

MARRIOTT VACATIONS WORLDWIDE Corp  
Form 10-K  
February 26, 2015  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-K**

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

**For the Fiscal Year Ended January 2, 2015**

**or**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File No. 001-35219**

**MARRIOTT VACATIONS WORLDWIDE CORPORATION**

**(Exact name of registrant as specified in its charter)**

**Delaware**  
**(State or other jurisdiction of**  
**incorporation or organization)**

**45-2598330**  
**(IRS Employer**  
**Identification No.)**

**6649 Westwood Blvd., Orlando, FL**  
**(Address of Principal Executive Offices)**

**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**  
**Common Stock, \$0.01 par value**

**Name of Each Exchange on Which Registered**  
**New York Stock Exchange**

**(32,141,788 shares outstanding as of February 20, 2015)**

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

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  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The aggregate market value of shares of common stock held by non-affiliates at June 20, 2014, was \$1,665,789,460.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Proxy Statement prepared for the 2015 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>
2014	January 2, 2015
2013	January 3, 2014
2012	December 28, 2012
2011	December 30, 2011
2010	December 31, 2010

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.

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, or 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

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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.

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 business is grouped into three reportable segments: North America, Europe and Asia Pacific. As of January 2, 2015, we operated 58 properties in the United States and seven other countries and territories and had approximately 415,000 owners of our vacation ownership and residential products.

Our strategic goal is to further strengthen our leadership position in the vacation ownership industry, which we are pursuing through initiatives to drive profitable contract sales growth, maximize cash flow and optimize our capital structure, focus on our owners, guests and associates, and opportunistically dispose of excess assets. 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 vacation ownership purchaser acquires either a fee simple interest in a property (or collection of properties), which gives the purchaser title to a fraction of a unit, or a right to use a property for a specific period of time. These rights may consist of an interest in a trust that owns one or more resorts, a deeded interest in a specified accommodation unit, or an undivided interest in a building or resort. Generally, a vacation ownership purchaser's fee simple interest in or right to use a property is referred to as a vacation ownership interest. By purchasing a vacation ownership interest, owners make a commitment to vacation. For many vacation ownership interest purchasers, vacation ownership is an attractive vacation alternative to traditional lodging accommodations (such as hotels, resorts and condominium rentals). By purchasing a vacation ownership interest, owners can avoid the volatility in room rates to which lodging customers are subject. Owners can also enjoy vacation ownership accommodations that are, on average, more than twice the size of traditional hotel rooms and typically have more amenities, such as kitchens, than traditional hotel rooms. Other vacation ownership purchasers find vacation ownership preferable to owning a second home because vacation ownership is more convenient, reduces maintenance and upkeep concerns and offers owners greater flexibility.

Typically, developers sell vacation ownership interests for a fixed purchase price that is paid in full at closing, or financed with a loan from the seller. 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 trustees or directors that includes owners and which may include representatives of the developer for so long as the developer owns interests in the resort. Some vacation ownership resorts are held through a trust structure in which a trustee holds title to the resort and manages the resort. 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 resorts, including management fees and expenses, taxes, insurance, and other

related costs, and of providing program services (such as reservation services). This fee typically includes a property management fee payable to the management company 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 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.



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The vacation ownership industry has grown through expansion of established vacation ownership developers as well as the entrance into this market of well-known lodging and entertainment companies, including Marriott International, Wyndham Worldwide Corporation, Starwood Hotels & Resorts Worldwide, Inc., Hilton Hotels Corporation, Hyatt Hotels Corporation and The Walt Disney Company, which have developed larger resorts as the vacation ownership resort industry has matured. The industry's growth can also be attributed to increased market acceptance of vacation ownership resorts, 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 the member can redeem in exchange for stays at the vacation ownership resorts included in the network or for other vacation options available through the program.

To enhance the appeal of their products, vacation ownership developers with multiple resorts and/or hotel affiliations typically establish systems that enable owners to use resorts across their resort portfolio and/or their affiliated hotel networks. In addition to these resort systems, developers of all sizes typically also affiliate with vacation ownership exchange service providers in order to give customers the ability to exchange their rights to use the developer's resorts into a broader network of resorts. The two leading exchange service providers are Interval International, with which we are associated, and RCI. Interval International's and RCI's networks include approximately 2,900 and approximately 4,500 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, 2013, the U.S. vacation ownership community was comprised of over 1,500 resorts, representing over 192,000 units and an estimated 8.5 million vacation ownership week equivalents. According to ARDA, sales in the U.S. market were \$7.6 billion in 2013. We believe there is considerable potential for further growth in the industry both in the U.S. and globally.

## **Our History**

During 2014, we celebrated our 30-year anniversary of providing vacation memories and 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. Marriott International completed the spin-off of its vacation ownership division on November 21, 2011 (the Spin-Off). Since the Spin-Off, we have been an independent 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 continuously 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.

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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

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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.

## **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 would allow us to add desirable new destinations to our system with new on-site sales locations. We will also continue to focus on our approximately 415,000 owners around the world. In 2014, approximately 60 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 long term goal of selling to an equal mix of new buyers and existing buyers. Our strategy includes an emphasis on new sales channels geared toward first-time buyers. We are also committed to maximizing development margin through more efficient marketing and sales spending and managing inventory costs and development activities.

### *Maximize cash flow and optimize our capital structure*

Through the use of our points-based products, we are able to more closely match inventory development with sales pace and reduce inventory levels, thereby generating continuing 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 expect our modest level of debt and the use of capital efficient ( asset light ) 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, the disposition of excess undeveloped and partially developed land and excess built luxury inventory, 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. We intend to continue to pursue growth opportunities in ways that optimize the timing of our capital investments, including working with third party partners to develop new inventory or convert previously built units to be sold to us close to when we need such inventory for sale. The asset light structures we may use include transactions in which a third party agrees to develop and deliver completed units to us which we will purchase at an agreed upon price in the future, thereby limiting our upfront capital investment.

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### *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 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.

### *Opportunistically dispose of excess assets*

We have successfully disposed of certain excess assets over the past few years and are redeploying the capital from these sales. The majority of these dispositions consisted of undeveloped land holdings. We will continue to opportunistically dispose of our limited remaining excess assets.

### *Selectively pursue compelling new business opportunities*

We are positioned to explore new business opportunities, such as the continued enhancement of our exchange activities, 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 leverages 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 that we must comply with 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.

**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. The time period for each Grand Residences by Marriott vacation ownership interest ranges between three and thirteen weeks. We also offer whole ownership residential products under this 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 maid 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

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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 offer the majority of our products through two points-based ownership programs: Marriott Vacation Club Destinations™ ( MVCD ) and Marriott Vacation Club, Asia Pacific. While the individual characteristics of each of our points-based programs differ, in each program, owners receive an annual allotment of points representing the 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 MVCD program enables our owners to utilize their points for the wide variety of innovative vacation experiences included in our Explorer Collection, such as cruises, guided tours, safaris and other unique vacation alternatives. Members of our points-based programs pay annual fees in exchange for the ability to participate in the program.

The MVCD and the Marriott Vacation Club, Asia Pacific 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 2,900 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 3,700 participating hotels or redeem their Marriott Rewards Points for airline miles or other merchandise offered through the Marriott Rewards customer loyalty program. MVCD owners hold an interest in real estate, owned in perpetuity. Our Marriott Vacation Club, Asia Pacific program offers usage for a term of approximately 50 years from the program s 2006 launch date.

### *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 the MVCD trust. 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 the MVCD program. 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.

As part of the launch of the MVCD program in mid-2010, we offered our existing Marriott Vacation Club owners who held weeks-based products in the United States and Caribbean the opportunity to participate in the MVCD program on a voluntary basis. In mid-2012, we began offering owners who held weeks-based products in Europe the opportunity to participate in the MVCD program. All existing owners, whether or not they elected to participate in the MVCD program, retained their existing rights and privileges of vacation ownership. Owners who elected to participate in the program received the ability to trade their weeks-based intervals usage for vacation club points usage each year, subject to payment of an initial enrollment fee and annual fees. As of the end of 2014, over 139,000

weeks-based owners have enrolled nearly 243,000 weeks in the MVCD 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.



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### *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 [Property 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 rental revenue from transient rentals of inventory 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. The Marriott Vacation Club products are currently marketed for sale throughout the United States and in over 30 countries around the world, targeting customers who vacation regularly with a focus on family, relaxation and recreational activities. In 2014, approximately 80 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 over 50 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 vacation ownership 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 2014, approximately 60 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 long term goal of selling to an equal mix of new buyers and existing buyers. Our strategy includes an emphasis on new sales channels geared toward first-time buyers.

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's North American reservation centers. In addition, we operate other local marketing venues in various high-traffic areas.

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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 a special package for a future stay at our resorts. These return guests are typically 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 6.5 million visits in 2014.

## **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. We also intend to further control inventory spending by continuing to place additional Ritz-Carlton branded inventory that we own into the MVCD program.

In addition to developing inventory at our existing locations, we are selectively pursuing growth opportunities in North America and Asia by targeting high-quality inventory that would allow us to add desirable new destinations to our system with new on-site sales locations. We intend to continue to pursue many of these opportunities in ways that optimize the timing of our capital investments. These asset light deals may include working with third party partners to develop new inventory or convert previously built units to be sold to us close to when we need such inventory for sale.

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.

Under our points-based business model, we are able to supply many sales offices with new inventory from a small number of resort locations, which provides us with greater efficiency in the use of our capital. As a result,

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our risk associated with construction delays is concentrated in fewer locations than it has been in the past. Additionally, selling vacation ownership interests in a system of resorts under a points-based business model increases the risk of temporary inventory depletion. We sell vacation ownership interests denominated in points from a single trust entity in each of our North America and Asia Pacific business segments. Thus, the primary source of inventory for each segment is concentrated in its corresponding trust. To avoid the risk of temporary inventory depletion, we employ a strategy of seeking to maintain a six- to nine-month surplus supply of completed inventory, much of which must be registered for sale before it can be sold. Even in the unlikely event that this surplus is not sufficient, we believe that the actual risk of temporary inventory depletion is relatively minor, as there are other mitigation strategies that could be employed to prevent such an occurrence, 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.

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 program 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.

