

MARRIOTT VACATIONS WORLDWIDE Corp

Form 10-Q

July 18, 2013

Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended June 14, 2013

OR

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

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

Commission file number 001-35219

**Marriott Vacations Worldwide Corporation**

(Exact name of registrant as specified in its charter)

Edgar Filing: MARRIOTT VACATIONS WORLDWIDE Corp - Form 10-Q

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

**6649 Westwood Blvd.**

**Orlando, FL**  
(Address of principal executive offices)

**45-2598330**  
(I.R.S. Employer  
Identification No.)

**32821**  
(Zip Code)

**(407) 206-6000**  
(Registrant's telephone number, including area code)

**(Former name, former address and former fiscal year, if changed since last report)**

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

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

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

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

The number of shares outstanding of the issuer's common stock, par value \$0.01 per share, as of July 12, 2013 was 35,377,732.

**Table of Contents**

**INDEX**

	<b>Page</b>
<b>Part I. <u>FINANCIAL INFORMATION (UNAUDITED)</u></b>	2
Item 1. <u>Interim Consolidated Financial Statements</u>	2
<u>Interim Consolidated Statements of Operations</u>	2
<u>Interim Consolidated Statements of Comprehensive Income (Loss)</u>	3
<u>Interim Consolidated Balance Sheets</u>	4
<u>Interim Consolidated Statements of Cash Flows</u>	5
<u>Notes to Interim Consolidated Financial Statements</u>	6
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	26
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	54
Item 4. <u>Controls and Procedures</u>	54
<b>Part II. <u>OTHER INFORMATION</u></b>	54
Item 1. <u>Legal Proceedings</u>	54
Item 1A. <u>Risk Factors</u>	55
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	55
Item 3. <u>Defaults Upon Senior Securities</u>	55
Item 4. <u>Mine Safety Disclosures</u>	55
Item 5. <u>Other Information</u>	55
Item 6. <u>Exhibits</u>	55
<u>SIGNATURES</u>	56

**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****MARRIOTT VACATIONS WORLDWIDE CORPORATION****INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS**

(In millions, except per share amounts)

(Unaudited)

	Twelve Weeks Ended		Twenty-Four Weeks Ended	
	June 14, 2013	June 15, 2012	June 14, 2013	June 15, 2012
<b>REVENUES</b>				
Sale of vacation ownership products	\$ 169	\$ 141	\$ 310	\$ 273
Resort management and other services	61	62	117	116
Financing	32	35	65	71
Rental	65	54	128	110
Other	9	8	15	14
Cost reimbursements	85	83	176	173
<b>TOTAL REVENUES</b>	<b>421</b>	<b>383</b>	<b>811</b>	<b>757</b>
<b>EXPENSES</b>				
Cost of vacation ownership products	57	50	101	97
Marketing and sales	74	78	148	152
Resort management and other services	45	49	87	93
Financing	6	7	11	13
Rental	56	52	112	100
Other	3	3	7	5
General and administrative	22	20	43	39
Litigation settlement		2	(1)	2
Organizational and separation related	2	4	3	6
Interest	11	14	22	27
Royalty fee	15	14	28	27
Impairment	1		1	
Cost reimbursements	85	83	176	173
<b>TOTAL EXPENSES</b>	<b>377</b>	<b>376</b>	<b>738</b>	<b>734</b>
Gains and other income			1	
Impairment reversals on equity investment		2		2
<b>INCOME BEFORE INCOME TAXES</b>	<b>44</b>	<b>9</b>	<b>74</b>	<b>25</b>
Provision for income taxes	(14)	(4)	(25)	(12)
<b>NET INCOME</b>	<b>\$ 30</b>	<b>\$ 5</b>	<b>\$ 49</b>	<b>\$ 13</b>
Basic earnings per share	\$ 0.87	\$ 0.16	\$ 1.40	\$ 0.39

## Edgar Filing: MARRIOTT VACATIONS WORLDWIDE Corp - Form 10-Q

Shares used in computing basic earnings per share	35.4	34.3	35.3	34.2
Diluted earnings per share	\$ 0.85	\$ 0.15	\$ 1.35	\$ 0.37
Shares used in computing diluted earnings per share	36.6	36.1	36.6	35.9

**See Notes to Interim Consolidated Financial Statements**

**Table of Contents**

**MARRIOTT VACATIONS WORLDWIDE CORPORATION**

**INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

(In millions)

(Unaudited)

	<b>Twelve Weeks Ended</b>		<b>Twenty-Four Weeks Ended</b>	
	<b>June 14, 2013</b>	<b>June 15, 2012</b>	<b>June 14, 2013</b>	<b>June 15, 2012</b>
Net income	\$ 30	\$ 5	\$ 49	\$ 13
Other comprehensive loss, net of tax:				
Foreign currency translation adjustments		(6)	(1)	(2)
Total other comprehensive loss, net of tax		(6)	(1)	(2)
<b>COMPREHENSIVE INCOME (LOSS)</b>	<b>\$ 30</b>	<b>\$ (1)</b>	<b>\$ 48</b>	<b>\$ 11</b>

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

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

(In millions, except per share amounts)

	(Unaudited) June 14, 2013	December 28, 2012
<b>ASSETS</b>		
Cash and cash equivalents	\$ 104	\$ 103
Restricted cash (including \$42 and \$31 from VIEs, respectively)	64	68
Accounts and contracts receivable (including \$5 and \$5 from VIEs, respectively)	101	100
Vacation ownership notes receivable (including \$699 and \$727 from VIEs, respectively)	988	1,056
Inventory	869	888
Property and equipment	252	261
Other	133	137
<b>Total Assets</b>	<b>\$ 2,511</b>	<b>\$ 2,613</b>
<b>LIABILITIES AND EQUITY</b>		
Accounts payable	\$ 81	\$ 113
Advance deposits	46	64
Accrued liabilities (including \$2 and \$1 from VIEs, respectively)	152	181
Deferred revenue	21	32
Payroll and benefits liability	74	82
Liability for Marriott Rewards customer loyalty program	134	159
Deferred compensation liability	37	45
Mandatorily redeemable preferred stock of consolidated subsidiary	40	40
Debt (including \$643 and \$674 from VIEs, respectively)	647	678
Other	48	38
Deferred taxes	41	42
<b>Total Liabilities</b>	<b>1,321</b>	<b>1,474</b>
<b>Contingencies and Commitments (Note 7)</b>		
Preferred stock \$.01 par value; 2,000,000 shares authorized; none issued or outstanding		
Common stock \$.01 par value; 100,000,000 shares authorized; 35,369,314 and 35,026,533 shares issued and outstanding, respectively		
Additional paid-in capital	1,119	1,116
Accumulated other comprehensive income	20	21
Retained earnings	51	2
<b>Total Equity</b>	<b>1,190</b>	<b>1,139</b>
<b>Total Liabilities and Equity</b>	<b>\$ 2,511</b>	<b>\$ 2,613</b>

The abbreviation VIEs above means Variable Interest Entities.

**See Notes to Interim Consolidated Financial Statements**

**Table of Contents**

**MARRIOTT VACATIONS WORLDWIDE CORPORATION**  
**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In millions)

(Unaudited)

	Twenty-Four Weeks Ended June 14, 2013	June 15, 2012
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 49	\$ 13
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	11	14
Amortization of debt issuance costs	3	3
Provision for loan losses	18	23
Share-based compensation	6	6
Deferred income taxes	(1)	(16)
Impairment charges	1	
Impairment reversals on equity investment		(2)
Gain on disposal of property and equipment, net	(1)	
Net change in assets and liabilities:		
Accounts and contracts receivable	(1)	4
Notes receivable originations	(100)	(99)
Notes receivable collections	148	148
Inventory	22	51
Other assets		20
Accounts payable, advance deposits and accrued liabilities	(83)	(52)
Liability for Marriott Rewards customer loyalty program	(25)	(31)
Deferred revenue	(10)	5
Payroll and benefit liabilities	(7)	4
Deferred compensation liability	(8)	(2)
Other liabilities	12	17
Net cash provided by operating activities	34	106
<b>INVESTING ACTIVITIES</b>		
Capital expenditures for property and equipment (excluding inventory)	(7)	(7)
Decrease in restricted cash	4	9
Dispositions	3	3
Net cash provided by investing activities		5
<b>FINANCING ACTIVITIES</b>		
Borrowings from securitization transactions	111	
Repayment of debt related to securitization transactions	(142)	(136)
Borrowings on Revolving Corporate Credit Facility	25	15
Repayments on Revolving Corporate Credit Facility	(25)	(15)
Proceeds from stock option exercises	2	3
Payment of withholding taxes on vesting of restricted stock units	(4)	(3)
Net cash used in financing activities	(33)	(136)



Edgar Filing: MARRIOTT VACATIONS WORLDWIDE Corp - Form 10-Q

Effect of changes in exchange rates on cash and cash equivalents		(2)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1	(27)
CASH AND CASH EQUIVALENTS, beginning of period	103	110
CASH AND CASH EQUIVALENTS, end of period	\$ 104	\$ 83

**See Notes to Interim Consolidated Financial Statements**

---

**Table of Contents**

**MARRIOTT VACATIONS WORLDWIDE CORPORATION**

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Our Business*

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

Our business is grouped into three reportable segments: North America, Europe and Asia Pacific. We operate 63 properties in the United States and nine other countries and territories.

We generate most of our revenues from four primary sources: selling vacation ownership products, managing our resorts, financing consumer purchases, and renting vacation ownership inventory.

