MARRIOTT VACATIONS WORLDWIDE Corp
Form 10-Q
October 13, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 9, 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 number 001-35219

Marriott Vacations Worldwide Corporation
(Exact name of registrant as specified in its charter)

Delaware	45-2598330
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
6649 Westwood Blvd. Orlando, FL	32821
(Address of principal executive offices)	(Zip Code)

(407) 206-6000
(Registrant’s telephone number, including area code)
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

The number of shares outstanding of the issuer’s common stock, par value $0.01 per share, as of October 7, 2016 was 26,997,282.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements
MARRIOTT VACATIONS WORLDWIDE CORPORATION
INTERIM CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share amounts)
(Unaudited)

	Twelve Weeks Ended		Thirty-Six Weeks Ended	
	September 9, 2016	September 11, 2015	September 9, 2016	September 11, 2015
REVENUES				
Sale of vacation ownership products	$131,012	$136,802	$415,831	$476,078
Resort management and other services	75,539	73,828	226,098	212,308
Financing	29,066	28,294	86,944	85,640
Rental	73,776	76,039	229,133	224,880
Cost reimbursements	97,598	92,173	303,973	285,937
TOTAL REVENUES	406,991	407,136	1,261,979	1,284,843
EXPENSES				
Cost of vacation ownership products	34,779	40,776	104,149	150,857
Marketing and sales	79,017	71,628	236,348	228,760
Resort management and other services	45,437	47,409	140,545	135,298
Financing	4,855	5,488	14,348	16,478
Rental	60,970	62,567	191,658	184,560
General and administrative	21,619	23,214	71,504	68,883
Litigation settlement	—	—	(303)	(236)
Organizational and separation related	—	439	—	732
Consumer financing interest	5,361	5,289	15,840	16,558
Royalty fee	14,624	14,000	42,007	40,431
Cost reimbursements	97,598	92,173	303,973	285,937
TOTAL EXPENSES	364,260	362,983	1,120,069	1,128,258
Gains (losses) and other income (expense)	454	(20)	11,129	9,492
Interest expense	(2,262)	(2,839)	(6,331)	(8,822)
Other	(75)	(5,131)	(4,528)	(6,305)
INCOME BEFORE INCOME TAXES	40,848	36,163	142,180	150,950
Provision for income taxes	(14,041)	(14,608)	(54,656)	(61,300)
NET INCOME	$26,807	$21,555	$87,524	$89,650
Basic earnings per share	$0.99	$0.69	$3.10	$2.81
Shares used in computing basic earnings per share	27,152	31,455	28,207	31,870
Diluted earnings per share	$0.97	$0.67	$3.05	$2.75
Shares used in computing diluted earnings per share	27,680	32,128	28,718	32,550
Dividends declared per share of common stock	$0.30	$0.25	$0.90	$0.75

See Notes to Interim Consolidated Financial Statements

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

	Twelve Weeks Ended		Thirty-Six Weeks Ended	
	September 9, 2016	September 11, 2015	September 9, 2016	September 11, 2015
Net income	$26,807	$21,555	$87,524	$89,650
Other comprehensive (loss) income, net of tax:				
Foreign currency translation adjustments	(664)	(1,392)	1,089	(3,749)
Derivative instrument adjustment	33	(59)	(366)	—
Total other comprehensive (loss) income, net of tax	(631)	(1,451)	723	(3,749)
COMPREHENSIVE INCOME	$26,176	$20,104	$88,247	$85,901

See Notes to the Interim Consolidated Financial Statements

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

	(Unaudited) September 9, 2016	January 1, 2016
ASSETS		
Cash and cash equivalents	$174,764	$177,061
Restricted cash (including $88,559 and $26,884 from VIEs, respectively)	117,839	71,451
Accounts and contracts receivable, net (including $4,687 and $4,893 from VIEs, respectively)	134,706	131,850
Vacation ownership notes receivable, net (including $730,076 and $669,179 from VIEs, respectively)	927,348	920,631
Inventory	714,404	669,243
Property and equipment	214,445	288,803
Other	102,664	140,679
Total Assets	$2,386,170	$2,399,718
LIABILITIES AND EQUITY		
Accounts payable	$79,024	$139,120
Advance deposits	86,130	69,064
Accrued liabilities (including $1,361 and $669 from VIEs, respectively)	144,475	164,791
Deferred revenue	47,000	35,276
Payroll and benefits liability	81,720	104,331
Liability for Marriott Rewards customer loyalty program	—	35
Deferred compensation liability	59,877	51,031
Mandatorily redeemable preferred stock of consolidated subsidiary, net	39,108	38,989
Debt, net (including $806,716 and $684,604 from VIEs, respectively)	804,721	678,793
Other	43,106	32,945
Deferred taxes	132,735	109,076
Total Liabilities	1,517,896	1,423,451
Contingencies and Commitments (Note 8)		
Preferred stock — $0.01 par value; 2,000,000 shares authorized; none issued or outstanding	—	—
Common stock — $0.01 par value; 100,000,000 shares authorized; 36,626,327 and 36,393,800 shares issued, respectively	366	364
Treasury stock — at cost; 9,634,735 and 6,844,256 shares, respectively	(592,700)	(429,990)
Additional paid-in capital	1,142,480	1,150,731
Accumulated other comprehensive income	12,104	11,381
Retained earnings	306,024	243,781
Total Equity	868,274	976,267
Total Liabilities and Equity	$2,386,170	$2,399,718

