources Officer since 2010. Mr. Yonker joined Marriott International in 1983 as Assistant Controller at the Lincolnshire Marriott Resort in Chicago. While at Marriott International, he held a number of positions with increasing responsibility in both the finance and human resources areas. From 1996 to 1998, he was the Area Director of Human Resources, supporting the mid-central region at Sodexo Marriott. He returned to Marriott International in 1998 as Vice President, Human Resources supporting the Midwest Region and was named our Vice President, Human Resources in 2007 supporting global operations.

**Code of Conduct**

Our Board of Directors has adopted a code of conduct, our Business Conduct Guide, that applies to all of our directors, officers and associates, including our Chief Executive Officer, Chief Financial Officer and Principal Accounting Officer. Our Business Conduct Guide is available in the Investor Relations section of our website ([www.marriottvacationsworldwide.com](http://www.marriottvacationsworldwide.com)) and is accessible by clicking on “Corporate Governance.” Any amendments to our Business Conduct Guide and any grant of a waiver from a provision of our Business Conduct Guide requiring disclosure under applicable SEC rules will be disclosed at the same location as the Business Conduct Guide in the Investor Relations section of our website located at [www.marriottvacationsworldwide.com](http://www.marriottvacationsworldwide.com).

**Item 11. Executive Compensation**

We incorporate this information by reference to the “Executive and Director Compensation” and “Compensation Committee Interlocks and Insider Participation” sections of our Proxy Statement.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

We incorporate this information by reference to the “Securities Authorized for Issuance Under Equity Compensation Plans” and “Stock Ownership” sections of our Proxy Statement.

**Item 13. Certain Relationships and Related Transactions, and Director Independence**

We incorporate this information by reference to the “Transactions with Related Persons,” and “Director Independence” sections of our Proxy Statement.

**Item 14. Principal Accounting Fees and Services**

We incorporate this information by reference to the “Independent Registered Public Accounting Firm Fee Disclosure” and “Pre-Approval of Independent Auditor Fees and Services Policy” sections of our Proxy Statement.

**PART IV**

**Item 15. Exhibits and Financial Statement Schedules**

**(a)(1)-(2) Financial Statements and Schedules**

The financial statements and schedules listed in the accompanying Index to Consolidated Financial Statements are filed as part of this Annual Report. We include the financial statement schedules required by the applicable accounting regulations of the SEC in the notes to our consolidated financial statements and incorporate that information in this Item 15 by reference.

**(a)(3) Exhibits**

See “Index to Exhibits” beginning on page E-1, which is incorporated by reference herein. The Index to Exhibits lists all exhibits filed with this Annual Report and identifies which of those exhibits are management contracts and compensation plans.

**Item 16. Form 10-K Summary**

None.



**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, we have duly caused this Form 10-K to be signed on our behalf by the undersigned, thereunto duly authorized, on this 23rd day of February, 2017.

MARRIOTT VACATIONS WORLDWIDE CORPORATION

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

**POWER OF ATTORNEY**

KNOW BY ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints jointly and severally, Stephen P. Weisz, John E. Geller, Jr. and James H Hunter, IV, and each one of them, his or her attorneys-in-fact, each with the power of substitution, for him or her in any and all capacities, to sign any and all amendments to this Annual Report and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each said attorneys-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report has been signed by the following persons on our behalf in the capacities indicated and on the date indicated above.

**Principal Executive Officer:**

/s/ Stephen P. Weisz

President, Chief Executive Officer and Director

Stephen P. Weisz

**Principal Financial Officer:**

/s/ John E. Geller, Jr.

Executive Vice President and Chief Financial Officer

John E. Geller, Jr.

**Principal Accounting Officer:**

/s/ Laurie A. Sullivan

Senior Vice President, Corporate Controller and Chief Accounting Officer

Laurie A. Sullivan

**Directors:**

/s/ William J. Shaw

William J. Shaw, Chairman

/s/ Melquiades R. Martinez

Melquiades R. Martinez, Director

/s/ C.E. Andrews

C.E. Andrews, Director

/s/ William W. McCarten

William W. McCarten, Director

/s/ Raymond L. Gellein, Jr.

Raymond L. Gellein, Jr., Director

/s/ Dianna F. Morgan

Dianna F. Morgan, Director

/s/ Thomas J. Hutchison III

Thomas J. Hutchison III, Director

**INDEX TO EXHIBITS**

The Registrant will furnish you, without charge, a copy of any exhibit, upon written request. Written requests to obtain any exhibit should be sent to Marriott Vacations Worldwide Corporation, 6649 Westwood Blvd., Orlando, Florida 32821, Attention: Corporate Secretary.

<b>Exhibit No.</b>	<b>Description</b>
2.1	Separation and Distribution Agreement, entered into on November 17, 2011, among Marriott International, Inc., Marriott Vacations Worldwide Corporation, Marriott Ownership Resorts, Inc., Marriott Resorts Hospitality Corporation, MVCI Asia Pacific Pte. Ltd. and MVCO Series LLC (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on November 22, 2011).
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).
4.1	Form of certificate representing shares of common stock, par value \$0.01 per share, of Marriott Vacations Worldwide Corporation (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form 10 filed on October 14, 2011).
10.1	License, Services, and Development Agreement, entered into on November 17, 2011, among Marriott International, Inc., Marriott Worldwide Corporation, Marriott Vacations Worldwide Corporation and the other signatories thereto (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on November 22, 2011).
10.2	Letter Agreement, dated as of February 21, 2013, between Marriott International, Inc. and Marriott Vacations Worldwide Corporation, supplementing the License, Services, and Development Agreement (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on April 25, 2013).
10.3	Letter Agreement, dated May 9, 2016, among Marriott Vacations Worldwide Corporation, Marriott Worldwide Corporation and Marriott International, Inc. relating to the License, Services, and Development Agreement (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed on July 21, 2016).
10.4	Side Letter Agreement, dated as of September 21, 2016 by among Marriott International, Inc., Marriott Worldwide Corporation and Marriott Rewards, LLC, and Marriott Vacations Worldwide Corporation and Marriott Ownership Resorts, Inc., relating to the License, Services and Development Agreements, the Marriott Rewards Affiliation Agreement and the Non-Competition Agreement (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on October 13 2016).†
10.5	License, Services, and Development Agreement, entered into on November 17, 2011, among The Ritz-Carlton Hotel Company, L.L.C., Marriott Vacations Worldwide Corporation and the other signatories thereto (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on November 22, 2011).
10.6	Employee Benefits and Other Employment Matters Allocation Agreement, entered into on November 17, 2011, between Marriott International, Inc. and Marriott Vacations Worldwide Corporation (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on November 22, 2011).
10.7	Tax Sharing and Indemnification Agreement, entered into on November 17, 2011, between Marriott International, Inc. and Marriott Vacations Worldwide Corporation (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed on November 22, 2011).
10.8	Amendment, dated August 2, 2012, between Marriott International, Inc. and Marriott Vacations Worldwide Corporation, to the Tax Sharing and Indemnification Agreement (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on October 18, 2012).
10.9	Marriott Rewards Affiliation Agreement, entered into on November 17, 2011, among Marriott International, Inc., Marriott Rewards, LLC, Marriott Vacations Worldwide Corporation, Marriott Ownership Resorts, Inc. and the other signatories thereto (incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K filed on November 22, 2011).

- 10.10 Non-Competition Agreement, entered into on November 17, 2011, between Marriott International, Inc. and Marriott Vacations Worldwide Corporation (incorporated by reference to Exhibit 10.6 to the Company's Current Report on Form 8-K filed on November 22, 2011).
- 10.11 Omnibus Transition Services Agreement, entered into on November 17, 2011, between Marriott International, Inc. and Marriott Vacations Worldwide Corporation (incorporated by reference to Exhibit 10.7 to the Company's Current Report on Form 8-K filed on November 22, 2011).
- 10.12 First Amendment to Services Exhibit, dated as of October 10, 2012, between Marriott International, Inc. and Marriott Vacations Worldwide Corporation to the Omnibus Transition Services Agreement (incorporated by reference to Exhibit 10.9 to the Company's Annual Report on Form 10-K filed on February 22, 2013).
- 10.13 Information Resources Transition Services Agreement, entered into on November 17, 2011, between Marriott International, Inc. and Marriott Vacations Worldwide Corporation (incorporated by reference to Exhibit 10.10 to the Company's Current Report on Form 8-K filed on November 22, 2011).
- 10.14 Marriott Vacations Worldwide Corporation Amended and Restated Stock and Cash Incentive Plan.\*
- 10.15 Form of Restricted Stock Unit Agreement – Marriott Vacations Worldwide Corporation Stock and Cash Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 9, 2011).\*
- 10.16 Form of Stock Appreciation Right Agreement – Marriott Vacations Worldwide Corporation Stock and Cash Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on December 9, 2011).\*
- 10.17 Form of Performance Unit Award Agreement – Marriott Vacations Worldwide Corporation Stock and Cash Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on March 16, 2012).\*
- 10.18 Form of Non-Employee Director Share Award Confirmation (incorporated by reference to Exhibit 10.17 to the Company's Quarterly Report on Form 10-K filed on February 25, 2016).\*
- 10.19 Form of Non-Employee Director Stock Appreciation Right Award Agreement (incorporated by reference to Exhibit 10.16 to the Company's Annual Report on Form 10-K filed on March 21, 2012).\*
- 10.20 Form of Director Stock Unit Agreement (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on April 30, 2015).\*
- 10.21 Marriott Vacations Worldwide Corporation Change in Control Severance Plan (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on March 16, 2012).\*
- 10.22 Form of Participation Agreement for Change in Control Severance Plan – Marriott Vacations Worldwide Corporation Change in Control Severance Plan (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on March 16, 2012).\*
- 10.23 Marriott Vacations Worldwide Corporation Deferred Compensation Plan (incorporated by reference to Exhibit 10.3 of the Company's Current Report on Form 8-K filed on June 13, 2013).\*
- 10.24 Marriott Vacations Worldwide Corporation Executive Long Term Disability Plan (incorporated by reference to Exhibit 10.21 to the Company's Annual Report on Form 10-K filed on February 26, 2015).\*
- 10.25 Marriott Vacations Worldwide Corporation Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on June 11, 2015).\*
- 10.26 Third Amended and Restated Indenture and Servicing Agreement, entered into September 15, 2014 and dated as of September 1, 2014, among Marriott Vacations Worldwide Owner Trust 2011-1, Marriott Ownership Resorts, Inc., and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on September 16, 2014).
- 10.27 Indenture Supplement, dated June 24, 2015, among Marriott Vacations Worldwide Owner Trust 2011-1, Marriott Ownership Resorts, Inc., and Wells Fargo Bank, National Association, Deutsche Bank AG, New York Branch, and the Conduits, Alternate Purchasers, Funding Agents and Non-Conduit Committed Purchasers signatory thereto (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed on July 23, 2015).

- 10.28 Second Amended and Restated Sale Agreement, entered into September 15, 2014 and dated as of September 1, 2014, between MORI SPC Series Corp. and Marriott Vacations Worldwide Owner Trust 2011-1 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 16, 2014).
- 10.29 Omnibus Amendment No. 3, dated November 23, 2015, relating to, among other agreements, the Third Amended and Restated Indenture and the Second Amended and Restated Sale Agreement, by and among Marriott Vacations Worldwide Owner Trust 2011-1, Marriott Ownership Resorts, Inc., Wells Fargo Bank, National Association, MORI SPC Series Corp., Marriott Vacation 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 November 25, 2015).
- 10.30 Omnibus Amendment No. 4, dated May 20, 2016, relating to, among other agreements, the Third Amended and Restated Indenture and the Second Amended and Restated Sale Agreement, by and among Marriott Vacations Worldwide Owner Trust 2011-1, Marriott Ownership Resorts, Inc., Wells Fargo Bank, National Association, MORI SPC Series Corp., Marriott Vacation 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 10.2 to the Company's Quarterly Report on Form 10-Q filed on July 21, 2016).
- 10.31 Indenture Supplement, dated June 16, 2016, by and among Marriott Vacations Worldwide Owner Trust 2011-1, as issuer, Marriott Ownership Resorts, Inc., Wells Fargo Bank, National Association, Deutsche Bank AG, New York Branch, and the Conduits, Alternate Purchasers, Funding Agents and Non-Conduit Committed Purchasers signatory thereto (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on July 21, 2016).
- 10.32 Second Amendment and Restatement Agreement, dated as of September 10, 2014, among Marriott Vacations Worldwide Corporation, Marriott Ownership Resorts, Inc., certain subsidiaries of Marriott Vacations Worldwide Corporation, JPMorgan Chase Bank, N.A., and the several banks and other financial institutions or entities from time to time parties thereto (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 11, 2014).
- 10.33 Second Amended and Restated Credit Agreement, dated as of September 10, 2014, among Marriott Vacations Worldwide Corporation, Marriott Ownership Resorts, Inc., the several banks and other financial institutions or entities from time to time parties thereto, JPMorgan Chase Bank, N.A., as administrative agent, Bank of America, N.A. and Deutsche Bank Securities Inc., as co-syndication agents, and Bank of America, N.A. and Deutsche Bank Securities Inc., as co-documentation agents (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on September 11, 2014).
- 10.34 First Amendment, dated as of June 26, 2015, to the Second Amended and Restated Credit Agreement, among Marriott Vacations Worldwide Corporation, Marriott Ownership Resorts, Inc., the several banks and other financial institutions or entities from time to time parties thereto, JPMorgan Chase Bank, N.A., as administrative agent, Bank of America, N.A. and Deutsche Bank Securities Inc., as co-syndication agents, and Bank of America, N.A. and Deutsche Bank Securities Inc., as co-documentation agents (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed on July 23, 2015).
- 10.35 Second Amendment, dated as of April 1, 2016, to the Second Amended and Restated Credit Agreement, among Marriott Vacations Worldwide Corporation, Marriott Ownership Resorts, Inc., the several banks and other financial institutions or entities from time to time parties thereto, JPMorgan Chase Bank, N.A., as administrative agent, Bank of America, N.A. and Deutsche Bank Securities Inc., as co-syndication agents, and Bank of America, N.A. and Deutsche Bank Securities Inc., as co-documentation agents (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on April 7, 2016).
- 10.36 Third Amendment, dated as of December 8, 2016, to the Second Amended and Restated Credit Agreement, among Marriott Vacations Worldwide Corporation, Marriott Ownership Resorts, Inc., the several banks and other financial institutions or entities from time to time parties thereto, JPMorgan Chase Bank, N.A., as administrative agent, Bank of America, N.A. and Deutsche Bank Securities Inc., as co-syndication agents, and Bank of America, N.A. and Deutsche Bank Securities Inc., as co-documentation agents (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 9, 2016).
- 10.37 Fourth Amendment, dated as of February 22, 2017, to the Second Amended and Restated Credit Agreement, among Marriott Vacations Worldwide Corporation, Marriott Ownership Resorts, Inc., the several banks and other financial institutions or entities from time to time parties thereto, JPMorgan Chase Bank, N.A., as administrative agent, Bank of America, N.A. and Deutsche Bank Securities Inc., as co-syndication agents, and Bank of America, N.A. and Deutsche Bank Securities Inc., as co-documentation agents.

10.38	Second Amended and Restated Guarantee and Collateral Agreement, dated as of September 10, 2014, made by Marriott Vacations Worldwide Corporation, Marriott Ownership Resorts, Inc. and certain subsidiaries of Marriott Vacations Worldwide Corporation in favor of JPMorgan Chase Bank, N.A., as administrative agent for the banks and other financial institutions or entities from time to time parties to the Second Amended and Restated Credit Agreement (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on September 11, 2014).
21.1	Subsidiaries of Marriott Vacations Worldwide Corporation.
23.1	Consent of Ernst & Young LLP.
24.1	Powers of Attorney (included on the signature pages hereto).
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
32.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(b) and Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(b) and Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Label Linkbase Document.
101.PRE	XBRL Taxonomy Presentation Linkbase Document.

\* Management contract or compensatory plan or arrangement.

† Portions of this exhibit were granted confidential treatment by the Securities and Exchange Commission pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended. The redacted portions of this exhibit have been filed with the Securities and Exchange Commission.

We have attached the following documents formatted in XBRL (Extensible Business Reporting Language) as Exhibit 101 to this Annual Report: (i) Consolidated Statements of Income for the fiscal years ended December 30, 2016, January 1, 2016 and January 2, 2015; (ii) the Consolidated Statements of Comprehensive Income for the fiscal years ended December 30, 2016, January 1, 2016 and January 2, 2015; (iii) the Consolidated Balance Sheets at December 30, 2016 and January 1, 2016; (iv) the Consolidated Statements of Cash Flows for the fiscal years ended December 30, 2016, January 1, 2016 and January 2, 2015; and (v) the Consolidated Statements of Shareholders' Equity for the fiscal years ended December 30, 2016, January 1, 2016 and January 2, 2015.

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MARRIOTT VACATIONS WORLDWIDE CORPORATION**

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**MANAGEMENT'S REPORT ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING**

Management of Marriott Vacations Worldwide Corporation (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting and for the assessment of the effectiveness of internal control over financial reporting. The Company's internal control over financial reporting is designed to provide reasonable assurance on the reliability of financial reporting and the preparation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles.

The Company's internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the Company's transactions and dispositions of the Company's assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of the Company's management and directors; and (3) provide reasonable assurance on prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In connection with the preparation of the Company's annual consolidated financial statements, management has undertaken an assessment of the effectiveness of the Company's internal control over financial reporting as of December 30, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the "COSO criteria").

Based on this assessment, management has concluded that, applying the COSO criteria, as of December 30, 2016, the Company's internal control over financial reporting was effective to provide reasonable assurance of the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

Ernst & Young LLP, the independent registered public accounting firm that audited the Company's consolidated financial statements included in this report, has issued a report on the effectiveness of the Company's internal control over financial reporting, a copy of which appears on the next page of this Annual Report on Form 10-K.



**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of Marriott Vacations Worldwide Corporation:

We have audited Marriott Vacations Worldwide Corporation's internal control over financial reporting as of December 30, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), ("the COSO criteria"). Marriott Vacations Worldwide Corporation's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Marriott Vacations Worldwide Corporation maintained, in all material respects, effective internal control over financial reporting as of December 30, 2016, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Marriott Vacations Worldwide Corporation as of December 30, 2016 and January 1, 2016, and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three fiscal years in the period ended December 30, 2016 and our report dated February 23, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP  
Certified Public Accountants

Orlando, Florida  
February 23, 2017

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of Marriott Vacations Worldwide Corporation:

We have audited the accompanying consolidated balance sheets of Marriott Vacations Worldwide Corporation as of December 30, 2016 and January 1, 2016, and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three fiscal years in the period ended December 30, 2016. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Marriott Vacations Worldwide Corporation at December 30, 2016 and January 1, 2016 and the consolidated results of its operations and its cash flows for each of the three fiscal years in the period ended December 30, 2016, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Marriott Vacations Worldwide Corporation's internal control over financial reporting as of December 30, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 23, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP  
Certified Public Accountants

Orlando, Florida  
February 23, 2017

**MARRIOTT VACATIONS WORLDWIDE CORPORATION**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**Fiscal Years 2016, 2015 and 2014**  
(In thousands, except per share amounts)

	2016	2015	2014
<b>REVENUES</b>			
Sale of vacation ownership products	\$ 637,503	\$ 675,329	\$ 647,488
Resort management and other services	303,570	295,547	278,517
Financing	126,126	124,033	128,909
Rental	312,071	312,997	264,307
Cost reimbursements	431,965	405,875	396,795
<b>TOTAL REVENUES</b>	<b>1,811,235</b>	<b>1,813,781</b>	<b>1,716,016</b>
<b>EXPENSES</b>			
Cost of vacation ownership products	155,093	204,299	196,444
Marketing and sales	353,295	330,599	315,410
Resort management and other services	174,311	180,072	177,138
Financing	21,380	24,194	24,148
Rental	260,752	259,729	237,920
General and administrative	104,833	106,104	100,916
Litigation settlement	(303)	(232)	19,494
Organizational and separation related	—	1,174	3,438
Consumer financing interest	23,685	24,658	26,464
Royalty fee	60,953	58,982	59,970
Impairment	—	324	1,381
Cost reimbursements	431,965	405,875	396,795
<b>TOTAL EXPENSES</b>	<b>1,585,964</b>	<b>1,595,778</b>	<b>1,559,518</b>
Gains and other income	11,201	9,557	5,171
Interest expense	(8,912)	(12,810)	(11,692)
Other	(4,632)	(8,253)	614
<b>INCOME BEFORE INCOME TAXES</b>	<b>222,928</b>	<b>206,497</b>	<b>150,591</b>
Provision for income taxes	(85,580)	(83,698)	(69,835)
<b>NET INCOME</b>	<b>\$ 137,348</b>	<b>\$ 122,799</b>	<b>\$ 80,756</b>
Basic earnings per share	\$ 4.93	\$ 3.90	\$ 2.40
Shares used in computing basic earnings per share	27,882	31,487	33,665
Diluted earnings per share	\$ 4.83	\$ 3.82	\$ 2.33
Shares used in computing diluted earnings per share	28,422	32,168	34,635
Dividends declared per share of common stock	\$ 1.25	\$ 1.05	\$ 0.25

**See Notes to Consolidated Financial Statements**

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

**Fiscal Years 2016, 2015 and 2014**

(In thousands)

	<b>2016</b>	<b>2015</b>	<b>2014</b>
Net income	\$ 137,348	\$ 122,799	\$ 80,756
Other comprehensive loss, net of tax:			
Foreign currency translation adjustments	(5,589)	(5,673)	(6,005)
Derivative instrument adjustment	(332)	—	—
Total other comprehensive loss, net of tax	(5,921)	(5,673)	(6,005)
<b>COMPREHENSIVE INCOME</b>	<b>\$ 131,427</b>	<b>\$ 117,126</b>	<b>\$ 74,751</b>

**See Notes to Consolidated Financial Statements**

**MARRIOTT VACATIONS WORLDWIDE CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
**Fiscal Year-End 2016 and 2015**  
(In thousands, except share and per share data)

	2016	2015
<b>ASSETS</b>		
Cash and cash equivalents	\$ 147,102	\$ 177,061
Restricted cash (including \$27,525 and \$26,884 from VIEs, respectively)	66,000	71,451
Accounts and contracts receivable, net (including \$4,865 and \$4,893 from VIEs, respectively)	161,733	131,850
Vacation ownership notes receivable, net (including \$717,543 and \$669,179 from VIEs, respectively)	972,311	920,631
Inventory	712,536	669,243
Property and equipment	202,802	288,803
Other	128,935	140,679
Total Assets	<u>\$ 2,391,419</u>	<u>\$ 2,399,718</u>
<b>LIABILITIES AND EQUITY</b>		
Accounts payable	\$ 124,439	\$ 139,120
Advance deposits	55,542	49,128
Accrued liabilities (including \$584 and \$669 from VIEs, respectively)	147,469	163,632
Deferred revenue	95,495	78,196
Payroll and benefits liability	95,516	104,331
Deferred compensation liability	62,874	51,031
Mandatorily redeemable preferred stock of consolidated subsidiary, net	—	38,989
Debt, net (including \$738,362 and \$684,604 from VIEs, respectively)	737,224	678,793
Other	15,873	11,155
Deferred taxes	149,168	109,076
Total Liabilities	<u>1,483,600</u>	<u>1,423,451</u>
Contingencies and Commitments (Note 9)		
Preferred stock — \$.01 par value; 2,000,000 shares authorized; none issued or outstanding	—	—
Common stock — \$.01 par value; 100,000,000 shares authorized; 36,633,868 and 36,393,800 shares issued, respectively	366	364
Treasury stock — at cost; 9,643,562 and 6,844,256 shares, respectively	(606,631)	(429,990)
Additional paid-in capital	1,162,283	1,150,731
Accumulated other comprehensive income	5,460	11,381
Retained earnings	346,341	243,781
Total Equity	<u>907,819</u>	<u>976,267</u>
Total Liabilities and Equity	<u>\$ 2,391,419</u>	<u>\$ 2,399,718</u>

The abbreviation VIEs above means Variable Interest Entities.