## **Property Management Activities**

We enter into a management agreement with the property owners' association at each of our resorts or, in the case of resorts held by a trust, with the associated trust. 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 cost 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 substantially all The Ritz-Carlton Destination Club and The Ritz-Carlton Residences properties in our portfolio under separate management agreements with us or the relevant property owners' association or trust for each property. 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

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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 to provide sufficient funds to pay for the vacation ownership program and resort 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 vacation ownership resorts, 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 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 customary 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 residential buyers.

In our North America segment in 2014, approximately 42 percent of Marriott Vacation Club customers financed their purchase with us. The average loan for our Marriott Vacation Club products totaled approximately \$23,000, which represented 88 percent of the average purchase price. Our policy is to require a minimum down payment of 10 percent of the purchase price for qualified applicants, 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 2014 was 12.59 percent and the average term was 9.8 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 2014 was \$430. 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 2014, approximately 84 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



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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 2014, the average FICO score of our customers who were U.S. citizens or residents who financed a vacation ownership purchase was 730; 67 percent had a credit score of over 700, 88 percent had a credit score of over 650 and over 97 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 the MVCD or Marriott Vacation Club, Asia Pacific 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 ABS market on a non-recourse basis, completing securitization transactions once or twice each year. During 2014, we completed two securitization transactions, which are 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 securitizations transactions in the ABS market, which we intend to complete at least once per year. Excluding amounts securitized through the Warehouse Credit Facility, since the early 1990s, we have securitized nearly \$5.4 billion of loans. 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 owners can enjoy studio units in properties located in the heart of some of the most sought after global destinations. 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

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lodging company with more than 3,900 properties in 72 countries and territories, including Marriott and Ritz-Carlton branded properties. 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 2014, based on nearly 221,000 survey responses, approximately 90 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 90 percent in 2014, significantly higher than the overall vacation ownership industry average of nearly 77 percent in 2013, 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 42 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 has nearly 37 years of experience at Marriott International. Our nine executive officers have an average of over 25 years of total combined experience at Marriott Vacations Worldwide and Marriott International, with half of those years 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 2014, 84 percent of our associates indicated that they were engaged, which is three points above Aon Hewitt's Global Best Employer benchmark of 81 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 2014 for each of our segments and each of our revenue sources (dollars in millions).

<b>Revenue Source</b>	<b>North</b>			<b>Total</b>
	<b>America</b>	<b>Europe</b>	<b>Asia Pacific</b>	
Vacation ownership sales	\$ 578	\$ 35	\$ 35	\$ 648
Resort management and other services	263	31	4	298
Financing	120	4	5	129
Rental	234	22	8	264
Cost reimbursements	354	40	3	397
	\$ 1,549	\$ 132	\$ 55	\$ 1,736

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Financial information by segment and geographic area for 2014, 2013 and 2012 appears in Footnote No. 17, 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 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 January 2, 2015, we operated 58 properties with 12,866 vacation ownership villas ( units ) and approximately 415,000 owners. The following table shows our vacation ownership and residential properties as of January 2, 2015, and indicates the segment that operates such property:

Property <sup>(1)</sup>	Segment	Experience	Location	Vacation Ownership (VO) or Residential	Units Built <sup>(2)</sup>	Additional Planned Units <sup>(3)</sup>
47 Park Street-Grand Residences by Marriott	Europe	Urban	London, UK	VO	49	
Aruba Ocean Club	North America	Island/Beach	Aruba	VO	218	
Aruba Surf Club	North America	Island/Beach	Aruba	VO	450	
Barony Beach Club	North America	Beach	Hilton Head, SC	VO	255	
BeachPlace Towers	North America	Beach	Fort Lauderdale, FL	VO	206	
Canyon Villas	North America	Golf/Desert	Phoenix, AZ	VO	213	39
Club Son Antem	Europe	Island/Golf	Mallorca, Spain	VO	224	
Crystal Shores	North America	Island/Beach	Marco Island, FL	VO	67	152
Custom House	North America	Urban	Boston, MA	VO	84	
Cypress Harbour	North America	Entertainment	Orlando, FL	VO	510	
Desert Springs Villas	North America	Golf/Desert	Palm Desert, CA	VO	638	
Fairway Villas	North America	Golf	Absecon, NJ	VO	180	90
Frenchman s Cove	North America	Island/Beach	St. Thomas, USVI	VO	155	66
Grand Chateau	North America /Asia Pacific	Entertainment	Las Vegas, NV	VO	671	224
Grande Ocean	North America	Beach	Hilton Head, SC	VO	290	
Grande Vista	North America	Entertainment	Orlando, FL	VO	900	
Harbour Club	North America	Beach	Hilton Head, SC	VO	40	
Harbour Lake	North America	Entertainment	Orlando, FL	VO	312	588
	North America	Beach	Hilton Head, SC	VO	111	

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Harbour Point / Sunset Pointe						
Heritage Club	North America	Golf	Hilton Head, SC	VO	30	
Imperial Palms	North America	Entertainment	Orlando, FL	VO	46	
Kauai Beach Club	North America	Island/Beach	Kauai, HI	VO	232	
Kauai Lagoons:						
Grand Residences by						
Marriott	North America	Island/Beach	Kauai, HI	Residential	3	
Kalanipuu	North America	Island/Beach	Kauai, HI	VO	75	
Ko Olina Beach Club	North America	Island/Beach	Oahu, HI	VO	560	190
	/Asia Pacific					
Lakeshore Reserve	North America	Entertainment	Orlando, FL	VO	95	245
Legends Edge	North America	Golf	Panama City, FL	VO	83	
Mai Khao Beach	Asia Pacific	Beach	Phuket, Thailand	VO	127	
Manor Club at Ford's						
Colony	North America	Entertainment	Williamsburg, VA	VO	200	
Marbella Beach Resort	Europe	Beach	Marbella, Spain	VO	288	

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<b>Property<sup>(1)</sup></b>	<b>Segment</b>	<b>Experience</b>	<b>Location</b>	<b>Vacation Ownership (VO) or Residential</b>	<b>Units Built<sup>(2)</sup></b>	<b>Additional Planned Units<sup>(3)</sup></b>
Marriott Grand Residence Club, Lake Tahoe	North America	Mountain/Ski	Lake Tahoe, CA	VO	199	
Maui Ocean Club	North America	Island/Beach	Maui, HI	VO	459	
Monarch	North America	Beach	Hilton Head, SC	VO	122	
Mountain Valley Lodge	North America	Mountain/Ski	Breckenridge, CO	VO	78	
MountainSide	North America	Mountain/Ski	Park City, UT	VO	182	
Newport Coast Villas	North America	Beach	Newport Beach, CA	VO	700	
Ocean Pointe	North America	Beach	Palm Beach Shores, FL	VO	341	
OceanWatch	North America	Beach	Myrtle Beach, SC	VO	374	
Oceana Palms	North America	Beach	Singer Island, FL	VO	169	
Phuket Beach Club	Asia Pacific	Beach	Phuket, Thailand	VO	144	
Playa Andaluza	Europe	Beach	Estepona, Spain	VO	173	
Royal Palms	North America	Entertainment	Orlando, FL	VO	123	
Sabal Palms	North America	Entertainment	Orlando, FL	VO	80	
Shadow Ridge	North America	Golf/Desert	Palm Desert, CA	VO	572	430
St. Kitts Beach Club	North America	Island/Beach	West Indies	VO	88	
Streamside	North America	Mountain/Ski	Vail, CO	VO	96	
Summit Watch	North America	Mountain/Ski	Park City, UT	VO	135	
SurfWatch	North America	Beach	Hilton Head, SC	VO	195	
The Empire Place	Asia Pacific	Urban	Bangkok, Thailand	VO	55	
The Ritz-Carlton Club and Residences, San Francisco						
Vacation Ownership	North America	Urban	San Francisco, CA	VO	25	
Residential	North America	Urban	San Francisco, CA	Residential	57	19
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	Beach	St. Thomas, USVI	VO	105	
The Ritz-Carlton Club, Vail	North America	Mountain/Ski	Vail, CO	VO	45	
Timber Lodge	North America	Mountain/Ski	Lake Tahoe, CA	VO	264	
Village d Ile-de-France	Europe	Entertainment	Paris, France	VO	185	
Villas at Doral	North America	Golf	Miami, FL	VO	141	
Waiohai Beach Club	North America /Asia Pacific	Island/Beach	Kauai, HI	VO	231	
Willow Ridge Lodge	North America	Entertainment	Branson, MO	VO	132	282
<b>Total</b>					<b>12,866</b>	<b>2,325</b>

**Units Available for  
Sale<sup>(4)</sup>****967**

- (1) A property is counted as a separate property to the extent it does not share common areas (such as check-in facilities, pools, etc.) with another property.
- (2) Units Built represents units with a certificate of occupancy.
- (3) Additional Planned Units represents the total additional units under construction or that we expect to build.
- (4) 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 products under the Marriott Vacation Club and Grand Residences by Marriott brands in the United States and the Caribbean, and resort residential real estate located within our vacation ownership developments under the Grand Residences by Marriott 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.



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### *Asia Pacific Segment*

In our Asia Pacific segment, we develop, market, sell and manage vacation ownership products through Marriott Vacation Club, Asia Pacific, a right-to-use points program that we specifically designed to appeal to the vacation preferences of the Asian market, as well as a weeks-based right-to-use product. We 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, the fixed royalty fee payable under the License Agreements and consumer financing interest expense.

## **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. Similar to the lodging industry, our rental operations generally maintain higher occupancy and room rates during the first, second and third quarters of our fiscal year compared to our fourth quarter. These seasonal patterns can be expected to cause fluctuations in the quarterly rental revenues and margin. Our residential business is generally not subject to seasonal fluctuations; rather, the sales pace of our residential products typically depends on the underlying residential real estate environment in the applicable geographic market.

## **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.

The vacation ownership industry is highly fragmented, with competitors ranging 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 Starwood Vacation Ownership, Hilton Grand

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Vacations Club, Hyatt Vacation 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.

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.

## **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 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 under the U.S. 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 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 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

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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 Singapore regulations to which certain of our Asia Pacific operations are subject. Among other things, the European and Singapore regulations: (1) require delivery of specified disclosure (some of which must be provided in a specific format) 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.

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, 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 Credit Practices rules, 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.