The abbreviation VIEs above means Variable Interest Entities.
See Notes to Interim Consolidated Financial Statements

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

	Thirty-Six Weeks Ended	
	September 9, 2016	September 11, 2015
OPERATING ACTIVITIES		
Net income	$87,524	$89,650
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	14,856	13,850
Amortization of debt issuance costs	3,784	3,739
Provision for loan losses	31,817	22,753
Share-based compensation	9,995	9,633
Employee stock purchase plan	673	—
Deferred income taxes	21,823	17,261
Gain on disposal of property and equipment, net	(11,129)	(9,492)
Non-cash reversal of litigation settlement	(303)	(262)
Net change in assets and liabilities:		
Accounts and contracts receivable	(2,824)	(17,799)
Notes receivable originations	(218,190)	(189,029)
Notes receivable collections	177,451	192,852
Inventory	(6,118)	51,467
Purchase of operating properties for future conversion to inventory	—	(61,554)
Other assets	38,103	26,524
Accounts payable, advance deposits and accrued liabilities	(64,643)	(52,380)
Deferred revenue	11,592	5,742
Payroll and benefit liabilities	(20,898)	(4,959)
Liability for Marriott Rewards customer loyalty program	(37)	(15,384)
Deferred compensation liability	8,846	6,791
Other liabilities	7,138	6,236
Other, net	1,425	5,085
Net cash provided by operating activities	90,885	100,724
INVESTING ACTIVITIES		
Capital expenditures for property and equipment (excluding inventory)	(22,445)	(20,873)
Purchase of operating property to be sold	—	(47,658)
Increase in restricted cash	(46,709)	(12,616)
Dispositions, net	68,525	20,605
Net cash provided by (used in) investing activities	(629)	(60,542)
FINANCING ACTIVITIES		
Borrowings from securitization transactions	376,622	255,000
Repayment of debt related to securitization transactions	(254,510)	(186,383)
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)	(4,405)
Repurchase of common stock	(163,359)	(106,110)
Accelerated stock repurchase forward contract	(14,470)	—

Payment of dividends	(26,067)	(16,003)
Payment of withholding taxes on vesting of restricted stock units	(3,972)	(9,615)
Other	194	377
Net cash used in financing activities	(89,627)	(61,764)
Effect of changes in exchange rates on cash and cash equivalents	(2,926)	(3,243)
DECREASE IN CASH AND CASH EQUIVALENTS	(2,297)	(24,825)
CASH AND CASH EQUIVALENTS, beginning of period	177,061	346,515
CASH AND CASH EQUIVALENTS, end of period	$174,764	$321,690
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Non-cash issuance of note receivable	$—	$(500)
Non-cash impact on Additional paid-in capital for changes in Deferred tax liabilities distributed to Marriott Vacations Worldwide at Spin-Off	—	(77)
Dividends payable	(8,127)	(7,786)
Non-cash issuance of treasury stock for employee stock purchase plan	673	—
Disposition accruals not yet paid	2,931	—
Property acquired via capital lease	7,221	—
Non-cash transfer of excess inventory to Property and equipment for disposition	9,741	—

See Notes to Interim Consolidated Financial Statements

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MARRIOTT VACATIONS WORLDWIDE CORPORATION
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
Our Business
Marriott Vacations Worldwide Corporation ("Marriott Vacations Worldwide," "we" or "us," which includes our consolidated subsidiaries except where the context of the reference is to a single corporate entity) is the exclusive worldwide developer, marketer, seller and manager of vacation ownership and related products under the Marriott Vacation Club and Grand Residences by Marriott brands. In 2016, we introduced Marriott Vacation Club Pulse[SM], 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 September 9, 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.
Principles of Consolidation and Basis of Presentation
The interim consolidated financial statements presented herein and discussed below include 100 percent of the assets, liabilities, revenues, expenses and cash flows of Marriott Vacations Worldwide, all entities in which Marriott Vacations Worldwide has a controlling voting interest ("subsidiaries"), and those variable interest entities for which Marriott Vacations Worldwide is the primary beneficiary in accordance with consolidation accounting guidance. Intercompany accounts and transactions between consolidated companies have been eliminated in consolidation. The interim consolidated financial statements reflect our financial position, results of operations and cash flows as prepared in conformity with United States Generally Accepted Accounting Principles ("GAAP").
In order to make this report easier to read, we refer throughout to (i) our Interim Consolidated Financial Statements as our "Financial Statements," (ii) our Interim Consolidated Statements of Income as our "Statements of Income," (iii) our Interim Consolidated Balance Sheets as our "Balance Sheets," and (iv) our Interim Consolidated Statements of Cash Flows as our "Cash Flows." In addition, references throughout to numbered "Footnotes" refer to the numbered Notes in these Notes to Interim Consolidated Financial Statements, unless otherwise noted.
Unless otherwise specified, each reference to a particular quarter in these Financial Statements means the twelve weeks ended on the date shown in the following table, rather than the corresponding calendar quarter:

Fiscal Year	Quarter-End Date
2016 Third Quarter	September 9, 2016
2016 Second Quarter	June 17, 2016
2016 First Quarter	March 25, 2016
2015 Third Quarter	September 11, 2015
2015 Second Quarter	June 19, 2015
2015 First Quarter	March 27, 2015

In our opinion, our Financial Statements reflect all normal and recurring adjustments necessary to present fairly our financial position and the results of our operations and cash flows for the periods presented. Interim results may not be indicative of fiscal year performance because of, among other reasons, seasonal and short-term variations.
These Financial Statements have not been audited. Amounts as of January 1, 2016 included in these Financial Statements have been derived from the audited consolidated financial statements as of that date. We have condensed or omitted certain information and footnote disclosures normally included in financial statements presented in accordance with GAAP. Although we believe our footnote disclosures are adequate to make the information presented not misleading, you should read

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these Financial Statements in conjunction with the consolidated financial statements and notes to those consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended January 1, 2016.

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

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

New Accounting Standards

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

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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. 2016-13 – "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.

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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. We are evaluating the impact that ASU 2016-02, including the method and timing of implementation, 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. Although we do not expect the adoption of ASU 2016-01 to have a material impact on our financial statements, we do expect a reduction in our disclosures related to financial instruments.
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 ASU will have on our financial statements and disclosures.
2. INCOME TAXES
We file income tax returns with U.S. federal and state and non-U.S. jurisdictions and are subject to audits in these jurisdictions. Although we do not anticipate that a significant impact to our unrecognized tax benefit balance will occur during the next fiscal year, the amount of our liability for unrecognized tax benefits could change as a result of audits in these jurisdictions. Our total unrecognized tax benefit balance that, if recognized, would impact our effective tax rate, was \$1.7 million and \$2.4 million at September 9, 2016 and January 1, 2016, respectively.

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3. VACATION OWNERSHIP NOTES RECEIVABLE

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

($ in thousands)	September 9, 2016	January 1, 2016
Vacation ownership notes receivable — securitized	$ 730,076	$ 669,179
Vacation ownership notes receivable — non-securitized		
Eligible for securitization[1] [2]	58,376	104,671
Not eligible for securitization[1]	138,896	146,781
Subtotal	197,272	251,452
Total vacation ownership notes receivable	$ 927,348	$ 920,631

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

(2) Subsequent to the end of the third quarter of 2016, $51.8 million of these vacation ownership notes receivable were purchased by the MVW Owner Trust 2016-1 (the "2016-1 Trust") in accordance with the terms of the securitization transaction completed in the third quarter of 2016. Refer to Footnote No. 9, "Debt," for discussion of the terms of this securitization transaction and the purchase of additional vacation ownership notes receivable by the 2016-1 Trust.

The following tables show future principal payments, net of reserves, as well as interest rates for our non-securitized and securitized vacation ownership notes receivable at September 9, 2016:

($ in thousands)	Non-Securitized Vacation Ownership Notes Receivable	Securitized Vacation Ownership Notes Receivable	Total
2016	$ 16,916	$ 33,392	$ 50,308
2017	37,607	98,446	136,053
2018	26,170	90,147	116,317
2019	19,367	83,664	103,031
2020	16,007	82,638	98,645
Thereafter	81,205	341,789	422,994
Balance at September 9, 2016	$ 197,272	$ 730,076	$ 927,348
Weighted average stated interest rate	11.6%	12.7%	12.5%
Range of stated interest rates	0.0% to 19.5%	4.9% to 19.5%	0.0% to 19.5%

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

($ in thousands)	Twelve Weeks Ended		Thirty-Six Weeks Ended	
	September 9, 2016	September 11, 2015	September 9, 2016	September 11, 2015
Interest income associated with vacation ownership notes receivable — securitized	$ 22,908	$ 20,005	$ 65,300	$ 59,992
Interest income associated with vacation ownership notes receivable — non-securitized	4,795	6,921	17,430	21,428
Total interest income associated with vacation ownership notes receivable	$ 27,703	$ 26,926	$ 82,730	$ 81,420

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

The following table summarizes the activity related to our vacation ownership notes receivable reserve for the thirty-six weeks ended September 9, 2016:

($ in thousands)	Non-Securitized Vacation Ownership Notes Receivable	Securitized Vacation Ownership Notes Receivable	Total
Balance at January 1, 2016	$ 55,584	$ 47,655	$ 103,239
Provision for loan losses	17,564	14,293	31,857
Securitizations	(24,664)	24,664	—
Clean-up of Warehouse Credit Facility[1]	10,496	(10,496)	—
Write-offs	(29,253)	—	(29,253)
Defaulted vacation ownership notes receivable repurchase activity[2]	22,686	(22,686)	—
Balance at September 9, 2016	$ 52,413	$ 53,430	$ 105,843

(1) Refers to our voluntary repurchase of previously securitized non-defaulted vacation ownership notes receivable from our non-recourse warehouse credit facility (the “Warehouse Credit Facility”).

(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.

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 7.02 percent and 6.92 percent as of September 9, 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 $4.8 million and $4.7 million as of September 9, 2016 and January 1, 2016, respectively.