**See Notes to Consolidated Financial Statements**

**MARRIOTT VACATIONS WORLDWIDE CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**Fiscal Years 2016, 2015 and 2014**  
(In thousands)

	2016	2015	2014
<b>OPERATING ACTIVITIES</b>			
Net income	\$ 137,348	\$ 122,799	\$ 80,756
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	21,044	22,217	18,682
Amortization of debt issuance costs	6,509	5,586	5,462
Provision for loan losses	47,292	33,083	30,534
Share-based compensation	13,949	14,142	13,376
Employee stock purchase plan	1,317	560	—
Gain on disposal of property and equipment, net	(11,201)	(9,557)	(5,171)
Non-cash litigation settlement	(303)	(262)	23,778
Deferred income taxes	38,834	28,162	18,876
Impairment charges	—	324	1,381
Net change in assets and liabilities:			
Accounts and contracts receivable	(30,055)	(24,189)	(1,143)
Notes receivable originations	(356,859)	(311,195)	(267,917)
Notes receivable collections	253,622	270,170	287,240
Inventory	4,301	72,158	82,690
Purchase of operating properties for future conversion to inventory	—	(61,554)	—
Other assets	11,092	(10,648)	8,659
Accounts payable, advance deposits and accrued liabilities	(19,905)	23,461	(17,865)
Liability for Marriott Rewards customer loyalty program	(37)	(89,251)	(25,022)
Deferred revenue	17,664	(5,289)	24,656
Payroll and benefit liabilities	(6,933)	11,380	8,973
Deferred compensation liability	11,843	9,354	4,568
Other liabilities	1,863	2,974	(2,055)
Other, net	(1,213)	4,609	953
Net cash provided by operating activities	140,172	109,034	291,411
<b>INVESTING ACTIVITIES</b>			
Capital expenditures for property and equipment (excluding inventory)	(34,770)	(35,735)	(15,202)
Purchase of operating property to be sold	—	(47,658)	—
Decrease (increase) in restricted cash	4,838	37,681	(24,019)
Dispositions, net	68,953	20,644	82,347
Net cash provided by (used in) investing activities	39,021	(25,068)	43,126
<b>FINANCING ACTIVITIES</b>			
Borrowings from securitization transactions	376,622	255,000	262,638
Repayment of debt related to securitization transactions	(322,864)	(278,427)	(228,870)
Borrowings from Revolving Corporate Credit Facility	85,000	—	—
Repayment of Revolving Corporate Credit Facility	(85,000)	—	—
Proceeds from vacation ownership inventory arrangement	—	5,375	—
Debt issuance costs	(4,065)	(5,335)	(6,498)
Repurchase of common stock	(177,830)	(201,380)	(203,596)
Redemption of mandatorily redeemable preferred stock of consolidated subsidiary	(40,000)	—	—
Payment of dividends	(34,195)	(23,793)	(8,179)
Proceeds from stock option exercises	7	97	2,977

Excess tax benefits from share-based compensation	1,207	9,380	4,519
Payment of withholding taxes on vesting of restricted stock units	(4,021)	(10,894)	(8,077)
Other	187	230	(564)
Net cash used in financing activities	(204,952)	(249,747)	(185,650)
Effect of changes in exchange rates on cash and cash equivalents	(4,200)	(3,673)	(1,883)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(29,959)	(169,454)	147,004
CASH AND CASH EQUIVALENTS, beginning of year	177,061	346,515	199,511
CASH AND CASH EQUIVALENTS, end of year	\$ 147,102	\$ 177,061	\$ 346,515

**SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES**

Non-cash transfer from Inventory to Property and equipment	\$ 9,741	\$ 30,985	\$ —
Non-cash impact on Additional paid-in capital for changes in Deferred tax liabilities distributed to Marriott Vacations Worldwide at Spin-Off	—	(9)	(3,870)
Non-cash issuance of note receivable	—	(500)	—
Non-cash issuance of treasury stock for employee stock purchase plan	(1,317)	(560)	—
Non-cash transfer of debt	2,985	—	—
Dividends payable	(9,480)	(8,898)	—
Disposition accruals not yet paid	2,229	—	—
Property acquired via capital lease	7,221	—	—
Non-cash impact on Additional paid-in capital to correct an immaterial error in Deferred revenue at Spin-Off	—	—	(1,156)

See Notes to Consolidated Financial Statements

**MARRIOTT VACATIONS WORLDWIDE CORPORATION**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**

**Fiscal Years 2016, 2015 and 2014**

(In thousands)

	Common Shares Outstanding	Common Stock	Treasury Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total Equity
Balance at year-end 2013	35,133	\$ 356	\$ (25,633)	\$ 1,129,800	\$ 23,059	\$ 81,155	\$ 1,208,737
Net income	—	—	—	—	—	80,756	80,756
Foreign currency translation adjustments	—	—	—	—	(6,005)	—	(6,005)
Amounts related to share-based compensation	452	5	—	13,024	—	—	13,029
Adjustment to reclassification of Marriott International investment to Additional paid-in capital <sup>(1)</sup>	—	—	—	(3,883)	—	—	(3,883)
Adjustment to Additional paid-in capital <sup>(2)</sup>	—	—	—	(1,156)	—	—	(1,156)
Repurchase of common stock	(3,492)	—	(203,596)	—	—	—	(203,596)
Dividends	—	—	—	—	—	(8,179)	(8,179)
Balance at year-end 2014	32,093	361	(229,229)	1,137,785	17,054	153,732	1,079,703
Net income	—	—	—	—	—	122,799	122,799
Foreign currency translation adjustments	—	—	—	—	(5,673)	—	(5,673)
Amounts related to share-based compensation	304	3	—	12,955	—	—	12,958
Adjustment to reclassification of Marriott International investment to Additional paid-in capital	—	—	—	(9)	—	—	(9)
Repurchase of common stock	(2,857)	—	(201,380)	—	—	—	(201,380)
Dividends	—	—	—	—	—	(32,691)	(32,691)
Employee stock plan issuance	10	—	619	—	—	(59)	560
Balance at year-end 2015	29,550	364	(429,990)	1,150,731	11,381	243,781	976,267
Net income	—	—	—	—	—	137,348	137,348
Foreign currency translation adjustments	—	—	—	—	(5,589)	—	(5,589)
Derivative instrument adjustment	—	—	—	—	(332)	—	(332)
Amounts related to share-based compensation	240	2	—	11,424	—	—	11,426
Repurchase of common stock	(2,819)	—	(177,830)	—	—	—	(177,830)
Dividends	—	—	—	—	—	(34,788)	(34,788)
Employee stock plan issuance	19	—	1,189	128	—	—	1,317
Balance at year-end 2016	26,990	\$ 366	\$ (606,631)	\$ 1,162,283	\$ 5,460	\$ 346,341	\$ 907,819

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

<sup>(2)</sup> Consists of an adjustment to correct an immaterial error in Deferred revenue at the time of the Spin-Off.

**See Notes to Consolidated Financial Statements**



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

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***Our Business*

Marriott Vacations Worldwide Corporation (“Marriott Vacations Worldwide,” “we” or “us,” which includes our consolidated subsidiaries except where the context of the reference is to a single corporate entity) is the exclusive worldwide developer, marketer, seller and manager of vacation ownership and related products under the Marriott Vacation Club and Grand Residences by Marriott brands. 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. (“The Ritz-Carlton Hotel Company”), a subsidiary of Marriott International, Inc. (“Marriott International”), provides on-site management for Ritz-Carlton branded properties.

Our business is grouped into three reportable segments: North America, Europe and Asia Pacific. As of December 30, 2016, 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.

*Our Spin-Off from Marriott International, Inc.*

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

*Principles of Consolidation and Basis of Presentation*

The 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 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 these Financial Statements easier to read, we refer throughout to (i) our Consolidated Financial Statements as our “Financial Statements,” (ii) our Consolidated Statements of Income as our “Statements of Income,” (iii) our Consolidated Balance Sheets as our “Balance Sheets,” and (iv) our 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 Consolidated Financial Statements, unless otherwise noted.

Unless otherwise specified, each reference to a particular year in these Financial Statements means the fiscal year ended on the date shown in the following table, rather than the corresponding calendar year. The fiscal years in the following table included 52 weeks. Beginning in 2017, our fiscal year will be the same as the corresponding calendar year, except that the 2017 fiscal year will begin on December 31, 2016 and end on December 31, 2017.

<b>Fiscal Year</b>	<b>Fiscal Year-End Date</b>
2016	December 30, 2016
2015	January 1, 2016
2014	January 2, 2015

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Such estimates include, but are not limited to, revenue recognition, cost of vacation ownership products, inventory valuation, property and equipment valuation, loan loss reserves, income taxes and loss contingencies. Accordingly, actual amounts may differ from these estimated amounts.

We have reclassified certain prior year amounts to conform to our 2016 presentation.

Our Financial Statements include adjustments for fiscal years 2015 and 2014 to correct immaterial presentation errors 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:

(\$ in thousands)	As Revised		Previous Filings	
	2015	2014	2015	2014
Resort management and other services	\$ 295,547	\$ 278,517	\$ 312,229	\$ 298,283
<b>TOTAL REVENUES</b>	<b>\$ 1,813,781</b>	<b>\$ 1,716,016</b>	<b>\$ 1,830,463</b>	<b>\$ 1,735,782</b>
Resort management and other services	\$ 180,072	\$ 177,138	\$ 199,895	\$ 199,258
General and administrative	\$ 106,104	\$ 100,916	\$ 102,963	\$ 98,562
<b>TOTAL EXPENSES</b>	<b>\$ 1,595,778</b>	<b>\$ 1,559,518</b>	<b>\$ 1,612,460</b>	<b>\$ 1,579,284</b>

#### *Revenue Recognition*

##### *Sale of Vacation Ownership Products*

We market and sell real estate and in substance real estate in our three reportable segments. Real estate and in substance real estate include deeded vacation ownership products, deeded beneficial interests, rights to use real estate, and other interests in trusts that solely hold real estate and deeded whole ownership units in residential buildings. Within the North America segment, we also market and sell residential units at certain properties on a limited basis.

Vacation ownership products may be sold for cash or we may provide financing. We are not providing financing on sales of whole ownership products. Except for revenue from the sale of residential stand-alone structures, which we recognize upon transfer of title to a third party, we recognize revenue under the percentage-of-completion method when all of the following exist or are true: the customer has executed a binding sales contract, the statutory rescission period has expired (after which time the purchasers are not entitled to a refund except for non-delivery by us), we have deemed the receivable collectible and the remainder of our obligations are substantially completed. In addition, before we recognize any revenues, the purchaser must have met the initial investment criteria and, as applicable, the continuing investment criteria. A purchaser has met the initial investment criteria when we receive a minimum down payment. In accordance with the authoritative guidance for accounting for real estate time-sharing transactions, we must also take into consideration the fair value of certain incentives provided to the purchaser when assessing the adequacy of the purchaser's initial investment. In those cases where we provide financing to the purchaser, the purchaser must be obligated to remit monthly payments under financing contracts that represent the purchaser's continuing investment.

##### *Resort Management and Other Services Revenues*

Our resort management and other services revenues consist primarily of ancillary revenues and management fees. Ancillary revenues consist of goods and services that are sold or provided by us at restaurants, golf courses and other retail and service outlets located at developed resorts. We recognize ancillary revenue when goods have been provided and/or services have been rendered.

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 is typically based on either a percentage of the budgeted costs to operate the resorts or a fixed fee arrangement. We recognize revenues when earned in accordance with the terms of the contract and record them as a component of Resort management and other services revenues on our Statements of Income. Management fee revenues were \$83.3 million, \$77.6 million and \$73.9 million during 2016, 2015 and 2014, respectively.

Resort management and other services revenues include additional fees for services we provide to our property owners' associations, as well as 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 recognize fee revenues when services have been rendered. Fee revenues included in Resort management and other services revenues were \$78.5 million in 2016, \$67.2 million in 2015 and \$77.8 million in 2014, as reflected on our Statements of Income.

### Financing Revenues

We offer consumer financing as an option to qualifying customers purchasing vacation ownership products, which is collateralized by the underlying vacation ownership products. We recognize interest income on an accrual basis. The contractual terms of the financing agreements require that the contractual level of annual principal payments be sufficient to amortize the loan over a customary period for the vacation ownership product being financed, which is generally ten years. Generally, payments commence under the financing contracts 30 to 60 days after closing. We record an estimate of uncollectible amounts at the time of the sale with a charge to the provision for loan losses, which we classify as a reduction of Sale of vacation ownership products on our Statements of Income. Revisions to estimates of uncollectible amounts also impact the provision for loan losses and can increase or decrease revenue. We earn interest income from the financing arrangements on the principal balance outstanding over the life of the arrangement and record that interest income in Financing revenues on our Statements of Income.

Financing revenues include certain annual and transaction-based fees we charge to owners and other third parties for services. We recognize fee revenues when services have been rendered. Fee revenues included in Financing revenues were \$6.0 million in 2016, \$6.0 million in 2015 and \$6.4 million in 2014, as reflected on our Statements of Income.

### Rental Revenues

We record rental revenues when occupancy has occurred or, in the case of unused prepaid rentals, upon forfeiture. We also recognize rental revenue from the utilization of plus points under the Marriott Vacation Club Destinations™ (“MVCD”) program when those points are redeemed for rental stays at one of our resorts or in the Explorer Collection, or upon expiration of the points.

### 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 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.

### Inventory

Our inventory consists primarily of completed vacation ownership products, vacation ownership products under construction and land held for future vacation ownership product development. We carry our inventory at the lower of (1) cost, including costs of improvements and amenities incurred subsequent to acquisition, capitalized interest and real estate taxes plus other costs incurred during construction, or (2) estimated fair value, less costs to sell, which can result in impairment charges and/or recoveries of previous impairments.

We account for vacation ownership inventory and cost of vacation ownership products in accordance with the authoritative guidance for accounting for real estate time-sharing transactions, which defines a specific application of the relative sales value method for reducing vacation ownership inventory and recording cost of sales as described in our policy for revenue recognition for vacation ownership products. Also, pursuant to the guidance for accounting for real estate time-sharing transactions, we do not reduce inventory for cost of vacation ownership products related to anticipated credit losses (accordingly, no adjustment is made when inventory is reacquired upon default of the related receivable). These standards provide for changes in estimates within the relative sales value calculations to be accounted for as real estate inventory true-ups, which we refer to as product cost true-up activity, and are recorded in Cost of vacation ownership product expenses on the Statements of Income to retrospectively adjust the margin previously recorded subject to those estimates. For 2016, 2015 and 2014, product cost true-up activity relating to vacation ownership products increased carrying values of inventory by \$14.8 million, \$7.3 million and \$6.5 million, respectively.

For residential real estate projects, we allocate costs to individual residences in the projects based on the relative estimated sales value of each residence in accordance with ASC 970, “Real Estate—General,” which defines the accounting for costs of real estate projects. Under this method, we reduce the allocated cost of a unit from inventory and recognize that cost as cost of sales when we recognize the related sale. Changes in estimates within the relative sales value calculations for residential products (similar to condominiums) are accounted for as prospective adjustments to cost of vacation ownership products.

### Capitalization of Costs

We capitalize costs clearly associated with the acquisition of real estate when a transaction is accounted for as an asset acquisition under Accounting Standards Codification (“ASC”) 805, “Business Combinations” (“ASC 805”). Alternatively, when acquired real estate constitutes a business under ASC 805, transaction costs are expensed as incurred. We capitalize

interest and certain salaries and related costs incurred in connection with the following: (1) development and construction of sales centers; (2) internally developed software; and (3) development and construction projects for our real estate inventory. We capitalize costs clearly associated with the development and construction of a real estate project when it is probable that we will acquire a property. We capitalize salary and related costs only to the extent they directly relate to the project. We capitalize interest expense, taxes and insurance costs when activities that are necessary to get the property ready for its intended use are underway. We cease capitalization of costs during prolonged gaps in development when substantially all activities are suspended or when projects are considered substantially complete. Capitalized salaries and related costs totaled \$6.1 million, \$7.1 million and \$5.1 million for 2016, 2015 and 2014, respectively.

#### *Defined Contribution Plan*

We administer and maintain a defined contribution plan for the benefit of all employees meeting certain eligibility requirements who elect to participate in the plan. Contributions are determined based on a specified percentage of salary deferrals by participating employees. We recognized compensation expense (net of cost reimbursements from property owners' associations) for our participating employees totaling \$8.0 million in 2016, \$7.1 million in 2015 and \$6.6 million in 2014.

#### *Deferred Compensation Plan*

Prior to the Spin-Off, certain members of our senior management had the opportunity to participate in the Marriott International, Inc. Executive Deferred Compensation Plan (the "Marriott International EDC"), which Marriott International maintains and administers. Under the Marriott International EDC, participating employees were able to defer payment and income taxation of a portion of their salary and bonus. Participants also had the opportunity for long-term capital appreciation by crediting their accounts with notional earnings (at a fixed annual rate of return of 4.5 percent for 2016 and 4.9 percent for 2015). Although additional discretionary contributions to the participants' accounts under the Marriott International EDC may be made, no additional discretionary contributions were made for our employees in 2016, 2015 and 2014. Subsequent to the Spin-Off, we remain liable to reimburse Marriott International for distributions for participants that were employees of Marriott Vacations Worldwide at the time of the Spin-Off including earnings thereon.

Since 2014, certain members of our senior management have had the opportunity to participate in the Marriott Vacations Worldwide Deferred Compensation Plan (the "Deferred Compensation Plan"), which we maintain and administer. Under the Deferred Compensation Plan, participating employees may defer payment and income taxation of a portion of their salary and bonus. It also gives participants the opportunity for long-term capital appreciation by crediting their accounts with notional earnings (at a fixed annual rate of return of 5.6 percent for both 2016 and 2015). We recognized compensation expense (net of cost reimbursements from property owners' associations) for discretionary contributions to the participants' accounts under the Deferred Compensation Plan totaling \$1.3 million in 2016, \$1.3 million in 2015 and \$1.0 million in 2014.

#### *Property and Equipment*

Property and equipment includes our sales centers, golf courses, information technology and other assets used in the normal course of business, as well as undeveloped and partially developed land parcels that are not part of an approved development plan and do not meet the criteria to be classified as held for sale. We record property and equipment at cost, including interest and real estate taxes incurred during active development. We capitalize the cost of improvements that extend the useful life of property and equipment when incurred. These capitalized costs may include structural costs, equipment, fixtures, floor and decorative items and signage. We expense all repair and maintenance costs as incurred. We compute depreciation using the straight-line method over the estimated useful lives of the assets (three to forty years), and we amortize leasehold improvements over the shorter of the asset life or lease term.

#### *Guarantees*

We record a liability for the fair value of a guarantee on the date we issue or modify the guarantee. The offsetting entry depends on the circumstances in which the guarantee was issued. Funding under the guarantee reduces the recorded liability. On a quarterly basis, we evaluate all material estimated liabilities based on the operating results and the terms of the guarantee. If we conclude that it is probable that we will be required to fund a greater amount than previously estimated, we will record a loss.

#### *Cash and Cash Equivalents*

We consider all highly liquid investments with an initial purchase maturity of three months or less at the date of purchase to be cash equivalents.

### *Restricted Cash*

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

### *Accounts and Contracts Receivable*

Accounts and contracts receivable are presented net of allowances of \$0.8 million at December 30, 2016 and \$0.6 million at January 1, 2016.

### *Loan Loss Reserves*

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.

Although we consider loans to owners to be past due if we do not receive payment within 30 days of the due date, we suspend accrual of interest only on those loans that are over 90 days past due. We consider loans over 150 days past due to be in default. We apply payments we receive for vacation ownership notes receivable on non-accrual status first to interest, then to principal and any remainder to fees. We resume accruing interest when vacation ownership notes receivable are less than 90 days past due. We do not accept payments for vacation ownership notes receivable during the foreclosure process unless the amount is sufficient to pay all past due principal, interest, fees and penalties owed and fully reinstate the note. We write off uncollectible vacation ownership notes receivable against the reserve once we receive title to the vacation ownership products through the foreclosure or deed-in-lieu process or, in Europe or Asia Pacific, when revocation is complete. For both non-securitized and securitized vacation ownership notes receivable, we estimated average remaining default rates of 7.09 percent and 6.92 percent as of December 30, 2016 and January 1, 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 \$5.0 million and \$4.7 million as of December 30, 2016 and January 1, 2016, respectively.

For additional information on our vacation ownership notes receivable, including information on the related reserves, see Footnote No. 3, "Vacation Ownership Notes Receivable."

### *Costs Incurred to Sell Vacation Ownership Products*

We charge the majority of marketing and sales costs we incur to sell vacation ownership products to expense when incurred. Deferred marketing and selling expenses, which are direct marketing and selling costs related either to an unclosed contract or a contract for which 100 percent of revenue has not yet been recognized, were \$6.2 million at year-end 2016 and \$5.3 million at year-end 2015 and are included on the accompanying Balance Sheets in the Other caption within Assets.

### *Valuation of Property and Equipment*

Property and equipment includes our sales centers, golf courses, operating properties, information technology and other assets used in the normal course of business, as well as undeveloped and partially developed land parcels that are not part of an approved development plan and do not meet the criteria to be classified as held for sale. We test long-lived asset groups for recoverability when changes in circumstances indicate the carrying value may not be recoverable, for example, when there are material adverse changes in projected revenues or expenses, significant underperformance relative to historical or projected operating results, or significant negative industry or economic trends. We evaluate recoverability of an asset group by comparing its carrying value to the future net undiscounted cash flows that we expect will be generated by the asset group. If the comparison indicates that the carrying value of an asset group is not recoverable, we recognize an impairment loss for the excess of carrying value over the estimated fair value. When we recognize an impairment loss for assets to be held and used, we depreciate the adjusted carrying amount of those assets over their remaining useful life.

### *Investments*

We consolidate entities that we control. We account for investments in joint ventures which are not consolidated variable interest entities using the equity method of accounting when we exercise significant influence over the venture. If we do not exercise significant influence, we account for the investment using the cost method of accounting. We account for investments in limited partnerships and limited liability companies using the equity method of accounting when we own more than a minimal investment. Our ownership interest in these equity method investments generally varies from 34 percent to 50 percent.