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### **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 January 2, 2015 we had nearly 10,000 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.

*General economic uncertainty and weak demand in the vacation ownership industry could impact our financial results and growth.*

Weak economic conditions in the United States, Europe, Asia and much of the rest of the world and the uncertainty over the duration of such conditions could have a negative impact on the vacation ownership industry. Weak consumer confidence and limited availability of consumer credit can, as it has in the past, cause us to experience weakened demand for our vacation ownership products. Recent improvements in demand trends globally may not continue, and our future financial results and growth could be harmed or constrained if economic conditions worsen.



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***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 low cost inventory source to supplement our inventory needs and help manage our cost of vacation ownership products.

***Our ability to develop, acquire and repurchase vacation ownership inventory may be impaired if we or third-party partners 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 or twice each year. 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 September 2016, on terms favorable to us, or at all. Further, the obligations of one of our consolidated subsidiaries, MVW US Holdings, Inc. ( MVW US Holdings ), to its preferred shareholders and 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 below, we intend to continue to use asset light structures to optimize the timing of our capital investments. If developers or other third-party partners are not able to obtain or maintain financing necessary for their operations, we may not be able to enter into transactions using these asset light structures.

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

In January 2015, we entered into an asset light transaction in which a third party is 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 more efficiently, we will seek to enter into additional transactions to source inventory using similar or new asset light 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 do enter into transactions are not be able to fulfill their obligations to 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 asset light 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, our ability to achieve sales forecasts may be impacted. In addition, we anticipate opening new on-site sales locations in connection with some or all of our new resort locations. If third parties that we enter into transactions with do not deliver these sales locations, our future sales growth could be negatively impacted.

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***If the default rates or other credit metrics underlying our vacation ownership receivables 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 receivables 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 obligations of MVW US Holdings to its preferred shareholders will limit the ability of MVW US Holdings to distribute cash to us.***

MVW US Holdings issued \$40 million in mandatorily redeemable preferred stock to Marriott International, which sold the preferred stock to third-party investors prior to completion of the Spin-Off. For the first five years after issuance, the Series A preferred stock will pay an annual cash dividend equal to the five year U.S. Treasury Rate as of October 19, 2011 plus a spread of 10.958 percent, for a total annual cash dividend rate of 12 percent. On the fifth anniversary of issuance, if we do not elect to redeem the preferred stock, the annual cash dividend rate will be reset to the five year U.S. Treasury Rate in effect on such date plus the same 10.958 percent spread. The payment of this dividend will reduce the amount of cash otherwise available for distribution by MVW US Holdings to us for further distribution to our common shareholders or for other corporate purposes. MVW US Holdings will not be able to pay any dividends to us if it is in arrears on the payment of dividends to the preferred shareholders. In addition, in the event of a liquidation of MVW US Holdings, the preferred shareholders will be entitled to an aggregate liquidation preference of \$40 million plus any accrued and unpaid dividends and a premium if the liquidation occurs during the first five years after issuance of the preferred stock, which will reduce the amount of cash available for distribution by MVW US Holdings to us. Further, if MVW US Holdings either (1) is in arrears on the payment of six or more quarterly dividend payments on the preferred stock, whether or not the payment dates are consecutive, or (2) defaults on its obligations to redeem the preferred stock on the tenth anniversary of issuance or following a change of control,

the preferred shareholders may designate a representative to attend meetings of our Board of Directors as a non-voting observer until all unpaid dividends on the outstanding shares of preferred stock have been paid or all such unpaid dividends have been paid or declared with an amount sufficient for the payment set aside for payment, or the shares required to be redeemed have been redeemed, as applicable.

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***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 additional 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. Our ability to make dividend payments to holders of our common stock or preferred shareholders of MVW US Holdings 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.

***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. 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.

In addition, 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.

***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.

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***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 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 sell vacation ownership interests denominated in points from a single trust entity in each of our North America and Asia Pacific business segments. Thus, the primary source of inventory for each of these segments is concentrated in its corresponding trust. 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; (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. This 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.



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### ***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.

### ***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.

### ***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.

### ***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, 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.

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***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 over 30 countries and territories, and our operations outside the United States represented approximately 11 percent of our revenues in 2014. 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: (1) 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; (2) U.S. laws that affect the activities of U.S. companies abroad; (3) limitations on our ability to repatriate non-U.S. earnings in a tax-effective manner; (4) the difficulties involved in managing an organization doing business in many different countries; (5) uncertainties as to the enforceability of contract and intellectual property rights under local laws; (6) rapid changes in government policy, political or civil unrest, acts of terrorism or the threat of international boycotts or U.S. anti-boycott legislation; (7) currency exchange rate fluctuations; and (8) other exposure to local economic risks.

***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 at each of our resorts or, in the case of resorts held by a trust, with the associated trust. The management fee is typically based on either a percentage of the budgeted cost 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.

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

Owners of our vacation ownership interests must pay maintenance fees levied by property owners' association boards. These maintenance fees 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

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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.

***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. 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.

***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 under the U.S. 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 and other licensing or registration laws

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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 Singapore regulations to which certain of our Asia Pacific operations are subject. Among other things, the European and Singapore regulations: (1) require delivery of specified disclosure (some of which must be provided in a specific format) 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, 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. 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 privacy law 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



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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.

***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, most U.S. company effective tax rates 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.

***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 recent issuance of Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, (ASU No. 2014-09 ), 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.

***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. We continue to establish new infrastructure and systems, some of which 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.

***If we cannot dispose of excess land and inventory at favorable prices or at all, our future cash flows and net income could be reduced.***

We have excess land that was purchased for future development, as well as excess built luxury real estate inventory at a few of our projects. Current economic conditions, as well as restrictions such as zoning, entitlement,

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contractual and similar restrictions related to the excess land and inventory could adversely affect our ability to dispose of properties at favorable prices or at all. We are responsible for maintenance fees and operating costs relating to this unsold excess land and inventory. If we are not able to sell this excess land and inventory we will continue to bear these costs, which may increase over time, and our net income will be reduced.

***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 what we have 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.

***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 diseases, such as Ebola virus, H1N1 Flu, Avian Flu 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.

***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. 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 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,

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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 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.***

Under the share repurchase program authorized by our Board of Directors, we may currently purchase up to 3,400,000 shares of our common stock prior to March 26, 2016. The share repurchase program does not obligate us to repurchase any specific dollar amount, or to acquire any specific number, of shares. 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 and to pursue possible future strategic opportunities and acquisitions. 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 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;

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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 2017;

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.

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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 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.

Pursuant to a Tax Sharing and Indemnification Agreement that we entered into with Marriott International in connection with the Spin-Off, we agreed to indemnify Marriott International for certain taxes and related losses resulting from (1) any breach of the covenants regarding the preservation of the tax-free status of the distribution and the intended tax treatment of certain related transactions undertaken in connection with the distribution, (2) certain acquisitions of our equity securities or assets or those of certain of our subsidiaries, and (3) any breach by us or any member of our group of certain of our representations in the documents submitted to the Internal Revenue Service (the IRS ) and the separation documents between Marriott International and us. The amount of Marriott International's taxes for which we agreed to indemnify Marriott International in respect of the distribution will be based on the excess, if any, of the aggregate fair market value of our stock over Marriott International's tax basis in our stock at the time of the distribution of our common stock in the Spin-Off. 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. In addition, Marriott International expects to recognize, for U.S. federal income tax purposes, significant built-in losses in properties used in the vacation ownership and related residential businesses. If Marriott International's U.S. federal consolidated group is unable to deduct these losses for U.S. federal income tax purposes, and, instead, the tax basis of the properties that is attributable to the built-in losses is available to our U.S. federal consolidated group, we have agreed to indemnify Marriott International for certain lost tax benefits that Marriott International otherwise would have recognized if Marriott International's U.S. federal consolidated group was able to deduct such losses. The amount of any future indemnification payments could be substantial.

***The Spin-Off may expose us to potential liabilities arising out of state and federal fraudulent conveyance laws and legal dividend requirements.***

The Spin-Off is subject to review under various state and federal fraudulent conveyance laws. Fraudulent conveyance laws generally provide that an entity engages in a constructive fraudulent conveyance when (1) the entity transfers assets and does not receive fair consideration or reasonably equivalent value in return, and (2) the entity (a) is insolvent at the time of the transfer or is rendered insolvent by the transfer, (b) has unreasonably small capital with which to carry on its business, or (c) intends to incur or believes it will incur debts beyond its ability to repay its debts as they mature. The measure of insolvency for purposes of the fraudulent conveyance laws will vary depending on which jurisdiction's law is applied, and we cannot predict with certainty what standard a court would apply to determine insolvency or whether a court would determine that we, Marriott International or any of our respective subsidiaries were solvent at the time of or after giving effect to the Spin-Off. An unpaid creditor or an entity acting on behalf of a creditor may bring a lawsuit alleging that the Spin-Off or any of the related transactions constituted a

constructive fraudulent conveyance. If a court accepts these allegations, it could impose a number of remedies, including, without limitation, voiding our claims against Marriott International, requiring our shareholders to return to Marriott International some or all of the shares of



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our common stock issued in the Spin-Off, or providing Marriott International with a claim for money damages against us in an amount equal to the difference between the consideration received by Marriott International and the fair market value of our company at the time of the Spin-Off. The distribution of our common stock is also subject to review under state corporate distribution statutes. Under the General Corporation Law of the State of Delaware (the DGCL), a corporation may only pay dividends to its shareholders either (1) out of its surplus (net assets minus capital) or (2) if there is no such surplus, out of its net profits for the fiscal year in which the dividend is declared and/or the preceding fiscal year. The Marriott International board of directors obtained an opinion that each of us and Marriott International would be solvent at the time of the Spin-Off (including immediately after the payment of the dividend and the Spin-Off), would be able to repay its debts as they mature following the Spin-Off and would have sufficient capital to carry on its businesses and the Spin-Off and the distribution would be made entirely out of surplus in accordance with Section 170 of the DGCL. A court could reach conclusions different from those set forth in such opinion in determining whether Marriott International or we were insolvent at the time of, or after giving effect to, the Spin-Off, or whether lawful funds were available for the separation and the distribution to Marriott International's shareholders.

***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 current or former positions in 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.