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

($ in thousands)	Non-Securitized Vacation Ownership Notes Receivable	Securitized Vacation Ownership Notes Receivable	Total
Investment in vacation ownership notes receivable on non-accrual status at September 9, 2016	$ 45,828	$ 5,875	$51,703
Investment in vacation ownership notes receivable on non-accrual status at January 1, 2016	$ 46,024	$ 8,717	$54,741
Average investment in vacation ownership notes receivable on non-accrual status during the twelve weeks ended September 9, 2016	$ 47,038	$ 8,278	$55,316
Average investment in vacation ownership notes receivable on non-accrual status during the twelve weeks ended September 11, 2015	$ 53,778	$ 6,879	$60,657
Average investment in vacation ownership notes receivable on non-accrual status during the thirty-six weeks ended September 9, 2016	$ 45,926	$ 7,296	$53,222
Average investment in vacation ownership notes receivable on non-accrual status during the thirty-six weeks ended September 11, 2015	$ 56,397	$ 6,570	$62,967

The following table shows the aging of the recorded investment in principal, before reserves, in vacation ownership notes receivable as of September 9, 2016:

($ in thousands)	Non-Securitized Vacation Ownership Notes Receivable	Securitized Vacation Ownership Notes Receivable	Total
31 – 90 days past due	$ 9,060	$ 14,807	$23,867
91 – 150 days past due	4,122	5,297	9,419
Greater than 150 days past due	41,706	578	42,284
Total past due	54,888	20,682	75,570
Current	194,797	762,824	957,621
Total vacation ownership notes receivable	$ 249,685	$ 783,506	$1,033,191

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

($ in thousands)	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

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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.

($ in thousands)	At September 9, 2016 Carrying Amount	At September 9, 2016 Fair Value[1]	At January 1, 2016 Carrying Amount	At January 1, 2016 Fair Value[1]
Vacation ownership notes receivable				
Securitized	$730,076	$857,688	$669,179	$803,533
Non-securitized	197,272	206,868	251,452	274,799
Total financial assets	$927,348	$1,064,556	$920,631	$1,078,332
Non-recourse debt associated with vacation ownership notes receivable securitizations, gross	$(806,716)	$(747,872)	$(684,604)	$(677,595)
Other debt, gross	(1,213)	(1,213)	(3,496)	(3,496)
Mandatorily redeemable preferred stock of consolidated subsidiary, gross	(40,000)	(40,189)	(40,000)	(42,258)
Other liabilities	(2,246)	(2,246)	(4,515)	(4,515)
Total financial liabilities	$(850,175)	$(791,520)	$(732,615)	$(727,864)

[1] Fair value of financial instruments has been determined using Level 3 inputs.

Vacation Ownership Notes Receivable

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

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

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

($ in thousands)	At September 9, 2016		At January 1, 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Vacation ownership notes receivable				
Eligible for securitization[(1)]	$58,376	$67,972	$104,671	$128,018
Not eligible for securitization	138,896	138,896	146,781	146,781
Total non-securitized	$197,272	$206,868	$251,452	$274,799

(1) Subsequent to the end of the third quarter of 2016, $51.8 million of these vacation ownership notes receivable were purchased by the 2016-1 Trust in accordance with the terms of the securitization transaction completed in the third quarter of 2016. Refer to Footnote No. 9, "Debt," for discussion of the terms of this securitization transaction and the purchase of additional vacation ownership notes receivable by the 2016-1 Trust.

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

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

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, Gross

We estimate the fair value of the mandatorily redeemable preferred stock of our consolidated subsidiary using a discounted cash flow model. We believe this is comparable to the model that an independent third party would use in the current market. Our model includes an assessment of our subsidiary's credit risk and the instrument's contractual dividend rate. Additionally, the estimated fair value at September 9, 2016 assumes a redemption date of October 26, 2016. Refer to Footnote 10, "Mandatorily Redeemable Preferred Stock of Consolidated Subsidiary," for discussion of the planned redemption of the mandatorily redeemable preferred stock of our consolidated subsidiary.

5. ACQUISITIONS AND DISPOSITIONS

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 Marriott Vacation Club Destinations™ ("MVCD") program.

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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 intend to convert 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 thirty-six weeks ended September 11, 2015. The remaining $7.7 million was included as an investing activity in the Capital expenditures for property and equipment line on our Cash Flows for the thirty-six weeks ended September 11, 2015, as it was allocated to assets to be used prior to conversion of the property into vacation ownership interests, as well as ancillary and sales center assets to be retained after the conversion.

Dispositions

Surfers Paradise, Australia

During the third quarter of 2015, we purchased an operating property located in Surfers Paradise, Australia. We converted a portion of this hotel into vacation ownership inventory, a portion of which has been contributed to our new Marriott Vacation Club Destinations, Australia program. During the second quarter of 2016, we disposed of the portion of this operating property that we did not intend to convert to 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 the hotel through 2021 up to a specified maximum of AUD $2.9 million ($2.1 million), which has been recorded as a deferred gain in the Other line within liabilities on the Balance Sheet. We recognized a loss, inclusive of the deferred gain, of AUD $1.4 million ($1.0 million) in connection with the sale, which was recorded in the Gains and other income line on the Statements of Income for the thirty-six weeks ended September 9, 2016.