### *Fair Value Measurements*

We have few financial instruments that we must measure at fair value on a recurring basis. See Footnote No. 4, "Financial Instruments," for further information. We also apply the provisions of fair value measurement to various non-recurring measurements for our financial and non-financial assets and liabilities.

The applicable accounting standards define fair value as the price that would be received upon selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). We measure fair value of our assets and liabilities using inputs from the following three levels of the fair value hierarchy:

Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities that we have the ability to access at the measurement date.

Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (i.e., interest rates, yield curves, etc.), and inputs that are derived principally from or corroborated by observable market data by correlation or other means (market corroborated inputs).

Level 3 includes unobservable inputs that reflect our assumptions about what factors market participants would use in pricing the asset or liability. We develop these inputs based on the best information available, including our own data.

### *Derivative Instruments*

From time to time, we may use derivative instruments to reduce market risk due to changes in interest rates and currency exchange rates, including interest rate derivatives that we may be required to enter into as a condition of our \$250 million non-recourse warehouse credit facility (the "Warehouse Credit Facility"). As of December 30, 2016, we were not party to any material derivative instruments or hedges.

The designation of a derivative instrument as a hedge and its ability to meet the hedge accounting criteria determines how the change in fair value of the derivative instrument is recorded on our Financial Statements. A derivative qualifies for hedge accounting if, at inception, we expect the derivative to be highly effective in offsetting the underlying hedged cash flows or fair value and we fulfill the hedge documentation standards at the time we enter into the derivative contract. We designate a hedge as a cash flow hedge, fair value hedge, or a net investment in non-U.S. operations hedge based on the exposure we are hedging. The asset or liability value of the derivative will change in tandem with its fair value. For the effective portion of qualifying hedges, we record changes in fair value in other comprehensive income ("OCI"). We release the derivative's gain or loss from OCI to match the timing of the underlying hedged items' effect on earnings. As a matter of policy, we only enter into hedging transactions that we believe will be highly effective at offsetting the underlying risk and do not use derivatives for trading or speculative purposes.

### *Non-U.S. Operations*

The U.S. dollar is the functional currency of our consolidated entities operating in the United States. The functional currency for our consolidated entities operating outside of the United States is generally the currency of the economic environment in which the entity primarily generates and expends cash. For consolidated entities whose functional currency is not the U.S. dollar, we translate their financial statements into U.S. dollars. We translate assets and liabilities at the exchange rate in effect as of the financial statement date and translate Statement of Income accounts using the weighted average exchange rate for the period. We include translation adjustments from currency exchange and the effect of exchange rate changes on intercompany transactions of a long-term investment nature as a separate component of equity. We report gains and losses from currency exchange rate changes related to intercompany receivables and payables that are not of a long-term investment nature, as well as gains and losses from non-U.S. currency transactions, currently in operating costs and expenses.

### *Loss Contingencies*

We are subject to various legal proceedings and claims in the normal course of business, the outcomes of which are subject to significant uncertainty. We record an accrual for loss contingencies when we determine that it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. In making such determinations we evaluate, among other things, the degree of probability of an unfavorable outcome and, when it is probable that a liability has been incurred, our ability to make a reasonable estimate of the loss. We review these accruals each reporting period and make revisions based on changes in facts and circumstances.

### *Share-Based Compensation Costs*

We established the Marriott Vacations Worldwide Corporation Stock and Cash Incentive Plan (the “Stock Plan”) in order to compensate our employees and directors by granting them equity awards such as restricted stock units (“RSUs”), stock appreciation rights (“SARs”) and stock options.

We follow the provisions of ASC 718, “*Compensation—Stock Compensation*,” which requires that a company measure the expense of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. Generally, share-based awards granted to our employees, other than RSUs with performance vesting conditions, vest ratably over a four-year period. For share-based awards with service-only vesting conditions, we record compensation expense on a straight-line basis over the requisite service period. For RSUs with performance vesting conditions, the number of RSUs earned, if any, is determined following the end of a three-year performance period based upon the cumulative achievement over that period of specific quantitative operating financial measures and we recognize compensation expense once it is probable that the corresponding performance condition will be achieved.

SARs awarded under the Stock Plan are granted at exercise prices or strike prices equal to the market price of our common stock on the date of grant (this price is referred to as the “base value”). SARs generally expire ten years after the date of grant and both vest and become exercisable in cumulative installments of one quarter of the grant at the end of each of the first four years following the date of grant. Upon exercise of SARs, our employees and non-employee directors receive a number of shares of our common stock equal to the number of SARs being exercised, multiplied by the quotient of (a) the market price of the common stock on the date of exercise (this price is referred to as the “final value”) minus the base value, divided by (b) the final value.

We recognize the expense associated with these awards on our Statements of Income based on the fair value of the awards as of the date that the share-based awards are granted and adjust that expense to the estimated number of awards that we expect will vest or be earned. The fair value of RSUs represents the number of awards granted multiplied by the average of the high and low market price of our common stock on the date the awards are granted reduced by the present value of the dividends expected to be paid on the shares during the vesting period, discounted at a risk-free interest rate. We generally determine the fair value of SARs using the Black-Scholes option valuation model which incorporates assumptions about expected volatility, risk free interest rate, dividend yield and expected term. We will issue shares from authorized shares upon the exercise of SARs or stock options held by our employees and directors.

For share-based awards granted to non-employee directors, we recognize compensation expense on the grant date based on the fair value of the awards as of that date. See Footnote No. 13, “Share-Based Compensation,” for more information.

### *Advertising Costs*

We expensed advertising costs as incurred of \$1.1 million, \$2.1 million and \$2.0 million in 2016, 2015 and 2014, respectively. These costs are included in the Marketing and sales expense caption on our Statements of Income.

### *Income Taxes*

We file income tax returns, including with respect to our subsidiaries, in various jurisdictions around the world. We account for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

Changes in existing tax laws and rates, their related interpretations, and the uncertainty generated by the current economic environment may affect the amounts of deferred tax liabilities or the valuations of deferred tax assets over time. Our accounting for deferred tax consequences represents management’s best estimate of future events that can be appropriately reflected in the accounting estimates.

We record net deferred tax assets to the extent we believe these assets will more likely than not be realized. In making such a determination, we consider all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations. In the event we determine that we would be able to realize our deferred income tax assets in the future in excess of their net recorded amount, we would make an adjustment to the deferred tax asset valuation allowance, which impacts the provision for income taxes.

For tax positions we have taken, or expect to take, in a tax return we apply a more likely than not threshold, under which we must conclude a tax position is more likely than not to be sustained, assuming that the position will be examined by the appropriate taxing authority that has full knowledge of all relevant information, in order to continue to recognize the benefit. In determining our provision for income taxes, we use judgment, reflecting our estimates and assumptions, in applying the more likely than not threshold.

For information about income taxes and deferred tax assets and liabilities, see Footnote No. 2, "Income Taxes."

#### *Earnings Per Common Share*

Basic earnings per common share is calculated by dividing the earnings available to common shareholders by the weighted average number of common shares outstanding for the period. 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 methods.

#### *New Accounting Standards*

Accounting Standards Update No. 2017-01 - "*Business Combinations (Topic 805): Clarifying the Definition of a Business*" ("ASU 2017-01")

In January 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2017-01, which revises the definition of a business to assist entities with evaluating when a set of transferred assets and activities constitutes a business. Under ASU 2017-01, if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets, the set of transferred assets and activities is not a business. Determining whether a set of transferred assets is a business is critical because the accounting for a business combination differs significantly from that of an asset acquisition. In addition, the definition of a business also affects the accounting for dispositions and the identification of reporting units. It also may affect how an entity applies consolidation guidance. The update is effective for public companies for annual periods beginning after December 15, 2017, and for interim periods within those years, with early adoption permitted. Our early adoption of ASU 2017-01 in the fourth quarter of 2016 did not have an impact on our financial statements or disclosures. We expect that new guidance will likely result in more of our real estate acquisitions being accounted for as asset acquisitions, with related transaction costs capitalized, rather than business combinations.

Accounting Standards Update No. 2016-17 - "*Consolidation (Topic 810): Interests Held through Related Parties That Are under Common Control*" ("ASU 2016-17")

In October 2016, the FASB issued ASU 2016-17, which updates Accounting Standards Update No. 2015-02, "*Consolidation (Topic 810): Amendments to the Consolidation Analysis*." Under the amendments, a single decision maker evaluating whether it is the primary beneficiary of a variable interest entity will consider its indirect interests held by related parties that are under common control on a proportionate basis. ASU 2016-17 is effective for annual periods beginning after December 15, 2016, and interim periods within those fiscal years, with early adoption permitted. Our early adoption of ASU 2016-17 in the fourth quarter of 2016 did not have an impact on our financial statements or disclosures.

Accounting Standards Update No. 2016-15 - "*Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*" ("ASU 2016-15")

In August 2016, the FASB issued ASU 2016-15, which clarifies the treatment of several cash flow categories. In addition, ASU 2016-15 clarifies that when cash receipts and cash payments have aspects of more than one class of cash flows and cannot be separated, classification will depend on the predominant source or use. This update is effective for annual periods beginning after December 15, 2017, and interim periods within those fiscal years, with early adoption permitted, including adoption in an interim period. Our early adoption of ASU 2016-15 in the third quarter of 2016 did not have an impact on our financial statements or disclosures.



*Future Adoption of Accounting Standards*

Accounting Standards Update No. 2016-18 - “*Restricted Cash*” (“ASU 2016-18”)

In November 2016, the FASB issued 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 will adopt ASU 2016-18 on a retrospective basis commencing in the first quarter of 2017.

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. 2016-09 – “*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. 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. Currently, excess tax benefits are recorded in additional paid-in-capital in the balance sheet. The update is effective for annual periods beginning after December 15, 2016 and interim periods within those annual periods. We expect to adopt ASU 2016-09 in the first quarter of 2017. We expect the adoption of ASU 2016-09 to decrease 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 to eliminate the presentation of excess tax benefits as a financing inflow on our statement of cash flows. Further, we expect to make an accounting policy election to account for forfeitures of share-based compensation awards as they occur. We do not expect the adoption of ASU 2016-09 to have any other material impacts 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. Although we expect to adopt ASU 2014-09, as amended, commencing in fiscal year 2018, on a retrospective basis, we continue to evaluate the impact that adoption of this accounting standards update will have on our financial statements and disclosures. We anticipate concluding our preliminary assessment and providing detail on the impact of adoption of this accounting standard in the first half of 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. Under the Tax Sharing and Indemnification Agreement with Marriott International, if any part of the Spin-Off fails to qualify for the tax treatment stated in the ruling Marriott International received from the U.S. Internal Revenue Service (the “IRS”) in connection with the Spin-Off, taxes imposed will be allocated between Marriott International and Marriott Vacations Worldwide as set forth in the agreement, and each will indemnify and hold harmless the other from and against the taxes so allocated.

The income (loss) before provision for income taxes by geographic region is as follows:

<i>(\$ in thousands)</i>	2016	2015	2014
United States	\$ 220,169	\$ 197,519	\$ 178,297
Non-U.S. jurisdictions	2,759	8,978	(27,706)
	<u>\$ 222,928</u>	<u>\$ 206,497</u>	<u>\$ 150,591</u>

Our current tax provision does not reflect the benefits attributable to us for the exercise or vesting of employee share-based awards of \$1.2 million in 2016, \$9.4 million in 2015 and \$4.5 million in 2014.

Our provision for income taxes consists of:

<i>(\$ in thousands)</i>	2016	2015	2014
Current – U.S. Federal	\$ (35,715)	\$ (44,728)	\$ (42,652)
– U.S. State	(4,926)	(4,027)	(9,091)
– Non-U.S.	(4,902)	(6,953)	95
	<u>(45,543)</u>	<u>(55,708)</u>	<u>(51,648)</u>
Deferred – U.S. Federal	(38,332)	(25,350)	(16,422)
– U.S. State	(3,432)	(4,554)	1,294
– Non-U.S.	1,727	1,914	(3,059)
	<u>(40,037)</u>	<u>(27,990)</u>	<u>(18,187)</u>
	<u>\$ (85,580)</u>	<u>\$ (83,698)</u>	<u>\$ (69,835)</u>

The deferred tax assets and related valuation allowances in these Financial Statements have been determined on a separate return basis. The assessment of the valuation allowances requires considerable judgment on the part of management with respect to benefits that could be realized from future taxable income, as well as other positive and negative factors. Valuation allowances are recorded against the deferred tax assets of certain foreign operations for which historical losses, restructuring and impairment charges have been incurred. The change in the valuation allowances established were \$1.5 million in 2016, \$(3.7) million in 2015 and \$(6.7) million in 2014.

We have made no provision for U.S. income taxes or additional non-U.S. taxes on the cumulative unremitted earnings of non-U.S. subsidiaries (\$169.8 million at December 30, 2016) because we consider these earnings to be permanently invested. We do not consider previously taxed income to be permanently reinvested if such earnings can be distributed to a U.S. ent

ity without incurring additional U.S. tax. These earnings could become subject to additional taxes if remitted as dividends, loaned to us or a U.S. affiliate or if we sold our interests in the affiliates. We cannot estimate the amount of additional taxes that might be payable on the unremitted earnings.

We conduct business in countries that grant “holidays” from income taxes for ten to thirty year periods. These holidays expire through 2034. Without these tax “holidays,” we would have incurred the following aggregate additional income taxes: \$0.5 million in 2016, \$0.4 million in 2015 and \$2.6 million in 2014.

Our income tax returns are subject to examination by relevant tax authorities. Certain of our returns are being audited in various jurisdictions for years 2011 through 2014. 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 December 30, 2016, \$2.4 million at January 1, 2016 and \$1.1 million at January 2, 2015.

The following table reconciles our unrecognized tax benefit balance for each year from the beginning of 2014 to the end of 2016:

<i>(\$ in thousands)</i>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Unrecognized tax benefit at beginning of year	\$ 2,378	\$ 1,123	\$ 473
Change attributable to tax positions taken during the current period	801	979	—
Change attributable to tax positions taken during a prior period	(1,718)	276	650
Unrecognized tax benefit at end of year	<u>\$ 1,461</u>	<u>\$ 2,378</u>	<u>\$ 1,123</u>

In accordance with our accounting policies, we recognize accrued interest and penalties related to our unrecognized tax benefits as a component of tax expense. Related interest expense and accrued interest expense totaled less than \$0.1 million in each of 2016, 2015 and 2014.

#### *Deferred Income Taxes*

Deferred income tax balances reflect the effects of temporary differences between the carrying amounts of assets and liabilities and their tax bases, as well as from net operating loss and tax credit carry-forwards. We state those balances at the enacted tax rates we expect will be in effect when we actually pay or recover taxes. Deferred income tax assets represent amounts available to reduce income taxes we will pay on taxable income in future years. We evaluate our ability to realize these future tax deductions and credits by assessing whether we expect to have sufficient future taxable income from all sources, including reversal of taxable temporary differences, forecasted operating earnings and available tax planning strategies, to utilize these future deductions and credits. We establish a valuation allowance when we no longer consider it more likely than not that a deferred tax asset will be realized.

Total deferred tax assets and liabilities at December 30, 2016 and January 1, 2016 were as follows:

<i>(\$ in thousands)</i>	<b>At Year-End 2016</b>	<b>At Year-End 2015</b>
Deferred tax assets	\$ 192,954	\$ 161,997
Deferred tax liabilities	(335,178)	(265,197)
Net deferred tax liability	<u>\$ (142,224)</u>	<u>\$ (103,200)</u>

The tax effect of each type of temporary difference and carry-forward that gives rise to a significant portion of our deferred tax assets and liabilities at December 30, 2016 and January 1, 2016 was as follows:

<i>(\$ in thousands)</i>	<b>At Year-End 2016</b>	<b>At Year-End 2015</b>
Inventory	\$ (24,986)	\$ (25,671)
Reserves	38,677	31,654
Property and equipment	(15,560)	(7,246)
Deferred sales of vacation ownership interests	(246,793)	(185,980)
Long lived intangible assets	31,464	34,692
Net operating loss carry-forwards	49,205	45,481
Tax credits	21,345	5,956
Other, net	52,263	44,214
Deferred tax liability	(94,385)	(56,900)
Less: Valuation allowance	(47,839)	(46,300)
Net deferred tax liability	<u>\$ (142,224)</u>	<u>\$ (103,200)</u>

At December 30, 2016, we had approximately \$48.4 million of foreign net operating losses (excluding valuation allowances) some of which begin expiring in 2017. However, a significant portion of these tax net operating losses have an indefinite carry forward period. We have no federal net operating losses and net operating losses of \$0.8 million for state tax purposes which begin expiring in 2032.

#### *Reconciliation of U.S. Federal Statutory Income Tax Rate to Actual Income Tax Rate*

The following table reconciles the expense related to the U.S. statutory income tax rate to our effective income tax rate:

	<b>2016</b>	<b>2015</b>	<b>2014</b>
U.S. statutory income tax rate expense	35.00%	35.00%	35.00%
U.S. state income taxes, net of U.S. federal tax benefit	2.47	2.62	2.96
Permanent differences <sup>(1)</sup>	1.03	1.65	0.18
Non-U.S. income (loss) <sup>(2)</sup>	0.34	(0.61)	6.27
Other items <sup>(3)</sup>	(1.15)	1.21	0.17
Change in valuation allowance <sup>(4)</sup>	0.70	0.66	1.79
Effective rate expense	<u>38.39%</u>	<u>40.53%</u>	<u>46.37%</u>

<sup>(1)</sup> Attributed to interest on mandatorily redeemable preferred stock of a consolidated subsidiary, partially offset by the benefit of tax holidays in certain jurisdictions in 2014.

<sup>(2)</sup> Attributed to the difference between U.S. and foreign income tax rates.

<sup>(3)</sup> Attributed to the changes in unrecognized tax benefits in 2016, 2015 and 2014. 2016 also includes U.S. federal tax incentives related to multiple years.

<sup>(4)</sup> Attributed to establishment of valuation allowances in foreign jurisdictions for losses that cannot be benefited in the U.S. income tax provision as discussed above.

#### *Cash Taxes Paid*

Cash taxes paid in 2016, 2015 and 2014 were \$47.8 million, \$50.2 million and \$65.2 million, respectively.

### 3. VACATION OWNERSHIP NOTES RECEIVABLE

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

<i>(\$ in thousands)</i>	<b>At Year-End 2016</b>	<b>At Year-End 2015</b>
Vacation ownership notes receivable — securitized	\$ 717,543	\$ 669,179
Vacation ownership notes receivable — non-securitized		
Eligible for securitization <sup>(1)</sup>	98,508	104,671
Not eligible for securitization <sup>(1)</sup>	156,260	146,781
Subtotal	254,768	251,452
Total vacation ownership notes receivable	\$ 972,311	\$ 920,631

<sup>(1)</sup> 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 December 30, 2016:

<i>(\$ in thousands)</i>	<b>Non-Securitized Vacation Ownership Notes Receivable</b>	<b>Securitized Vacation Ownership Notes Receivable</b>	<b>Total</b>
2017	\$ 46,471	\$ 97,726	\$ 144,197
2018	32,027	89,728	121,755
2019	25,698	83,909	109,607
2020	21,967	83,264	105,231
2021	18,951	81,654	100,605
Thereafter	109,654	281,262	390,916
Balance at year-end 2016	\$ 254,768	\$ 717,543	\$ 972,311
Weighted average stated interest rate at year-end 2016	11.7%	12.7%	12.4%
Range of stated interest rates at year-end 2016	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:

<i>(\$ in thousands)</i>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Interest income associated with vacation ownership notes receivable – securitized	\$ 96,606	\$ 89,693	\$ 91,790
Interest income associated with vacation ownership notes receivable – non-securitized	23,507	28,327	30,761
Total interest income associated with vacation ownership notes receivable	\$ 120,113	\$ 118,020	\$ 122,551

The following table summarizes the activity related to our vacation ownership notes receivable reserve for 2016, 2015 and 2014:

<i>(\$ in thousands)</i>	<b>Non-Securitized Vacation Ownership Notes Receivable Reserve</b>	<b>Securitized Vacation Ownership Notes Receivable Reserve</b>	<b>Total</b>
Balance at year-end 2013	\$ 81,576	\$ 51,687	\$ 133,263
Provision for loan losses	20,509	9,577	30,086
Securitized	(19,507)	19,507	—
Clean-up calls <sup>(1)</sup>	1,756	(1,756)	—
Write-offs	(44,931)	—	(44,931)
Defaulted vacation ownership notes receivable repurchase activity <sup>(2)</sup>	25,349	(25,349)	—
Balance at year-end 2014	64,752	53,666	118,418
Provision for loan losses	23,832	9,209	33,041
Securitized	(16,491)	16,491	—
Clean-up calls <sup>(1)</sup>	7,115	(7,115)	—
Write-offs	(48,220)	—	(48,220)
Defaulted vacation ownership notes receivable repurchase activity <sup>(2)</sup>	24,596	(24,596)	—
Balance at year-end 2015	55,584	47,655	103,239
Provision for loan losses	28,652	18,505	47,157
Securitized	(28,322)	28,322	—
Clean-up of Warehouse Credit Facility <sup>(3)</sup>	10,496	(10,496)	—
Write-offs	(40,033)	—	(40,033)
Defaulted vacation ownership notes receivable repurchase activity <sup>(2)</sup>	30,251	(30,251)	—
Balance at year-end 2016	\$ 56,628	\$ 53,735	\$ 110,363

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

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

(3) Refers to our voluntary repurchase of previously securitized non-defaulted vacation ownership notes receivable from our Warehouse Credit Facility.

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. As noted in Footnote No. 1, "Summary of Significant Accounting Policies," we recognize interest income on a cash basis for these vacation ownership notes receivable.

<i>(\$ in thousands)</i>	<b>Non-Securitized Vacation Ownership Notes Receivable</b>	<b>Securitized Vacation Ownership Notes Receivable</b>	<b>Total</b>
Investment in vacation ownership notes receivable on non-accrual status at year-end 2016	\$ 43,792	\$ 6,687	\$ 50,479
Investment in vacation ownership notes receivable on non-accrual status at year-end 2015	\$ 46,024	\$ 8,717	\$ 54,741
Average investment in vacation ownership notes receivable on non-accrual status during 2016	\$ 44,908	\$ 7,702	\$ 52,610

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

<i>(\$ in thousands)</i>	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

The following table shows the aging of the recorded investment in principal, before reserves, in vacation ownership notes receivable as of January 1, 2016:

<i>(\$ in thousands)</i>	Non-Securitized Vacation Ownership Notes Receivable	Securitized Vacation Ownership Notes Receivable	Total
31 – 90 days past due	\$ 9,981	\$ 21,113	\$ 31,094
91 – 150 days past due	4,731	8,590	13,321
Greater than 150 days past due	41,293	127	41,420
Total past due	56,005	29,830	85,835
Current	251,031	687,004	938,035
Total vacation ownership notes receivable	\$ 307,036	\$ 716,834	\$ 1,023,870

#### 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.

<i>(\$ in thousands)</i>	At Year-End 2016		At Year-End 2015	
	Carrying Amount	Fair Value <sup>(1)</sup>	Carrying Amount	Fair Value <sup>(1)</sup>
Vacation ownership notes receivable				
Securitized	\$ 717,543	\$ 834,009	\$ 669,179	\$ 803,533
Non-securitized	254,768	269,161	251,452	274,799
Total financial assets	\$ 972,311	\$ 1,103,170	\$ 920,631	\$ 1,078,332
Non-recourse debt associated with vacation ownership notes receivable securitizations, net	\$ (729,188)	\$ (725,963)	\$ (675,561)	\$ (677,595)
Other debt, net	(815)	(815)	(3,232)	(3,496)
Mandatorily redeemable preferred stock of consolidated subsidiary, net	—	—	(38,989)	(42,258)
Other liabilities	(2,285)	(2,285)	(4,515)	(4,515)
Total financial liabilities	\$ (732,288)	\$ (729,063)	\$ (722,297)	\$ (727,864)

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

See the “Fair Value Measurements” caption of Footnote No. 1, “Summary of Significant Accounting Policies” for additional information.