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

On November 21, 2011, the spin-off of Marriott Vacations Worldwide (the Spin-Off ) from Marriott International, Inc. ( Marriott International ) was completed. In the Spin-Off, Marriott International s vacation ownership operations and related residential business were separated from Marriott International through a special tax-free dividend to Marriott International s shareholders of all of the issued and outstanding common stock of our company. As a result of the Spin-Off, we became an independent company, and our common stock is listed on the New York Stock Exchange under the symbol VAC. Following the Spin-Off, we and Marriott International have operated independently, and neither company has any ownership interest in the other.

In order to provide for an orderly transition to our status as an independent, publicly owned company and to govern the ongoing relationship between us and Marriott International, we and Marriott International entered into material agreements pertaining to the provision by each company to the other of certain services, and the rights and obligations of each company, following the Spin-Off. These agreements also provide for each company to indemnify the other against certain liabilities arising from our respective businesses. The agreements include a License, Services, and Development Agreement with Marriott International and its subsidiary Marriott Worldwide Corporation and a License, Services, and Development Agreement with Ritz-Carlton under which we are granted the exclusive right, for the terms of the 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.

*Principles of Consolidation and Basis of Presentation*

The interim consolidated financial statements presented herein and discussed below include 100 percent of the assets, liabilities, revenues, expenses and cash flows of Marriott Vacations Worldwide, all entities in which Marriott Vacations Worldwide has a controlling voting interest ( subsidiaries ), and those variable interest entities for which Marriott Vacations Worldwide is the primary beneficiary in accordance with the consolidation accounting guidance. Intercompany accounts and transactions between consolidated companies have been eliminated in consolidation. The interim consolidated financial statements reflect our financial position, results of operations and cash flows as prepared in conformity with United States Generally Accepted Accounting Principles ( GAAP ).

We refer throughout to (i) our Interim Consolidated Financial Statements as our Financial Statements, (ii) our Interim Consolidated Statements of Operations as our Statements of Operations, (iii) our Interim Consolidated Balance Sheets as our Balance Sheets and (iv) our Interim Consolidated Statements of Cash Flows as our Cash Flows.

## Edgar Filing: MARRIOTT VACATIONS WORLDWIDE Corp - Form 10-Q

Unless otherwise specified, each reference to a particular quarter in these Financial Statements means the twelve weeks ended on the date shown in the following table, rather than the corresponding calendar quarter:

<b>Fiscal Year</b>	<b>Quarter-End Date</b>
2013 Second Quarter	June 14, 2013
2013 First Quarter	March 22, 2013
2012 Second Quarter	June 15, 2012
2012 First Quarter	March 23, 2012

---

## **Table of Contents**

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

These Financial Statements have not been audited. We have condensed or omitted certain information and footnote disclosures normally included in financial statements presented in accordance with GAAP. Although we believe our footnote disclosures are adequate to make the information presented not misleading, you should read these interim Financial Statements in conjunction with the audited annual Consolidated Financial Statements and notes to those Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended December 28, 2012, subject to the restatement of certain items noted below.

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

We have reclassified certain prior year amounts to conform to our 2013 presentation.

### *Restatement of Prior Financial Statements*

During the course of an internal review of certain sales documentation processes related to the sale of certain vacation ownership interests in properties associated with our Europe segment, we determined that the documentation we provided for certain sales of vacation ownership products was not strictly compliant. As a result, in accordance with applicable European regulation, the period of time during which purchasers of such interests may rescind their purchases was extended. We record revenues from the sale of vacation ownership products once the rescission period has ended. Originally, we recorded revenues from these sales of vacation ownership products based on the rescission periods in effect assuming compliant documentation had been provided to the purchasers rather than the extended periods. As a result, we recognized revenue in incorrect periods between fiscal years 2010 and 2013 and misstated revenues in our previously filed consolidated financial statements.

The documentation issue described above was limited to sales documentation provided to purchasers of certain interests in properties associated with our Europe segment. We have taken corrective measures and compliant documentation is now being provided to purchasers. In addition, we have provided compliant documentation to purchasers for whom the extended rescission period had not yet expired. The cumulative impact of these items through December 28, 2012 was a reduction in reported income before income taxes of \$12 million. The cumulative impact of these items through March 22, 2013 was a reduction in reported income before income taxes of \$11 million. However, as compliant documentation has since been provided, the extended rescission period for most of the purchases at issue ended during the second quarter of 2013, with sales having a net pre-tax impact of \$1 million actually having been rescinded. As a result, approximately \$9 million and \$10 million of this cumulative impact is reflected as an increase in pre-tax income for the twelve and twenty-four weeks ended June 14, 2013, respectively, with approximately \$1 million expected to be reflected in our results for the third quarter of 2013.

The consolidated restated financial statements will include certain other corrections related to the timing of recording adjustments to previously reported deferred tax balances. Certain deferred tax assets were determined to not be realizable in future years and thus were eliminated, albeit in the incorrect fiscal year for the years ended December 28, 2012, December 30, 2011 and December 31, 2010. These corrections were identified while we were developing internal processes relating to deferred taxes after we became a standalone public company. In addition to the adjustments required as a result of the errors described above, the restated consolidated financial statements will include certain previously unrecorded immaterial adjustments to our financial statements for fiscal years 2010 and 2011 relating to cost reimbursements, which previously were recorded on a net basis.

The adjustments necessary to correct all of the errors have no impact on previously reported cash flows from operations and do not have a material impact on our balance sheet as of any date. In accordance with applicable accounting guidance, an adjustment to the financial statements for each individual period presented is required to reflect the correction of the period-specific effects of the errors described above, if material. Based on our evaluation of relevant quantitative and qualitative factors, we determined the identified misstatements are not material to our individual prior period consolidated financial statements; however, the cumulative correction of the prior period errors would be material to our current year consolidated financial statements. Consequently, we will restate the consolidated Statements of Operations for the years ended December 28, 2012 and December 30, 2011, and the Statements of Operations for the periods ended March 22, 2013 and March 23, 2012. We have restated the accompanying consolidated Balance Sheet as of December 28, 2012 and the Statement of Operations for the twelve and twenty-four weeks ended June 15, 2012. We have also restated the opening December 29, 2012 balances presented in our shareholders' equity table as of June 14, 2013 (included in Footnote No. 12, Shareholders' Equity) appearing herein, from amounts previously reported, to correct the

prior period misstatements.

**Table of Contents**

The cumulative impact of these misstatements on our 2012 annual and interim consolidated statements of cash flows is inconsequential as the impact on individual line items within operating activities is not material and had no impact on net cash provided by (used in) operating, investing or financing activities. However, we will restate the 2012 statement of cash flows when disclosed in our Annual Report on Form 10-K for the fiscal year ended January 3, 2014 to reflect changes to individual line items within operating activities.

The impact of these adjustments on the financial statements is detailed in the tables below.

	For the Twelve Weeks Ended March 22, 2013		
<i>(\$ in millions, except per share data)</i>	As Previously Reported	Adjustment	As Restated
<b>CONSOLIDATED STATEMENTS OF OPERATIONS</b>			
Sale of vacation ownership products	\$ 140	\$ 1	\$ 141
<b>TOTAL REVENUES</b>	<b>\$ 389</b>	<b>\$ 1</b>	<b>\$ 390</b>
INCOME BEFORE INCOME TAXES	\$ 29	\$ 1	\$ 30
<b>NET INCOME</b>	<b>\$ 18</b>	<b>\$ 1</b>	<b>\$ 19</b>
Basic earnings per share	\$ 0.52	\$ 0.01	\$ 0.53
Diluted earnings per share	\$ 0.50	\$ 0.01	\$ 0.51

	As of December 28, 2012		
<i>(\$ in millions)</i>	As Previously Reported	Adjustment	As Restated
<b>CONSOLIDATED BALANCE SHEETS</b>			
Inventory	\$ 881	\$ 7	\$ 888
Other	\$ 135	\$ 2	\$ 137
<b>TOTAL ASSETS</b>	<b>\$ 2,604</b>	<b>\$ 9</b>	<b>\$ 2,613</b>
Advance deposits	\$ 42	\$ 22	\$ 64
Deferred taxes	\$ 43	\$ (1)	\$ 42
<b>TOTAL LIABILITIES</b>	<b>\$ 1,453</b>	<b>\$ 21</b>	<b>\$ 1,474</b>
Retained earnings (deficit)	\$ 14	\$ (12)	\$ 2
<b>TOTAL EQUITY</b>	<b>\$ 1,151</b>	<b>\$ (12)</b>	<b>\$ 1,139</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 2,604</b>	<b>\$ 9</b>	<b>\$ 2,613</b>

	For the Year Ended December 28, 2012		
<i>(\$ in millions, except per share data)</i>	As Previously Reported	Adjustment	As Restated
<b>CONSOLIDATED STATEMENTS OF OPERATIONS</b>			
Sale of vacation ownership products	\$ 627	\$ (9)	\$ 618
<b>TOTAL REVENUES</b>	<b>\$ 1,648</b>	<b>\$ (9)</b>	<b>\$ 1,639</b>
Cost of vacation ownership products	\$ 205	\$ (2)	\$ 203
Marketing and sales	\$ 330	\$ (1)	\$ 329
<b>TOTAL EXPENSES</b>	<b>\$ 1,623</b>	<b>\$ (3)</b>	<b>\$ 1,620</b>
<b>INCOME BEFORE INCOME TAXES</b>	<b>\$ 37</b>	<b>\$ (6)</b>	<b>\$ 31</b>
Provision for income taxes	\$ (21)	\$ (3)	\$ (24)
<b>NET INCOME</b>	<b>\$ 16</b>	<b>\$ (9)</b>	<b>\$ 7</b>
Basic earnings per share	\$ 0.46	\$ (0.27)	\$ 0.19
Diluted earnings per share	\$ 0.44	\$ (0.26)	\$ 0.18