***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. The holders of the preferred stock issued by our subsidiary MVW US Holdings have the right to require MVW US Holdings to redeem the preferred stock if we sell all or substantially all of our assets or MVW US Holdings sells all or substantially all of its assets or completes a change of control, as defined in the terms of the 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 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.

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**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

As of January 2, 2015, we operated 58 vacation ownership or residential properties in the United States and seven other countries and territories. These vacation ownership and residential 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.

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 175,000 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.

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

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 for the indicated periods.

	<b>High</b>	<b>Low</b>
<b>2014</b>		
Quarter ended March 28, 2014	\$ 56.20	\$ 46.63
Quarter ended June 20, 2014	\$ 58.14	\$ 50.61
Quarter ended September 12, 2014	\$ 61.78	\$ 55.28
Quarter ended January 2, 2015	\$ 76.29	\$ 57.48
<b>2013</b>		
Quarter ended March 22, 2013	\$ 47.33	\$ 38.30
Quarter ended June 14, 2013	\$ 47.21	\$ 41.25
Quarter ended September 6, 2013	\$ 47.92	\$ 40.43
Quarter ended January 3, 2014	\$ 53.71	\$ 43.16

 **Holders of Record**

On February 13, 2015, there were 28,084 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 37,000 beneficial owners of our common stock as of February 13, 2015.

**Dividends**

In the fourth quarter of 2014, our Board of Directors declared a cash dividend of \$0.25 per share, our first dividend since becoming a publicly-traded company in November 2011. 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.

**Issuer Purchases of Equity Securities****Period****Maximum**

	<b>Total Number of Shares Purchased</b>	<b>Average Price per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>(1)</sup></b>	<b>Number of Shares That May Yet Be Purchased Under the Plans or Programs <sup>(1)</sup></b>
September 13, 2014				
October 10, 2014	401,291	\$ 62.30	401,291	135,689
October 11, 2014				
November 7, 2014	508,833	\$ 67.87	508,833	3,026,856
November 8, 2014				
December 5, 2014		\$		3,026,856
December 6, 2014 - January 2, 2015	123,581	\$ 72.06	123,581	2,903,275

- <sup>(1)</sup> On October 14, 2014, our Board of Directors approved the repurchase of up to an additional 3,400,000 shares of our common stock under our existing share repurchase program and extended the termination date of the program to March 26, 2016. Prior to that authorization, our Board of Directors had authorized the repurchase of up to 3,500,000 shares of our common stock prior to March 28, 2015 under the share repurchase program.

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**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 November 8, 2011, the date a when-issued trading market for our common stock began. 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.

**Table of Contents****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 2014, 2013 and 2012 and the selected consolidated balance sheet data for fiscal years 2014 and 2013 are derived from our consolidated financial statements included elsewhere in this Annual Report. The selected historical consolidated statement of income data for fiscal years 2011 and 2010 and the selected consolidated balance sheet data for fiscal years 2012, 2011 and 2010 are derived from our audited consolidated financial statements not included in this Annual Report.

Prior to November 21, 2011, the effective date of the Spin-Off, our company was a subsidiary of Marriott International. For periods prior to the Spin-Off, our historical financial statements include allocations of certain expenses from Marriott International, including expenses for costs related to functions such as treasury, tax, accounting, legal, internal audit, human resources, public and investor relations, general management, real estate, shared information technology systems, corporate governance activities and centrally managed employee benefit arrangements. These costs may not be representative of the costs we have incurred or will incur in the future as an independent, public company, and do not include certain additional costs we have incurred or may incur as a public company that we did not incur as a wholly owned subsidiary of Marriott International.

The following table includes earnings before interest expense, taxes, depreciation and amortization ( EBITDA ), which is a financial measure we use in our business that is not prescribed or authorized by United States Generally Accepted Accounting Principles ( GAAP ). We believe this measure is useful to help investors understand our results of operations. We explain this measure and reconcile it to the most directly comparable financial measure calculated and presented in accordance with GAAP in Footnote No. 4 to the following table.

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 millions, except per share amounts)</i>	<b>Fiscal Years</b>				
	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011<sup>(1)</sup></b>	<b>2010<sup>(1)</sup></b>
<b>Statement of Income Data:</b>					
Total revenues	\$ 1,736	\$ 1,750	\$ 1,639	\$ 1,624	\$ 1,592
Total revenues net of total expenses	158	144	36	(223)	85
Net income (loss)	81	80	7	(172)	59
Basic earnings (loss) per common share	2.40	2.25	0.19	(5.12)	1.74
Shares used in computing basic earnings (loss) per share (in millions) <sup>(2)</sup>	33.7	35.4	34.4	33.7	33.7
Diluted earnings (loss) per common share	2.33	2.18	0.18	(5.12)	1.74
Shares used in computing diluted earnings (loss) per share (in millions) <sup>(2)</sup>	34.6	36.6	36.2	33.7	33.7

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(\$ in millions, except per share amounts)	Fiscal Years				
	2014	2013	2012	2011 <sup>(1)</sup>	2010 <sup>(1)</sup>
<b>Balance Sheet Data:</b>					
Total assets	\$ 2,540	\$ 2,632	\$ 2,613	\$ 2,851	\$ 3,643
Total debt	711	678	678	850	1,022
Total mandatorily redeemable preferred stock of consolidated subsidiary	40	40	40	40	
Total liabilities	1,460	1,423	1,474	1,720	1,748
Total equity	1,080	1,209	1,139	1,131	1,895
Cash dividends declared per common share	0.25				
<b>Other Data:</b>					
EBITDA <sup>(3)</sup>	\$ 182	\$ 167	\$ 78	\$ (184)	\$ 148
Contract sales <sup>(4)</sup> :					
Vacation ownership	\$ 699	\$ 679	\$ 687	\$ 661	\$ 692
Residential products	14	15	1	15	13
Total before cancellation reversal (allowance)	713	694	688	676	705
Cancellation reversal (allowance)				4	(20)
Total contract sales	\$ 713	\$ 694	\$ 688	\$ 680	\$ 685

(1) The financial information presented for fiscal years including or prior to the Spin-Off may not necessarily reflect our financial position, results of operations and cash flows as if we had operated as a stand-alone public company during the entirety of such years. Accordingly, our historical results for periods prior to the Spin-Off should not be relied upon as an indicator of our future performance.

(2) For periods prior to 2011, the same number of shares is being used for diluted income (loss) per common share as for basic income (loss) per common share as all 100 shares of our common stock then outstanding were held by Marriott International prior to the Spin-Off and no dilutive securities were outstanding for any such period.

(3) EBITDA, a financial measure that is not prescribed or authorized by GAAP, is defined as earnings, or net income, before interest expense (excluding consumer financing interest expense), provision for income taxes, depreciation and amortization. For purposes of our EBITDA calculation, we do not adjust for consumer financing interest expense because the associated debt is secured by vacation ownership notes receivable that have been sold to bankruptcy remote special purpose entities and that is generally non-recourse to us. Further, we consider consumer financing interest expense to be an operating expense of our business.

We consider EBITDA to be an indicator of operating performance, and we use it to measure our ability to service debt, fund capital expenditures and expand our business. We also use it, as do analysts, lenders, investors and others, because it excludes certain items that can vary widely across different industries or among companies within the same industry. For example, interest expense can be dependent on a company's capital structure, debt levels and credit



ratings. Accordingly, the impact of interest expense on earnings can vary significantly among companies. The tax positions of companies can also vary because of their differing abilities to take advantage of tax benefits and because of the tax policies of the jurisdictions in which they operate. As a result, effective tax rates and provision for income taxes can vary considerably among companies. EBITDA also excludes depreciation and amortization because companies utilize productive assets of different ages and use different methods of both acquiring and depreciating productive assets. These differences can result in considerable variability in the relative costs of productive assets and the depreciation and amortization expense among companies.

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

(\$ in millions)	Fiscal Years				
	2014	2013	2012	2011 <sup>(1)</sup>	2010 <sup>(1)</sup>
Net income (loss)	\$ 81	\$ 80	\$ 7	\$ (172)	\$ 59
Interest expense <sup>(a)</sup>	12	13	17		
Tax provision (benefit)	70	51	24	(45)	50
Depreciation and amortization	19	23	30	33	39
<b>EBITDA</b>	<b>\$ 182</b>	<b>\$ 167</b>	<b>\$ 78</b>	<b>\$ (184)</b>	<b>\$ 148</b>

(a) Interest expense excludes consumer financing interest expense.

(4) Contract sales represent the total amount of vacation ownership product sales under purchase agreements signed during the period where we have received a down payment of at least ten percent of the contract price, reduced by actual rescissions during the period. Contract sales differ from revenues from the sale of vacation ownership products that we report 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.

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**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, however, may not 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. We are one of the world's largest companies whose business is focused almost entirely on vacation ownership, based on number of owners, number of resorts and revenues.

Our business is grouped into three reportable segments: North America, Europe and Asia Pacific. As of January 2, 2015, we operated 58 properties in the United States and seven other countries and territories. We generate most of our revenues from four primary sources: selling vacation ownership products; managing our resorts; financing consumer purchases 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. Furthermore, due to our reporting calendar, the financial results for the fourth quarter of 2013 and full year 2013 included the impact of an additional week as compared to 2014. To enhance the similarity of the periods being compared, the additional week is the first week of 2013 when 2014 results are compared to 2013 results because that week includes the New Year's holiday while the first week of 2014 does not. Similarly, the additional week is the last week of 2013 when 2013 results are compared to 2012 results, because that week also includes the New Year's holiday, while the last week of 2012 does not.

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

*Sale of Vacation Ownership Products*

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

A binding sales contract has been executed;

The statutory rescission period has expired;

The receivable is deemed collectible; and

The remainder of our obligations are substantially completed.

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Sales of vacation ownership products may be made for cash or we may provide financing. For sales where we provide financing, we defer revenue recognition until we receive a minimum down payment equal to ten percent of the purchase price plus the fair value of certain sales incentives provided to the purchaser. These sales incentives typically include Marriott Rewards Points or an alternative sales incentive that we refer to as plus points. These plus points are redeemable for stays at our resorts, generally within one to two years from the date of issuance. Sales incentives are only awarded if the sale is closed.