### Vacation Ownership Notes Receivable

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

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

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

(\$ in thousands)	At Year-End 2016		At Year-End 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Vacation ownership notes receivable				
Eligible for securitization	\$ 98,508	\$ 112,901	\$ 104,671	\$ 128,018
Not eligible for securitization	156,260	156,260	146,781	146,781
Total non-securitized	<u>\$ 254,768</u>	<u>\$ 269,161</u>	<u>\$ 251,452</u>	<u>\$ 274,799</u>

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.

### 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.

### Mandatorily Redeemable Preferred Stock of Consolidated Subsidiary, Net

We historically estimated the fair value of the mandatorily redeemable preferred stock of our consolidated subsidiary using a discounted cash flow model. We believe this is comparable to the model that an independent third party would have used in the then current market. Our model included an assessment of our subsidiary’s credit risk and the instrument’s contractual dividend rate.



## 5. ACQUISITIONS AND DISPOSITIONS

### *2016 Acquisitions*

#### *Miami Beach, Florida*

During the first quarter of 2016, 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 MVCD program.

### *2016 Dispositions*

#### *San Francisco, California*

During the second quarter of 2016, we disposed of 19 residential units, located at The Ritz-Carlton Club and Residences, San Francisco (the “RCC San Francisco”), for gross cash proceeds of \$19.5 million. We accounted for the sale under the full accrual method in accordance with the authoritative guidance on accounting for sales of real estate and recorded a gain of \$10.5 million in the Gains and other income line on our Statements of Income for the year ended December 30, 2016.

### *2016 Disposition / 2015 Acquisition*

#### *Surfers Paradise, Australia*

During the third quarter of 2015, we completed the acquisition of an operating property located in Surfers Paradise, Australia, for AUD \$84.5 million (\$62.3 million). The acquisition was treated as a business combination and accounted for using the acquisition method of accounting. As such, all transaction costs were expensed as incurred and were included in the “Other” line of our statements of income. As consideration for the acquisition, we paid AUD \$82.6 million (\$61.0 million) in cash and assumed net liabilities of AUD \$1.9 million (\$1.3 million), which was allocated based on the fair value at the date of acquisition as follows: AUD \$28.9 million (\$21.3 million) to land, AUD \$49.5 million (\$36.5 million) to buildings and leasehold improvements and AUD \$6.1 million (\$4.5 million) to furniture and equipment. Fair value was determined using an independent appraisal, which was primarily based on a discounted cash flow model, a Level 3 fair value input. At the time of the acquisition we determined that we would convert a portion of this operating property into vacation ownership interests for future use in our Asia Pacific segment; the related portion of the purchase price was classified as an operating activity on our Cash Flows for the year ended January 1, 2016. Additionally, we intended to sell the remaining downsized portion of the operating property to a third party; the related portion of the purchase price was classified as an investing activity on our Cash Flows for the year ended January 1, 2016.

During the second quarter of 2016, we disposed of the remaining downsized portion of this operating property that we did not intend to convert into vacation ownership inventory for gross cash proceeds of AUD \$70.5 million (\$50.9 million). We accounted for the sale under the full accrual method in accordance with the authoritative guidance on accounting for sales of real estate. As part of the disposition, we guaranteed the net operating income of this portion of the operating property through 2021 up to a specified maximum of AUD \$2.9 million (\$2.1 million), which was recorded as a deferred gain in the Other line within liabilities on our balance sheet. We recognized a loss, inclusive of the deferred gain, of AUD \$1.2 million (\$0.9 million) in connection with the sale, which was recorded in the Gains and other income line on the Statement of Income for the year ended December 30, 2016.

As of December 30, 2016, we have completed the conversion of the portion of this operating property that we intended to convert into vacation ownership inventory at the time of the acquisition, a portion of which has been contributed to our points-based programs in our Asia Pacific segment.

### *2015 Acquisitions*

#### *Washington, D.C.*

During the third quarter of 2015, we completed the acquisition of 71 units at The Mayflower Hotel, Autograph Collection, an operating hotel located in Washington, D.C., for \$32.0 million. The asset acquisition was treated as a purchase of inventory and we have included these vacation ownership units, in their current form, in our MVCD program.

*San Diego, California*

During the first quarter of 2015, we completed the acquisition of an operating property located in San Diego, California, for \$55.0 million. The acquisition was treated as a business combination and accounted for using the acquisition method of accounting. As consideration for the acquisition, we paid \$55.0 million in cash, which was allocated based on the fair value at the date of acquisition as follows: \$54.3 million to property and equipment and \$0.7 million to other assets. Fair value was determined using an independent appraisal, which was primarily based on a discounted cash flow model, a Level 3 fair value input. We rebranded this property as Marriott Vacation Club Pulse, San Diego and are in the process of converting this property, in its entirety, into vacation ownership interests for future use in our MVCD program. In order to ensure consistency with the expected related future cash flow presentation, \$46.6 million of the cash purchase price allocated to property and equipment was included as an operating activity in the Purchase of operating property for future conversion to inventory line on our Cash Flows for the year ended January 1, 2016. The remaining \$7.7 million was included as an investing activity in the Capital expenditures for property and equipment line on our Cash Flows for the year ended January 1, 2016, as it was allocated to assets to be used prior to conversion of the property into vacation ownership interests, as well as ancillary and sales center assets to be retained after the conversion.

*2015 Dispositions*

*Kauai, Hawaii*

During the second quarter of 2014, we entered into a purchase and sale agreement to dispose of undeveloped and partially developed land, an operating golf course and related assets, in Kauai, Hawaii (the "Kauai Property") for \$60.0 million in gross cash proceeds. During the fourth quarter of 2014, pursuant to a subsequent modification to the purchase and sale agreement, we completed the sale of a portion of the Kauai Property for gross cash proceeds of \$40.0 million and the buyer agreed to purchase the remaining portion of the Kauai Property for gross cash proceeds of \$20.0 million no later than April 30, 2015, unless we and the buyer mutually agreed prior to March 31, 2015 to enter into an "alternative arrangement" regarding the remaining portion of the Kauai Property. We accounted for the sale of the portion of the transaction closed in 2014 under the full accrual method in accordance with the authoritative guidance on accounting for sales of real estate and recorded a gain of \$2.9 million, which is included in the Gains and other income line on the Statement of Income for the year ended January 2, 2015.

During the second quarter of 2015, we completed the sale of the remaining portion of the Kauai Property for gross cash proceeds of \$20.0 million. We accounted for the sale under the full accrual method in accordance with the authoritative guidance on accounting for sales of real estate and recorded a gain of \$8.7 million, which is included in the Gains and other income line on our Statements of Income for the year ended January 1, 2016.

*Marco Island, Florida*

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

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

As of December 30, 2016, our Balance Sheet reflected \$9.6 million of Other liabilities that relate to the deferral of gain recognition for this transaction, which will reduce our basis in the asset if we repurchase the property. In addition, the note receivable of \$0.5 million and other receivables of \$0.4 million are included in the Accounts and contracts receivable line on the Balance Sheet as of December 30, 2016. The cash consideration received for the sale of the real property is included in Proceeds from vacation ownership inventory arrangements on our Cash Flows for the year ended January 1, 2016. We believe that our maximum exposure to loss as a result of our involvement with this variable interest entity is our interest in the note receivable and the other receivables discussed above as of December 30, 2016.

### Orlando, Florida

During the first quarter of 2014, we disposed of a golf course and adjacent undeveloped land in Orlando, Florida for \$24.0 million in gross cash proceeds. As a condition of the sale, we continued to operate the golf course through the end of the first quarter of 2015 at our own risk. We utilized the performance of services method to record a gain of \$3.1 million over the period during which we operated the golf course, \$0.9 million of which is included in the Gains and other income line on our Statement of Income for the year ended January 1, 2016 and \$2.2 million is included in the Gains and other income line on our Statement of Income for the year ended January 2, 2015.

### 2014 Acquisitions

We made no significant acquisitions in 2014.

### 2014 Dispositions

#### The Abaco Club on Winding Bay, Bahamas

During the third quarter of 2014, we entered into a purchase and sale agreement to dispose of undeveloped and partially developed land, an operating golf course, spa and clubhouse and related facilities at The Abaco Club on Winding Bay ("The Abaco Club") in the Bahamas. During the fourth quarter of 2014, we completed the sale of The Abaco Club for gross cash proceeds of \$10.0 million. We accounted for the sale under the full accrual method in accordance with the authoritative guidance on accounting for sales of real estate and recorded a non-cash loss of \$23.8 million, which is included in the Litigation settlement line on the Statement of Income for the year ended January 2, 2015.

#### Singer Island, Florida

During the second quarter of 2014, we completed the sale of a parcel of undeveloped land on Singer Island, Florida for gross cash proceeds of \$10.5 million. We accounted for the sale under the full accrual method in accordance with the authoritative guidance on accounting for sales of real estate and recorded a gain of \$0.3 million, which is included in the Gains and other income line on the Statement of Income for the year ended January 2, 2015.

## 6. EARNINGS PER SHARE

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

The table below illustrates the reconciliation of the earnings and number of shares used in our calculation of basic and diluted earnings per share.

<i>(in thousands, except per share amounts)</i>	2016 <sup>(1)</sup>	2015 <sup>(2)</sup>	2014 <sup>(3)</sup>
<b>Computation of Basic Earnings Per Share</b>			
Net income	\$ 137,348	\$ 122,799	\$ 80,756
Weighted average shares outstanding	27,882	31,487	33,665
Basic earnings per share	\$ 4.93	\$ 3.90	\$ 2.40
<b>Computation of Diluted Earnings Per Share</b>			
Net income	\$ 137,348	\$ 122,799	\$ 80,756
Weighted average shares outstanding	27,882	31,487	33,665
Effect of dilutive shares outstanding			
Employee stock options and SARs	367	446	543
Restricted stock units	173	235	427
Shares for diluted earnings per share	28,422	32,168	34,635
Diluted earnings per share	\$ 4.83	\$ 3.82	\$ 2.33

<sup>(1)</sup> The computations of diluted earnings per share exclude approximately 217,000 shares of common stock, the maximum number of shares issuable as of December 30, 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.

- (2) The computations of diluted earnings per share exclude approximately 136,000 shares of common stock, the maximum number of shares issuable as of January 1, 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.
- (3) The computations of diluted earnings per share exclude approximately 134,000 shares of common stock, the maximum number of shares issuable as of January 2, 2015 upon the vesting of certain performance-based awards, because the performance conditions required for the shares subject to such awards to vest were not achieved by the end of the reporting period.

In accordance with the applicable accounting guidance for calculating earnings per share, for the year ended December 30, 2016, we excluded 62,018 shares underlying stock options or stock appreciation rights (“SARs”) that may be settled in shares of common stock, with an exercise price of \$77.42, from our calculation of diluted earnings per share because this exercise price was greater than the average market price for the period.

For the year ended January 1, 2016, we excluded 62,018 shares underlying stock options or SARS that may be settled in shares of common stock, with an exercise price of \$77.42, from our calculation of diluted earnings per share because this price was greater than the average market price for the period.

For the year ended January 2, 2015, we did not exclude any shares underlying stock options or SARs that may be settled in shares of common stock from our calculation of diluted earnings per share as no exercise prices were greater than the average market prices for the applicable period.

## 7. INVENTORY

The following table shows the composition of our inventory balances:

<i>(\$ in thousands)</i>	<b>At Year-End 2016</b>	<b>At Year End 2015</b>
Finished goods <sup>(1)</sup>	\$ 337,949	\$ 332,888
Work-in-progress	39,486	—
Land and infrastructure <sup>(2)</sup>	330,728	331,042
Real estate inventory	708,163	663,930
Operating supplies and retail inventory	4,373	5,313
	<u>\$ 712,536</u>	<u>\$ 669,243</u>

(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 \$70.0 million of inventory related to estimated future foreclosures at December 30, 2016.

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. Interest capitalized as a cost of inventory totaled \$1.3 million, \$0.1 million and \$2.8 million in 2016, 2015 and 2014, respectively.

In 2016, \$59.8 million was transferred from Property and equipment to Inventory when we commenced the conversion of the operating property in San Diego, California and a portion of the operating property in Surfers Paradise, Australia 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. PROPERTY AND EQUIPMENT

The following table details the composition of our property and equipment balances:

<i>(\$ in thousands)</i>	<b>At Year-End 2016</b>	<b>At Year-End 2015</b>
Land	\$ 54,975	\$ 87,751
Buildings and leasehold improvements	213,190	267,965
Furniture and equipment	51,053	55,326
Information technology	180,075	177,099
Construction in progress	27,493	26,469
	<u>526,786</u>	<u>614,610</u>
Accumulated depreciation	(323,984)	(325,807)
	<u>\$ 202,802</u>	<u>\$ 288,803</u>

Interest capitalized as a cost of property and equipment totaled \$0.2 million in 2016, \$0.3 million in 2015 and \$0.1 million in 2014. Depreciation expense totaled \$21.0 million in 2016, \$22.2 million in 2015 and \$18.7 million in 2014.

Refer to Footnote No. 7, "Inventory," for a discussion of Property and equipment transferred to Inventory as we commenced the conversion of the operating property in San Diego, California and a portion of the operating property in Surfers Paradise, Australia to vacation ownership inventory.

## 9. CONTINGENCIES AND COMMITMENTS

### *Guarantees*

We have historically issued guarantees to certain lenders in connection with the provision of third-party financing for our sale of vacation ownership products for the North America and Asia Pacific segments. The terms of these guarantees generally require us to fund if the purchaser fails to pay under the term of its note payable. We are entitled to recover any payments we make to third-party lenders under these guarantees through reacquisition and resale of the financed vacation ownership product. Our commitments under these guarantees expire as the underlying notes mature or are repaid. The terms of the underlying notes extend to 2022. At December 30, 2016, the maximum potential amount of future fundings for financing guarantees where we are the primary obligor was \$5.7 million and the carrying amount of the liability for expected future fundings, which is included in our Balance Sheet in the Other caption within Liabilities, was \$0.1 million.

### *Commitments and Letters of Credit*

In addition to the guarantees we describe in the preceding paragraph, as of December 30, 2016, 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 \$29.1 million, of which we expect \$13.0 million, \$8.7 million, \$3.6 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 commitments of \$2.3 million to subsidize vacation ownership associations, which we expect to pay in 2017.
- 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 the 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. 14, "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 in Marco Island, Florida, of which we expect \$33.3 million, \$50.0 million and \$53.8 million will be paid in 2017, 2018 and 2019, respectively. See Footnote No. 5, “Acquisitions and Dispositions,” for additional information on this transaction.
- 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.

Surety bonds issued as of December 30, 2016 totaled \$43.0 million, the majority of which were requested by federal, state or local governments related to our operations.

Additionally, as of December 30, 2016, we had \$3.3 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 October 3, 2016, RCHFU, L.L.C. and other owners of 134 fractional interests at The Ritz-Carlton Club, Aspen Highlands (“RCC Aspen Highlands”) served an amended complaint in an action pending in the U.S. District Court for the District of Colorado 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. Our motion to dismiss the amended complaint remains pending. By order dated February 15, 2017, the court granted in part and denied in part plaintiffs’ motion for leave to file another amended complaint, which has not yet been served. 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.

*Other*

We estimate the cash outflow associated with completing the phases of our existing portfolio of vacation ownership projects currently under development will be approximately \$0.3 million, all of which is included within liabilities on our Balance Sheet at December 30, 2016. This estimate is based on our current development plans, which remain subject to change, and we expect the phases currently under development will be completed by 2017.

During 2014, we agreed to settle a dispute with a service provider relating to services provided to us prior to 2011. In connection with the settlement, we received a one-time payment of \$7.6 million from the service provider, which no longer provides services to us. We recorded a gain of \$7.6 million as a result of the settlement, which is included in the Litigation settlement line on the Statement of Income for the year ended January 2, 2015.

*Leases*

We have various land, corporate facilities, real estate and equipment operating leases. The land lease consists of a long-term golf course land lease with a term of 30 years. The corporate facilities leases are for our corporate headquarters and have lease terms of approximately six years. The other operating leases are primarily for office and retail space as well as equipment supporting our operations and have lease terms of between three and ten years. Certain of these leases provide for minimum rental payments and additional rental payments based on our operations of the leased property. We have summarized our future obligations under operating leases at December 30, 2016 below:

<i>(\$ in thousands)</i>	<b>Land Lease</b>	<b>Corporate Facilities Leases</b>	<b>Other Operating Leases</b>	<b>Total</b>
<b>Fiscal Year</b>				
2017	\$ 1,049	\$ 3,580	\$ 12,009	\$ 16,638
2018	1,049	3,678	8,964	13,691
2019	1,049	3,779	5,809	10,637
2020	1,049	3,882	4,601	9,532
2021	1,049	2,658	3,202	6,909
Thereafter	7,338	—	17,320	24,658
Total minimum lease payments	<u>\$ 12,583</u>	<u>\$ 17,577</u>	<u>\$ 51,905</u>	<u>\$ 82,065</u>

The following table details the composition of rent expense associated with operating leases, net of sublease income, for the last three years:

<i>(\$ in thousands)</i>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Minimum rentals	\$ 8,639	\$ 9,401	\$ 6,806
Additional rentals	3,845	3,876	5,520
	<u>\$ 12,484</u>	<u>\$ 13,277</u>	<u>\$ 12,326</u>

## 10. DEBT

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

<i>(\$ in thousands)</i>	<b>At Year-End 2016</b>	<b>At Year-End 2015</b>
Vacation ownership notes receivable securitizations, gross <sup>(1)</sup>	\$ 738,362	\$ 684,604
Unamortized debt issuance costs	(9,174)	(9,043)
	<u>729,188</u>	<u>675,561</u>
Other debt, gross	834	3,496
Unamortized debt issuance costs	(19)	(264)
	<u>815</u>	<u>3,232</u>
Capital leases	7,221	—
	<u>\$ 737,224</u>	<u>\$ 678,793</u>

<sup>(1)</sup> Interest rates as of December 30, 2016 range from 2.2% to 6.3% with a weighted average interest rate of 2.5%.

See Footnote No. 14, "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 for our debt:

<i>(\$ in thousands)</i>	<b>Vacation Ownership Notes Receivable Securitizations<sup>(1)</sup></b>	<b>Other Debt</b>	<b>Capital Leases</b>	<b>Total</b>
<b>Debt Principal Payments Year</b>				
2017	\$ 101,214	\$ 604	\$ —	\$ 101,818
2018	91,223	4	7,221	98,448
2019	84,988	4	—	84,992
2020	83,516	5	—	83,521
2021	82,256	5	—	82,261
Thereafter	295,165	212	—	295,377
Balance at December 30, 2016	<u>\$ 738,362</u>	<u>\$ 834</u>	<u>\$ 7,221</u>	<u>\$ 746,417</u>

<sup>(1)</sup> The debt associated with our vacation ownership notes receivable securitizations is non-recourse to us.

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

We paid cash for interest, net of amounts capitalized, of \$23.2 million in 2016, \$30.2 million in 2015 and \$31.2 million in 2014.



### *Debt Associated with Vacation Ownership Notes Receivable Securitizations*

On August 11, 2016, we completed the securitization of a pool of \$259.1 million of vacation ownership notes receivable. In connection with the securitization, investors purchased in a private placement \$250.0 million in vacation ownership loan backed notes from the MVW Owner Trust 2016-1 (the "2016-1 Trust"). Two classes of vacation ownership loan backed notes were issued by the 2016-1 Trust: \$230.6 million of Class A Notes and \$19.4 million of Class B Notes. The Class A Notes have an interest rate of 2.25 percent and the Class B Notes have an interest rate of 2.64 percent, for an overall weighted average interest rate of 2.28 percent.

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 2016, and as of December 30, 2016, no securitized vacation ownership notes receivable pools were out of compliance with their respective established parameters. As of December 30, 2016, we had 7 securitized vacation ownership notes receivable pools outstanding.

### *Revolving Corporate Credit Facility*

The Revolving Corporate Credit Facility, which currently 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.

Although no cash borrowings were outstanding as of December 30, 2016 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 December 30, 2016, we were in compliance with the requirements of applicable financial and operating covenants.

### *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 currently terminates on November 22, 2017 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 December 30, 2016, 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.

### *Capital Leases*

During the first quarter of 2016, we entered into a capital lease arrangement for ancillary and operations space in connection with the commitment to purchase an operating property located in New York, New York. See Footnote No. 9, "Contingencies and Commitments," for additional information on this transaction.

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

On October 26, 2016, we redeemed the \$40.0 million of mandatorily redeemable Series A (non-voting) preferred stock of our subsidiary MVW US Holdings, Inc. held by third-party investors following the exercise of our option to redeem the Series A preferred stock on the fifth anniversary of its issuance date. We used cash on hand to pay the redemption price, which was \$40 million plus accrued and unpaid dividends. Prior to the redemption, the Series A preferred stock paid an annual cash dividend equal to the five-year U.S. Treasury Rate as of October 19, 2011, plus a spread of 10.958 percent, for a total annual cash dividend rate of 12 percent. The dividends were recorded as a component of Interest expense as the Series A preferred stock was treated as a liability for accounting purposes.

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

<i>(\$ in thousands)</i>	<b>At Year-End 2016</b>	<b>At Year-End 2015</b>
Mandatorily redeemable preferred stock of consolidated subsidiary, gross	\$ —	\$ 40,000
Unamortized debt issuance costs	—	(1,011)
	<u>\$ —</u>	<u>\$ 38,989</u>

**12. SHAREHOLDERS' EQUITY**

Marriott Vacations Worldwide has 100,000,000 authorized shares of common stock, par value of \$0.01 per share. At December 30, 2016, there were 36,633,868 shares of Marriott Vacations Worldwide common stock issued, of which 26,990,306 were outstanding and 9,643,562 were held as treasury stock. At January 1, 2016, there were 36,393,800 shares of Marriott Vacations Worldwide common stock issued, of which 29,549,544 were outstanding and 6,844,256 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 December 30, 2016 or January 1, 2016.