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 thirty-six weeks ended September 9, 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.

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As of September 9, 2016, our Balance Sheet reflected $9.0 million of Other liabilities that relate to the deferral of gain recognition for this transaction, which will reduce our basis in the asset if we repurchase the property. In addition, the note receivable of $0.5 million and other receivables of $0.2 million are included in the Accounts and contracts receivable line on the Balance Sheet as of September 9, 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 thirty-six weeks ended September 11, 2015. We believe that our maximum exposure to loss as a result of our involvement with this variable interest entity is our interest in the note receivable and the other receivables discussed above as of September 9, 2016.

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.

(in thousands, except per share amounts)	Twelve Weeks Ended		Thirty-Six Weeks Ended	
	September 9, 2016[1]	September 11, 2015[2]	September 9, 2016[1]	September 11, 2015[2]
Computation of Basic Earnings Per Share				
Net income	$26,807	$ 21,555	$87,524	$ 89,650
Weighted average shares outstanding	27,152	31,455	28,207	31,870
Basic earnings per share	$0.99	$ 0.69	$3.10	$ 2.81
Computation of Diluted Earnings Per Share				
Net income	$26,807	$ 21,555	$87,524	$ 89,650
Weighted average shares outstanding	27,152	31,455	28,207	31,870
Effect of dilutive shares outstanding				
Employee stock options and SARs	356	443	366	458
Restricted stock units	172	230	145	222
Shares for diluted earnings per share	27,680	32,128	28,718	32,550
Diluted earnings per share	$0.97	$ 0.67	$3.05	$ 2.75

(1) The computations of diluted earnings per share exclude approximately 254,000 shares of common stock, the maximum number of shares issuable as of September 9, 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 167,000 shares of common stock, the maximum number of shares issuable as of September 11, 2015 upon the vesting of certain performance-based awards, because the performance conditions required for the shares subject to such awards to vest were not achieved by the end of the reporting period.

In accordance with the applicable accounting guidance for calculating earnings per share, for the twelve and thirty-six week period ending September 9, 2016, we excluded from our calculation of diluted earnings per share 62,018 shares underlying stock appreciation rights (“SARs”) that may be settled in shares of common stock, with an exercise price of $77.42, because this exercise price was greater than the average market price for the applicable period. For the twelve and thirty-six week period ending September 11, 2015, we have not excluded from our calculation of diluted earnings per share any shares underlying SARs that may be settled in shares of common stock, as no exercise prices were greater than the average market prices for the applicable period.

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7. INVENTORY

The following table shows the composition of our inventory balances:

($ in thousands)	At September 9, 2016	At January 1, 2016
Finished goods[(1)]	$ 319,661	$ 332,888
Work-in-progress	66,545	—
Land and infrastructure[(2)]	323,659	331,042
Real estate inventory	709,865	663,930
Operating supplies and retail inventory	4,539	5,313
	$ 714,404	$ 669,243

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(1) Represents completed inventory that is either registered for sale as vacation ownership interests, or unregistered and available for sale in its current form.

(2) Includes $67.6 million of inventory related to estimated future foreclosures at September 9, 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. For the thirty-six weeks ended September 9, 2016 and September 11, 2015, product cost true-ups relating to vacation ownership products increased carrying values of inventory by $12.2 million and $3.6 million, respectively.

During the thirty-six weeks ended September 9, 2016, $45.7 million was transferred from Property and equipment to Inventory as we commenced the conversion of portions of the operating properties in Surfers Paradise, Australia and San Diego, California to vacation ownership inventory. The acquisition of these properties was previously included within Operating Activities on our Cash Flows and presented as Purchase of operating properties for future conversion to inventory within Operating Activities.

8. CONTINGENCIES AND COMMITMENTS

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 September 9, 2016, the maximum potential amount of future fundings for financing guarantees where we are the primary obligor was $6.6 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 $0.2 million.

Commitments and Letters of Credit

In addition to the guarantees we describe in the preceding paragraphs, as of September 9, 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 $27.7 million, of which we expect $5.3 million, $10.3 million, $6.7 million, $1.7 million, $1.5 million and $2.2 million will be paid in 2016, 2017, 2018, 2019, 2020 and thereafter, respectively.
- We have commitments of $1.4 million to subsidize vacation ownership associations, which we expect to pay in 2016.

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- We have a commitment to purchase an operating property located in New York, New York for $158.5 million. 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. In connection with this commitment, we entered into a capital lease arrangement for ancillary and operations space. See Footnote No. 13, "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 with respect to these units, when specific construction milestones are completed, as follows: $2.3 million in 2016 and $19.0 million in 2017. 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: $3.9 million in 2016, $3.9 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.
- We have new commitments under operating leases that expire at various dates through 2027. Our aggregate minimum lease payments under these contracts were $22.9 million, of which we expect $0.1 million, $1.6 million, $1.9 million, $2.1 million, $2.4 million and $14.8 million will be paid in 2016, 2017, 2018, 2019, 2020 and thereafter, respectively.

Surety bonds issued as of September 9, 2016 totaled $47.2 million, the majority of which were requested by federal, state or local governments in connection with our operations.