**Table of Contents**

	<b>For the Twelve Weeks Ended June 15, 2012</b>		
	<b>As Previously Reported</b>	<b>Adjustment</b>	<b>As Restated</b>
<i>(\$ in millions, except per share data)</i>			
<b>CONSOLIDATED STATEMENTS OF OPERATIONS</b>			
Sale of vacation ownership products	\$ 145	\$ (4)	\$ 141
<b>TOTAL REVENUES</b>	<b>\$ 387</b>	<b>\$ (4)</b>	<b>\$ 383</b>
Cost of vacation ownership products	\$ 51	\$ (1)	\$ 50
<b>TOTAL EXPENSES</b>	<b>\$ 377</b>	<b>\$ (1)</b>	<b>\$ 376</b>
<b>INCOME BEFORE INCOME TAXES</b>	<b>\$ 12</b>	<b>\$ (3)</b>	<b>\$ 9</b>
<b>NET INCOME</b>	<b>\$ 8</b>	<b>\$ (3)</b>	<b>\$ 5</b>
Basic earnings per share	\$ 0.25	\$ (0.09)	\$ 0.16
Diluted earnings per share	\$ 0.24	\$ (0.09)	\$ 0.15

	<b>For the Twenty-Four Weeks Ended June 15, 2012</b>		
	<b>As Previously Reported</b>	<b>Adjustment</b>	<b>As Restated</b>
<i>(\$ in millions, except per share data)</i>			
<b>CONSOLIDATED STATEMENTS OF OPERATIONS</b>			
Sale of vacation ownership products	\$ 279	\$ (6)	\$ 273
<b>TOTAL REVENUES</b>	<b>\$ 763</b>	<b>\$ (6)</b>	<b>\$ 757</b>
Cost of vacation ownership products	\$ 99	\$ (2)	\$ 97
<b>TOTAL EXPENSES</b>	<b>\$ 736</b>	<b>\$ (2)</b>	<b>\$ 734</b>
<b>INCOME BEFORE INCOME TAXES</b>	<b>\$ 29</b>	<b>\$ (4)</b>	<b>\$ 25</b>
<b>NET INCOME</b>	<b>\$ 17</b>	<b>\$ (4)</b>	<b>\$ 13</b>
Basic earnings per share	\$ 0.50	\$ (0.11)	\$ 0.39
Diluted earnings per share	\$ 0.48	\$ (0.11)	\$ 0.37

	<b>For the Year Ended December 30, 2011</b>		
	<b>As Previously Reported</b>	<b>Adjustment</b>	<b>As Restated</b>
<i>(\$ in millions, except per share data)</i>			
<b>CONSOLIDATED STATEMENTS OF OPERATIONS</b>			
Sale of vacation ownership products	\$ 634	\$ (7)	\$ 627
Cost reimbursements	\$ 331	\$ 18	\$ 349
<b>TOTAL REVENUES</b>	<b>\$ 1,613</b>	<b>\$ 11</b>	<b>\$ 1,624</b>
Cost of vacation ownership products	\$ 242	\$ (3)	\$ 239
Marketing and sales	\$ 342	\$ (1)	\$ 341
Cost reimbursements	\$ 331	\$ 18	\$ 349
<b>TOTAL EXPENSES</b>	<b>\$ 1,833</b>	<b>\$ 14</b>	<b>\$ 1,847</b>
<b>LOSS BEFORE INCOME TAXES</b>	<b>\$ (214)</b>	<b>\$ (3)</b>	<b>\$ (217)</b>
Benefit for income taxes	\$ 36	\$ 9	\$ 45
<b>NET LOSS</b>	<b>\$ (178)</b>	<b>\$ 6</b>	<b>\$ (172)</b>
Basic loss per share	\$ (5.29)	\$ 0.17	\$ (5.12)
Diluted loss per share	\$ (5.29)	\$ 0.17	\$ (5.12)



**Table of Contents**

(\$ in millions, except per share data)	For the Year Ended December 31, 2010		
	As Previously Reported	Adjustment	As Restated
<b>CONSOLIDATED STATEMENTS OF OPERATIONS</b>			
Sale of vacation ownership products	\$ 635	\$ (6)	\$ 629
Cost reimbursements	\$ 318	\$ 14	\$ 332
<b>TOTAL REVENUES</b>	<b>\$ 1,584</b>	<b>\$ 8</b>	<b>\$ 1,592</b>
Cost of vacation ownership products	\$ 245	\$ (2)	\$ 243
Marketing and sales	\$ 344	\$ (1)	\$ 343
Cost reimbursements	\$ 318	\$ 14	\$ 332
<b>TOTAL EXPENSES</b>	<b>\$ 1,496</b>	<b>\$ 11</b>	<b>\$ 1,507</b>
<b>INCOME BEFORE INCOME TAXES</b>	<b>\$ 112</b>	<b>\$ (3)</b>	<b>\$ 109</b>
Provision for income taxes	\$ (45)	\$ (5)	\$ (50)
<b>NET INCOME</b>	<b>\$ 67</b>	<b>\$ (8)</b>	<b>\$ 59</b>
Basic earnings per share	\$ 2.00	\$ (0.26)	\$ 1.74
Diluted earnings per share	\$ 2.00	\$ (0.26)	\$ 1.74

The cumulative effect of the prior period misstatements of approximately \$12 million was recorded as a reduction to retained earnings in our accompanying consolidated balance sheet as of December 28, 2012 and the opening December 28, 2012 balances presented in our stockholders equity disclosure as of June 14, 2013. The cumulative effect of the prior period misstatements of approximately \$9 million will be presented in our Annual Report on Form 10-K for the fiscal year ended January 3, 2014 as a reduction to retained earnings as of January 1, 2011.

*New Accounting Standards**Accounting Standards Update No. 2013-02 – Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income (ASU No. 2013-02)*

ASU No. 2013-02, which we adopted in the first quarter of 2013, amends existing guidance by requiring that additional information be disclosed about items reclassified ( reclassification adjustments ) out of accumulated other comprehensive income. The additional information includes a separate statement of the total change for each component of other comprehensive income (for example unrealized gains or losses on available-for-sale securities or foreign currency items) and separate disclosure of both current-period other comprehensive income and reclassification adjustments. Entities are also required to present, either on the face of the income statement or in the notes to the financial statements, significant amounts reclassified out of accumulated other comprehensive income as separate line items of net income but only if the entire amount reclassified must be reclassified to net income in the same reporting period. For amounts that are not required to be reclassified in their entirety to net income, an entity must cross-reference to other disclosures that provide additional detail about those amounts. The adoption of this update did not have a material impact on our Financial Statements.

**2. INCOME TAXES**

Marriott Vacations Worldwide files U.S. consolidated federal and state tax returns, as well as separate tax filings for non-U.S. jurisdictions. On November 21, 2011, we entered into a Tax Sharing and Indemnification Agreement with Marriott International (as subsequently amended, the Tax Sharing and Indemnification Agreement ), which governs the allocation of responsibility for federal, state, local and foreign income and other taxes related to taxable periods prior to and subsequent to the Spin-Off between Marriott International and Marriott Vacations Worldwide. Under this agreement, if any part of the Spin-Off fails to qualify for the tax treatment stated in the ruling Marriott International received from the U.S. Internal Revenue Service (the IRS ) in connection with the Spin-Off, taxes imposed will be allocated between Marriott International and Marriott Vacations Worldwide and each will indemnify and hold harmless the other from and against the taxes so allocated. We had unrecognized tax benefits of less than \$1 million at both June 14, 2013 and December 28, 2012 relating to contested tax assessments, which, if realized, would have impacted our effective tax rate.

**Table of Contents**

Marriott Vacations Worldwide has joined in the Marriott International U.S. Federal tax consolidated filing for all years prior to 2011 and the portion of 2011 up to the date of the Spin-Off. The IRS has examined Marriott International's federal income tax returns, and it has settled all issues related to the timeshare business for the tax years through the Spin-Off. Although we do not anticipate that a significant impact to our unrecognized tax benefit balance will occur during the next fiscal year as a result of audits by other tax jurisdictions, the amount of our liability for unrecognized tax benefits could change as a result of these audits. Pursuant to the Tax Sharing and Indemnification Agreement, Marriott International is liable and shall pay the relevant tax authority for all taxes related to our taxable income prior to the Spin-Off. Our tax years subsequent to the Spin-Off are subject to examination by relevant tax authorities.

**3. VACATION OWNERSHIP NOTES RECEIVABLE**

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

<i>(\$ in millions)</i>	<b>June 14, 2013</b>	<b>December 28, 2012</b>
Vacation ownership notes receivable securitized	\$ 699	\$ 727
Vacation ownership notes receivable non-securitized		
Eligible for securitization <sup>(1)</sup>	116	127
Not eligible for securitization <sup>(1)</sup>	173	202
<b>Subtotal</b>	<b>289</b>	<b>329</b>
 Total vacation ownership notes receivable	 \$ 988	 \$ 1,056

<sup>(1)</sup> Refer to Footnote No. 4, Financial Instruments, for a discussion of the eligibility of our vacation ownership notes receivable for securitization.