*Share Repurchase Program*

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

<i>(\$ in thousands, except per share amounts)</i>	<b>Number of Shares Repurchased</b>	<b>Cost of Shares Repurchased</b>	<b>Average Price Paid per Share</b>
As of January 1, 2016	6,854,083	\$ 430,609	\$ 62.83
For the year ended December 30, 2016	2,818,546	177,830	63.09
As of December 30, 2016	<u>9,672,629</u>	<u>\$ 608,439</u>	<u>\$ 62.90</u>

On February 9, 2017, our Board of Directors extended our existing share repurchase program to September 30, 2017. On February 11, 2016, our Board of Directors approved the repurchase of up to an additional 2,000,000 shares of our common stock under our existing share repurchase program. Prior to that authorization, our Board of Directors had authorized the repurchase of an aggregate of up to 8,900,000 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 December 30, 2016, 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 year ended December 30, 2016 as follows:

Declaration Date	Shareholder Record Date	Distribution Date	Dividend per Share
February 11, 2016	February 25, 2016	March 10, 2016	\$0.30
May 12, 2016	May 26, 2016	June 9, 2016	\$0.30
September 8, 2016	September 22, 2016	October 6, 2016	\$0.30
December 9, 2016	December 22, 2016	January 4, 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.

## 13. SHARE-BASED COMPENSATION

We maintain the Stock Plan for the benefit of our officers, directors and employees. Under the Stock Plan, we award to certain of our employees: (1) RSUs of our common stock, (2) SARs for our common stock and (3) stock options to purchase our common stock. A total of 6 million shares are authorized for issuance under the Stock Plan. As of December 30, 2016, approximately 1.5 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:

(\$ in thousands)	2016	2015	2014
Service based RSUs	\$ 9,372	\$ 8,879	\$ 8,731
Performance based RSUs	2,502	3,343	3,028
	11,874	12,222	11,759
SARs	2,075	1,920	1,617
Stock options	—	—	—
	\$ 13,949	\$ 14,142	\$ 13,376

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

(\$ in thousands)	At Year-End 2016 <sup>(1)</sup>	At Year-End 2015
Service based RSUs	\$ 9,000	\$ 8,804
Performance based RSUs	3,307	3,460
	12,307	12,264
SARs	1,146	1,083
Stock options	—	—
	\$ 13,453	\$ 13,347

<sup>(1)</sup> As of December 30, 2016, the weighted average remaining term for RSU grants outstanding at year-end 2016 was 1.8 years and we expect that deferred compensation expense will be recognized over a weighted average period of 2.2 years.

### RSUs

We have issued RSUs that vest over time, which we refer to as service based RSUs, and RSUs that vest based on performance with respect to established criteria, which we refer to as performance based RSUs.

The following table shows the changes in our outstanding RSUs and the associated weighted average grant-date fair values:

	2016					
	Service Based		Performance Based		Total	
	Number of RSUs	Weighted Average Grant-Date Fair Value Per RSU	Number of RSUs	Weighted Average Grant-Date Fair Value Per RSU	Number of RSUs	Weighted Average Grant-Date Fair Value Per RSU
Outstanding at year-end 2015	525,641	\$ 40.83	207,906	\$ 56.04	733,547	\$ 45.14
Granted	169,164	\$ 58.89	143,516	\$ 58.21	312,680	\$ 58.58
Distributed	(177,878)	\$ 33.18	(68,673)	\$ 39.93	(246,551)	\$ 35.06
Forfeited	(1,980)	\$ 54.41	(3,465)	\$ 39.93	(5,445)	\$ 45.19
Outstanding at year-end 2016	514,947	\$ 49.36	279,284	\$ 61.30	794,231	\$ 53.56

The weighted average grant-date fair value per RSU granted in 2015 and 2014 was \$75.61 and \$52.51, respectively. The intrinsic value of RSUs which vested in 2016, 2015 and 2014, was \$3.4 million, \$18.9 million and \$10.3 million, respectively.

### SARs

The following table shows the changes in our outstanding SARs and the associated weighted average exercise prices:

	2016	
	Number of SARs	Weighted Average Exercise Price Per SAR
Outstanding at year-end 2015	767,477	\$ 27.48
Granted	132,597	61.71
Exercised	(118,171)	16.30
Forfeited or expired	—	—
Outstanding at year-end 2016 <sup>(1)(2)</sup>	781,903	\$ 34.97

<sup>(1)</sup> As of December 30, 2016, outstanding SARs had a total intrinsic value of \$39.3 million and a weighted average remaining term of 5.4 years.

<sup>(2)</sup> As of December 30, 2016, 557,234 SARs with a weighted average exercise price of \$24.03, an aggregate intrinsic value of \$34.1 million and a weighted average remaining contractual term of 4.2 years were exercisable.

The weighted average grant-date fair value per SAR granted in 2016, 2015 and 2014 was \$16.12, \$29.75 and \$27.98, respectively. The intrinsic value of SARs which vested in 2016, 2015 and 2014, was \$1.4 million, \$4.7 million and \$12.2 million, respectively. The aggregate intrinsic value of SARs which were exercised in 2016, 2015 and 2014 was \$5.6 million, \$4.3 million and \$1.3 million, respectively.

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

The following table outlines the assumptions used to estimate the fair value of grants for the fiscal years ended 2016 and 2015:

	2016	2015
Expected volatility	31.60%	42.74%
Dividend yield	1.96%	1.26%
Risk-free rate	1.41%	1.74%
Expected term (in years)	6.25	6.25

#### *Stock Options*

We may grant non-qualified stock options to employees and non-employee directors at exercise prices or strike prices equal to the market price of our common stock on the date of grant.

There were no outstanding or exercisable stock options held by our employees at year-end 2016 or 2015, and no stock options were granted to our employees in 2016, 2015 or 2014. At December 30, 2016, approximately 15,000 stock options were outstanding and exercisable with a weighted average exercise price per option of \$17.67 and a weighted average remaining life of approximately two years.

#### *Employee Stock Purchase Plan*

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

## **14. VARIABLE INTEREST ENTITIES**

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

#### *Variable Interest Entities Related to Our Vacation Ownership Notes Receivable Securitizations*

We periodically securitize, without recourse, through bankruptcy remote special purpose entities, notes receivable originated in connection with the sale of vacation ownership products. These vacation ownership notes receivable securitizations provide funding for us and transfer the economic risks and substantially all the benefits of the 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 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 December 30, 2016:

<i>(\$ in thousands)</i>	<b>Vacation Ownership Notes Receivable Securitizations</b>	<b>Warehouse Credit Facility</b>	<b>Total</b>
<b>Consolidated Assets:</b>			
Vacation ownership notes receivable, net of reserves	\$ 717,543	\$ —	\$ 717,543
Interest receivable	4,865	—	4,865
Restricted cash	27,525	—	27,525
Total	<u>\$ 749,933</u>	<u>\$ —</u>	<u>\$ 749,933</u>
<b>Consolidated Liabilities:</b>			
Interest payable	\$ 542	\$ 42	\$ 584
Debt	738,362	—	738,362
Total	<u>\$ 738,904</u>	<u>\$ 42</u>	<u>\$ 738,946</u>

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 2016:

<i>(\$ in thousands)</i>	<b>Vacation Ownership Notes Receivable Securitizations</b>	<b>Warehouse Credit Facility</b>	<b>Total</b>
Interest income	\$ 91,104	\$ 5,502	\$ 96,606
Interest expense to investors	\$ 17,451	\$ 1,790	\$ 19,241
Debt issuance cost amortization	\$ 3,483	\$ 961	\$ 4,444
Administrative expenses	\$ 350	\$ 153	\$ 503

The following table shows cash flows between us and the vacation ownership notes receivable securitization variable interest entities:

<i>(\$ in thousands)</i>	<b>2016</b>	<b>2015</b>
<b>Cash inflows:</b>		
Net proceeds from vacation ownership notes receivable securitizations	\$ 247,453	\$ 252,361
Principal receipts	174,830	183,111
Interest receipts	91,972	91,290
Reserve release	50,733	55,156
Total	<u>564,988</u>	<u>581,918</u>
<b>Cash outflows:</b>		
Principal to investors	(166,652)	(176,249)
Voluntary repurchases of defaulted vacation ownership notes receivable	(29,590)	(24,596)
Voluntary clean-up call	—	(77,582)
Interest to investors	(17,449)	(19,268)
Funding of restricted cash	(51,770)	(52,756)
Total	<u>(265,461)</u>	<u>(350,451)</u>
<b>Net Cash Flows</b>	<u>\$ 299,527</u>	<u>\$ 231,467</u>

The following table shows cash flows between us and the Warehouse Credit Facility variable interest entity:

<i>(\$ in thousands)</i>	2016	2015
<b>Cash inflows:</b>		
Proceeds from vacation ownership notes receivable securitizations	\$ 126,622	\$ —
Principal receipts	5,227	—
Interest receipts	5,048	—
Reserve release	909	—
Total	137,806	—
<b>Cash outflows:</b>		
Principal to investors	(3,771)	—
Voluntary repurchases of defaulted vacation ownership notes receivable	(661)	—
Repayment of Warehouse Credit Facility	(122,190)	—
Interest to investors	(1,796)	(1,390)
Funding of restricted cash	(447)	—
Total	(128,865)	(1,390)
<b>Net Cash Flows</b>	<b>\$ 8,941</b>	<b>\$ (1,390)</b>

Under the terms of our vacation ownership notes receivable securitizations, we have the right at our option to repurchase defaulted vacation ownership notes receivable at the outstanding principal balance. The transaction documents typically limit such repurchases to 15 to 20 percent of the transaction's initial vacation ownership notes receivable principal balance. We made voluntary repurchases of defaulted vacation ownership notes receivable of \$30.3 million during 2016, \$24.6 million during 2015 and \$25.3 million during 2014. We also made voluntary repurchases of \$144.1 million, \$146.2 million and \$31.3 million of other non-defaulted vacation ownership notes receivable during 2016, 2015 and 2014, respectively, to retire previous vacation ownership notes receivable securitizations. 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 December 30, 2016.

#### *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. 9, "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 December 30, 2016, 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 December 30, 2016.

## **15. BUSINESS SEGMENTS**

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

- In our North America segment, we develop, market, sell and manage vacation ownership and related products under the Marriott Vacation Club and Grand Residences by Marriott brands. 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 Europe segment, we are focusing on selling our existing projects and managing existing resorts. We do not have any current plans for new development in this segment.

- In our Asia Pacific segment, we develop, market, sell and manage 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.

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

<i>(\$ in thousands)</i>	2016	2015	2014
North America	\$ 1,630,317	\$ 1,608,088	\$ 1,533,174
Europe	105,621	112,061	128,697
Asia Pacific	75,297	93,632	54,145
Total segment revenues	1,811,235	1,813,781	1,716,016
Corporate and other	—	—	—
	<u>\$ 1,811,235</u>	<u>\$ 1,813,781</u>	<u>\$ 1,716,016</u>

#### Net Income

<i>(\$ in thousands)</i>	2016	2015	2014
North America	\$ 425,735	\$ 412,582	\$ 352,943
Europe	12,067	13,874	15,079
Asia Pacific	1,626	7,263	7,808
Total segment financial results	439,428	433,719	375,830
Corporate and other	(216,500)	(227,222)	(225,239)
Provision for income taxes	(85,580)	(83,698)	(69,835)
	<u>\$ 137,348</u>	<u>\$ 122,799</u>	<u>\$ 80,756</u>

#### Depreciation

<i>(\$ in thousands)</i>	2016	2015	2014
North America	\$ 12,046	\$ 12,935	\$ 8,673
Europe	1,462	1,601	1,897
Asia Pacific	1,235	2,424	354
Total segment depreciation	14,743	16,960	10,924
Corporate and other	6,301	5,257	7,758
	<u>\$ 21,044</u>	<u>\$ 22,217</u>	<u>\$ 18,682</u>

#### Assets

<i>(\$ in thousands)</i>	At Year-End 2016	At Year-End 2015
North America	\$ 1,968,021	\$ 1,900,178
Europe	62,245	80,839
Asia Pacific	102,348	134,661
Total segment assets	2,132,614	2,115,678
Corporate and other	258,805	284,040
	<u>\$ 2,391,419</u>	<u>\$ 2,399,718</u>



**Capital Expenditures (including inventory)**

<i>(\$ in thousands)</i>	2016	2015	2014
North America	\$ 136,889	\$ 179,696	\$ 94,539
Europe	6,153	2,807	3,476
Asia Pacific	21,276	72,097	9,899
Total segment capital expenditures	164,318	254,600	107,914
Corporate and other	8,412	10,260	4,769
	<u>\$ 172,730</u>	<u>\$ 264,860</u>	<u>\$ 112,683</u>

Our Financial Statements include the following items related to operations located outside the United States (which are predominately related to our Europe and Asia Pacific segments):

- Revenues, excluding cost reimbursements, of \$195.4 million in 2016, \$218.3 million in 2015 and \$188.8 million in 2014; and
- Fixed assets of \$60.0 million in 2016 and \$121.8 million in 2015. For year-end 2016 and year-end 2015, fixed assets located outside the United States are included within the “Property and equipment” caption on our Balance Sheets.

**16. QUARTERLY RESULTS (UNAUDITED)**

<i>(\$ in thousands, except per share data)</i>	Fiscal Year 2016 <sup>(1)(2)(3)</sup>				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal Year
Revenues	\$ 419,171	\$ 425,414	\$ 401,911	\$ 564,739	\$ 1,811,235
Expenses	\$ (374,489)	\$ (370,917)	\$ (359,180)	\$ (481,378)	\$ (1,585,964)
Net income	\$ 24,408	\$ 36,309	\$ 26,807	\$ 49,824	\$ 137,348
Basic earnings per share	\$ 0.84	\$ 1.28	\$ 0.99	\$ 1.83	\$ 4.93
Diluted earnings per share	\$ 0.82	\$ 1.26	\$ 0.97	\$ 1.80	\$ 4.83

<i>(\$ in thousands, except per share data)</i>	Fiscal Year 2015 <sup>(1)(2)(3)</sup>				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal Year
Revenues	\$ 449,883	\$ 419,140	\$ 403,685	\$ 541,073	\$ 1,813,781
Expenses	\$ (390,466)	\$ (366,125)	\$ (359,532)	\$ (479,655)	\$ (1,595,778)
Net income	\$ 34,054	\$ 34,041	\$ 21,555	\$ 33,149	\$ 122,799
Basic earnings per share	\$ 1.05	\$ 1.07	\$ 0.69	\$ 1.08	\$ 3.90
Diluted earnings per share	\$ 1.03	\$ 1.05	\$ 0.67	\$ 1.06	\$ 3.82

<sup>(1)</sup> The quarters consisted of 12 weeks, except for the fourth quarters of 2016 and 2015, which consisted of 16 weeks.

<sup>(2)</sup> The sum of the earnings per share for the four quarters differs from annual earnings per share due to the required method of computing the weighted average shares in interim periods.

<sup>(3)</sup> The quarterly results have been restated to correct certain immaterial prior period errors as discussed in Footnote No. 1, “Summary of Significant Accounting Policies.”

**17. SUBSEQUENT EVENTS**
**Dividends**

On February 9, 2017, our Board of Directors declared a quarterly dividend of \$0.35 per share to be paid on March 9, 2017 to shareholders of record as of February 23, 2017.

**Marriott Vacations Worldwide Corporation**

**Amended and Restated  
Stock and Cash Incentive Plan**

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**PREAMBLE**

Marriott Vacations Worldwide Corporation has established the Marriott Vacations Worldwide Corporation Stock and Cash Incentive Plan, which first became effective on the Effective Date and remains in effect for the period set forth in Article 1.3 hereof. The Plan is hereby amended and restated, effective as of January 1, 2017, as follows.

**MARRIOTT VACATIONS WORLDWIDE CORPORATION  
AMENDED AND RESTATED  
STOCK AND CASH INCENTIVE PLAN**

**Article 1. Establishment, Objectives, and Duration**

**1.1 Establishment of the Plan.** Marriott Vacations Worldwide Corporation, a Delaware corporation, hereby establishes an incentive compensation plan to be known as the Marriott Vacations Worldwide Corporation Stock and Cash Incentive Plan, as set forth in this document.

**1.2 Purpose of the Plan.** The purpose of the Plan is to promote and enhance the long-term growth of the Company by aligning the personal interests of Employees and Non-Employee Directors to those of Company shareholders and allowing such Employees and Non-Employee Directors to participate in the growth, development and financial success of the Company. The Plan is further intended to provide flexibility to the Company in its ability to motivate, attract, and retain the services of key individuals.

**1.3 Duration of the Plan.** The Plan shall commence on the Effective Date and shall remain in effect, subject to the right of the Board of Directors to terminate the Plan at any time pursuant to Article 16 hereof, until all Shares subject to it shall have been purchased or acquired according to the Plan's provisions; provided, however, that paragraph (c) of Article 4.1 hereof shall cease to operate on the 10th anniversary of the Effective Date.

**Article 2. Definitions**

Whenever used in the Plan, the following terms shall have the meanings set forth below, and when the meaning is intended, the initial letter of the word shall be capitalized:

**2.1 "Allocation Agreement"** means the Employee Benefits and Other Employment Matters Allocation Agreement entered into by and between Marriott International, Inc. and the Company in connection with the Distribution.

**2.2 "Annual Meeting"** means the annual meeting of the stockholders of the Company at which Directors are elected.

**2.3 "Approved Retiree"** means any awardee of an Award who (i) terminates employment by reason of a Disability, or (ii) (A) retires from employment with the Company with the specific approval of the Committee on or after such date on which the awardee has attained age fifty-five (55) and completed ten (10) Years of Service, and (B) has entered into and has not breached an agreement to refrain from Engaging in Competition in form and substance satisfactory to the Committee.

**2.4 "Award"** means, individually or collectively, a grant under this Plan of SARs, Nonqualified Stock Options, Incentive Stock Options, Restricted Stock, RSUs, Other Share-Based Awards, Other Cash Performance-Based Awards, Non-Employee Director Share Awards, Stock Units, Director SARs and Director Options, and Distribution Awards.

**2.5 "Award Agreement"** means an agreement entered into by the Company and each Participant setting forth the terms and provisions applicable to an Award granted under this Plan.

**2.6 "Beneficial Owner"** or "Beneficial Ownership" shall have the meaning ascribed to such term in Rule 13d-3 of the General Rules and Regulations under the Exchange Act.

**2.7 "Beneficiary"** means the person or persons designated pursuant to Article 13 hereof.

**2.8 "Board" or "Board of Directors"** means the Board of Directors of the Company.

**2.9 "Code"** means the Internal Revenue Code of 1986, as amended from time to time.

**2.10 “Committee”** means the Compensation Policy Committee of the Board, as specified in Article 3 hereof, or such other committee appointed by the Board to administer the Plan with respect to grants of Awards.

**2.11 “Company”** means Marriott Vacations Worldwide Corporation, together with any and all Subsidiaries, and any successor thereto as provided in Article 20 hereof.

**2.12 “Covered Employee”** means a Participant who, as of the date of grant, vesting and/or payout of an Award, as applicable, is one of the group of “covered employees,” as defined in the regulations promulgated under Code Section 162(m), or any successor statute.

**2.13 “Director”** means any member of the Board.

**2.14 “Director SAR” and “Director Option”** mean, respectively, a SAR and a Nonqualified Stock Option as described in Article 11 hereof.

**2.15 “Disability”** means a permanent and total disability, within the meaning of Code Section 22(e)(3), as determined by the Committee in good faith, upon receipt of sufficient competent medical advice from one or more individuals, selected by or satisfactory to the Committee, who are qualified to give professional medical advice.

**2.16 “Distribution”** means the distribution of all the outstanding shares of capital stock of the Company as provided in the Distribution Agreement.

**2.17 “Distribution Agreement”** means the Separation and Distribution Agreement entered into by and between Marriott International, Inc. and the Company setting forth the rights and obligations of the parties in connection with the Distribution.

**2.18 “Distribution Award”** means an Award made pursuant to Article 12 to reflect the effect of the Distribution on outstanding awards which were made under the MII Plan and which were held by the grantee immediately before the Distribution.

**2.19 “Distribution Date”** means the date on which the Distribution shall be effected pursuant to the Distribution Agreement.

**2.20 “Effective Date”** means the date the Plan was approved by the Company’s sole shareholder on that date, MII.

**2.21 “Employee”** means any individual who is, or will become, an active, non-union employee of the Company. Any Employee who, at the request of the Company, and on the written assignment of the Company specifically referencing this provision of the Plan, becomes an employee of another employer shall continue to be treated as an Employee for all purposes hereunder during the period of such assignment. Non-Employee Directors shall not be considered Employees under this Plan.

**2.22 “Engaging in Competition”** means (i) engaging, individually or as an employee, consultant, owner (more than five percent (5%)) or agent of any entity, in or on behalf of any business engaged in significant competition (or that transacts or cooperates with another business in activities of significant competition) with any business operated by the Company or with interests adverse to those of the Company; (ii) soliciting and hiring a key employee of the Company in another business, whether or not in significant competition with any business operated by the Company; or (iii) using or disclosing confidential or proprietary information, in each case, without the approval of the Company.

**2.23 “Exchange Act”** means the Securities Exchange Act of 1934, as amended from time to time, or any successor act thereto.

**2.24 “Exercise Price”** means the price at which a Share may be purchased by a Participant pursuant to an Option or the base price from which appreciation in Shares is measured under a SAR.

- 2.25 **“Fair Market Value”** means the average of the highest and lowest quoted selling prices for the Shares on the relevant date, or (if there were no sales on such date) the average so computed on the nearest day before or the nearest day after the relevant date, as reported in The Wall Street Journal or a similar publication selected by the Committee.
- 2.26 **“Fee Deferral Election”** means an election made by a Non-Employee Director to defer the receipt of Fees, as described in Article 11.3 hereof.
- 2.27 **“Fees”** means all or part of any retainer and/or fees payable to a Non-Employee Director in his or her capacity as such.
- 2.28 **“Incentive Stock Option” or “ISO”** means an option to purchase Shares granted under Article 6 hereof, which is designated as an Incentive Stock Option and which is intended to meet the requirements of Code Section 422.
- 2.29 **“Insider”** means an individual who is, on the relevant date, an officer, Director or more than ten percent (10%) beneficial owner of any class of the Company’s equity securities that is registered pursuant to Section 12 of the Exchange Act, all as defined under Section 16 of the Exchange Act.
- 2.30 **“MII”** means Marriott International, Inc., together with any and all Subsidiaries.
- 2.31 **“MII Plan”** means the Marriott International, Inc. Stock and Cash Incentive Plan, as amended.
- 2.32 **“Non-Employee Director”** means a Director who is not an Employee of the Company.
- 2.33 **“Non-Employee Director Share Award”** shall mean an award of Shares to a Non-Employee Director, as described in Article 11.2 hereof.
- 2.34 **“Nonqualified Stock Option” or “NQSO”** means an option to purchase Shares granted under Article 6 hereof and which is not intended to meet the requirements of Code Section 422.
- 2.35 **“Option”** means an Incentive Stock Option or a Nonqualified Stock Option, as described in Article 6 hereof, or a Director Option as described in Article 11 hereof.
- 2.36 **“Other Cash Performance-Based Awards”** means an Other Cash Performance-Based Award, as described in Article 9 hereof.
- 2.37 **“Other Share-Based Award”** means an Other Share-Based Award, as described in Article 9 hereof.
- 2.38 **“Participant”** means an individual who has an outstanding Award granted under the Plan.
- 2.39 **“Performance-Based Exception”** means the performance-based exception from the tax deductibility limitations of Code Section 162(m).
- 2.40 **“Period of Restriction”** means the period during which the transfer of Shares of Restricted Stock is limited in some way (based on the passage of time, the achievement of performance objectives, or upon the occurrence of other events as determined by the Committee, in its discretion), and the Shares are subject to a substantial risk of forfeiture, as provided in Article 7 hereof.
- 2.41 **“Person”** shall have the meaning ascribed to such term in Section 3(a)(9) of the Exchange Act and used in Sections 13(d) and 14(d) thereof, including a “group” as defined in Section 13(d) thereof.
- 2.42 **“Plan”** means the Marriott Vacations Worldwide Corporation Stock and Cash Incentive Plan.
- 2.43 **“Restricted Stock”** means an Award granted to a Participant pursuant to Article 7 hereof.