Additionally, as of September 9, 2016, we had $3.3 million of letters of credit outstanding under our $200 million revolving credit facility (the "Revolving Corporate Credit Facility").

Loss Contingencies

In 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.

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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 and certain of our subsidiaries. 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 response to the amended complaint is due on October 17, 2016. 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 20, 2016, we and certain of our subsidiaries were named as defendants in an action filed in the United States 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. 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 $1.6 million, of which $1.4 million is included within liabilities on our Balance Sheet at September 9, 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.

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9. DEBT

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

($ in thousands)	At September 9, 2016	At January 1, 2016
Vacation ownership notes receivable securitizations, gross[1]	$ 806,716	$ 684,604
Unamortized debt issuance costs	(10,380)	(9,043)
	796,336	675,561
Other debt, gross	1,213	3,496
Unamortized debt issuance costs	(49)	(264)
	1,164	3,232
Capital leases	7,221	—
	$ 804,721	$ 678,793

(1) Interest rates as of September 9, 2016 range from 2.2% to 6.3% with a weighted average interest rate of 2.5%.

See Footnote No. 13, "Variable Interest Entities," for a discussion of the collateral for the non-recourse debt associated with the securitized vacation ownership notes receivable and the Warehouse Credit Facility. All of our other debt was, and to the extent currently outstanding is, recourse to us but unsecured. The Warehouse Credit Facility currently terminates on 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. As of September 9, 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.

Although no cash borrowings were outstanding as of September 9, 2016 under our Revolving Corporate Credit Facility, any amounts borrowed under that facility, as well as obligations with respect to letters of credit issued pursuant to that facility, are secured by a perfected first priority security interest in substantially all of the assets of the borrower under, and guarantors of, that facility (which include Marriott Vacations Worldwide and each of our direct and indirect, existing and future, domestic subsidiaries, excluding certain bankruptcy remote special purpose subsidiaries), in each case including inventory, subject to certain exceptions.

On August 11, 2016, we completed the securitization of a pool of $259.1 million of vacation ownership notes receivable, generating $250.0 million in gross cash proceeds. Approximately $207.3 million of the vacation ownership notes receivable were purchased on August 11, 2016 by the 2016-1 Trust, and we received $200.0 million of the proceeds. When the remaining $51.8 million of vacation ownership notes receivable were purchased by the 2016-1 Trust subsequent to the end of the third quarter, the remaining $50.0 million of the proceeds, which had been held in restricted cash, were released. In connection with the securitization, investors purchased in a private placement $250.0 million in vacation ownership loan backed notes from 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.

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

($ in thousands)	Vacation Ownership Notes Receivable Securitizations[1]	Other Debt	Capital Leases	Total
Debt Principal Payments Year				
2016	$ 35,047	$10	$—	35,057
2017	106,804	611	7,221	114,636
2018	95,972	12	—	95,984
2019	88,446	13	—	88,459
2020	87,223	14	—	87,237
Thereafter	393,224	553	—	393,777
Balance at September 9, 2016	$ 806,716	$1,213	$7,221	$815,150

(1) The debt associated with our vacation ownership notes receivable securitizations is non-recourse to us and represents estimated principal payments assuming purchase of the remaining vacation ownership notes receivable by the 2016-1 Trust in the fourth quarter of 2016 as discussed above.

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

We paid cash for interest, net of amounts capitalized, of $14.6 million and $18.5 million in the thirty-six weeks ended September 9, 2016 and September 11, 2015, respectively.

Debt Associated with Vacation Ownership Notes Receivable Securitizations

Each of the transactions in which we have securitized vacation ownership notes receivable contains various triggers relating to the performance of the underlying vacation ownership notes receivable. If a pool of securitized vacation ownership notes receivable fails to perform within the pool’s established parameters (default or delinquency thresholds vary by transaction), transaction provisions effectively redirect the monthly excess spread we would otherwise receive from that pool (attributable to the interests we retained) to accelerate the principal payments to investors (taking into account the subordination of the different tranches to the extent there are multiple tranches) until the performance trigger is cured. During the thirty-six weeks ended September 9, 2016 and as of September 9, 2016, no securitized vacation ownership notes receivable pools were out of compliance with their respective established parameters. As of September 9, 2016, we had 7 securitized vacation ownership notes receivable pools outstanding.

Amendment of the Revolving Corporate Credit Facility

During the second quarter of 2016, we entered into an amendment to the Revolving Corporate Credit Facility. Among other things, the amendment modifies certain of the financial covenants contained in the Revolving Corporate Credit Facility in a manner more favorable to us. The minimum consolidated tangible net worth covenant has been amended to require us to maintain a minimum consolidated tangible net worth (as defined in the Revolving Corporate Credit Facility) equal to the sum of (1) 70 percent, rather than 75 percent, of our relevant baseline net worth and (2) 70 percent, rather than 80 percent, of increases in such net worth resulting from certain equity offerings. In addition, we are required to maintain a ratio of our borrowing base amount (as defined in the Revolving Corporate Credit Facility) to the sum of (1) total extensions of credit under the Revolving Corporate Credit Facility and (2) the excess (if any) of all unrealized losses over all unrealized profits of certain swap agreements, of at least 1 to 1, rather than 1:25 to 1. The amendment also adds certain technical provisions with respect to the impact of European Union bail-in banking legislation on liabilities of certain non-U.S. financial institutions. The other terms of the Revolving Corporate Credit Facility are substantially similar to those in effect prior to the execution of the amendment.