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

<i>(\$ in millions)</i>	<b>Non-Securitized Vacation Ownership Notes Receivable</b>	<b>Securitized Vacation Ownership Notes Receivable</b>	<b>Total</b>
2013	\$ 49	\$ 53	\$ 102
2014	52	94	146
2015	41	97	138
2016	28	100	128
2017	24	92	116
Thereafter	95	263	358
 Balance at June 14, 2013	 \$ 289	 \$ 699	 \$ 988
 Weighted average stated interest rate at June 14, 2013	 11.5%	 13.0%	 12.5%
Range of stated interest rates at June 14, 2013	0.0% to 19.5%	6.0% to 18.7%	0.0% to 19.5%

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

Edgar Filing: MARRIOTT VACATIONS WORLDWIDE Corp - Form 10-Q

(\$ in millions)	Twelve Weeks Ended		Twenty-Four Weeks Ended	
	June 14, 2013	June 15, 2012	June 14, 2013	June 15, 2012
Interest income associated with vacation ownership notes receivable securitized	\$ 23	\$ 25	\$ 47	\$ 53
Interest income associated with vacation ownership notes receivable non-securitized	8	8	16	15
Total interest income associated with vacation ownership notes receivable	\$ 31	\$ 33	\$ 63	\$ 68

We record an estimate of expected uncollectibility on all notes receivable from vacation ownership purchasers as a reduction of revenues from the sale of vacation ownership products at the time we recognize profit on a vacation ownership product sale. We fully reserve for all defaulted vacation ownership notes receivable in addition to recording a reserve on the estimated uncollectible portion

**Table of Contents**

of the remaining vacation ownership notes receivable. For those vacation ownership notes receivable that are not in default, we assess collectability based on pools of vacation ownership notes receivable because we hold large numbers of homogeneous vacation ownership notes receivable. We use the same criteria to estimate uncollectibility for non-securitized vacation ownership notes receivable and securitized vacation ownership notes receivable because they perform similarly. We estimate uncollectibility for each pool based on historical activity for similar vacation ownership notes receivable.

The following table summarizes the activity related to our vacation ownership notes receivable reserve for the twenty-four weeks ended June 14, 2013:

<i>(\$ in millions)</i>	<b>Non-Securitized Vacation Ownership Notes Receivable Reserve</b>	<b>Securitized Vacation Ownership Notes Receivable Reserve</b>	<b>Total</b>
Balance at year-end 2012	\$ 93	\$ 54	\$ 147
Provision for loan losses	15	3	18
Securitizations	(11)	11	
Clean-up calls <sup>(1)</sup>	4	(4)	
Write-offs	(23)		(23)
Defaulted notes receivable repurchase activity <sup>(2)</sup>	11	(11)	
Balance at June 14, 2013	\$ 89	\$ 53	\$ 142

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

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

Although we consider loans to owners to be past due if we do not receive payment within 30 days of the due date, we suspend accrual of interest only on those loans that are over 90 days past due. We consider loans over 150 days past due to be in default. We apply payments we receive for vacation ownership notes receivable on non-accrual status first to interest, then to principal and any remainder to fees. We resume accruing interest when vacation ownership notes receivable are less than 90 days past due. We do not accept payments for vacation ownership notes receivable during the foreclosure process unless the amount is sufficient to pay all principal, interest, fees and penalties owed and fully reinstate the note. We write off uncollectible vacation ownership notes receivable against the reserve once we receive title of the vacation ownership products through the foreclosure or deed-in-lieu process or, in Europe or Asia Pacific, when revocation is complete. For both non-securitized and securitized vacation ownership notes receivable, we estimated average remaining default rates of 7.20 percent and 7.42 percent as of June 14, 2013 and December 28, 2012, respectively. A 0.5 percentage point increase in the estimated default rate would have resulted in an increase in our allowance for credit losses of \$5 million as of June 14, 2013 and \$6 million as of December 28, 2012.

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

<i>(\$ in millions)</i>	<b>Non-Securitized Vacation Ownership Notes Receivable</b>	<b>Securitized Vacation Ownership Notes Receivable</b>	<b>Total</b>
	\$ 74	\$ 9	\$ 83

Edgar Filing: MARRIOTT VACATIONS WORLDWIDE Corp - Form 10-Q

Investment in notes receivable on non-accrual status at June 14, 2013				
Investment in notes receivable on non-accrual status at December 28, 2012	\$	73	\$	11
			\$	84
Average investment in notes receivable on non-accrual status during the twenty-four weeks ended June 14, 2013	\$	74	\$	10
			\$	84
Average investment in notes receivable on non-accrual status during the twenty-four weeks ended June 15, 2012	\$	87	\$	12
			\$	99

**Table of Contents**

The following table shows the aging of the recorded investment in principal, before reserves, in vacation ownership notes receivable as of June 14, 2013:

<i>(\$ in millions)</i>	Non-Securitized Vacation Ownership Notes Receivable	Securitized Vacation Ownership Notes Receivable	Total
31 90 days past due	\$ 11	\$ 17	\$ 28
91 150 days past due	8	8	16
Greater than 150 days past due	66	1	67
Total past due	85	26	111
Current	293	726	1,019
Total vacation ownership notes receivable	\$ 378	\$ 752	\$ 1,130

The following table shows the aging of the recorded investment in principal, before reserves, in vacation ownership notes receivable as of December 28, 2012:

<i>(\$ in millions)</i>	Non-Securitized Vacation Ownership Notes Receivable	Securitized Vacation Ownership Notes Receivable	Total
31 90 days past due	\$ 14	\$ 19	\$ 33
91 150 days past due	7	8	15
Greater than 150 days past due	66	3	69
Total past due	87	30	117
Current	335	751	1,086
Total vacation ownership notes receivable	\$ 422	\$ 781	\$ 1,203

**4. FINANCIAL INSTRUMENTS**

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

<i>(\$ in millions)</i>		At June 14, 2013 Carrying Amount	Fair Value <sup>(1)</sup>	At December 28, 2012 Carrying Amount	Fair Value <sup>(1)</sup>
Vacation ownership notes receivable	securitized	\$ 699	\$ 862	\$ 727	\$ 895
Vacation ownership notes receivable	non-securitized	289	315	329	361
Total financial assets		\$ 988	\$ 1,177	\$ 1,056	\$ 1,256

Edgar Filing: MARRIOTT VACATIONS WORLDWIDE Corp - Form 10-Q

Non-recourse debt associated with vacation ownership notes receivable securitizations	\$ (539)	\$ (567)	\$ (674)	\$ (711)
Warehouse credit facility	(104)	(106)		
Other debt	(4)	(4)	(4)	(4)
Mandatorily redeemable preferred stock of consolidated subsidiary	(40)	(45)	(40)	(46)
Liability for Marriott Rewards customer loyalty program	(134)	(129)	(159)	(150)
Other liabilities			(1)	(1)
Total financial liabilities	\$ (821)	\$ (851)	\$ (878)	\$ (912)

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

**Table of Contents***Vacation Ownership Notes Receivable*

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

We bifurcate our non-securitized vacation ownership notes receivable into two pools as follows:

(\$ in millions)	At June 14, 2013		At December 28, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Vacation ownership notes receivable eligible for securitization	\$ 116	\$ 142	\$ 127	\$ 159
Vacation ownership notes receivable not eligible for securitization	173	173	202	202
<b>Total vacation ownership notes receivable non-securitized</b>	<b>\$ 289</b>	<b>\$ 315</b>	<b>\$ 329</b>	<b>\$ 361</b>

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

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

We internally generate cash flow estimates by modeling all bond tranches for our active vacation ownership notes receivable securitization transactions, with consideration for the collateral specific to each tranche. The key drivers in our analysis include default rates, prepayment rates, bond interest rates and other structural factors, which we use to estimate the projected cash flows. In order to estimate market credit spreads by rating, we obtain indicative credit spreads from investment banks that actively issue and facilitate the market for timeshare securities and determine an average credit spread by rating level of the different tranches. We then apply those estimated market spreads to swap rates in order to estimate an underlying discount rate for calculating the fair value of the active bonds payable.

*Warehouse Credit Facility*

We internally generate cash flow estimates by modeling all funding activity for our non-recourse warehouse credit facility (the Warehouse Credit Facility ) with consideration given to the collateral pledged to date. The key drivers in our analysis include default rates, prepayment rates, bond interest rates and structural factors, which we use to estimate the projected cash flows. The discount rate used to calculate the fair value of these cash flows is composed of the market swap rate for the specific average life of the cash flows plus a credit spread. Because the Warehouse Credit Facility debt is not traded in the market, we use a credit spread which is the average of indicative credit spreads obtained from investment banks on our securitized debt for the particular rating that the Warehouse Credit Facility is structured to achieve.

*Mandatorily Redeemable Preferred Stock of Consolidated Subsidiary*

We estimate the fair value of the mandatorily redeemable preferred stock of our consolidated subsidiary using a discounted cash flow model. We believe this is comparable to the model that an independent third party would use in the current market. Our model includes an assessment of our subsidiary's credit risk and the instrument's contractual dividend rate.