2.44 “**RSU**” means a restricted stock unit Award granted to a Participant pursuant to Article 8 hereof.

2.45 “**Shares**” means shares of Common Stock of the Company or of any successor company adopting this Plan.

2.46 “**SAR**” means a stock appreciation right as described in Article 6 hereof, or a Director SAR as described in Article 11 hereof, which may be settled in Shares or cash as provided in the pertinent Award Agreement.

2.47 “**Stock Units**” means the credits to a Non-Employee Director’s Stock Unit Account, each of which represents the right to receive one Share upon settlement of the Stock Unit Account.

2.48 “**Stock Unit Account**” means the bookkeeping account established by the Company pursuant to Article 11.3.

2.49 “**Subsidiary**” means any corporation, partnership, joint venture, trust or other entity in which the Company has a controlling interest as defined in Treasury Regulation Section 1.414(c)-2(b)(2), except that the threshold interest shall be “more than fifty percent (50%)” instead of “at least eighty percent (80%).”

2.50 “**Termination of Service**” means termination of service as a Non-Employee Director in any of the following circumstances:

(a) Where the Non-Employee Director voluntarily resigns or retires;

(b) Where the Non-Employee Director is not re-elected (or elected in the case of an appointed Non-Employee Director) to the Board by the shareholders;

(c) Where the Non-Employee Director ceases to perform services on account of a Disability as defined in Article 2.15 hereof; or

(d) Where the Non-Employee Director dies.

With respect to any Awards that are or become subject to Section 409A of the Code, Termination of Service shall not include any event that is not within the meaning of “separation from service” as set forth in Treasury Regulation Section 1.409A-1(h).

2.51 “**Year of Service**” means a period of twelve (12) consecutive calendar months during which an Employee is employed by the Company or Marriott International, Inc.

### **Article 3. Administration**

**3.1 The Committee.** The Plan shall be administered by the Committee or by any other committee appointed by the Board. The members of the Committee shall be appointed from time to time by, and shall serve at the discretion of, the Board of Directors. Any power of the Committee may also be exercised by the Board, except to the extent that the grant or exercise of such authority would cause any Award or transaction to become subject to (or lose an exemption under) the short-swing profit recovery provisions of Section 16 of the Exchange Act. To the extent that any permitted action taken by the Board conflicts with action taken by the Committee, the Board action shall control.

**3.2 Authority of the Committee.** Except as limited by law or by the Articles of Incorporation or Bylaws of the Company, and subject to the provisions hereof, the Committee shall have full power to select Employees and Non-Employee Directors who shall participate in the Plan; determine the sizes and types of Awards; determine the terms and conditions of Awards in a manner consistent with the Plan; construe and interpret the Plan and any agreement or instrument entered into under the Plan; establish, amend, or waive rules and regulations for the Plan’s administration; subject to the provisions of Article 16 hereof, amend the terms and conditions of any outstanding Award to the extent such terms and conditions are within the discretion of the Committee as provided in the Plan; and approve corrections in the documentation or administration of any Award. Further, the Committee shall make all other determinations that may be necessary or advisable for the administration of the Plan. The



Committee's determinations under the Plan (including without limitation, determinations of the persons to receive Awards, the form, amount and timing of such Awards, the terms and provisions of such Awards and the Award Agreements evidencing such Awards) need not be uniform and may be made by the Committee selectively among persons who receive, or are eligible to receive, Awards under the Plan, whether or not such persons are similarly situated. As permitted by law, the Committee may delegate its authority under the Plan to a Director or Employee.

**3.3 Delegation.** The Committee may delegate to one or more separate committees (any such committee a "Subcommittee") composed of one or more Directors (who may but need not be members of the Committee) the ability to grant Awards and take the other actions described in Article 3.2 hereof with respect to Participants who are not executive officers, and such actions shall be treated for all purposes as if taken by the Committee. The Committee may delegate to a Subcommittee of one or more officers of the Company the ability to grant Awards and take the other actions described in Article 3.2 hereof with respect to Participants (other than any such officers themselves) who are not Directors or executive officers, provided, however, that the resolution so authorizing such officer(s) shall specify the total number of rights or options such Subcommittee may so award, and such actions shall be treated for all purposes as if taken by the Committee. Any action by any such Subcommittee within the scope of such delegation shall be deemed for all purposes to have been taken by the Committee, and references in this Plan to the Committee shall include any such Subcommittee. The Committee may delegate the day to day administration of the Plan to an officer or officers of the Company, or one or more agents, and such administrator(s) may have the authority to execute and distribute agreements or other documents evidencing or relating to Awards granted by the Committee under the Plan, to maintain records relating to the grant, vesting, exercise, forfeiture or expiration of Awards, to process or oversee the issuance of Shares upon the exercise, vesting and/or settlement of an Award, to interpret the terms of Awards and to take such other actions as the Committee may specify. Any action by any such administrator within the scope of its delegation shall be deemed for all purposes to have been taken by the Committee and references in the Plan to the Committee shall include any such administrator, provided that the actions and interpretations of any such administrator shall be subject to review and approval, disapproval or modification by the Committee.

**3.4 Decisions Binding.** All determinations and decisions made by the Committee or its designee pursuant to the provisions of the Plan and all related orders and resolutions of the Board shall be final, conclusive and binding on all parties.

**3.5 Unanimous Consent in Lieu of Meeting.** A memorandum signed by all members of the Committee shall constitute the act of the Committee without the necessity in such event to hold a meeting.

**3.6 Serious Misconduct.** Notwithstanding anything to the contrary in the Plan or any Award Agreement, if a Participant terminates employment for serious misconduct, including but not limited to engaging in a terminable offense set forth in the applicable associate handbook, the Committee may, in its sole discretion, refuse or revoke Approved Retiree status or other retirement approval for such Participant, or otherwise determine that such Participant may not receive, vest in or exercise any Awards or otherwise receive Shares thereunder to the extent the Awards are not granted, vested or fully exercised, or Shares are not received, as of such determination.

#### **Article 4. Shares Subject to the Plan and Maximum Awards**

**4.1 Number of Shares.** Subject to Articles 4.2 and 4.3 hereof, (a) no more than 6,000,000 shares of Common Stock of the Company may be issued pursuant to Awards granted under the Plan, (b) the maximum aggregate number of Shares that may be subject to any Awards (other than the Distribution Awards) granted in any one fiscal year to any single Employee shall be 1,500,000 and (c) the maximum aggregate number of Shares that may subject to Options and SARs (other than the Distribution Awards) granted in any one fiscal year to any single Employee shall be 1,500,000.

(a) If any Award granted under the Plan is canceled, terminates, expires, or lapses for any reason, or is settled in cash, any Shares subject to such Award shall again be available for the grant of an Award under the Plan.

(b) With respect to Shares withheld to satisfy the exercise price or tax withholding for an Award, the Shares shall again be available for the grant of an Award under the Plan.

(c) With respect to previously acquired Shares tendered to satisfy the exercise price or tax withholdings for an Award, the Shares shall again be available for the grant of an Award under the Plan.

**4.2 Adjustments in Authorized Shares and Awards.** In the event of any change in corporate capitalization, such as a stock split, reverse stock split, stock dividend, share combination, recapitalization, or similar event affecting the equity capital structure of the Company, or in the event the Shares shall be changed into or exchanged for a different number or class of shares of stock or securities of the Company or of another corporation and/or for cash as a result of a corporate transaction, such as any merger, consolidation, separation, acquisition of property or shares, stock rights offering, spin-off, or other distribution of stock or property of the Company, any reorganization (whether or not such reorganization comes within the definition of such term in Code Section 368) or any partial or complete liquidation of the Company, or similar event affecting the Company, such adjustment shall be made in (a) the number and class of Shares which thereafter may be delivered under Article 4.1, (b) the Award limits set forth in Article 4.1, (c) the number and class of Shares subject to outstanding Awards, (d) the Exercise Price relating to any Award, and (e) the performance goals which may be applicable to any outstanding Awards, and such other equitable substitutions or adjustments may be made, as may be determined to be appropriate and equitable by the Committee, in its sole discretion, to prevent dilution or enlargement of rights. Without limiting the preceding sentence, in the case of any such transaction described in the preceding sentence, the adjustments made by the Committee or the board of directors, compensation committee or similar body of any other legal entity assuming the obligations of the Company hereunder, may consist of either (i) making appropriate provision for the protection of outstanding Awards by the substitution on an equitable basis of appropriate equity interests or awards similar to the Awards (or, in the event no such similar equity interests may be identified, a nonqualified deferred compensation account allocation of equivalent value), provided that the substitution neither enlarges nor diminishes the value and rights under the Awards; or (ii) upon written notice to the Participants, providing that Awards will be exercised, distributed, cashed out or exchanged for value pursuant to such terms and conditions (including the waiver of any existing terms or conditions including but not limited to vesting restrictions or exercise waiting periods) as shall be specified in the notice, provided that any Awards that are subject to Code Section 409A must not be exercised, distributed, cashed out or exchanged for value unless the transaction qualifies as a “change in control event” as described under Code Section 409A(2)(A)(v) and the regulations thereunder. Any adjustment of an ISO under clause (i) of the preceding sentence in this paragraph shall be made in such a manner so as not to constitute a “modification” within the meaning of Section 424(h)(3) of the Code.

## **Article 5. Eligibility and Participation**

**5.1 Eligibility.** Employees shall be eligible to participate in this Plan with respect to Awards specified in Articles 6 through 9. Non-Employee Directors shall be eligible to participate in the Plan with respect to Awards specified in Article 11. Persons eligible to receive Distribution Awards under the Allocation Agreement shall be eligible to participate in the Plan with respect to Awards specified in Article 12.

**5.2 Actual Participation by Employees.** Subject to the provisions of the Plan, the Committee may, from time to time, select from all eligible Employees, those to whom Awards shall be granted and shall determine the nature and amount of each Award.

## **Article 6. SARs and Stock Options**

**6.1 Grant of SARs and Options.** Subject to the terms and provisions of the Plan, SARs and/or Options may be granted to Employees in such number, and upon such terms, and at any time and from time to time as shall be determined by the Committee.

**6.2 Award Agreement.** Each SAR and Option grant shall be evidenced by an Award Agreement that shall specify the Exercise Price, the duration of the Award, the number of Shares to which the Award pertains, and such other provisions as the Committee shall determine. The Award Agreement, if pertaining to an Option, also shall specify whether the Option is intended to be an ISO within the meaning of Code Section 422, or an NQSO whose grant is intended not to fall under the provisions of Code Section 422.

**6.3 Exercise Price.** The Exercise Price for each grant of a SAR or an Option under this Article 6 shall be at least equal to one hundred percent (100%) of the Fair Market Value of a Share on the date the SAR or Option is granted.

**6.4 Duration of SARs and Options.** Each SAR and Option granted under this Article 6 shall expire at such time as the Committee shall determine at the time of grant; provided, however, that no SAR or Option shall be exercisable later than the tenth (10<sup>th</sup>) anniversary date of its grant.

**6.5 Exercise of SARs and Options.** SARs and Options granted under this Article 6 shall be exercisable at such times and be subject to such restrictions and conditions as the Committee shall in each instance approve, which need not be the same for each grant or for each Participant.

The ability of a Participant to exercise a SAR or an Option is conditioned upon the Participant not committing any criminal offense or malicious tort relating to or against the Company, or, as determined by the Committee in its sole discretion, engaging in willful acts or omissions or acts or omissions of gross negligence that are or potentially are injurious to the Company's operations, financial condition or business reputation.

**6.6 Notice and Payment.** SARs and Options granted under this Article 6 shall be exercised by the delivery of notice of exercise to the Company by such means as the Committee shall approve from time to time, setting forth the number of Shares with respect to which the SAR or Option is to be exercised, accompanied, in the case of Options, by full payment for the Shares.

The Exercise Price upon exercise of any Option shall be payable to the Company in full either: (a) in cash or its equivalent, (b) if permitted in the governing Award Agreement, by withholding of Shares deliverable upon exercise or tendering (either actually or by attestation) previously acquired Shares, in each case having an aggregate Fair Market Value at the time of exercise equal to the total Exercise Price, (c) withholding Shares subject to the Option, or (d) any combination of (a), (b) and (c).

The Committee also may allow cashless exercise as permitted under the Federal Reserve Board's Regulation T, subject to applicable securities law restrictions, or by any other means which the Committee determines to be consistent with the Plan's purpose and applicable law.

**6.7 Restrictions on Share Transferability.** The Committee may impose such restrictions on any Shares acquired pursuant to the exercise of a SAR or an Option granted under this Article 6 as it may deem advisable, including, without limitation, restrictions under applicable Federal securities laws, under the requirements of any stock exchange or market upon which such Shares are then listed or traded, and under any blue sky or state securities laws applicable to such Shares.

**6.8 Termination of Employment or Leave of Absence.** Except as otherwise approved by the Committee and set forth in the pertinent Award Agreement(s), in the event that a Participant who is an Employee, during his or her lifetime has been on leave of absence for a period of greater than twelve (12) months (except a leave of absence approved by the Board or the Committee, as the case may be), or ceases to be an Employee of the Company or of any Subsidiary for any reason, including retirement, the portion of any SAR or Option which is not exercisable on the date on which the Participant ceased to be an Employee or has been on leave for over twelve (12) months (except a leave of absence approved by the Board or the Committee, as the case may be) shall expire on such date and any unexercised portion thereof which was otherwise exercisable on such date shall expire unless exercised within a period of three (3) months from such date, but in no event after the expiration of the term for which the SAR or Option was granted; provided, however, that in the case of an awardee of a SAR or a NQSO who is an "Approved Retiree" (as hereinafter defined), the SAR or NQSO shall continue to vest for up to five years from the date of retirement and said awardee may exercise such SAR or NQSO, as applicable, until the soonest to occur of (i) the expiration of such SAR or NQSO in accordance with its original term; (ii) the expiration of five (5) years from the date of retirement; or (iii) with respect to SARs or Options granted less than one year before the date the Approved Retiree retires, expiration of the SAR or Option on such retirement date, except not with respect to that portion of the SARs or Options equal to such number of shares multiplied by the ratio of (I) the number of days between the grant date and the retirement date inclusive, over (II) the number of days in the twelve (12) month period following the grant date.

Notwithstanding the preceding paragraph, if the Committee subsequently determines, in its sole discretion, that an Approved Retiree has violated the provisions of the agreement to refrain from Engaging in Competition, or has engaged in willful acts or omissions or acts or omissions of gross negligence that are or potentially are injurious

to the Company's operations, financial condition or business reputation, all SARs and Options shall be cancelled without consideration immediately.

In the event of the death of an awardee during the three (3) month period described above for exercise of a SAR or an Option by a terminated awardee or one on leave for over twelve (12) months (except a leave of absence approved by the Board or the Committee, as the case may be), the Option shall be exercisable by the awardee's personal representatives, heirs or legatees to the same extent and during the same period that the awardee could have exercised the SAR or Option if the awardee had not died.

Notwithstanding anything in Article 6.5 to the contrary, in the event of the death of an awardee while an Employee or Approved Retiree of the Company or any Subsidiary, an outstanding SAR or Option held by such awardee upon death shall become fully vested upon death and shall be exercisable by the awardee's personal representatives, heirs or legatees at any time prior to the expiration of one (1) year from the date of death of the awardee, but in no event after the expiration of the term for which the SAR or Option was granted.

**6.9 Nontransferability of SARs and Options.** No SAR, NQSO or ISO granted under the Plan may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. Further, all SARs, NQSOs and ISOs granted to a Participant under the Plan shall be exercisable during his or her lifetime only by such Participant.

## **Article 7. Restricted Stock**

**7.1 Grant of Restricted Stock.** Subject to the terms and provisions of the Plan, the Committee, at any time and from time to time, may grant Shares of Restricted Stock to Employees in such amounts as the Committee shall determine.

**7.2 Restricted Stock Agreement.** Each Restricted Stock grant shall be evidenced by a Restricted Stock Award Agreement that shall specify the Period(s) of Restriction, the number of Shares of Restricted Stock granted, and such other provisions as the Committee shall determine.

**7.3 Transferability.** Except as provided in this Article 7, the Shares of Restricted Stock granted hereof may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated until the end of the applicable Period of Restriction established by the Committee and specified in the Restricted Stock Award Agreement, or upon earlier satisfaction of any other conditions, as specified by the Committee in its sole discretion and set forth in the Restricted Stock Award Agreement. All rights with respect to the Restricted Stock granted to a Participant under the Plan shall be available during his or her lifetime only to such Participant.

**7.4 Other Restrictions.** The Committee shall impose such conditions and/or restrictions on any Shares of Restricted Stock granted pursuant to the Plan as it may deem advisable including, without limitation, a requirement that Participants pay a stipulated purchase price for each Share of Restricted Stock, restrictions based upon the achievement of specific performance objectives (Company-wide, business unit, and/or individual), time-based restrictions on vesting following the attainment of the performance objectives, and/or restrictions under applicable Federal or state securities laws.

The Company shall retain the certificates representing Shares of Restricted Stock in the Company's possession until such time as all conditions and/or restrictions applicable to such Shares have been satisfied.

Except as otherwise provided in this Article 7, Shares of Restricted Stock covered by each Restricted Stock grant made under the Plan shall become freely transferable by the Participant after the last day of the applicable Period of Restriction.

Distribution of Shares of Restricted Stock is conditioned upon the Participant not committing any criminal offense or malicious tort relating to or against the Company or, as determined by the Committee in its sole discretion, engaging in willful acts or omissions or acts or omissions of gross negligence that are or potentially are injurious to the company's operations, financial condition or business reputation.

**7.5 Voting Rights.** During the Period of Restriction, Participants holding Shares of Restricted Stock granted hereunder may exercise full voting rights with respect to those Shares.

**7.6 Dividends and Other Distributions.** During the Period of Restriction, Participants holding Shares of Restricted Stock granted hereunder shall be credited with regular dividends paid with respect to the underlying Shares while they are so held. Such dividends may be paid currently or converted into additional shares of Restricted Stock, upon such terms as the Committee establishes.

The Committee may apply any restrictions to the dividends that the Committee deems appropriate. Without limiting the generality of the preceding sentence, if the grant or vesting of Restricted Stock granted to a Covered Employee is designed to comply with the requirements of the Performance-Based Exception, the Committee may apply any restrictions it deems appropriate to the payment of dividends declared with respect to such Restricted Stock, such that the dividends and/or the Restricted Stock maintain eligibility for the Performance-Based Exception.

**7.7 Termination of Employment.** Except as otherwise approved by the Committee and set forth in the pertinent Award Agreement(s), (a) in the event that a Participant's employment with the Company is terminated during the Period of Restriction because the Participant is an Approved Retiree, the Committee shall have complete discretion in determining the percentage, if any, of a Participant's outstanding Restricted Shares as to which the Period of Restriction shall end; (b) in the event a Participant's employment with the Company is terminated because of the Participant's Disability or death during the Period of Restriction, the Period of Restriction shall end and the Participant's rights thereunder shall inure to the benefit of his or her Beneficiary; and (c) in the event that a Participant's employment with the Company is terminated for any other reason during the Period of Restriction, such Participant's outstanding Restricted Shares shall be forfeited to the Company without payment.

## **Article 8. Restricted Stock Units**

**8.1 RSUs.** Subject to the terms and conditions of the Plan, the Committee, at any time and from time to time, may grant Awards of RSUs to eligible Employees in such amounts as the Committee shall determine.

**8.2 RSU and Common Share Rights.** RSUs shall represent an Employee's unsecured right to receive from the Company the transfer of title to Shares subject to the vesting schedule referenced in Article 8.3 below, provided that the Employee has satisfied the conditions of transfer set forth in Article 8.4 below. On each such vesting date, if it occurs, the Company shall transfer a corresponding number of Shares to an individual brokerage account established and maintained in the Employee's name. The Employee shall have all the rights of a stockholder with respect to such Shares transferred to the brokerage account, including but not limited to the right to vote the Shares, to sell, transfer, liquidate or otherwise dispose of the Shares, and to receive all dividends or other distributions paid or made with respect to the Shares from the time they are deposited in the account. The Employee shall have no voting, transfer, liquidation, or other rights of a Share stockholder with respect to RSUs prior to such time that the corresponding Shares are transferred, if at all, to the Employee's brokerage account. Notwithstanding the foregoing, RSU's may be granted with dividend equivalent rights at the discretion of the Committee.

**8.3 Vesting in RSUs.** RSU Awards shall become vested in accordance with the vesting provisions set forth in the pertinent Award Agreements.

**8.4 Conditions of Transfer.** A transfer of Shares in accordance with paragraph 8.2 above shall be conditioned upon the Employee meeting both of the following conditions during the entire period from the grant date through the vesting date(s) relating to such RSUs:

(a) The Employee must continue to be an active employee of the Company or one of its Subsidiaries; and

(b) The Employee must refrain from committing any criminal offense or malicious tort relating to or against the Company or, as determined by the Committee in its discretion, engaging in willful acts or omissions or acts or omissions of gross negligence that are or potentially are injurious to the Company's operations, financial condition or business reputation.

If the Employee fails to meet the requirements of Article 8.4(a) and (b), then the Employee shall forfeit the right to vest in any RSUs that have not already vested as of the time such failure is determined, and the Employee shall accordingly forfeit the right to receive the transfer of title to any corresponding Shares. The forfeiture of rights with respect to unvested RSUs (and corresponding Shares) shall not affect the rights of the Employee with respect to any RSUs that already have vested nor with respect to any Shares the title of which has already been transferred to the Employee's brokerage account.

**8.5 Effect of Termination of Employment.** Notwithstanding contrary provisions of this Article 8, except as otherwise approved by the Committee and set forth in the pertinent Award Agreement(s):

(a) In the event the Employee's employment is terminated prior to the relevant vesting date on account of death, and if the Employee had otherwise met the requirements of Article 8.4(a) and (b) from the grant date through the date of such death, then the Employee's unvested RSUs shall immediately vest in full upon death and the Employee's rights hereunder with respect to any such RSUs shall inure to the benefit of the Employee's executors, administrators, personal representatives and assigns.

(b) In the event Employee's employment is terminated prior to the relevant vesting date on account of the Employee having a Disability or being an Approved Retiree, and if the Employee had otherwise met the requirements of Article 8.4(a) and (b) from the grant date through the date of the termination of employment date, and provided that the Employee continues to meet the requirements of Article 8.4(b), then the Employee's rights hereunder with respect to any outstanding, unvested RSUs shall continue in the same manner as if the Employee continued to meet the continuous employment requirement of Article 8.4(a) through the vesting dates related to the Award, except not for that portion of RSUs granted less than one (1) year prior to the Employee's termination equal to such number of shares multiplied by the ratio of (A) the number of days after the termination date and before the first (1<sup>st</sup>) anniversary of the grant date, over (B) the number of days on and after the grant date and before the first (1<sup>st</sup>) anniversary of the grant date.