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

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

We report, on a supplemental basis, contract sales for each of our three segments. Contract sales represent the total amount of vacation ownership product sales under purchase agreements signed during the period where we have received a down payment of at least ten percent of the contract price, reduced by actual rescissions during the period. Contract sales differ from revenues from the sale of vacation ownership products that we report on our Statements of Income due to the requirements for revenue recognition described above. We consider contract sales to be an important operating measure because it reflects the pace of sales in our business.

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

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

### *Resort Management and Other Services*

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

We provide day-to-day-management services, including housekeeping services, operation of reservation systems, maintenance, and certain accounting and administrative services for property owners associations. We receive compensation for these management services; this compensation is generally based on either a percentage of budgeted

cost 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.

**Table of Contents***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>2014</b>	<b>2013</b>	<b>2012</b>
Average FICO score	730	729	729

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

Financing revenues include interest income earned on vacation ownership notes receivable as well as fees earned from servicing the existing vacation ownership notes receivable portfolio. Financing expenses include costs in support of the financing, servicing and securitization processes. The amount of interest income earned in a period depends on the amount of outstanding vacation ownership notes receivable, which is impacted positively by the origination of new vacation ownership notes receivable and negatively by principal collections. Due to weakened economic conditions and our elimination of financing incentive programs, the percentage of customers choosing to finance their vacation ownership purchase with us (which we refer to as financing propensity) declined significantly through 2009 and has stabilized since then. As a result, we expect that interest income will continue to decline in the near term until new originations outpace the decline in principal of the existing vacation ownership notes receivable portfolio.

In the event of a default, we generally have the right to foreclose on or revoke the mortgaged vacation ownership interest. We return vacation ownership interests that we reacquire through foreclosure or revocation back to real estate inventory. As discussed above, we record a vacation ownership notes receivable reserve at the time of sale and classify the reserve as a reduction to revenues from the sale of vacation ownership products on our Statements of Income. Historical default rates, which represent annual defaults as a percentage of each year's beginning gross vacation ownership notes receivable balance, were as follows:

	<b>Fiscal Years</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
Historical default rates	3.9%	3.9%	4.5%

*Rental*

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

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

Rental expenses include:

Maintenance fees on unsold inventory;

Costs to provide alternative usage options, including Marriott Rewards Points and offerings available as part of the Explorer Collection, for owners who elect to exchange their inventory;

Subsidy payments to property owners' associations at resorts that are in the early phases of construction where maintenance fees collected from the owners are not sufficient to support operating costs of the resort;



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

### *Cost Reimbursements*

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

### *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 that is generally non-recourse to us.

### *Interest Expense*

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

### *Other Items*

We measure operating performance using the following key metrics:

Contract sales from the sale of vacation ownership products;

Development margin percentage; and

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 sales tours in a given period. We believe that this operating metric is valuable in evaluating the effectiveness of the sales process as it combines the impact of average contract price with the number of touring guests who make a purchase.

*Rounding*

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

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

The following discussion presents an analysis of our results of operations for 2014, 2013 and 2012.

<i>(\$ in millions)</i>	<b>Fiscal Years</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>Revenues</b>			
Sale of vacation ownership products	\$ 648	\$ 672	\$ 618
Resort management and other services	298	290	283
Financing	129	141	151
Rental	264	262	225
Cost reimbursements	397	385	362
<b>Total revenues</b>	<b>1,736</b>	<b>1,750</b>	<b>1,639</b>
<b>Expenses</b>			
Cost of vacation ownership products	197	214	203
Marketing and sales	315	316	329
Resort management and other services	199	206	213
Financing	24	25	26
Rental	238	251	225
General and administrative	99	99	86
Litigation settlement	19	4	41
Organizational and separation related	3	12	16
Consumer financing interest	26	31	41
Royalty fee	60	62	61
Impairment	1	1	
Cost reimbursements	397	385	362
<b>Total expenses</b>	<b>1,578</b>	<b>1,606</b>	<b>1,603</b>
Gains and other income	5	1	9
Interest expense	(12)	(13)	(17)
Equity in earnings			1
Impairment (charges) reversals on equity investment		(1)	2
Income before income taxes	151	131	31
Provision for income taxes	(70)	(51)	(24)
<b>Net income</b>	<b>\$ 81</b>	<b>\$ 80</b>	<b>\$ 7</b>

**Contract Sales**

*2014 Compared to 2013*

(\$ in millions)	Fiscal Years		Change	% Change
	2014	2013		
Contract Sales				
Vacation ownership	\$ 699	\$ 679	\$ 20	3%
Residential products	14	15	(1)	NM
Total contract sales	\$ 713	\$ 694	\$ 19	3%

*NM = not meaningful*

Excluding the impact of the additional week in 2013, total contract sales increased \$29 million and were driven by \$20 million of higher contract sales in our North America segment and \$12 million of higher contract sales in our Europe segment, partially offset by \$3 million of lower contract sales in our Asia Pacific segment.

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The \$19 million increase in total contract sales was driven by \$12 million of higher vacation ownership contract sales in our key North America segment and \$11 million of higher contract sales in our Europe segment, partially offset by \$3 million of lower contract sales in our Asia Pacific segment and \$1 million of lower residential contract sales in our North America segment.

The increase in vacation ownership contract sales in our North America segment reflected a \$12 million increase in sales at on-site sales locations, and no change in sales at off-site (non tour-based) sales locations. The increase in sales at on-site sales locations reflected a 6 percent increase in VPG to \$3,386 in 2014 from \$3,200 in 2013, partially offset by a 3 percent decline in the number of tours. The increase in VPG was due to higher pricing, a 0.3 percentage point increase in closing efficiency and an increase in the number of points sold per contract. Excluding the impact of the additional week in 2013, the number of tours declined 1.5 percent. The decline in the number of tours continued to be driven by an increase in weeks-based owner utilization of the MVCD program, with owners taking advantage of the program's flexibility to take vacations of shorter duration and exercise alternative usage options. This trend has continued to reduce our existing owner tour flow because fewer owners are in our resorts, and their stays in our resorts are shorter than in prior years. We implemented new programs in 2014 aimed at generating existing owner tours and new marketing programs targeted toward first-time buyers, which we expect will increase tour flow in 2015.

*2013 Compared to 2012*

(\$ in millions)	Fiscal Years		Change	% Change
	2013	2012		
Contract Sales				
Vacation ownership	\$ 679	\$ 687	\$ (8)	(1%)
Residential products	15	1	14	NM
Total contract sales	\$ 694	\$ 688	\$ 6	1%

The \$6 million increase in total contract sales was driven by \$40 million, or 7 percent, of higher contract sales in our key North America segment, partially offset by \$20 million of lower contract sales in our Asia Pacific segment (due to the closure of our off-site sales locations in Hong Kong and Japan in the fourth quarter of 2012) and \$14 million of lower contract sales in our Europe segment (\$11 million as we continued to sell through developer inventory and as \$3 million as a result of higher rescission activity due to the extended rescission periods in our Europe segment during the second quarter of 2013). The period of time during which certain purchasers of interests in properties in our Europe segment from 2010 through 2013 could rescind their purchases was extended because the documentation that we provided for these sales was not strictly compliant. We refer to these extended periods as extended rescission periods. Excluding the impact of the additional week in 2013 (which was the last week of 2013), total contract sales decreased \$3 million and were driven by \$20 million of lower contract sales in our Asia Pacific segment and \$14 million of lower contract sales in our Europe segment, partially offset by \$31 million of higher contract sales in our North America segment.

The increase in contract sales in our North America segment included \$14 million of higher residential contract sales, including \$9 million associated with the continued execution of our strategy to dispose of excess inventory, and a \$26 million, or 5 percent, increase in vacation ownership contract sales, which included \$9 million from the additional week in 2013. The increase in vacation ownership contract sales reflected an 8 percent increase in VPG to \$3,200 in 2013 from \$2,963 in 2012. This increase in VPG was due to a nearly 4 percent price increase and a 1 percentage point increase in closing efficiency resulting from improved marketing and sales execution. These increases were partially

offset by a 3 percent decline in the number of tours. The decline in the number of tours was driven by an increase in weeks-based owner utilization of the MVCD program, with owners taking advantage of the program's flexibility to take vacations of shorter duration and exercise alternative usage options. This has reduced our existing owner tour flow because fewer owners are in our resorts, and their stays in our resorts are shorter, than in prior years. We intend to increase tour flow through new programs aimed at generating existing owner tours and developing new marketing programs targeted toward first-time buyers.

**Table of Contents****Sale of Vacation Ownership Products***2014 Compared to 2013*

(\$ in millions)	Fiscal Years		Change	% Change
	2014	2013		
Contract sales	\$ 713	\$ 694	\$ 19	3%
Revenue recognition adjustments:				
Reportability	(15)	30	(45)	
Sales reserve	(32)	(36)	4	
Other <sup>(1)</sup>	(18)	(16)	(2)	
Sale of vacation ownership products	\$ 648	\$ 672	\$ (24)	(4%)

<sup>(1)</sup> Adjustment for sales incentives that will not be recognized as Sale of vacation ownership products revenue. The lower vacation ownership notes receivable reserve activity is due to a decrease in estimated default activity compared to 2013. Revenue reportability was higher in 2013 because the rescission period related to certain sales had expired, of which \$21 million related to the impact of the extended rescission periods in our Europe segment.

*2013 Compared to 2012*

(\$ in millions)	Fiscal Years		Change	% Change
	2013	2012		
Contract sales	\$ 694	\$ 688	\$ 6	1%
Revenue recognition adjustments:				
Reportability	30	(15)	45	
Sales reserve	(36)	(42)	6	
Other <sup>(1)</sup>	(16)	(13)	(3)	
Sale of vacation ownership products	\$ 672	\$ 618	\$ 54	9%

<sup>(1)</sup> Adjustment for sales incentives that will not be recognized as Sale of vacation ownership products revenue. The \$3 million increase in sales incentives relates to the issuance of higher plus points as sales incentives in 2013. Plus points will ultimately be recognized as rental revenues upon usage or expiration of the plus points rather than revenues from the sale of vacation ownership products. Revenue reportability was higher in 2013 because the rescission period related to certain sales made in 2013 or prior periods expired during 2013, including \$21 million of

higher revenue reportability related to the impact of the extended rescission periods in our Europe segment, and because certain sales met the down payment requirement for revenue recognition purposes prior to the end of 2013. The lower reportability in 2012 reflected the fact that certain sales made during, or prior to, that period remained in the statutory rescission period or did not meet the down payment requirement for revenue recognition purposes prior to the end of the year, including \$9 million of lower revenue reportability related to the impact of the extended rescission periods in our Europe segment.