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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. 8, "Contingencies and Commitments," for additional information on this transaction.

10. MANDATORILY REDEEMABLE PREFERRED STOCK OF CONSOLIDATED SUBSIDIARY

Until October 26, 2016, the $40.0 million of mandatorily redeemable Series A (non-voting) preferred stock of our subsidiary MVW US Holdings, Inc. ("MVW US Holdings") held by third-party investors will pay an annual cash dividend equal to the five-year U.S. Treasury Rate as of October 19, 2011, plus a spread of 10.958 percent, for a total annual cash dividend rate of 12 percent. After October 26, 2016, if we have not elected to redeem the preferred stock, the annual cash dividend rate will be reset to the five-year U.S. Treasury Rate in effect on such date plus the same 10.958 percent spread. The Series A preferred stock is mandatorily redeemable by MVW US Holdings upon the tenth anniversary of its October 2011 date of issuance but can be redeemed at our option after five years at par. The Series A preferred stock has an aggregate liquidation preference of $40.0 million plus any accrued and unpaid dividends and an additional premium if liquidation occurs during the first five years after the issuance of the preferred stock. As of September 9, 2016, 1,000 shares of Series A preferred stock were authorized, of which 40 shares were issued and outstanding. The dividends are recorded as a component of Interest expense as the Series A preferred stock is treated as a liability for accounting purposes. Subsequent to the end of the third quarter of 2016, we notified the holders of the mandatorily redeemable preferred stock of our election to exercise our option to redeem the preferred stock on October 26, 2016 at par plus any accrued and unpaid dividends. We intend to use cash on hand to pay the redemption price.

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

($ in thousands)	At September 9, 2016	At January 1, 2016
Mandatorily redeemable preferred stock of consolidated subsidiary, gross	$ 40,000	$ 40,000
Unamortized debt issuance costs	(892)	(1,011)
	$ 39,108	$ 38,989

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11. SHAREHOLDERS' EQUITY

Marriott Vacations Worldwide has 100,000,000 authorized shares of common stock, par value of $0.01 per share. At September 9, 2016, there were 36,626,327 shares of Marriott Vacations Worldwide common stock issued, of which 26,991,592 shares were outstanding and 9,634,735 shares 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 shares were outstanding and 6,844,256 shares were held as treasury stock. Marriott Vacations Worldwide has 2,000,000 authorized shares of preferred stock, par value of $0.01 per share, none of which were issued or outstanding as of September 9, 2016 or January 1, 2016.

The following table details changes in shareholders' equity during the thirty-six weeks ended September 9, 2016:

($ in thousands)	Common Stock	Treasury Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total Equity
Balance at January 1, 2016	$ 364	$ (429,990)	$ 1,150,731	$ 11,381	$ 243,781	$ 976,267
Net income	—	—	—	—	87,524	87,524
Foreign currency translation adjustments	—	—	—	1,089	—	1,089
Derivative instrument adjustment	—	—	—	(366)	—	(366)
Amounts related to share-based compensation	2	—	6,219	—	—	6,221
Repurchase of common stock	—	(163,359)	—	—	—	(163,359)
Accelerated stock repurchase forward contract	—	—	(14,470)	—	—	(14,470)
Dividends	—	—	—	—	(25,305)	(25,305)
Employee stock plan issuance	—	649	—	—	24	673
Balance at September 9, 2016	$ 366	$ (592,700)	$ 1,142,480	$ 12,104	$ 306,024	$ 868,274

Share Repurchase Program

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

($ in thousands, except per share amounts)	Number of Shares Repurchased	Cost of Shares Repurchased	Average Price Paid per Share
As of January 1, 2016	6,854,083	$ 430,609	$ 62.83
For the thirty-six weeks ended September 9, 2016	2,801,035	163,359	58.32
As of September 9, 2016	9,655,118	$ 593,968	$ 61.52

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 through March 24, 2017. 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.

During the second quarter of 2016, pursuant to our existing share repurchase program, we entered into an accelerated share repurchase agreement ("ASR") with a financial institution to repurchase shares of our common stock. Under the agreement, we paid $85.0 million to the financial institution and received an initial delivery of 1,168,917 shares of our common stock on June 16, 2016, which are included in treasury stock. We accounted for the ASR as two separate transactions: (i) a purchase of treasury stock and (ii) a forward contract indexed to our common stock. We recorded

$70.5 million as treasury stock and $14.5 million, the implied value of the forward contract, in Additional paid-in capital on the Balance Sheet as of

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September 9, 2016. The total number of shares that we ultimately receive under the ASR is determined based on the average daily volume-weighted average share price of our common stock over the duration of the ASR, less an agreed discount, and may be subject to adjustments for certain events. A maximum of 834,940 additional shares could be delivered to us under the ASR. As the remainder of the shares are delivered to us, we will reclassify the implied value of the forward contract from additional paid-in capital to treasury stock. Upon completion of the program subsequent to the end of the third quarter of 2016, we received an additional delivery of 17,511 shares, for a total of 1,186,428 shares of common stock.