(c) In the event Employee's employment is terminated prior to the relevant vesting date for any reason other than those circumstances described in paragraphs (a) and (b) of this Article 8.5, such Employee's outstanding RSUs shall be forfeited to the Company without payment.

## **Article 9. Other Awards**

**9.1 Grant of Other Share-Based Awards.** The Committee may grant Other Share-Based Awards to Participants in such number, and upon such terms, and at any time and from time to time, as shall be determined by the Committee.

**9.2 Terms of Other Share-Based Awards.** Other Share-Based Awards shall contain such terms and conditions as the Committee may from time to time specify and may be denominated in cash, in Shares, in Share-equivalent units, in Share appreciation units, in securities or debentures convertible into Shares or in a combination of the foregoing and may be paid in cash or in Shares, all as determined by the Committee. Other Share-Based Awards may be issued alone or in tandem with other Awards granted to Employees.

**9.3 Other Share-Based Award Agreement.** Each Other Share-Based Award shall be evidenced by an Award Agreement that shall specify such terms and conditions as the Committee shall determine.

**9.4 Other Cash Performance-Based Awards.** The Committee may grant Other Cash Performance-Based Awards based on performance measures set forth in Article 10 not based on Shares upon such terms and at any time and from time to time as shall be determined by the Committee. Each such Other Cash Performance-Based Award shall be evidenced by an award agreement that shall specify such terms and conditions as the Committee shall determine. An Other Cash Performance-Based Award not based upon Shares shall not decrease the number of Shares under Article 4 that may be issued pursuant to other Awards. No individual shall be eligible to receive a payment with respect to cash performance-based awards in excess of \$4 million in any one-year performance period (the "Annual Maximum") or, in the case of a performance period greater than one year, the Annual Maximum multiplied by the number of full years in the performance period. Other Cash Performance-Based Awards may relate to annual bonus or long-term performance awards.

## Article 10. Performance Measures for Awards

**10.1 Performance Measures.** Unless and until the Committee proposes for shareholder vote and shareholders approve a change in the general performance measures set forth in this Article 10, the attainment of which may determine the degree of payout and/or vesting with respect to Awards granted to Covered Employees which are designed to qualify for the Performance-Based Exception, the performance measure(s) to be used for purposes of such Awards shall be chosen from among any one or more of the following performance criteria, or derivations of such performance criteria:

- (a) Stock Price,
- (b) Market Share,
- (c) Sales Revenue,
- (d) Organic sales growth,
- (e) Cash flows,
- (f) Cash flow efficiency,
- (g) Financial reported earnings,
- (h) Economic earnings,
- (i) Earnings per share,
- (j) Appreciation in the Fair Market Value of Shares,
- (k) Return on equity,
- (l) Return on invested capital,
- (m) Total Shareholder Return,
- (n) Operating Total Shareholder Return,
- (o) Operating margins,
- (p) Operating income,
- (q) Earnings before interest, taxes, depreciation and amortization (“EBITDA”) (consolidated or business unit),
- (r) Earnings before or after taxes,
- (s) Volume per guest,
- (t) Customer satisfaction,
- (u) Associate engagement,
- (v) Owner/franchisee satisfaction,
- (w) Timeshare sales volume,
- (x) Timeshare cost, and
- (y) Marketing and sales corporate overhead.

The above performance measures may be used either individually, alternatively or in any combination and established at a subsidiary or business unit level or at a consolidated Company level, in each case as specified by the Committee. Achievement of any of the performance measures above may be measured either annually or cumulatively over a period of years, on an absolute basis or relative to a pre-established target, to previous years’ results or to the performance of a designated group of companies, in each case as specified by the Committee.

**10.2 Adjustments.** The Committee shall have the discretion to adjust the determinations of the degree of attainment of the preestablished performance objectives; provided, however, that Awards that are designed to

qualify for the Performance-Based Exception and that are held by Covered Employees may not be adjusted upward (the Committee shall retain the discretion to adjust such Awards downward).

**10.3 Committee Discretion.** In the event that applicable tax and/or securities laws change to permit Committee discretion to alter the governing performance measures without obtaining shareholder approval of such changes, the Committee shall have sole discretion to make such changes without obtaining shareholder approval. In addition, in the event that the Committee determines that it is advisable to grant Awards that do not qualify for the Performance-Based Exception; the Committee may make such grants without satisfying the requirements of Code Section 162(m).

#### **Article 11. Directors' Share Awards, Fee Deferral Elections, and Director SARs and Options**

**11.1 Eligibility.** Only Non-Employee Directors shall be eligible to receive Non-Employee Director Share Awards and Director SARs and Options and to make Fee Deferral Elections. All such awards are subject to prior approval by the Committee.

**11.2 Non-Employee Director Share Awards.** On the first (1<sup>st</sup>) full trading day immediately following each Annual Meeting, each Non-Employee Director designated by the Board may receive a Non-Employee Director Share Award of a number of Shares determined by the Board before such Annual Meeting. Each Non-Employee Director Share Award shall be fully vested and nonforfeitable when granted. Upon Termination of Service or at such other times as determined by the Committee, the Non-Employee Director Share Award awarded to a Non-Employee Director shall be paid to the Non-Employee Director.

#### **11.3 Fee Deferral Elections.**

(a) **Elections to Defer Payment of Fees.** Payment of all or any part of any Fees payable to a Non-Employee Director may be deferred by election of the Non-Employee Director. Each such election must be made in writing on a form prescribed by the Committee and irrevocably delivered to the Company in the year preceding the year which commences with the next Annual Meeting (the "Election Year"), and must be irrevocable for such Election Year. Deferral elections for Election Year 2014-2015 and later Election Years may include a separate election regarding whether to receive dividend equivalent units under Article 11.3(d) that relate solely to Fees deferred in such years in the form of additional Stock Units or an immediate cash payment; provided that, to the extent no such election is provided or made, the Non-Employee Director will be deemed to have elected to receive dividend equivalent units in the form of additional Stock Units. No election may be made under this Article 11.3(a) with respect to Fees for which an election is made under Article 11.5.

(b) **Crediting Stock Units to Accounts.** Amounts deferred pursuant to a Fee Deferral Election shall be credited as of the date of the deferral to a Stock Unit Account in Stock Units. The number of Stock Units credited to a Stock Unit Account with respect to any Non-Employee Director shall equal (i) the amount deferred pursuant to the Fee Deferral Election divided by (ii) the Fair Market Value of a Share on the date on which the Fees subject to the Fee Deferral Election would have been paid but for the Fee Deferral Election, with fractional units calculated to at least three (3) decimal places.

(c) **Fully Vested Stock Units.** All Stock Units credited to a Non-Employee Director's Stock Unit Account pursuant to this Article 11.3 shall be at all times fully vested and nonforfeitable.

(d) **Credit of Dividend Equivalents.** Each Stock Unit credited to a Director's Stock Unit Account includes one dividend equivalent unit. As of each dividend payment date with respect to Shares, each Non-Employee Director shall have credited to his or her Stock Unit Account an additional number of Stock Units equal to the product of (i) the per-share cash dividend payable with respect to a Share on such dividend payment date multiplied by the number of dividend equivalent units credited to his or her Stock Unit Account as of the close of business on the record date for such dividend, divided by (ii) the Fair Market Value of a Share on such dividend payment date. Notwithstanding the foregoing, if a Non-Employee Director made a cash election with respect to dividend equivalent units pursuant to Article 11.3(a) (the "Cash-Settled Units"), then within 30 days after the dividend payment date, in lieu of the foregoing, the Non-Employee Director shall receive a cash payment equal to the product of (A) the per-share cash dividend payable with respect to a Share on such dividend payment date multiplied by (B) the number of Cash-Settled Units outstanding as of the close of business on the record date for



such dividend. If dividends are paid on Shares in a form other than cash, then such dividends shall (I) if to be credited to the Stock Unit Account: either be notionally converted to cash or credited “in kind”, or (II) if to be paid in cash, notionally converted to cash if their value is readily determinable.

(e) **Payment of Stock Units.** Upon Termination of Service or at such other times as determined by the Committee, the Stock Units credited to a Non-Employee Director’s Stock Unit Account shall be paid to the Non-Employee Director in an equal number of shares of Stock in a single lump sum or in substantially equal annual installments over a period not to exceed ten (10) years, as irrevocably elected in writing by the Non-Employee Director at the time of the Non-Employee Director’s election to defer Fees under Article 11.3(a), pursuant to rules established from time to time by the Committee.

**11.4 Unfunded Status.** The interest of each Non-Employee Director in any Fees deferred under this Article 11 (and any Stock Units or Stock Unit Account relating thereto) or in any Director Stock Award shall be that of a general creditor of the Company. Stock Unit Accounts and Stock Units (and, if any, “in kind” dividends) credited thereto shall at all times be maintained by the Company as bookkeeping entries evidencing unfunded and unsecured general obligations of the Company.

#### **11.5 Director SARs and Options.**

(a) **Elections to Receive Payment of Fees in the Form of SARs or Options.** A Non-Employee Director may elect to receive payment of all or any part of his or her cash retainer in the form of Director SARs or Options, as determined by the Committee, in lieu of cash. Each such election must be made in writing on a form prescribed by the Committee and delivered to the Company in the calendar year preceding the calendar year in which occurs the Annual Meeting that marks the commencement of the annual period of service during which such Fees are earned. Each election is irrevocable for that annual period. Elections under this Article 11.5 may not be made with respect to Fees deferred under Article 11.3.

(b) **Grant of Director SARs and Options.** On the first (1<sup>st</sup>) full trading day immediately following each Annual Meeting, each Non-Employee Director who has filed an election under Article 11.5(a) for the annual period of service that commences with such Annual Meeting shall be granted Director SARs or Options that have a value on the date of grant substantially equal to the amount of Fees otherwise payable to the Non-Employee Director in cash but for the election to receive Director SARs or Options. The value of Director SARs or Options shall be determined by the Committee in its sole discretion, at a meeting held prior to the Annual Meeting, based on a Black-Scholes option pricing model or other valuation model that the Committee determines to be appropriate in its sole discretion.

(c) **Terms of Director SARs and Options.** Each Director SAR and Option shall be evidenced by an Award Agreement that shall specify the Exercise Price, the duration of the SAR or Option, and the number of Shares to which the SAR or Option pertains. Each Director SAR and Option shall (i) have an Exercise Price equal to or greater than the Fair Market Value of a Share on the date the Award is granted; (ii) be immediately vested and exercisable; (iii) expire on the tenth (10<sup>th</sup>) anniversary of the date of its grant; and (iv) be nontransferable unless otherwise specified by the Committee.

(d) **Payment.** Director SARs and Options granted under this Article 11 shall be exercised by the delivery of notice of exercise to the Company in such manner as the Committee shall determine, setting forth the number of Shares with respect to which the SAR or Option is to be exercised, accompanied by full payment for the Shares. The Exercise Price upon exercise of any Director SAR or Option shall be payable to the Company in full either: (i) in cash or its equivalent, (ii) by withholding of Shares deliverable upon exercise or tendering (either actually or by attestation) previously acquired Shares, in each case having an aggregate Fair Market Value at the time of exercise equal to the total Exercise Price, or (iii) by a combination of (i) and (ii). The Committee also may allow cashless exercise as permitted under the Federal Reserve Board’s Regulation T, subject to applicable securities law restrictions, or by any other means which the Committee determines to be consistent with the Plan’s purpose and applicable law.

## Article 12. Distribution Awards

All Distribution Awards shall be issued under the Plan as provided in the Allocation Agreement. The Committee shall administer all such Distribution Awards under this Plan, giving service credit to the grantee of each such Distribution Award to the extent required under the Allocation Agreement. All Distribution Awards shall be subject to substantially similar terms and conditions as provided in the holder's corresponding awards under the MII Plan.

## Article 13. Beneficiary Designation

Each Participant under the Plan may, from time to time, name any beneficiary or beneficiaries (who may be named contingently or successively) to whom any benefit under the Plan is to be paid in case of the Participant's death before the Participant has received any or all of such benefit. Each such designation shall revoke all prior designations by the same Participant, shall be in a form prescribed by the Company, and will be effective only when filed by the Participant in writing with the Company during the Participant's lifetime. In the absence of any such designation, benefits remaining unpaid at the Participant's death shall be paid to the Participant's estate.

## Article 14. Change in Control

**14.1 Treatment of Awards.** If a Participant who is actively employed by the Company incurs a Covered Termination of Employment (as defined in Article 14.2 below) on or within twelve (12) months following a Change in Control (as defined in Article 14.3 below), then the following shall occur:

(a) **Restricted Stock and RSUs.** With respect to any Restricted Stock, RSUs or any Other Share-Based Awards taking a form substantially the same as Restricted Stock or RSUs, the restrictions, forfeiture conditions, deferral of settlement and conditions on distribution other than those imposed by law applicable to such Awards shall lapse, and all such Awards shall be deemed fully vested, as of the date of the Participant's Covered Termination of Employment, and the subject Shares, or equity interests that are substituted for the subject Shares as a result of the Change in Control, shall be distributed to the Participant immediately following such Covered Termination of Employment. Notwithstanding the preceding sentence, in the event no Awards, Shares or substitute equity interests are available in connection with the Change in Control, the restrictions, forfeiture conditions, deferral of settlement and conditions on distribution other than those imposed by law applicable to such Restricted Stock, RSU and Other Share-Based Awards shall lapse, and all such Awards shall be deemed fully vested, as of the date of the Change in Control, and the Awards shall be distributed to the Participant immediately following the Change in Control. In the Committee's discretion, the distribution of Awards as described in this Article 14.1(a) may be made in the form of a cash payment equal to the product of (i) the per Share value, which shall be (I) in the case of a payment made immediately following a Covered Termination of Employment, the Fair Market Value per Share as of the date of the Covered Termination of Employment, or (II) in the case of a payment made immediately after the Change in Control, the price paid per Share to general stockholders of the Company, through a tender offer or otherwise, pursuant to the transaction resulting in the Change in Control, and (ii) the number of subject Shares or substitute equity awards that otherwise would be distributed to the Participant if available and the Committee had not determined to pay cash.

(b) **Options and SARs.** As of the date of the Participant's Covered Termination of Employment, all of the unvested or unexercisable Options, SARs or Other Share-Based Awards taking a form substantially the same as Options or SARs held by the Participant shall be deemed to be fully vested and exercisable with respect to the subject Shares, or other equity interests that are substituted for the Shares as a result of the Change in Control, and any other conditions on such Awards shall lapse, other than those imposed by law. Such Awards shall remain exercisable until the earlier of (i) the end of their original term, or (ii) twelve (12) months (or in the case of an Approved Retiree, five (5) years) following the Participant's Covered Termination of Employment. Notwithstanding the preceding sentence, in the event no Awards, Shares or substitute equity interests are available in connection with the Change in Control, the restrictions, forfeiture conditions, deferral of settlement and conditions on distribution other than those imposed by law applicable to such Options, SARs and Other Share-Based Awards shall lapse, and all such Awards shall be deemed fully vested, as of the date of the Change in Control. In the Committee's discretion, a cash payment may be made to the Participant immediately following the Participant's Covered Termination of Employment or the date of the Change in Control, whichever is the date upon which the Participant is deemed to be fully vested as determined under this Article 14.1(b), in an amount equal to (i) the per Share value, which shall be (I)

in the case of a payment made immediately following a Covered Termination of Employment, the Fair Market Value per Share as of the date of the Covered Termination of Employment, or (II) in the case of a payment made immediately after the Change in Control, the price paid per Share to general stockholders of the Company, through a tender offer or otherwise, pursuant to the transaction resulting in the Change in Control, (ii) less the Exercise Price, and (iii) multiplied by the number of subject Shares or substitute equity awards that otherwise would be distributed to the Participant if available and the Committee had not determined to pay cash.

(c) **Other Cash Performance-Based Awards and Certain Other Share-Based Awards.** All of the Participant's Other Cash Performance-Based Awards or Other Share-Based Awards subject to performance-based vesting shall be deemed to be fully vested as of the Participant's Covered Termination of Employment and be paid out immediately thereafter, where such payment shall be based on a target level of performance, pro rated for the days of such performance period through the date of the Covered Termination of Employment. Notwithstanding the preceding sentence, in the event no Awards, Shares or substitute equity interests are available in connection with the Change in Control, the restrictions, forfeiture conditions, deferral of settlement and conditions on distribution other than those imposed by law applicable to such Other Cash Performance-Based Awards or Other Share-Based Awards shall lapse, and all such Awards shall be deemed to be fully vested, as of the date of the Change in Control, in which case payment shall be based on a target level of performance pro rated for the days of such performance period through the date of the Change in Control. Any Other Share-Based Awards other than those described in Articles 14.1(a) and (b), and other than as described above in this Article 14.1(c), shall be treated in a manner similar to that described in Articles 14.1(a) and (b).

**14.2 Covered Termination of Employment.** For purposes of this Article 14, "Covered Termination of Employment" shall mean any involuntary termination of employment of a Participant, provided that such termination does not result from the Participant's serious misconduct within the meaning of Article 3.6.

**14.3 Change in Control Definition.** A Change in Control shall occur if:

(a) **Acquisition of Voting Securities.** Any Person directly or indirectly becomes the Beneficial Owner of more than thirty percent (30%) of the Company's then outstanding voting securities (measured on the basis of voting power), provided that the Person (i) has not acquired such voting securities directly from the Company, (ii) is not the Company or any of its Subsidiaries, (iii) is not a trustee or other fiduciary holding voting securities under an employee benefit plan of the Company or any of its Subsidiaries, (iv) is not an underwriter temporarily holding the voting securities in connection with an offering thereof, and (v) is not a corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of Company stock; or

(b) **Merger or Consolidation.** The Company merges or consolidates with any other corporation, other than a merger or consolidation resulting in the voting securities of the Company outstanding immediately prior to such merger or consolidation representing fifty percent (50%) or more of the combined voting power of the voting securities of the Company, the other corporation (if such corporation is the surviving corporation) or the parent of the Company or other corporation, in each case outstanding immediately after such merger or consolidation; or

(c) **Change in Majority of Board.** Continuing Directors cease to represent a majority of the Board, where "Continuing Directors" shall mean the directors of the Board immediately after the Distribution, and any other director whose appointment, election or nomination for election by the stockholders is approved by at least a majority of the Continuing Directors at such time; or

(d) **Sale, Liquidation or Other Disposition.** The stockholders of the Company approve a plan of complete liquidation of the Company or the Company sells or disposes of all or substantially all of its assets.

Notwithstanding the foregoing provisions of Article 14.3, with respect to any Award that is subject to Code Section 409A, in order to be treated as a Change in Control, any event described in this Article 14.3 also must qualify as a "change in control event" within the meaning of Code Section 409A(a)(2)(A)(v) and the regulations thereunder.

**14.4 Section 280G Cut-back in Benefits.** Notwithstanding the other provisions of this Plan, in the event that the amount of payments or other benefits payable to any Participant under this Plan, together with any payments or benefits payable under any other plan, program, arrangement or agreement maintained by the Company

or one of its affiliates, would constitute an “excess parachute payment” (within the meaning of Section 280G or the Code), the payments under this Plan shall be reduced in a manner determined by the Company (by the minimum possible amounts) until no amount payable to the Participant under the Plan constitutes an “excess parachute payment” (within the meaning of Section 280G of the Code). All determinations required to be made under this Article 14.4, including whether a payment would result in an “excess parachute payment” and the assumptions utilized in arriving at such determination, shall be made by a registered public accounting firm selected by the Company.

#### **Article 15. Rights of Participants**

**15.1 Employment or Service.** Nothing in the Plan shall interfere with or limit in any way the right of the Company to terminate any Participant’s employment or service at any time, nor confer upon any Participant any right to continue in the employ or service of the Company.

**15.2 Participation.** No Employee shall have the right to be selected to receive an Award under this Plan, or, having been so selected, to be selected to receive a future Award.

#### **Article 16. Amendment, Modification, and Termination**

**16.1 Amendment, Modification, and Termination.** The Board may at any time and from time to time, alter, amend (subject to Article 1.3), suspend or terminate the Plan in whole or in part; provided, however, that the Board may, in its sole discretion, condition the adoption of any amendment of the Plan on the approval thereof by the requisite vote of the shareholders of the Company entitled to vote thereon.

**16.2 Adjustment of Awards upon the Occurrence of Certain Unusual or Nonrecurring Events.** Subject to the restriction set forth in Article 10 hereof on the exercise of upward discretion with respect to Awards which have been designed to comply with the Performance-Based Exception, the Committee may make adjustments in the terms and conditions of, and the criteria included in, Awards in recognition of unusual or nonrecurring events (including, without limitation, the events described in Article 4.2 hereof) affecting the Company or the financial statements of the Company or of changes in applicable laws, regulations, or accounting principles, whenever the Committee determines that such adjustments are appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan.

**16.3 Awards Previously Granted.** No termination, amendment, or modification of the Plan or any Award shall adversely affect in any material way any Award previously granted under the Plan, without the written consent of the Participant holding such Award.

Except as provided under Article 16.2, an outstanding SAR or Option may not be amended to change its Exercise Price, cancelled and re-granted with a new Exercise Price, nor cancelled and replaced with other Awards or cash, unless approved by shareholders.

**16.4 Compliance with Code Section 162(m).** At all times when Code Section 162(m) is applicable, all Awards granted under this Plan shall comply with the requirements of Code Section 162(m); provided, however, that in the event the Committee determines that such compliance is not desired with respect to any Award or Awards available for grant under the Plan, then compliance with Code Section 162(m) will not be required. In addition, in the event that changes are made to Code Section 162(m) to permit greater flexibility with respect to any Award or Awards available under the Plan, the Committee may, subject to this Article 16, make any adjustments it deems appropriate.

**16.5 Substitution of Awards in Mergers and Acquisitions.** Awards may be granted under the Plan from time to time in substitution for awards held by employees or directors of entities who become or are about to become employees or directors of the Company or a Subsidiary as the result of a merger, consolidation or other acquisition of the employing entity or the acquisition by the Company or a Subsidiary of the assets or stock of the employing entity. The terms and conditions of any substitute awards so granted may vary from the terms and conditions set forth hereof to the extent that the Committee deems appropriate at the time of grant to conform the substitute awards to the provisions of the awards for which they are substituted.

#### **Article 17. Withholding**

**17.1 Tax Withholding.** The Company shall have the power and the right to deduct from any amount otherwise due to the Participant, or withhold, or require a Participant to remit to the Company, an amount sufficient to satisfy Federal, state, and local income, employment or other related taxes, domestic or foreign, required by law or regulation to be withheld with respect to any taxable event arising as a result of this Plan.

**17.2 Share Withholding.** With respect to withholding required in connection with any Award, the Company may require, or the Committee may permit a Participant to elect, that the withholding requirement be satisfied, in whole or in part, by having the Company withhold Shares having a Fair Market Value on the date the tax is to be determined up to the maximum statutory total tax which could be withheld on the transaction. Any election by a Participant shall be subject to any restrictions or limitations that the Committee, in its sole discretion, deems appropriate.