### Development Margin

*2014 Compared to 2013*

(\$ in millions)	Fiscal Years		Change	% Change
	2014	2013		
Sale of vacation ownership products	\$ 648	\$ 672	\$ (24)	(4%)
Cost of vacation ownership products	(197)	(214)	17	8%
Marketing and sales	(315)	(316)	1	NM
Development margin	\$ 136	\$ 142	\$ (6)	(5%)
Development margin percentage	20.9%	21.2%	(0.3 pts)	



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The decline in development margin reflected a \$27 million impact from lower revenue reportability year-over-year (of which \$12 million related to the impact of the extended rescission periods in our Europe segment in 2013) and \$11 million of lower favorable product cost true-ups (nearly \$7 million in 2014 compared to \$18 million in 2013). These declines were partially offset by a \$26 million increase from higher contract sales volume net of lower direct variable expenses (i.e., cost of vacation ownership products and marketing and sales) driven mainly by \$22 million from a favorable mix of lower cost real estate inventory being sold, \$3 million from more efficient marketing and sales spending and \$1 million from the net impact of the higher contract sales volume. In addition, the development margin reflected a \$4 million impact from the decrease in vacation ownership notes receivable reserve activity and \$2 million of severance related to the restructuring of sales locations in Europe in 2013.

The 0.3 percentage point decline in the development margin percentage reflected a nearly 3 percentage point decrease due to lower revenue reportability year-over-year and a 2 percentage point decrease due to the lower favorable product cost true-up activity year-over-year. These declines were partially offset by a 3 percentage point increase due to a favorable mix of lower cost vacation ownership real estate inventory being sold in 2014, a less than 1 percentage point increase due to increased efficiency in marketing and sales spending and a less than 1 percentage point increase from the lower vacation ownership notes receivable reserve activity.

*2013 Compared to 2012*

(\$ in millions)	Fiscal Years		Change	% Change
	2013	2012		
Sale of vacation ownership products	\$ 672	\$ 618	\$ 54	9%
Cost of vacation ownership products	(214)	(203)	(11)	(6%)
Marketing and sales	(316)	(329)	13	4%
Development margin	\$ 142	\$ 86	\$ 56	64%
Development margin percentage	21.2%	14.0%	7.2 pts	

The increase in development margin reflected a \$33 million increase from higher contract sales volume net of lower direct variable expenses (i.e., cost of vacation ownership products and marketing and sales) due to more efficient marketing and sales spending and a favorable mix of lower cost real estate inventory being sold, \$27 million of higher revenue reportability year-over-year (including \$18 million of higher revenue reportability related to the impact of the extended rescission periods in our Europe segment), \$6 million of charges in 2012 related mainly to the closure of our Asia Pacific off-site sales locations in the fourth quarter of 2012, a \$2 million benefit from lower vacation ownership notes receivable reserve activity, a \$1 million charge in 2012 related to the settlement of a construction related dispute at one of our properties, and \$1 million of lower charges associated with Marriott Rewards Points issued prior to the Spin-Off as there were \$1 million of higher than expected redemption costs in 2013 compared to \$2 million of higher than expected redemption costs in 2012. These increases were partially offset by \$12 million of lower favorable product cost true-ups (\$18 million in 2013 compared to \$30 million in 2012) and \$2 million of severance charges related to the restructuring of sales locations in Europe in early 2013.

The favorable product cost true-ups recorded in 2013 were the result of \$12 million from increases in estimated future revenues associated with the sale of foreclosed inventory as well as changes in the sequencing of inventory into the

MVCD program due to the continued reacquisition of previously sold inventory, \$4 million from lower construction costs, and nearly \$2 million from an increase in estimated future revenues associated with our Asia Pacific product.

The 7 percentage point improvement in the development margin percentage reflected a 3 percentage point increase due to higher revenue reportability year-over-year, a 3 percentage point increase from the lower cost of vacation ownership products due to a favorable mix of lower cost real estate inventory being sold, a 2 percentage point increase due to increased efficiency in marketing and sales spending and a 1 percentage point increase from lower year-over-year other expenses. These increases were partially offset by a 2 percentage point decrease due to the lower favorable product cost true-up activity compared to 2012.

**Table of Contents****Resort Management and Other Services Revenues, Expenses and Margin***2014 Compared to 2013*

(\$ in millions)	Fiscal Years		Change	% Change
	2014	2013		
Management fee revenues	\$ 74	\$ 70	\$ 4	6%
Other services revenues	224	220	4	1%
Resort management and other services revenues	298	290	8	3%
Resort management and other services expenses	(199)	(206)	7	4%
Resort management and other services margin	\$ 99	\$ 84	\$ 15	17%

Resort management and other services margin percentage                      33.2%                      29.0%                      4.2 pts

The increase in resort management and other services revenues reflected \$4 million of higher management fees, \$3 million of additional annual club dues earned in connection with the MVCD program due to the cumulative increase in owners enrolled in the program, \$3 million of higher fees from external exchange service providers and \$1 million of higher resales commission, partially offset by \$3 million of lower ancillary revenues. The decrease in ancillary revenues included a \$3 million decline due to the disposition of a golf course in Orlando, Florida during the first quarter of 2014 and a \$2 million decline at The Abaco Club on Winding Bay ( The Abaco Club ), in the Bahamas, partially offset by a \$2 million increase in ancillary revenues from food and beverage and golf offerings at our resorts.

The improvement in the resort management and other services margin reflected the increase in revenue, as well as \$5 million of lower ancillary expenses due to the dispositions noted above and other operating improvements and \$2 million of lower customer service and MVCD program expenses in 2014 compared to 2013.

*2013 Compared to 2012*

(\$ in millions)	Fiscal Years		Change	% Change
	2013	2012		
Management fee revenues	\$ 70	\$ 67	\$ 3	4%
Other services revenues	220	216	4	3%
Resort management and other services revenues	290	283	7	3%
Resort management and other services expenses	(206)	(213)	7	3%
	\$ 84	\$ 70	\$ 14	20%

Resort management and other services margin

Resort management and other services margin percentage	29.0%	24.8%	4.2 pts
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The increase in resort management and other services revenues reflected \$4 million of additional annual club dues earned in connection with the MVCD program due to the cumulative increase in owners enrolled in the program and \$3 million of higher management fees resulting from the cumulative increase in the number of vacation ownership products sold and higher operating costs across the system. Our ancillary revenues were flat when compared to 2012, reflecting a \$9 million decline in revenues due to the disposition of a golf course and related assets at one of our Ritz-Carlton branded projects late in 2012 offset by a \$9 million increase in ancillary revenues from food and beverage and golf offerings at our other resorts.

The improvement in the resort management and other services margin reflected \$5 million of additional annual club dues earned in connection with the MVCD program net of expenses, a \$4 million benefit from the disposition of a golf course and related assets at one of our Ritz-Carlton branded projects late in 2012 that

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experienced an operating loss in 2012, \$3 million of higher customer services margin resulting from lower operating expenses, a \$2 million increase in management fees net of expenses and \$2 million of higher ancillary revenues net of expenses at our resorts, partially offset by \$2 million of higher expenses primarily due to more MVCD owners utilizing an external exchange service provider.

**Financing Revenues, Expenses and Margin***2014 Compared to 2013*

(\$ in millions)	Fiscal Years		Change	% Change
	2014	2013		
Interest income	\$ 123	\$ 135	\$ (12)	(9%)
Other financing revenues	6	6		NM
Financing revenues	129	141	(12)	(9%)
Financing expenses	(24)	(25)	1	2%
Consumer financing interest expense	(26)	(31)	5	16%
Financing margin	\$ 79	\$ 85	\$ (6)	(8%)
Financing propensity	44%	42%		

The decrease in financing revenues was due to an \$85 million decline in the average gross vacation ownership notes receivable balance. This decline reflected our continued collection of existing vacation ownership notes receivable at a faster pace than our origination of new vacation ownership notes receivable.

The decline in financing margin reflects the lower financing revenues, partially offset by lower consumer financing interest expense due to lower outstanding debt balances of securitized vacation ownership notes receivable and associated interest costs (\$3 million) as well as a lower average interest rate (\$2 million). The lower average interest rate reflected the continued pay-down of older securitization transactions that carried higher overall interest rates and the benefit of lower interest rates applicable to our more recently completed securitizations of vacation ownership notes receivable.

*2013 Compared to 2012*

(\$ in millions)	Fiscal Years		Change	% Change
	2013	2012		
Interest income	\$ 135	\$ 145	\$ (10)	(7%)
Other financing revenues	6	6		NM
Financing revenues	141	151	(10)	(7%)
Financing expenses	(25)	(26)	1	7%
Consumer financing interest expense	(31)	(41)	10	23%

Financing margin	\$	85	\$	84	\$	1	1%
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Financing propensity	42%	43%
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The decrease in financing revenues was due to a \$109 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 increase in financing margin reflected lower consumer financing interest expense and lower financing expenses due to lower foreclosure activity, partially offset by the lower interest income. The lower consumer financing interest expense was due to lower outstanding debt balances of securitized vacation ownership notes receivable and associated interest costs (\$5 million) as well as a lower average interest rate (\$5 million). The lower average interest rate reflected the continued pay-down of older securitization transactions that carried higher overall interest rates and the benefit of lower interest rates applicable to our more recently completed securitizations of vacation ownership notes receivable.