*Liability for Marriott Rewards Customer Loyalty Program*

We determine the carrying value of the future redemption obligation of our liability for the Marriott Rewards customer loyalty program based on statistical formulas that project the timing of future redemption of Marriott Rewards Points based on historical levels, including estimates of the number of Marriott Rewards Points that will eventually be redeemed and the breakage for points that will never be redeemed. We estimate the fair value of the future redemption obligation by adjusting the contractual discount rate to an estimate of that of a market participant with similar



nonperformance risk.

**Table of Contents***Other Liabilities*

We estimate the fair value of our other liabilities that are financial instruments using expected future payments discounted at risk-adjusted rates. These liabilities represent guarantee costs and reserves and deposit liabilities. The carrying values of our guarantee costs and reserves approximate their fair values. We estimate the fair value of our deposit liabilities primarily by discounting future payments at a risk-adjusted rate.

**5. EARNINGS PER SHARE**

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

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

	Twelve Weeks Ended		Twenty-Four Weeks Ended	
	June 14, 2013 (1)	June 15, 2012 (2)	June 14, 2013 (1)	June 15, 2012 (2)
<i>(in millions, except per share amounts)</i>				
<i>Computation of Basic Earnings Per Share</i>				
Net income	\$ 30	\$ 5	\$ 49	\$ 13
Weighted average shares outstanding	35.4	34.3	35.3	34.2
Basic earnings per share	\$ 0.87	\$ 0.16	\$ 1.40	\$ 0.39
<i>Computation of Diluted Earnings Per Share</i>				
Net income	\$ 30	\$ 5	\$ 49	\$ 13
Weighted average shares outstanding	35.4	34.3	35.3	34.2
Effect of dilutive securities				
Employee stock options and SARs	0.7	1.1	0.7	1.0
Restricted stock units	0.5	0.7	0.6	0.7
Shares for diluted earnings per share	36.6	36.1	36.6	35.9
Diluted earnings per share	\$ 0.85	\$ 0.15	\$ 1.35	\$ 0.37

(1) The computations of diluted earnings per share excludes approximately 229,000 shares of common stock, the maximum issuable upon the vesting of certain performance-based awards, because the performance conditions required for such shares to vest were not achieved by the end of the reporting period.

(2) The computations of diluted earnings per share excludes approximately 157,000 shares of common stock, the maximum issuable upon the vesting of certain performance-based awards, because the performance conditions required for such shares to vest were not achieved by the end of the reporting period.

For the twelve-week period and the twenty-four-week period ended June 14, 2013, and for the twelve-week period ended June 15, 2012, we have not excluded any stock options or stock appreciation rights ( SARs ) from our calculation of diluted earnings per share as no exercise prices were greater than the average market prices for the applicable period.

In accordance with the applicable accounting guidance for calculating earnings per share, for the twenty-four week period ended June 15, 2012, we have not included 40,086 stock options and SARs, with exercise prices ranging from \$26.37 to \$28.19, in our calculation of diluted earnings

per share because the exercise prices were greater than the average market prices for the applicable periods.

**Table of Contents****6. INVENTORY**

The following table shows the composition of our inventory balances:

<i>(\$ in millions)</i>	At June 14, 2013	At December 28, 2012
Finished goods <sup>(1)</sup>	\$ 425	\$ 491
Work-in-progress	168	120
Land and infrastructure	269	270
Real estate inventory	862	881
Operating supplies and retail inventory	7	7
	\$ 869	\$ 888

<sup>(1)</sup> Represents completed inventory that is either registered or unregistered and available for sale in its current form.

We value vacation ownership and residential products at the lower of cost or fair market value less costs to sell, in accordance with applicable accounting guidance, and we record operating supplies at the lower of cost (using the first-in, first-out method) or market value.

**7. CONTINGENCIES AND COMMITMENTS***Guarantees*

We have historically issued guarantees to certain lenders in connection with the provision of third-party financing for our sales of vacation ownership products for the North America and Asia Pacific segments. The terms of guarantees to lenders generally require us to fund if the purchaser fails to pay under the term of its note payable. Prior to the Spin-Off, Marriott International guaranteed our performance under these arrangements, and subsequent to the Spin-Off continues to hold a standby letter of credit related to the Asia Pacific segment guarantee. If Marriott International is required to fund any draws by lenders under this letter of credit it would seek recourse from us. Marriott International no longer guarantees our performance with respect to third-party financing for sales of products in the North America segment. We are entitled to recover any funding to third-party lenders related to these guarantees through reacquisition and resale of the vacation ownership product. Our commitments under these guarantees expire as notes mature or are repaid. The terms of the underlying notes extend to 2022.

The following table shows the maximum potential amount of future fundings for financing guarantees where we are the primary obligor and the carrying amount of the liability for expected future fundings.

<i>(\$ in millions)</i>	Maximum Potential Amount of Future Fundings at June 14, 2013	Liability for Expected Future Fundings at June 14, 2013
<b>Segment</b>		
Asia Pacific	\$ 15	\$
North America	3	
Total guarantees where we are the primary obligor	\$ 18	\$

## Edgar Filing: MARRIOTT VACATIONS WORLDWIDE Corp - Form 10-Q

We included our liability of less than \$1 million for expected future fundings for guarantees in our Balance Sheet at June 14, 2013 in the Other caption within Liabilities.

In addition to the guarantees we describe in the preceding paragraphs, in conjunction with financing obtained for specific projects or properties owned by joint ventures in which we are a party, we may provide industry standard indemnifications to the lender for loss, liability or damage occurring as a result of the actions of the other joint venture owners or our own actions.

### *Commitments and Letters of Credit*

In addition to the guarantees we note in the preceding paragraphs, as of June 14, 2013, we had the following commitments outstanding:

We have various contracts for the use of information technology hardware and software that we use in the normal course of business. Our commitments under these contracts were \$35 million, of which we expect \$5 million, \$10 million, \$10 million, \$5 million and \$5 million will be paid in 2013, 2014, 2015, 2016 and 2017, respectively.

Commitments to subsidize vacation ownership associations were \$3 million, which we expect will be paid in 2013.

Other purchase commitments of \$1 million (approximately 1 million) that we expect to fund during 2014.

---

## **Table of Contents**

Surety bonds issued as of June 14, 2013 totaled \$89 million, the majority of which were requested by federal, state or local governments related to our operations.

Prior to the Spin-Off, Marriott International also guaranteed our performance using letters of credit under certain agreements necessary to operate our Europe segment. Subsequent to the Spin-Off, Marriott International continues to hold less than \$1 million of standby letters of credit related to these guarantees. If Marriott International is required to fund any draws under these letters of credit it would seek recourse from us.

Additionally, as of June 14, 2013, we had \$4 million of letters of credit outstanding under our four-year \$200 million revolving credit facility (the Revolving Corporate Credit Facility ).

### *Loss Contingencies*

In 2012, we agreed to settle two lawsuits in which certain of our subsidiaries were defendants. The plaintiffs in the lawsuits, residential unit owners at The Ritz-Carlton Club and Residences, San Francisco (the RCC San Francisco ), a project within our North America segment, questioned the adequacy of disclosures made prior to 2008, when our business was part of Marriott International, regarding bonds issued for that project under California's Mello-Roos Community Facilities Act of 1982 (the Mello-Roos Act ) and their payment obligations with respect to such bonds. In March 2013, we agreed to settle a third lawsuit in which another residential unit owner at the RCC San Francisco had asserted similar claims. As a result of these matters, we recorded a charge of \$41 million in the year ended December 28, 2012. In addition, as a result of the agreement to settle the third lawsuit in the twenty-four weeks ended June 14, 2013 we reversed \$1 million of previously recognized expense. An additional lawsuit was recently filed against us primarily related to disclosure provided to a purchaser of a residential unit at the RCC San Francisco. We dispute the material allegations in the complaint and intend to defend this action vigorously. Given the early stages of the action, we cannot estimate a range of the potential liability, if any, at this time.

Two additional lawsuits are pending against us primarily relating to disclosure provided to purchasers of fractional interests at the RCC San Francisco. The first was filed on December 21, 2012, by Jon Benner, an owner of fractional interests in the RCC San Francisco, in Superior Court for the State of California, County of San Francisco against us and certain of our subsidiaries on behalf of a putative class consisting of all owners of fractional interests at the RCC San Francisco who allegedly did not receive proper notice of their payment obligations under the Mello-Roos Act. The plaintiff alleges that the disclosures made about bonds issued for the project under this Act and the payment obligations of fractional interest purchasers with respect to such bonds were inadequate, and this and other alleged statutory violations constitute intentional and negligent misrepresentation, fraud and fraudulent concealment. The relief sought includes damages in an unspecified amount, rescission of the purchases, restitution and disgorgement of profits. This lawsuit has been referred to a judicial referee. This lawsuit is distinct from the other lawsuits described above relating to the RCC San Francisco because the disclosure process for the sale of fractional interests differs from that applicable to the sale of whole-ownership units. We dispute the material allegations in the complaint and intend to defend this action vigorously. Given the early stages of the action, we cannot estimate a range of the potential liability, if any, at this time.

On March 29, 2013, a second lawsuit relating to disclosures provided to fractional interest purchasers at RCC San Francisco was filed against certain of our subsidiaries in San Francisco Superior Court by Elisabeth Gani. Ms. Gani alleges that the issuance of bonds pursuant to the Mello-Roos Act on October 31, 2007 constituted a material change that we were obligated to disclose under the California timeshare act. She demands rescission, punitive and exemplary damages and seeks to represent a class of all RCC San Francisco fractional interest purchasers who closed on purchases of their fractional interests subsequent to October 31, 2007. This lawsuit has been consolidated with the lawsuit filed by Jon Benner described above, which, as noted, has been referred to a judicial referee. We dispute the material allegations in the Gani complaint and intend to defend this action vigorously. Given the early stages of the action, we cannot estimate a range of the potential liability, if any, at this time.