As of September 9, 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 thirty-six weeks ended September 9, 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

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

12. SHARE-BASED COMPENSATION

A total of 6 million shares are authorized for issuance under the Marriott Vacations Worldwide Corporation Stock and Cash Incentive Plan (the “Stock Plan”). As of September 9, 2016, 1.5 million shares were available for grants under the Stock Plan.

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

We recorded share-based compensation expense related to award grants to our officers, directors and employees of $3.1 million and $3.0 million for the twelve weeks ended September 9, 2016 and September 11, 2015, respectively, and $10.0 million and $9.6 million for the thirty-six weeks ended September 9, 2016 and September 11, 2015, respectively. Our deferred compensation liability related to unvested awards held by our employees totaled $18.8 million and $13.3 million at September 9, 2016 and January 1, 2016, respectively.

Restricted Stock Units (“RSUs”)

We granted 168,617 RSUs, exclusive of RSUs with performance vesting conditions, to our employees and non-employee directors during the thirty-six weeks ended September 9, 2016. RSUs granted in the thirty-six weeks ended September 9, 2016 had a weighted average grant-date fair value of $58.81. RSUs issued to our employees generally vest over four years in annual installments commencing one year after the date of grant. RSUs issued to our non-employee directors vest in full on the date of grant.

During the thirty-six weeks ended September 9, 2016 and September 11, 2015, we granted RSUs with performance vesting conditions to members of management. The number of RSUs earned, if any, is determined following the end of a three-year performance period based upon our cumulative achievement over that period of specific quantitative operating financial measures. The maximum number of RSUs that may be earned under the RSUs with performance-based vesting criteria granted during the thirty-six weeks ended September 9, 2016 and September 11, 2015 was approximately 144,000 and 74,000, respectively.

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Stock Appreciation Rights

We granted 132,597 SARs to members of management during the thirty-six weeks ended September 9, 2016. These SARs had a weighted average grant-date fair value of $16.12 and a weighted average exercise price of $61.71. 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.

We use the Black-Scholes model to estimate the fair value of the SARs granted. For SARs granted under the Stock Plan in the thirty-six weeks ended September 9, 2016, the expected stock price volatility was calculated based on the historical volatility from the stock prices of a group of identified peer companies. The average expected life was calculated using the simplified method. The risk-free interest rate was calculated based on U.S. Treasury zero-coupon issues with a remaining term equal to the expected life assumed at the date of grant. The dividend yield assumption listed below is based on the expectation of future payouts.

The following table outlines the assumptions used to estimate the fair value of grants during the thirty-six weeks ended September 9, 2016:

Expected volatility	31.60%
Dividend yield	1.96%
Risk-free rate	1.41%
Expected term (in years)	6.25

13. VARIABLE INTEREST ENTITIES

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

Variable Interest Entities Related to Our Vacation Ownership Notes Receivable Securitizations

We periodically securitize, without recourse, through bankruptcy remote special purpose entities, notes receivable originated in connection with the sale of vacation ownership products. These vacation ownership notes receivable securitizations provide funding for us and transfer the economic risks and substantially all the benefits of the 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. We service the vacation ownership notes receivable. With each vacation ownership notes receivable securitization, we may retain a portion of the securities, subordinated tranches, interest-only strips, subordinated interests in accrued interest and fees on the securitized vacation ownership notes receivable or, in some cases, overcollateralization and cash reserve accounts.

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

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The following table shows consolidated assets, which are collateral for the obligations of these variable interest entities, and consolidated liabilities included on our Balance Sheet at September 9, 2016:

($ in thousands)	Vacation Ownership Notes Receivable Securitizations	Warehouse Credit Facility	Total
Consolidated Assets:			
Vacation ownership notes receivable, net of reserves	$ 730,076	$ —	$730,076
Interest receivable	4,687	—	4,687
Restricted cash[(1)]	88,559	—	88,559
Total	$ 823,322	$ —	$823,322
Consolidated Liabilities:			
Interest payable	$ 1,288	$ 73	$1,361
Debt	806,716	—	806,716
Total	$ 808,004	$ 73	$808,077

(1) Includes $50.0 million of the proceeds from the securitization transaction completed during the third quarter of 2016, which were released when the remaining vacation ownership notes receivable were purchased by the 2016-1 Trust subsequent to the end of the third quarter of 2016. Refer to Footnote No. 9, "Debt," for discussion of the terms of this securitization transaction and the purchase of additional vacation ownership notes receivable by the 2016-1 Trust.

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

The following table shows the interest income and expense recognized as a result of our involvement with these variable interest entities during the twelve weeks ended September 9, 2016:

($ in thousands)	Vacation Ownership Notes Receivable Securitizations	Warehouse Credit Facility	Total
Interest income	$ 20,980	$ 1,928	$22,908
Interest expense to investors	$ 3,912	$ 509	$4,421
Debt issuance cost amortization	$ 721	$ 219	$940
Administrative expenses	$ 74	$ 37	$111

The following table shows the interest income and expense recognized as a result of our involvement with these variable interest entities during the thirty-six weeks ended September 9, 2016:

($ in thousands)	Vacation Ownership Notes Receivable Securitizations	Warehouse Credit Facility	Total
Interest income			