**Table of Contents****Rental Revenues, Expenses and Margin***2014 Compared to 2013*

(\$ in millions)	Fiscal Years		Change	% Change
	2014	2013		
Rental revenues	\$ 264	\$ 262	\$ 2	1%
Unsold maintenance fees upscale	(51)	(54)	3	5%
Unsold maintenance fees luxury	(10)	(12)	2	21%
Unsold maintenance fees	(61)	(66)	5	8%
Other expenses	(177)	(185)	8	4%
Rental margin	\$ 26	\$ 11	\$ 15	147%
Rental margin percentage	10.0%	4.1%	5.9 pts	

	Fiscal Years		Change	% Change
	2014	2013		
Transient keys rented <sup>(1)</sup>	1,114,370	1,098,755	15,615	1%
Average transient key rate	\$ 211.68	\$ 205.68	\$ 6.00	3%
Resort occupancy	89.4%	90.0%	(0.6 pts)	

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

The increase in rental revenues was due to a company-wide 3 percent increase in average transient rate (nearly \$7 million) and a company-wide 1 percent increase in transient keys rented (\$3 million), both of which were driven by stronger consumer demand and a favorable mix of available inventory. These increases were partially offset by \$7 million of lower plus points revenue (which is recognized upon utilization of plus points for stays at our resorts or upon expiration of the points).

The increase in rental margin reflected \$22 million of higher rental revenues net of direct variable expenses (such as housekeeping), expenses incurred due to owners choosing alternative usage options, and unsold maintenance fees, partially offset by the \$7 million decline in plus points revenue resulting from the decline in new enrollments in the MVCD program by existing owners (due to the maturity of the MVCD program).

*2013 Compared to 2012*

(\$ in millions)	Fiscal Years		Change	% Change
	2013	2012		
Rental revenues	\$ 262	\$ 225	\$ 37	16%
	(54)	(49)	(5)	(12%)

Unsold maintenance fees upscale				
Unsold maintenance fees luxury	(12)	(11)	(1)	(12%)
Unsold maintenance fees	(66)	(60)	(6)	(12%)
Other expenses	(185)	(165)	(20)	(12%)
Rental margin	\$ 11	\$	\$ 11	NM
Rental margin percentage	4.1%	0.1%	4.0 pts	

	Fiscal Years			
	2013	2012	Change	% Change
Transient keys rented <sup>(1)</sup>	1,098,755	962,946	135,809	14%
Average transient key rate	\$ 205.68	\$ 189.30	\$ 16.38	9%
Resort occupancy	90.0%	89.8%	0.2 pts	

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



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The increase in rental revenues was due to a company-wide 14 percent increase in transient keys rented (\$27 million), which were primarily sourced from an 8 percent increase in available keys (141,000 additional available keys) resulting from an increase in the number of owners choosing to exchange their vacation ownership interests for alternative usage options, additional inventory from a new phase completed at one of our projects in Hawaii in the third quarter of 2012 and a lower utilization of plus points for stays at our resorts, as well as a company-wide 9 percent increase in average transient rate (\$18 million) driven by stronger consumer demand and a favorable mix of available inventory. These increases were partially offset by an \$8 million decrease in plus points revenue (which is recognized upon utilization of plus points for stays at our resorts or upon expiration of the points) resulting from the decline in new enrollments in the MVCD program by existing owners (due to the maturity of the MVCD program), and the corresponding decline in the issuance of plus points as incentives for enrollment in the MVCD program.

The increase in rental margin reflected \$16 million of higher rental revenues net of direct variable expenses (such as housekeeping), higher expenses incurred due to owners choosing alternative usage options, and higher unsold maintenance fees, as well as \$3 million of lower charges associated with Marriott Rewards Points issued prior to the Spin-Off (\$4 million of higher than expected redemption costs in 2013 compared to \$7 million of higher than expected redemption costs in 2012). These increases were offset by the \$8 million decline in plus points revenue. The increase in unsold maintenance fees reflected the addition of new inventory upon completion of a phase at one of our projects in Hawaii in 2012, as well as increased expenses associated with our inventory repurchase program.

### **Cost Reimbursements**

#### *2014 Compared to 2013*

Cost reimbursements increased \$12 million, or 4 percent, over the prior year, reflecting an increase of \$13 million due to higher costs and \$3 million due to additional managed unit weeks in 2014, partially offset by \$4 million of lower costs associated with the two management contracts that were terminated in 2013.

#### *2013 Compared to 2012*

Cost reimbursements increased \$23 million, or 6 percent, over the prior year, reflecting an increase of \$30 million due to higher costs (including \$7 million due to the fact that 2013 had 53 weeks) and \$6 million due to additional managed unit weeks in 2013, partially offset by \$13 million of lower costs associated with the termination of two management contracts in 2013.

### **General and Administrative**

#### *2014 Compared to 2013*

General and administrative expenses were unchanged compared to the prior year at \$99 million and included \$2 million of higher personnel related costs and \$1 million from the favorable resolution of an international tax (non-income tax) matter in 2013, offset by \$3 million of savings related to organizational and separation relation efforts in the human resources, information technology and finance and accounting organizations.

#### *2013 Compared to 2012*

General and administrative expenses increased \$13 million (from \$86 million to \$99 million) over the prior year due to \$9 million of higher personnel related costs (including \$1 million due to the fact that 2013 had 53 weeks), \$8 million of higher legal expenses, \$2 million of higher stand-alone public company costs and \$1 million of higher audit

related expenses. These increases were offset by \$4 million of savings related to organizational and separation related efforts in the human resources, information technology and finance and accounting areas, \$2 million from lower depreciation expense and \$1 million from the favorable resolution of an international tax (non-income tax) matter.

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### **Litigation Settlement**

#### *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 \$24 million, which is included in the Litigation settlement line on the Statement of Income. See Footnote No. 5, Acquisitions and Dispositions, and Footnote No. 9, Contingencies and Commitments, 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 Ritz-Carlton Club and Residences, San Francisco (the RCC San Francisco). As a result of the agreement in principle, we recorded a charge of \$3 million, which is included in the Litigation settlement line on the Statement of Income. See Footnote No. 9, Contingencies and Commitments, to our Financial Statements for further information related to this pending action.

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

#### *2013*

In the first quarter of 2013 we reversed \$1 million of the charge we recorded in 2012 based upon final settlement of the lawsuit related to the RCC San Francisco described under 2012 below that was pending at the end of 2012. In the fourth quarter of 2013 we recorded a \$5 million charge related to the settlement of a lawsuit related to a project in our Europe segment. The plaintiffs in this lawsuit alleged breach of a partnership agreement and copyright infringement in connection with renovations at that project.

#### *2012*

In the fourth quarter of 2012 we agreed to settle two lawsuits in which certain of our subsidiaries were defendants. The plaintiffs in the lawsuits, residential unit owners at the RCC San Francisco, questioned the adequacy of disclosures made prior to 2008, when our business was part of Marriott International, regarding bonds issued for that project under the Mello-Roos Act and their payment obligations with respect to such bonds. A third lawsuit was pending at the end of 2012 in which one owner at the RCC San Francisco had asserted similar claims. That lawsuit was settled in 2013.

As a result of the settlements and the pending lawsuit, we recorded a charge in connection with these matters of \$41 million in the year ended December 28, 2012, of which \$39 million was recorded in the fourth quarter of 2012. In addition, we repurchased units owned by certain of the plaintiffs in the settled lawsuits which were recorded in inventory at fair value less cost to sell of \$13 million. We used Level 3 inputs in a discounted cash flow model to determine the fair value of these assets.

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

*2014 Compared to 2013 and 2013 Compared to 2012*

Following the Spin-Off, Marriott International continued to provide us with certain information technology, payroll, human resources and other administrative services pursuant to transition services agreements, most of which we had ceased using as of the end of 2013. In connection with our continued organizational and separation related activities, we continue to incur certain expenses to complete our separation

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from Marriott International. These costs primarily relate to establishing our own information technology systems and services, independent payroll and accounts payable functions and reorganizing existing human resources, information technology, and related finance and accounting organizations to support our stand-alone public company needs. We expect these efforts to be substantially completed in 2015.

Organizational and separation related expenses, as reflected on our Statements of Income, continue to decline on an annual basis and were \$3 million in 2014, \$12 million in 2013 and \$16 million in 2012. In addition, \$3 million of organizational and separation related costs were capitalized in 2014, compared to \$7 million and \$2 million of capitalized costs in 2013 and 2012, respectively.

We expect to incur an additional \$5 million to \$7 million in connection with these organizational and separation related efforts by the end of 2015, of which we expect \$4 million to \$5 million to be capitalized and amortized over the useful lives of the assets purchased or developed to achieve annualized savings. Once completed, we expect these efforts will generate approximately \$15 million of annualized savings, of which \$10 million and \$14 million was achieved through the end of 2013 and 2014, respectively.

## **Interest Expense**

### *2014 Compared to 2013*

Interest expense decreased \$1 million (from \$13 million to \$12 million) due to a \$1 million decline in expense associated with our liability for the Marriott Rewards customer loyalty program under the Marriott Rewards Agreement and a \$1 million decline in other interest expense, partially offset by \$1 million of lower capitalized interest costs.

### *2013 Compared to 2012*

Interest expense decreased \$4 million (from \$17 million to \$13 million) due to a \$3 million decline in expense associated with our liability for the Marriott Rewards customer loyalty program under the Marriott Rewards Agreement and \$1 million in capitalized interest costs.

## **Royalty Fee**

### *2014 Compared to 2013 and 2013 Compared to 2012*

Royalty fee expense decreased \$2 million in 2014 (from \$62 million in 2013 to \$60 million in 2014), and included \$1 million of lower costs due to a higher portion of sales of pre-owned inventory, which carries a lower royalty fee as compared to initial sales of our real estate inventory (one percent versus two percent), and \$1 million of lower costs due to the additional week in 2013. Royalty fee expense increased \$1 million in 2013 (from \$61 million in 2012 to \$62 million in 2013) due to the additional week in 2013.

## **Impairment**

### *2014 Compared to 2013 and 2013 Compared to 2012*

In 2014, we recorded an impairment charge of \$1 million with respect to a building as a result of a termination of a land lease at a project in our North America segment. In 2013, we recorded an impairment charge of \$1 million related to a leased golf course at a project in our Europe segment. There were no impairment charges in 2012.

## **Gains and Other Income**

### *2014 Compared to 2013 and 2013 Compared to 2012*

Gains and other income of \$5 million during 2014 included a \$3 million gain on the disposition of undeveloped and partially developed land, an operating golf course and related assets, in Kauai, Hawaii and a \$2 million gain related to the disposition of a golf course and adjacent undeveloped land in Orlando, Florida. Gains

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and other income of \$1 million during 2013 related to a gain on the disposition of a multi-family parcel in St. Thomas, U.S. Virgin Islands. Gains and other income of \$9 million during 2012 included an \$8 million gain on the disposition of a golf course and related assets at one of our luxury projects.