On December 11, 2012, Steven B. Hoyt and Bradley A. Hoyt, purchasers of fractional interests in two Ritz-Carlton Club projects, filed suit in the United States District Court for the District of Minnesota against us, certain of our subsidiaries and The Ritz-Carlton Hotel Company, L.L.C. on behalf of a putative class consisting of all purchasers of fractional interests at Ritz-Carlton Club projects. The plaintiffs allege that program changes beginning in 2009 caused an actionable decrease in the value of the fractional interests purchased. The relief sought includes declaratory and injunctive relief, damages in an unspecified amount, rescission of the purchases, restitution, disgorgement of profits, interest and attorneys fees. In response to our motion to dismiss the original complaint, plaintiffs filed an amended complaint. We dispute the material allegations in the amended complaint and intend to continue to defend this action vigorously. Given the early procedural stages of the action and the inherent uncertainties of litigation, we cannot estimate a range of the potential liability, if any, at this time.

On January 30, 2013, Krishna and Sherrie Narayan and other owners of 12 residential units at the resort formerly known as The Ritz-Carlton Residences, Kapalua Bay ( Kapalua Bay ) were granted leave by the Court to file an amended complaint related to a suit originally filed in Circuit Court for Maui County, Hawaii in June 2012 against us, certain of our subsidiaries, Marriott International, certain of its subsidiaries, and the joint venture in which we have an equity investment that developed and marketed vacation ownership and residential products at Kapalua Bay

(the Joint Venture ). In the original complaint, the plaintiffs alleged that

**Table of Contents**

defendants mismanaged funds of the owners association (the Kapalua Bay Association), created a conflict of interest by permitting their employees to serve on the Kapalua Bay Association's board, and failed to disclose documents to which the plaintiffs were allegedly entitled. The amended complaint alleges breach of fiduciary duty, violations of the Hawaii Unfair and Deceptive Trade Practices Act and the Hawaii condominium statute, intentional misrepresentation and concealment, unjust enrichment and civil conspiracy. The relief sought in the amended complaint includes injunctive relief, repayment of all sums paid to us and our subsidiaries and Marriott International and its subsidiaries, compensatory and punitive damages, and treble damages under the Hawaii Unfair and Deceptive Trade Practices Act. We dispute the material allegations in the amended complaint and continue to defend this action vigorously. Given that the Court recently granted the plaintiffs leave to file the amended complaint and the inherent uncertainties of litigation, we cannot estimate a range of potential liability, if any, at this time.

On September 26, 2012, we filed an arbitration demand against the Kapalua Bay Association for reimbursement of amounts advanced on behalf of the Kapalua Bay Association pursuant to the terms of the management agreement under which one of our subsidiaries provided services to the Kapalua Bay Association. Effective December 31, 2012, the management agreement was terminated as discussed in Footnote No. 11, Variable Interest Entities. On April 15, 2013, the Kapalua Bay Association filed a counterclaim against certain of our subsidiaries in the arbitration proceeding. In the counterclaim, the Kapalua Bay Association alleges breach of contract, misrepresentation, breach of fiduciary duty, unfair and deceptive trade practices and unjust enrichment. The relief sought consists of unspecified damages. We dispute the material allegations in the counterclaim and intend to defend this action vigorously. Given the early stage of the proceeding and the inherent uncertainties of arbitration, we cannot estimate a range of potential liability, if any, at this time.

On June 19, 2013, Earl C. and Patricia A. Charles, owners of a fractional interest at Kapalua Bay, together with owners of 38 other fractional interests at Kapalua Bay, filed an amended complaint in the Circuit Court of the Second Circuit for the State of Hawaii against us, certain of our subsidiaries, Marriott International, certain of its subsidiaries, the Joint Venture, and other entities that have equity investments in the Joint Venture. The amended complaint supersedes a prior complaint that was not served on any defendant. The plaintiffs allege that the defendants failed to disclose the financial condition of the Joint Venture and the commitment of the defendants to the Joint Venture and that defendants' actions constituted fraud and violated the Hawaii Unfair and Deceptive Trade Practices Act, the Hawaii Condominium Property Act and the Hawaii Time Sharing Plans statute. The relief sought includes compensatory and punitive damages, attorneys' fees, pre-judgment interest, declaratory relief, rescission and treble damages under the Hawaii Unfair and Deceptive Trade Practices Act. We dispute the material allegations in the amended complaint and intend to defend this action vigorously. Given that the Court recently granted the plaintiffs leave to file the amended complaint and the inherent uncertainties of litigation, we cannot estimate a range of potential liability, if any, at this time.

*Other*

We estimate the cash outflow associated with completing the phases of our existing portfolio of vacation ownership projects currently under development will be approximately \$121 million, of which \$16 million is included within liabilities on our Balance Sheet. This estimate is based on our current development plans, which remain subject to change, and we expect the phases currently under development will be completed by 2016.

**8. DEBT**

The following table provides detail on our debt balances:

<i>(\$ in millions)</i>	At June 14, 2013	At December 28, 2012
Vacation ownership notes receivable securitizations, interest rates ranging from 2.6% to 7.2% (weighted average interest rate of 4.2%) <sup>(1)</sup>	\$ 539	\$ 674
Warehouse credit facility (effective interest rate of 2.4%) <sup>(1)</sup>	104	
Other	4	4
	\$ 647	\$ 678

<sup>(1)</sup> Interest rates are as of June 14, 2013.

See Footnote No. 11, Variable Interest Entities, for a discussion of the collateral for the non-recourse debt associated with the securitized vacation ownership notes receivable and the Warehouse Credit Facility. All of our other debt was, and to the extent currently outstanding, is



## Edgar Filing: MARRIOTT VACATIONS WORLDWIDE Corp - Form 10-Q

recourse to us but unsecured. The Warehouse Credit Facility currently terminates on September 10, 2014 and if not renewed, any amounts outstanding thereunder would become due and payable 13 months after termination, at which time all principal and interest collected with respect to the vacation ownership notes receivable held in the Warehouse Credit Facility would be redirected to the lenders to pay down the outstanding debt under the facility. We generally expect to securitize our vacation ownership notes receivable, including those vacation ownership notes receivable held in the Warehouse Credit Facility, in the asset backed securities market once a year.

**Table of Contents**

Although no cash borrowings were outstanding under our Revolving Corporate Credit Facility as of June 14, 2013, any amounts that are borrowed under that facility, as well as obligations with respect to letters of credit issued pursuant to that facility, are secured by a perfected first priority security interest in substantially all of our assets and the assets of the guarantors of that facility, in each case including inventory, subject to certain exceptions.

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

(\$ in millions)	Vacation Ownership Notes Receivable Securitizations <sup>(1)</sup>	Warehouse Credit Facility <sup>(1)</sup>	Other Debt	Total
Year				
2013	\$ 47	\$ 7	\$	\$ 54
2014	83	13		96
2015	88	84		172
2016	93			93
2017	69			69
Thereafter	159		4	163
Balance at June 14, 2013	\$ 539	\$ 104	\$ 4	\$ 647

<sup>(1)</sup> The vacation ownership notes receivable securitizations and the Warehouse Credit Facility are non-recourse to us. As the contractual terms of the underlying securitized vacation ownership notes receivable determine the maturities of the non-recourse debt associated with them, actual maturities may occur earlier than shown above due to prepayments by the vacation ownership notes receivable obligors.

We paid cash for interest, net of amounts capitalized, of \$17 million in the twenty-four weeks ended June 14, 2013 and \$21 million in the twenty-four weeks ended June 15, 2012.

*Debt Associated with Vacation Ownership Notes Receivable Securitizations*

Each of our securitized vacation ownership notes receivable pools is subject to various triggers relating to the performance of the underlying vacation ownership notes receivable. If a pool of securitized vacation ownership notes receivable fails to perform within the pool's established parameters (default or delinquency thresholds vary by transaction), transaction provisions effectively redirect the monthly excess spread we would otherwise receive from that pool (related to the interests we retained) to accelerate the principal payments to investors based on the subordination of the different tranches until the performance trigger is cured. During the twenty-four weeks ended June 14, 2013, and as of June 14, 2013, no pools were out of compliance with performance triggers. As of June 14, 2013, we had 6 securitized vacation ownership notes receivable pools outstanding.

*Revolving Corporate Credit Facility*

On June 12, 2013, we entered into a First Amendment (the "Credit Agreement Amendment") to the credit agreement that we amended and restated in November 2012 with a syndicate of banks led by JP Morgan Chase Bank (as amended, the "Revolving Corporate Credit Facility"). Pursuant to the Revolving Corporate Credit Facility, the maximum ratio of consolidated total debt to consolidated adjusted EBITDA (as defined in the Revolving Corporate Credit Facility) that we are required to maintain will be 6 to 1 through the end of the first quarter of 2013, then will decrease to 5.75 to 1 through the end of the first quarter of 2014, and to 5.25 to 1 thereafter. Prior to the Credit Agreement Amendment, the ratio we were required to maintain was 6 to 1 through the end of the first quarter of 2013, then 5.25 to 1 through the end of the 2014 fiscal year, and 4.75 to 1 thereafter. In addition, the Credit Agreement Amendment provides for certain amendments to the definitions of "Consolidated Adjusted EBITDA" and "Consolidated Total Debt" that will provide us with additional flexibility.