#### **Article 18. Indemnification**

Except as prohibited by law, each person who is or shall have been a member of the Committee, or of the Board, shall be indemnified and held harmless by the Company against and from any loss, cost, liability or expense that may be imposed upon or reasonably incurred by him or her in connection with or resulting from any claim, action, suit or proceeding to which he or she may be a party or in which he or she may be involved by reason of any action taken or failure to act under the Plan, other than by willful misconduct, and against and from any and all amounts paid by him or her in settlement thereof, with the Company’s approval, or paid by him or her in satisfaction of any judgment in any such action, suit or proceeding against him or her, provided he or she shall give the Company an opportunity, at its own expense, to handle and defend the same before he or she undertakes to handle and defend it on his or her own behalf. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled under the Company’s Articles of Incorporation or Bylaws, as a matter of law, or otherwise, or any power that the Company may have to indemnify them or hold them harmless.

#### **Article 19. Code Section 409A**

**19.1 General.** To the extent that Code Section 409A may apply to any Awards under the Plan, it is intended that the terms of the Plan and such Awards meet the applicable requirements of Code Section 409A so that a Participant is not taxed under Code Section 409A with respect to such Awards until such time as Shares or other amounts are distributed to the Participant in accordance with the Plan’s and the Awards’ terms. For this purpose, the Plan and the Awards will be administered and interpreted to comply with Code Section 409A and any applicable Treasury or IRS guidance.

**19.2 Delay for Specified Employees.** To the extent that any Awards under the Plan may be subject to Code Section 409A(a)(2)(B)(i), distributions of Shares or other amounts pursuant to such Awards on account of a termination of employment of a Participant who is a Specified Employee (as defined as follows) shall be made or commence not before the date which is six (6) months following the termination of employment, except in the event of the Participant's death. Any distribution that is delayed under this Article 19.2 shall be distributed on the first day of the seventh month following the Specified Employee's termination of employment (without affecting the timing of any subsequent installment that is not within the six-month period following termination of employment). For this purpose, a Specified Employee is a person described under Treasury Regulation section 1.409A-1(i), applying the default rules thereunder, except that the definition of compensation for purposes of identifying Specified Employees is the safe harbor definition of compensation set forth under Treasury Regulation section 1.415(c)-2(d)(4).

**Article 20. Successors**

All obligations of the Company under the Plan with respect to Awards granted hereunder shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, of all or substantially all of the business and/or assets of the Company, or a merger, consolidation or otherwise.

## Article 21. Legal Construction

**21.1 Gender and Number.** Except where otherwise indicated by the context, any masculine term used hereof also shall include the feminine, the plural shall include the singular and the singular shall include the plural.

**21.2 Severability.** In the event any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining provisions of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

**21.3 Requirements of Law.** The granting of Awards and the issuance of Shares under the Plan shall be subject to all applicable laws, rules, and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

**21.4 Securities Law Compliance.** With respect to Insiders, transactions under this Plan are intended to comply with all applicable conditions of Rule 16b-3 or its successors under the Exchange Act. To the extent any provision of the plan or action by the Committee fails to so comply, it shall be deemed null and void, to the extent permitted by law and deemed advisable by the Committee.

**21.5 Governing Law.** To the extent not preempted by Federal law, the Plan, and all agreements hereunder, shall be construed in accordance with and governed by the laws of the State of Florida.

FOURTH AMENDMENT

FOURTH AMENDMENT, dated as of February 22, 2017 (this "Amendment"), to the Second Amended and Restated Credit Agreement, dated as of September 10, 2014 (as amended, supplemented or otherwise modified prior to the date hereof, including as amended by the First Amendment, dated as of June 26, 2015, the Second Amendment, dated as of April 1, 2016, and the Third Amendment, dated as of December 8, 2016, the "Credit Agreement"), among Marriott Vacations Worldwide Corporation, a Delaware corporation ("MVWC"), Marriott Ownership Resorts, Inc., a Delaware corporation (the "Borrower"), the several banks and other financial institutions or entities from time to time party thereto (the "Lenders"), Bank of America, N.A. and Deutsche Bank Securities Inc., as co-syndication agents, Bank of America, N.A. and Deutsche Bank Securities Inc. as co-documentation agents and JPMorgan Chase Bank, N.A., as administrative agent (the "Administrative Agent").

WITNESSETH

WHEREAS, MVWC, the Borrower, the Lenders and the Administrative Agent are parties to the Credit Agreement;

WHEREAS, MVWC and the Borrower have requested that the Credit Agreement be amended as set forth herein; and

WHEREAS, Lenders constituting the Required Lenders and the Administrative Agent are willing to agree to this Amendment on the terms set forth herein.

NOW, THEREFORE, in consideration of the premises and mutual covenants contained herein, the parties hereto agree as follows:

SECTION 1. Capitalized Terms. Capitalized terms used but not defined herein shall have the meanings assigned to such terms in the Credit Agreement.

SECTION 2. Amendments. The Credit Agreement shall be amended as of the Fourth Amendment Effective Date (as defined below) as set forth below.

(a) Amendments to Section 1.1 (Defined Terms). Section 1.1 of the Credit Agreement is hereby amended as follows:

(i) by inserting the following definitions in proper alphabetical order:

"Fourth Amendment": the Fourth Amendment, dated as of February 22, 2017, among the Borrower, Marriott Vacations Worldwide Corporation, the Administrative Agent and the Lenders party thereto.

"Fourth Amendment Effective Date": as defined in the Fourth Amendment.

(ii) by amending the definition of "Consolidated Adjusted EBITDA" as follows: by inserting the word "and" at the end of clause (b) thereof; by deleting clause (c) thereof in its entirety; by replacing the reference to clause (d) in the proviso to clause (d) thereof with a reference to clause (c); by renumbering clause (d) thereof as clause (c); by deleting the word "minus" after clause (y) thereof; and by deleting clause (z) thereof in its entirety;

(iii) by deleting the definition of "Developer Capital Spending" in its entirety; and

(iv) by deleting the definition of “Time Share Development Property Capital Expenditures” in its entirety.

SECTION 3. Conditions to Effectiveness of Amendment. This Amendment shall become effective on the date on which the following conditions precedent have been satisfied or waived (the “Fourth Amendment Effective Date”):

(a) The Administrative Agent shall have received a counterpart of this Amendment, executed and delivered by a duly authorized officer of each of (A) MWVC, (B) the Borrower, (C) Lenders constituting the Required Lenders and (D) the Administrative Agent.

(b) After giving effect to this Amendment, each of the representations and warranties made by any Loan Party in or pursuant to the Loan Documents shall be true and correct in all material respects (and in all respects if qualified by materiality) on and as of the Fourth Amendment Effective Date as if made on and as of the Fourth Amendment Effective Date (or to the extent such representations and warranties expressly relate to an earlier date, as of such earlier date).

(c) No Default or Event of Default shall have occurred and be continuing on the Fourth Amendment Effective Date or after giving effect to the amendments contemplated herein and any extensions of credit requested to be made on the Fourth Amendment Effective Date.

(d) All governmental and third party approvals necessary in connection with the transactions contemplated hereby and by the Credit Agreement shall have been obtained and be in full force and effect, and all applicable waiting periods shall have expired without any action being taken or, to the Borrower’s knowledge, threatened by any competent authority that would restrain, prevent or otherwise impose adverse conditions on the financing contemplated hereby.

(e) The Lenders and the Administrative Agent shall have received all fees required to be paid, and all expenses for which invoices have been presented to the Borrower on or before the Fourth Amendment Effective Date.

(f) The Administrative Agent and the other Lenders shall have received, at least 5 days prior to the Fourth Amendment Effective Date, all documentation and other information required by regulatory authorities under applicable “know your customer” and anti-money laundering rules and regulations, including the Patriot Act, previously requested of the Borrower by the Administrative Agent.

SECTION 4. Representations and Warranties. Each of the Borrower and MVWC hereby represents and warrants that, after giving effect to this Amendment, (a) each of the representations and warranties made by any Loan Party in or pursuant to the Credit Agreement or the other Loan Documents are true and correct in all material respects (and in all respects if qualified by materiality) on and as of the Fourth Amendment Effective Date as if made on and as of the Fourth Amendment Effective Date (or to the extent such representations and warranties expressly relate to an earlier date, as of such earlier date); provided, that each reference to the Credit Agreement therein shall be deemed to be a reference to the Credit Agreement after giving effect to this Amendment and (b) no Default or Event of Default has occurred and is continuing and no Default or Event of Default will occur after giving effect to the amendments contemplated herein and any extensions of credit requested to be made on the Fourth Amendment Effective Date.

SECTION 5. Effects on Credit Documents. (a) Except as specifically amended herein, all Loan Documents shall continue to be in full force and effect and are hereby in all respects ratified and confirmed.



(b) The execution, delivery and effectiveness of this Amendment shall not operate as a waiver of any right, power or remedy of any Lender or the Administrative Agent under any of the Loan Documents, nor constitute a waiver of any provision of the Loan Documents.

SECTION 6. Expenses. The Borrower agrees to pay and reimburse the Administrative Agent for all of its reasonable out-of-pocket costs and expenses incurred in connection with the preparation and delivery of this Amendment, and any other documents prepared in connection herewith and the transactions contemplated hereby, including, without limitation, the reasonable fees and disbursements of legal counsel.

SECTION 7. GOVERNING LAW; WAIVER OF JURY TRIAL. THIS AMENDMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK. EACH PARTY HERETO HEREBY AGREES AS SET FORTH FURTHER IN SECTION 10.16 OF THE CREDIT AGREEMENT AS IF SUCH SECTION WERE SET FORTH IN FULL HEREIN.

SECTION 8. Amendments; Execution in Counterparts. (a) This Amendment shall not constitute an amendment of any other provision of the Credit Agreement not referred to herein and shall not be construed as a waiver or consent to any further or future action on the part of the Loan Parties that would require a waiver or consent of the Lenders or the Administrative Agent. Except as expressly amended hereby, the provisions of the Credit Agreement are and shall remain in full force and effect.

(b) This Amendment may not be amended nor may any provision hereof be waived except pursuant to a writing signed by the Borrower, MVWC, the Administrative Agent and the Required Lenders. This Amendment may be executed by one or more of the parties to this Amendment on any number of separate counterparts, and all of said counterparts taken together shall be deemed to constitute one and the same instrument. Delivery of an executed signature page of this Amendment by email or facsimile transmission shall be effective as delivery of a manually executed counterpart hereof. A set of the copies of this Amendment signed by all the parties shall be lodged with the Borrower and the Administrative Agent.

*[Remainder of page intentionally left blank]*

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and delivered by their respective proper and duly authorized officers as of the day and year first above written.

MARRIOTT VACATIONS WORLDWIDE CORPORATION

By: /s/ Joseph J. Bramuchi  
Name: Joseph J. Bramuchi  
Title: V.P.

MARRIOTT OWNERSHIP RESORTS, INC.

By: /s/ Joseph J. Bramuchi  
Name: Joseph J. Bramuchi  
Title: V.P.

[Signature Page to Fourth Amendment to MVW Second Amended and Restated Credit Agreement]

JPMORGAN CHASE BANK, N.A., as Administrative Agent and a Lender

By: /s/ Nadeige Dang  
Name: Nadeige Dang  
Title: Vice President

BANK OF AMERICA, N.A., as a Lender

By: /s/ Suzanne E. Pickett  
Name: Suzanne E. Pickett  
Title: Vice President

DEUTSCHE BANK AG NEW YORK BRANCH, as a Lender

By: /s/ James Rolison  
Name: James Rolison  
Title: Managing Director

By: /s/ Joanna Soliman  
Name: Joanna Soliman  
Title: Vice President

SUNTRUST BANK, as a Lender

By: /s/ David A. Ernst  
Name: David A. Ernst  
Title: Vice President

[Signature Page to Fourth Amendment to MVW Second Amended and Restated Credit Agreement]

CREDIT SUISSE AG, CAYMAN ISLANDS BRANCH, as a Lender

By: /s/ William O'Daly  
Name: William O'Daly  
Title: Authorized Signatory

By: /s/ Kelly Heimrich  
Name: Kelly Heimrich  
Title: Authorized Signatory

WELLS FARGO CAPITAL FINANCE, LLC, as a Lender

By: /s/ Ajay Jagsi  
Name: Ajay Jagsi  
Title: Vice President

BANK OF HAWAII, as a Lender

By: /s/ Rod Peroff  
Name: Rod Peroff  
Title: Vice President

THE BANK OF NEW YORK MELLON, as a Lender

By: /s/ Abdullah Dahman  
Name: Abdullah Dahman  
Title: Vice President

FIRST HAWAIIAN BANK, as a Lender

By: /s/ Derek Chang  
Name: Derek Chang  
Title: Vice President

[Signature Page to Fourth Amendment to MVW Second Amended and Restated Credit Agreement]

U.S. BANK NATIONAL ASSOCIATION, as a Lender

By: /s/ Steven L. Sawyer

Name: Steven L. Sawyer

Title: Senior Vice President

[Signature Page to Fourth Amendment to MVW Second Amended and Restated Credit Agreement]

**MARRIOTT VACATIONS WORLDWIDE CORPORATION**  
**SUBSIDIARIES**  
(as of February 15, 2017)

Subsidiaries organized in the United States	Jurisdiction of Organization
Dockside Market Partnership *	Florida
e-CRM Central, LLC	Delaware
Eagle Tree Construction, LLC	Florida
Hard Carbon, LLC	Nevada
Heavenly Resort Properties, LLC	Nevada
K D Kapule LLC	Hawaii
Kauai Lagoons Holdings LLC	Delaware
Kauai Lagoons LLC	Hawaii
Kauai Lagoons Vessels LLC	Hawaii
Marriott Kauai Ownership Resorts, Inc. Entity also does business under the name: • Marriott Vacation Club International	Delaware
Marriott Overseas Owners Services Corporation	Delaware
Marriott Ownership Resorts Procurement, LLC	Delaware
Marriott Ownership Resorts, Inc. Entity also does business under the names: • Deck 12 • Declan • Grande Pines Golf Club • Grand Residences by Marriott • Horizon's by Marriott Vacation Club • International Golf Club • Marriott Golf Academy • Marriott Vacation Club • Marriott Vacation Club International • Marriott Vacation Club International, Corp. • Marriott's Custom House • Marriott's Mountainside Resort	Delaware

- Marriott's Summit Watch Resort
- Marriott's Waiohai Beach Resort
- The Declan Suites
- The Declan Suites San Diego
- The Marketplace
- The Pool Patio and Grill

Marriott Resorts Hospitality Corporation

South Carolina

Entity also does business under the names:

- Horizon's by Marriott Vacation Club
- Marriott Vacation Club
- Marriott Vacation Club International
- Marriott Vacation Club International Inc.
- Marriott Vacation Club International One
- Marriott Vacation Club, New York City
- Marriott Vacation Club, South Beach
- Marriott Vacation Club Pulse, New York City
- Marriott's Custom House
- Marriott's Grand Chateau
- Marriott's Legends Edge at Bay Point
- Marriott's Oceana Palms
- Marriott's Villas at Doral
- Marriott's Willow Ridge Lodge
- Reflections
- Strand Bistro
- The Market Place
- Tidewater's Sweets and Sundries
- Top of the Strand

Marriott Resorts Sales Company, Inc.

Delaware

Entity also does business under the names:

- Marriott Resorts Realty, Inc.
- Marriott Vacation Club International Ltd.

Marriott Resorts Title Company, Inc.

Florida

Entity also does business under the names:

- Marriott Resorts Title, Inc.

Subsidiaries organized in the United States	Jurisdiction of Organization
Marriott Resorts, Travel Company, Inc. Entity also does business under the names: <ul style="list-style-type: none"> <li>• Marriott Vacation Club International</li> <li>• Marriott Vacation Club International Two</li> <li>• MVC Exchange Company</li> </ul>	Delaware
Marriott Vacation Properties of Florida, Inc.	Delaware
Marriott's Desert Springs Development Corporation	Delaware
MH Kapalua Venture, LLC	Delaware
MORI Golf (Kauai), LLC Entity also does business under the names: <ul style="list-style-type: none"> <li>• Kauai Lagoons</li> <li>• The Kauai Lagoons Golf and Racquet Club</li> <li>• The Kauai Lagoons Golf Course</li> <li>• The Kiele Golf Course</li> </ul>	Delaware
MORI Member (Kauai), LLC	Delaware
MORI Residences, Inc.	Delaware
MORI SPC Corp.	Delaware
MORI SPC II, Inc.	Delaware
MORI SPC III Corp.	Delaware
MORI SPC Series Corp.	Delaware
MORI SPC V Corp.	Delaware
MORI Waikoloa Holding Company, LLC	Delaware
MTSC, INC.	Delaware
MVCO Series LLC	Delaware
MVW International Finance Company LLC	Delaware
MVW of Hawaii, Inc. Entity also does business under the names: <ul style="list-style-type: none"> <li>• Marketplace Express</li> <li>• Marriott's Ko Olina Beach Club</li> </ul>	Delaware



- Marriott’s Maui Ocean Club
- Marriott’s Waiohai Beach Club
- The Marketplace at Ko Olina

MVW of Nevada, Inc. Nevada  
 Entity also does business under the names:  
 • Marriott’s Grand Chateau

MVW SSC, Inc. Delaware

MVW US Holdings, Inc. Delaware

MVW US Services, LLC Delaware

R.C. Chronicle Building, L.P. Delaware

**Subsidiaries organized in the United States** **Jurisdiction of Organization**

RBF, LLC Delaware  
 Entity also does business under the names:  
 • RBF-Jupiter, LLC  
 • The Ritz-Carlton Golf Club & Spa, Jupiter

RCC (GP) Holdings LLC Delaware

RCC (LP) Holdings L.P. Delaware

RCDC 942, L.L.C. Delaware  
 Entity also does business under the names:  
 • RCDC 942 Market Street, LLC

RCDC Chronicle LLC Delaware

The Cobalt Travel Company, LLC Delaware

The Lion & Crown Travel Co., LLC Delaware

The Ritz-Carlton Development Company, Inc. Delaware  
 Entity also does business under the names:  
 • The Ritz-Carlton Destination Club

The Ritz-Carlton Management Company, L.L.C. Delaware

The Ritz-Carlton Sales Company, Inc. Delaware

The Ritz-Carlton Title Company, Inc. Delaware

Subsidiaries organized outside the United States	<u>Jurisdiction of Organization</u>
AP (Macau) Pte Limited	Macau
AP Nusa Dua Bali Hong Kong Holding Limited	Hong Kong
Aruba Finance Holdings B.V.	Netherlands
Asia Pacific Bali Hong Kong Holding Limited	Hong Kong
Asia Pacific HK Holding Limited	Hong Kong
Bali Hong Kong Holding Limited	Hong Kong
Club Holidays Australia Limited	Australia
Club Resorts No. 1 Australia Pty Ltd	Australia
Costa Del Sol Development Company N.V. Entity also does business under the names: • Aruba Surf Club Development and Management Company	Aruba
Fortyseven Park Street Limited	United Kingdom
Hat 64	Cayman Islands
Indah HK Holding Limited	Hong Kong
Maikhao Land Owning Limited	Thailand
Marriott Ownership Resorts (Bahamas) Limited	Bahamas
Marriott Ownership Resorts (St. Thomas), Inc.	Virgin Islands - US
Marriott Resorts Hospitality (Bahamas) Limited	Bahamas
Marriott Resorts Hospitality of Aruba N.V.	Aruba
Marriott Vacation Club International of Aruba N.V.	Aruba
Marriott Vacation Club International of Japan, Inc.	Japan
Marriott Vacation Club Timesharing GmbH	Austria
MGRC Management Limited	United Kingdom
MVCI AP Macau Marketing Pte, Limited	Macau



Subsidiaries organized outside the United States	<u>Jurisdiction of Organization</u>
MVCI Asia Pacific Finance Pte. Limited	Hong Kong
MVCI Asia Pacific Pte. Ltd.	Singapore
MVCI Australia Pty Ltd.	Australia
MVCI Curacao N.V.	Curacao
MVCI Egypt B.V.	Netherlands
MVCI Europe Limited	United Kingdom
MVCI Finance C.V.	Aruba
MVCI France SAS	France
MVCI Holdings B.V.	Netherlands
MVCI Holidays France SAS	France
MVCI Holidays, S.L.	Spain
MVCI Ireland Limited	Ireland
MVCI Management, S.L.	Spain
MVCI Playa Andaluza Holidays, S.L.	Spain
MVCI Puerto Rico, Inc. Entity also does business under the names: • Marriott Vacation Club International	Puerto Rico
MVCI Services DAC	Ireland
MVCI St. Kitts Company Limited	Saint Kitts & Nieves
MVCI (Thailand) Limited	Thailand
MVW International Holding Company S.à r.l.	Luxembourg
MVW International Switzerland Holding GmbH	Switzerland
Promociones Marriott, S.A. de C.V.	Mexico

PT. Indonesia Bali Resort	Indonesia
PT. Nusa Dua Bali Resort	Indonesia
R.M. Mexicana S.A. de C.V.	Mexico
RC Abaco Holding Company Ltd.	Virgin Islands -BR
RC Management Company Bahamas Limited	Bahamas
RC St. Thomas, LLC	Virgin Islands - US
Teman HK Holding Limited	Hong Kong
The Abaco Club RC, Ltd.	Bahamas
The Ritz-Carlton Club, St. Thomas, Inc.	Virgin Islands - US

\* Marriott Vacations Worldwide Corporation owns less than 100%.

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

- 1) Registration Statement (Form S-8 No. 333-177798) pertaining to the Marriott Vacations Worldwide Corporation Stock and Cash Incentive Plan,
- 2) Registration Statement (Form S-8 No. 333-205808) pertaining to the Marriott Vacations Worldwide Corporation Employee Stock Purchase Plan, and
- 3) Registration Statement (Form S-8 No. 333-211037) pertaining to the Marriott Vacations Worldwide Corporation Deferred Compensation Plan;

of our reports dated February 23, 2017, with respect to the consolidated financial statements of Marriott Vacations Worldwide Corporation and the effectiveness of internal control over financial reporting of Marriott Vacations Worldwide Corporation included in this Annual Report (Form 10-K) of Marriott Vacations Worldwide Corporation for the fiscal year ended December 30, 2016.

/s/ Ernst & Young LLP  
Certified Public Accountants

Orlando, Florida  
February 23, 2017

**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 Annual Report on Form 10-K 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: February 23, 2017

/s/ Stephen P. Weisz

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Stephen P. Weisz

President and Chief Executive Officer

(Principal Executive Officer)

**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 Annual Report on Form 10-K 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: February 23, 2017

/s/ John E. Geller, Jr.

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John E. Geller, Jr.

Executive Vice President and Chief Financial Officer

(Principal Financial Officer)



**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 Annual Report on Form 10-K of the Company for the period ended December 30, 2016 (the “Annual 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 Annual Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

February 23, 2017

/s/ Stephen P. Weisz

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Stephen P. Weisz

President and Chief Executive Officer

(Principal Executive Officer)

**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 Annual Report on Form 10-K of the Company for the period ended December 30, 2016 (the “Annual 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 Annual Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

February 23, 2017

/s/ John E. Geller, Jr.

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John E. Geller, Jr.

Executive Vice President and Chief Financial Officer

(Principal Financial Officer)