## **Equity in Earnings**

### *2014 Compared to 2013 and 2013 Compared to 2012*

Equity in earnings, which relates to our investment in a joint venture in our Asia Pacific segment, was \$0 during both 2014 and 2013, and \$1 million in 2012.

## **Impairment (Charges) Reversals on Equity Investment**

### *2014 Compared to 2013 and 2013 Compared to 2012*

There were no impairment charges or reversals on equity investment in 2014. In 2013, we increased our accrual by \$8 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. This was partially offset by \$7 million of earnings attributed to a partial repayment of previously reserved receivables due from the same joint venture. In 2012, we reversed \$2 million of a previously recorded impairment of an equity investment because the actual costs incurred to suspend the marketing and sales operations associated with the equity investment were lower than previously estimated.

## **Income Tax**

Our effective tax rates for fiscal years 2014, 2013 and 2012 were 46.37%, 39.23% and 80.08%, 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 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.

### *2014 Compared to 2013*

Our provision for income taxes increased \$19 million (from \$51 million to \$70 million) due to higher consolidated income before income taxes and the change in the geographic composition of income before income taxes. We had lower income before income taxes in our foreign jurisdictions during 2014, as compared to 2013, due to the loss on the disposition of The Abaco Club in the Bahamas during the fourth quarter of 2014 and an increase in the income before income taxes attributable to the United States.

### *2013 Compared to 2012*

Our provision for income taxes increased \$27 million (from \$24 million to \$51 million) due to higher income before income taxes in both U.S. and foreign jurisdictions. We had higher income before income taxes in our foreign jurisdictions during 2013, as compared to 2012, due to the cumulative impact of the extended rescission periods in our Europe segment.

## **EBITDA**

EBITDA, a financial measure that is not prescribed or authorized by GAAP, is defined as earnings, or net income, before interest expense (excluding consumer financing interest expense), provision for income taxes, depreciation and amortization. For purposes of our EBITDA calculation, we do not adjust for consumer financing interest expense because the associated debt is secured by vacation ownership notes receivable that have been sold to bankruptcy remote special purpose entities and that is generally non-recourse to us. Further, we consider consumer financing interest expense to be an operating expense of our business.



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

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

(\$ in millions)	Fiscal Years		
	2014	2013	2012
Net income	\$ 81	\$ 80	\$ 7
Interest expense	12	13	17
Tax provision	70	51	24
Depreciation and amortization	19	23	30
<b>EBITDA</b>	<b>\$ 182</b>	<b>\$ 167</b>	<b>\$ 78</b>

**Business Segments**

Our business is grouped into three reportable business segments: North America, Europe and Asia Pacific. See Footnote No. 17, Business Segments, to our Financial Statements for further information on our segments, and Business Segments for further details regarding our individual properties by segment.

As of January 2, 2015, we operated the following 58 properties by segment:

	U.S. <sup>(1)</sup>	Non-U.S.	Total
North America	45	5	50
Europe		5	5
Asia Pacific		3	3
<b>Total</b>	<b>45</b>	<b>13</b>	<b>58</b>

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



**Table of Contents***North America*

(\$ in millions)	Fiscal Years		
	2014	2013	2012
<b>Revenues</b>			
Sale of vacation ownership products	\$ 578	\$ 583	\$ 532
Resort management and other services	263	255	249
Financing	120	132	143
Rental	234	233	198
Cost reimbursements	354	342	322
<b>Total revenues</b>	<b>1,549</b>	<b>1,545</b>	<b>1,444</b>
<b>Expenses</b>			
Cost of vacation ownership products	170	184	176
Marketing and sales	272	270	260
Resort management and other services	169	176	184
Rental	209	222	196
Litigation settlement	19	(1)	41
Organizational and separation related	1		1
Royalty fee	9	10	9
Impairment	1		
Cost reimbursements	354	342	322
<b>Total expenses</b>	<b>1,204</b>	<b>1,203</b>	<b>1,189</b>
Gains and other income	5	1	9
Impairment (charges) reversals on equity investment		(1)	2
<b>Segment financial results</b>	<b>\$ 350</b>	<b>\$ 342</b>	<b>\$ 266</b>

**Contract Sales***2014 Compared to 2013*

(\$ in millions)	Fiscal Years			
	2014	2013	Change	% Change
<b>Contract Sales</b>				
Vacation ownership	\$ 620	\$ 608	\$ 12	2%
Residential products	14	15	(1)	NM
<b>Total contract sales</b>	<b>\$ 634</b>	<b>\$ 623</b>	<b>\$ 11</b>	<b>2%</b>

Excluding the impact of the additional week in 2013, contract sales increased \$20 million in our North America segment. The increase in vacation ownership contract sales in our North America segment reflected a \$12 million increase in sales at on-site sales locations, and no change in sales at off-site (non tour-based) sales locations. The increase in sales at on-site sales locations reflected a 6 percent increase in VPG to \$3,386 in 2014 from \$3,200 in 2013, partially offset by a 3 percent decline in the number of tours. The increase in VPG was due to higher pricing, a 0.3 percentage point increase in closing efficiency and an increase in the number of points sold per contract. Excluding the impact of the additional week in 2013, the number of tours declined 1.5 percent. The decline in the number of tours continued to be driven by an increase in weeks-based owner utilization of the MVCD program, with owners taking advantage of the program's flexibility to take vacations of shorter duration and exercise alternative usage options. This trend has continued to reduce our existing owner tour flow because fewer owners are in our resorts, and their stays in our resorts are shorter, than in prior years. We implemented new programs in 2014 aimed at generating existing owner tours and new marketing programs targeted toward first-time buyers, which we expect will increase tour flow in 2015.

**Table of Contents***2013 Compared to 2012*

(\$ in millions)	Fiscal Years		Change	% Change
	2013	2012		
<b>Contract Sales</b>				
Vacation ownership	\$ 608	\$ 582	\$ 26	5%
Residential products	15	1	14	NM
Total contract sales	\$ 623	\$ 583	\$ 40	7%

The increase in contract sales in our North America segment included \$14 million of higher residential contract sales, including \$9 million associated with the continued execution of our strategy to dispose of excess inventory, and a \$26 million, or 5 percent, increase in vacation ownership contract sales, which included \$9 million from the additional week in 2013.

The increase in vacation ownership contract sales reflected an 8 percent increase in VPG to \$3,200 in 2013 from \$2,963 in 2012. This increase in VPG was due to a nearly 4 percent price increase and a 1 percentage point increase in closing efficiency resulting from improved marketing and sales execution. These increases were partially offset by a 3 percent decline in the number of tours. The decline in the number of tours was driven by an increase in weeks-based owner utilization of the MVCD program, with owners taking advantage of the program's flexibility to take vacations of shorter duration and exercise alternative usage options. This has reduced our existing owner tour flow because fewer owners are in our resorts, and their stays in our resorts are shorter, than in prior years. We intend to increase tour flow through new programs aimed at generating existing owner tours and developing new marketing programs targeted toward first-time buyers.

**Sale of Vacation Ownership Products***2014 Compared to 2013*

(\$ in millions)	Fiscal Years		Change	% Change
	2014	2013		
Contract sales	\$ 634	\$ 623	\$ 11	2%
Revenue recognition adjustments:				
Reportability	(13)	5	(18)	
Sales reserve	(25)	(29)	4	
Other <sup>(1)</sup>	(18)	(16)	(2)	
Sale of vacation ownership products	\$ 578	\$ 583	\$ (5)	(1%)

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

The lower vacation ownership notes receivable reserve activity is due to a decrease in estimated default activity compared to 2013.

**Table of Contents***2013 Compared to 2012*

(\$ in millions)	Fiscal Years		Change	% Change
	2013	2012		
Contract sales	\$ 623	\$ 583	\$ 40	7%
Revenue recognition adjustments:				
Reportability	5	(4)	9	
Sales reserve	(29)	(34)	5	
Other <sup>(1)</sup>	(16)	(13)	(3)	
Sale of vacation ownership products	\$ 583	\$ 532	\$ 51	9%

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

The lower vacation ownership notes receivable reserve activity is due to lower estimated default and delinquency activity, net of higher contract sales volume and revenue reportability in 2013. These increases were partially offset by \$3 million of higher plus points issued as sales incentives in 2013. Plus points will ultimately be recognized as rental revenues upon usage or expiration of the plus points rather than revenues from the sale of vacation ownership products.

**Development Margin***2014 Compared to 2013*

(\$ in millions)	Fiscal Years		Change	% Change
	2014	2013		
Sale of vacation ownership products	\$ 578	\$ 583	\$ (5)	(1%)
Cost of vacation ownership products	(170)	(184)	14	8%
Marketing and sales	(272)	(270)	(2)	(1%)
Development margin	\$ 136	\$ 129	\$ 7	5%
Development margin percentage	23.4%	22.1%	1.3 pts	

The increase in development margin reflected a \$24 million increase from higher contract sales volume net of lower direct variable expenses (i.e., cost of vacation ownership products and marketing and sales) driven by \$22 million from a favorable mix of lower cost real estate inventory being sold and \$2 million from the net impact of the higher contract sales volume. Additionally, the increase in development margin reflected a \$4 million decrease in vacation ownership notes receivable reserve activity. These increases were partially offset by \$11 million of lower revenue reportability compared to 2013 and \$10 million of lower favorable product cost true-ups (\$6 million in 2014 compared to \$16 million in 2013).

The 1.3 percentage point improvement in the development margin percentage reflected a 4 percentage point increase due to a favorable mix of lower cost vacation ownership real estate inventory being sold in 2014 and a less than 1 percentage point increase from the lower vacation ownership notes receivable reserve activity, partially offset by a 2 percentage point decrease due to the lower favorable product cost true-up activity year-over-year and a 1 percentage point decrease due to lower revenue reportability year-over-year.

*2013 Compared to 2012*

(\$ in millions)	Fiscal Years		Change	% Change
	2013	2012		
Sale of vacation ownership products	\$ 583	\$ 532	\$ 51	9%
Cost of vacation ownership products	(184)	(176)	(8)	(5%)
Marketing and sales	(270)	(260)	(10)	(4%)
Development margin	\$ 129	\$ 96	\$ 33	33%

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