## Edgar Filing: MARRIOTT VACATIONS WORLDWIDE Corp - Form 10-Q

In addition to the changes described above, the Credit Agreement Amendment also includes modifications intended to comply with certain provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act ) regarding the guarantee of foreign exchange and interest rate swap transactions by certain of our subsidiaries that guarantee our obligations under the Revolving Corporate Credit Facility (the Guarantors ). On June 12, 2013, we also entered into a First Amendment to the guarantee and collateral agreement that we amended and restated in November 2012 (the Guarantee and Collateral Agreement ), which modified the Guarantee and Collateral Agreement to comply with the provisions of the Dodd-Frank Act described above.

**Table of Contents**

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

In October 2011, our subsidiary, MVW US Holdings, Inc. ( MVW US Holdings ) issued \$40 million of its mandatorily redeemable Series A (non-voting) preferred stock to Marriott International as part of Marriott International's internal reorganization prior to the Spin-Off. Subsequently, Marriott International sold all of this preferred stock to third-party investors. For the first five years after issuance, the Series A preferred stock will pay an annual cash dividend equal to the five-year U.S. Treasury Rate as of October 19, 2011, plus a spread of 10.958 percent, for a total annual cash dividend rate of 12 percent. On the fifth anniversary of issuance, the annual cash dividend rate will be reset to the five-year U.S. Treasury Rate in effect on such date plus the same 10.958 percent spread. The Series A preferred stock is mandatorily redeemable by MVW US Holdings upon the tenth anniversary of the date of issuance but can be redeemed at our option after five years. The Series A preferred stock has an aggregate liquidation preference of \$40 million plus any accrued and unpaid dividends and an additional premium if liquidation occurs during the first five years after the issuance of the preferred stock. As of June 14, 2013, 1,000 shares of Series A preferred stock were authorized, of which 40 shares were issued and outstanding. The dividends are recorded as a component of Interest expense as the Series A preferred stock is treated as a liability for accounting purposes.

**10. SHARE-BASED COMPENSATION**

A total of 6 million shares are authorized for issuance under the Marriott Vacations Worldwide Corporation Stock and Cash Incentive Plan (the Marriott Vacations Worldwide Stock Plan ). As of June 14, 2013, approximately 2 million shares were available for grants under the Marriott Vacations Worldwide Stock Plan.

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

We recorded share-based compensation expense related to award grants to our officers, directors and employees of \$4 million and \$3 million for the twelve weeks ended June 14, 2013 and June 15, 2012, respectively, and \$6 million for each of the twenty-four weeks ended June 14, 2013 and June 15, 2012. Our deferred compensation liability related to unvested awards held by our employees totaled \$19 million and \$14 million at June 14, 2013 and December 28, 2012 respectively.

*Restricted Stock Units ( RSUs )*

We granted 199,895 RSUs to our employees and non-employee directors during the twenty-four weeks ended June 14, 2013. The RSUs granted to employees generally vest over four year periods in annual installments commencing one year after the date of the grant. The RSUs granted to non-employee directors were vested at the date of the grant. RSUs granted in the twenty-four weeks ended June 14, 2013 had a weighted average grant-date fair value of \$40.43.

During the twenty-four weeks ended June 14, 2013, we granted RSUs with performance vesting conditions to members of management. The number of RSUs earned, if any, will be determined following the end of a three-year performance period based upon our cumulative achievement over that period of specific quantitative operating financial measures. For the RSUs with performance-based vesting criteria issued during the twenty-four weeks ended June 14, 2013, the maximum amount of RSUs that may vest under the performance-based RSUs is approximately 72,000.

*Stock Appreciation Rights ( SARs )*

We granted 66,422 SARs to our employees during the twenty-four weeks ended June 14, 2013. These SARs had a weighted average grant-date fair value of \$21.68 and a weighted average exercise price of \$39.93. SARs generally expire ten years after the date of grant and both vest and may be exercised in cumulative installments of one quarter of the number of SARs granted at the end of each of the first four years following the date of grant.

We use the Black-Scholes model to estimate the fair value of the stock options or SARs granted. For SARs granted under the Marriott Vacations Worldwide Stock Plan in the twenty-four weeks ended June 14, 2013, the expected stock price volatility was calculated based on the historical volatility from the stock prices of a group of identified peer companies. The average expected life was calculated using the simplified method. The risk-free interest rate was calculated based on U.S. Treasury zero-coupon issues with a remaining term equal to the expected life assumed at the date of grant. The expected annual dividend per share was \$0 based on our expected dividend rate.

## Edgar Filing: MARRIOTT VACATIONS WORLDWIDE Corp - Form 10-Q

The following table outlines the assumptions used to estimate the fair value of grants during the twenty-four weeks ended June 14, 2013:

Expected volatility	57.55%
Dividend yield	0.00%
Risk-free rate	1.02%
Expected term (in years)	6.25

**Table of Contents****11. VARIABLE INTEREST ENTITIES**

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

*Variable Interest Entities Related to Our Vacation Ownership Notes Receivable Securitizations*

We periodically securitize, without recourse, through bankruptcy remote special purpose entities, notes receivable originated in connection with the sale of vacation ownership products. These vacation ownership notes receivable securitizations provide funding for us and transfer the economic risks and substantially all the benefits of the loans to third parties. In a vacation ownership notes receivable securitization, various classes of debt securities that the special purpose entities issue are generally collateralized by a single tranche of transferred assets, which consist of vacation ownership notes receivable. We service the vacation ownership notes receivable. With each vacation ownership notes receivable securitization, we may retain a portion of the securities, subordinated tranches, interest-only strips, subordinated interests in accrued interest and fees on the securitized vacation ownership notes receivable or, in some cases, overcollateralization and cash reserve accounts.

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

The following table shows consolidated assets, which are collateral for the obligations of these variable interest entities, and consolidated liabilities included in our Balance Sheet at June 14, 2013:

<i>(\$ in millions)</i>	<b>Vacation Ownership Notes Receivable Securitizations</b>	<b>Warehouse Credit Facility</b>	<b>Total</b>
<b>Consolidated Assets:</b>			
Vacation ownership notes receivable, net of reserves	\$ 581	\$ 118	\$ 699
Interest receivable	4	1	5
Restricted cash	35	7	42
<b>Total</b>	<b>\$ 620</b>	<b>\$ 126</b>	<b>\$ 746</b>
<b>Consolidated Liabilities:</b>			
Interest payable	\$ 2	\$	\$ 2
Debt	539	104	643
<b>Total</b>	<b>\$ 541</b>	<b>\$ 104</b>	<b>\$ 645</b>

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

The following table shows the interest income and expense recognized as a result of our involvement with these variable interest entities during the twelve weeks ended June 14, 2013:

*(\$ in millions)*

**Total**

Edgar Filing: MARRIOTT VACATIONS WORLDWIDE Corp - Form 10-Q

	Vacation Ownership Notes Receivable Securitizations	Warehouse Credit Facility	
Interest income	\$ 19	\$ 4	\$ 23
Interest expense to investors	\$ 6	\$	\$ 6
Debt issuance cost amortization	\$	\$ 1	\$ 1

**Table of Contents**

The following table shows the interest income and expense recognized as a result of our involvement with these variable interest entities during the twenty-four weeks ended June 14, 2013:

<i>(\$ in millions)</i>	<b>Vacation Ownership Notes Receivable Securitized</b>	<b>Warehouse Credit Facility</b>	<b>Total</b>
Interest income	\$ 41	\$ 6	\$ 47
Interest expense to investors	\$ 12	\$ 1	\$ 13
Debt issuance cost amortization	\$ 1	\$ 1	\$ 2

The following table shows cash flows between us and the vacation ownership notes receivable securitization variable interest entities during the twenty-four weeks ended June 14, 2013 and June 15, 2012:

<i>(\$ in millions)</i>	<b>Twenty-Four Weeks Ended June 14, 2013</b>	<b>June 15, 2012</b>
<b>Cash inflows:</b>		
Principal receipts	\$ 79	\$ 84
Interest receipts	42	47
Total	121	131
<b>Cash outflows:</b>		
Principal to investors	(72)	(75)
Voluntary repurchases of defaulted vacation ownership notes receivable	(11)	(17)
Voluntary clean-up call	(51)	(30)
Interest to investors	(11)	(14)
Total	(145)	(136)
<b>Net Cash Flows</b>	<b>\$ (24)</b>	<b>\$ (5)</b>

The following table shows cash flows between us and the Warehouse Credit Facility variable interest entity during the twenty-four weeks ended June 14, 2013 and June 15, 2012:

<i>(\$ in millions)</i>	<b>Twenty-Four Weeks Ended June 14, 2013</b>	<b>June 15, 2012</b>
<b>Cash inflows:</b>		
Net proceeds from vacation ownership notes receivable securitization	\$ 109	\$
Principal receipts	12	15
Interest receipts	5	8
Total	126	23



Edgar Filing: MARRIOTT VACATIONS WORLDWIDE Corp - Form 10-Q

**Cash outflows:**

Principal to investors	(8)	(13)
Voluntary repurchases of defaulted vacation ownership notes receivable		(1)
Interest to investors	(1)	(1)
Total	(9)	(15)
<b>Net Cash Flows</b>	\$ 117	\$ 8

Under the terms of our vacation ownership notes receivable securitizations, we have the right at our option to repurchase defaulted vacation ownership notes receivable at the outstanding principal balance. The transaction documents typically limit such repurchases to 15 to 20 percent of the transaction's initial vacation ownership notes receivable principal balance. Our maximum exposure to loss relating to the entities that own these vacation ownership notes receivable is the overcollateralization amount (the difference between the loan collateral balance and the balance on the outstanding vacation ownership notes receivable), plus cash reserves and any residual interest in future cash flows from collateral.

**Table of Contents***Other Variable Interest Entities*

We have an equity investment in, and notes receivable due from a variable interest entity that previously developed and marketed vacation ownership and residential products in Hawaii pursuant to a joint venture arrangement. We concluded that the entity is a variable interest entity because the equity investment at risk is not sufficient to permit the entity to finance its activities without additional support from other venture parties. We determined that we are not the primary beneficiary of this entity, as power to direct the activities that most significantly impact the entity's economic performance is shared among the variable interest holders and, therefore, we do not consolidate the entity. We provided a completion guarantee in favor of the project lenders for which the joint venture has delivered a completed operational project. Although we have not received a release of the guarantee, we do not believe we have any exposure for funding under the guarantee. In 2009, we fully impaired our equity investment in the entity and in certain notes receivable due from the entity. In 2010, the continued application of equity losses to our investment in the remaining outstanding notes receivable balance reduced its carrying value to zero. In addition, the venture was unable to pay promissory notes that matured on December 31, 2010 and August 1, 2011. Subsequently, the lenders issued a notice of default to the venture. The lenders initiated foreclosure proceedings with respect to unsold interests in the project. A foreclosure auction was held and, on January 31, 2013, a bid was accepted and confirmed. The sale has been completed, and on June 13, 2013, we received \$7 million of cash as a partial repayment of our previously fully reserved receivables due from the entity.

We gave notice of breach or termination of various agreements, including management agreements with the owners' associations at the project, marketing and sales agreements with the venture, and other agreements pursuant to which we provided services to the venture and, as we were unable to reach agreement with the owners' associations with respect to our continued provision of services, termination of these agreements was effective on December 31, 2012. During the twelve weeks ended June 14, 2013, we recorded \$7 million of expense to increase our accrual for remaining costs expected to be incurred relating to our interests in this joint venture exclusive of any outstanding litigation matters discussed in Footnote No. 7, Contingencies and Commitments. Including reserves for outstanding receivables, at June 14, 2013, we have an accrual of \$16 million for potential future funding, representing our remaining expected exposure to loss related to our involvement with this entity. In addition, several owners at the project have filed suit against several parties involved in the project, including us and certain of our subsidiaries, which could result in additional exposures which are not estimable at this time.

**12. SHAREHOLDERS' EQUITY**

The following table details changes in shareholders' equity during the twenty-four weeks ended June 14, 2013:

<i>(\$ in millions)</i>	<b>Additional Paid-In Capital</b>	<b>Accumulated Other Comprehensive Income</b>	<b>Retained Earnings</b>	<b>Total Equity</b>
Balance at year-end 2012	\$ 1,116	\$ 21	\$ 2	\$ 1,139
Net income			49	49
Foreign currency translation adjustments		(1)		(1)
Amounts related to share-based compensation	3			3
<b>Balance at June 14, 2013</b>	<b>\$ 1,119</b>	<b>\$ 20</b>	<b>\$ 51</b>	<b>\$ 1,190</b>

**13. BUSINESS SEGMENTS**

We define our reportable segments based on the way in which the chief operating decision maker, currently our chief executive officer, manages the operations of the Company for purposes of allocating resources and assessing performance. We operate in three reportable business segments:

In our North America segment, we develop, market, sell and manage vacation ownership and related products under the Marriott Vacation Club and Grand Residences by Marriott brands. 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.

## Edgar Filing: MARRIOTT VACATIONS WORLDWIDE Corp - Form 10-Q

In our Europe segment, we develop, market, sell and manage vacation ownership products in several locations in Europe.

In our Asia Pacific segment, we develop, market, sell and manage the Marriott Vacation Club, Asia Pacific, a right-to-use points program we introduced in 2006 that we specifically designed to appeal to vacation preferences of the Asian market, as well as a weeks-based right-to-use product.

Effective December 29, 2012, we combined the reporting of the financial results of the former Luxury segment with the North America segment based upon our decision to scale back separate development activity for the Luxury market and to aggregate future marketing and sales of both upscale tier and luxury tier inventory. Existing service standards and on-site management remain unaffected by our reporting changes. Prior year amounts have been recast for consistency with the current year's presentation.

**Table of Contents**

We evaluate the performance of our segments based primarily on the results of the segment without allocating corporate expenses or income taxes. We do not allocate corporate interest expense or other financing expenses to our segments. During the twelve weeks ended March 22, 2013, we reviewed the allocation of general and administrative expenses to our reportable segments as a result of the realignment of our management structure. Based on this review, we determined to no longer allocate certain general and administrative expenses to our reportable segments. This change, which was effective December 29, 2012, had no impact on our Financial Statements for any prior period. Prior period reportable segment information has been adjusted to reflect the change in reportable segment reporting.

We include interest income specific to segment activities within the appropriate segment. We allocate other gains and losses and equity in earnings or losses from our joint ventures to each of our segments as appropriate. Corporate and other represents that portion of our revenues and other gains or losses that are not allocable to our segments.

*Revenues*

(\$ in millions)	Twelve Weeks Ended		Twenty-Four Weeks Ended	
	June 14, 2013	June 15, 2012	June 14, 2013	June 15, 2012
North America	\$ 359	\$ 338	\$ 712	\$ 675
Europe	46	24	68	43
Asia Pacific	16	21	31	39
Total segment revenues	421	383	811	757
Corporate and other				
	\$ 421	\$ 383	\$ 811	\$ 757

*Net Income*

(\$ in millions)	Twelve Weeks Ended		Twenty-Four Weeks Ended	
	June 14, 2013	June 15, 2012	June 14, 2013	June 15, 2012
North America	\$ 84	\$ 67	\$ 162	\$ 137
Europe	11	(3)	12	(4)
Asia Pacific	2	2	5	3
Total segment financial results	97	66	179	136
Corporate and other	(53)	(57)	(105)	(111)
Provision for income taxes	(14)	(4)	(25)	(12)
	\$ 30	\$ 5	\$ 49	\$ 13

*Assets*

(\$ in millions)	At Period-End	
	June 14, 2013	December 28, 2012
North America	\$ 2,155	\$ 2,223

Edgar Filing: MARRIOTT VACATIONS WORLDWIDE Corp - Form 10-Q

Europe	107	122
Asia Pacific	83	85
Total segment assets	2,345	2,430
Corporate and other	166	183
	\$ 2,511	\$ 2,613

**Table of Contents**

**14. ORGANIZATIONAL AND SEPARATION RELATED CHARGES**

Since the Spin-Off, Marriott International has continued to provide us with certain information technology and other administrative services pursuant to transition services agreements. In connection with our continued organizational and separation related activities, we have incurred certain expenses to complete our separation from Marriott International. These costs primarily relate to establishing our own information technology systems and services, independent payroll functions and reorganizing certain existing administrative organizations to support our stand-alone public company needs. We expect these efforts to continue through 2014. Organizational and separation related charges as reflected in our Statements of Operations, were \$2 million and \$4 million for the twelve weeks ended June 14, 2013 and June 15, 2012, respectively, and \$3 million and \$6 million for the twenty-four weeks ended June 14, 2013 and June 15, 2012, respectively. In addition, \$2 million of additional separation related charges was capitalized to Property and equipment on our Balance Sheets during the twenty-four weeks ended June 14, 2013.

## **Table of Contents**

### **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations Forward-Looking Statements**

We make forward-looking statements in Management's Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this Quarterly Report on Form 10-Q based on our management's beliefs and assumptions and on information currently available to our management. Forward-looking statements include, among other things, the information concerning our possible or assumed future results of operations, business strategies, financing plans, competitive position, potential growth opportunities, potential operating performance improvements, and the effects of competition. Forward-looking statements include all statements that are not historical fact and can be identified by the use of forward-looking terminology such as the words believe, expect, plan, intend, anticipate, estimate, predict, potential, might, should, could or the negative of these terms or similar expressions.

Forward-looking statements involve risks, uncertainties and assumptions. Actual results may differ materially from those expressed in these forward-looking statements. You should not put undue reliance on any forward-looking statements in this Quarterly Report. We do not have any intention or obligation to update forward-looking statements after the date of this Quarterly Report, except as required by law.

The risk factors discussed in Risk Factors in our most recent Annual Report on Form 10-K could cause our results to differ materially from those expressed in forward-looking statements. There may be other risks and uncertainties that we cannot predict at this time or that we currently do not expect will have a material adverse effect on our financial position, results of operations or cash flows. Any such risks could cause our results to differ materially from those we express in forward-looking statements.

Our Financial Statements (as defined below), which we discuss below, reflect our historical financial condition, results of operations and cash flows. The financial information discussed below and included in this Quarterly Report on Form 10-Q may not necessarily reflect what our financial condition, results of operations and cash flows may be in the future. We refer to (i) our Interim Consolidated Financial Statements as our Financial Statements, (ii) our Interim Consolidated Statements of Operations as our Statements of Operations, and (iii) our Interim Consolidated Statements of Cash Flows as our Cash Flows.

### **The Spin-Off**

On November 21, 2011, the spin-off of our company (the Spin-Off) from Marriott International, Inc. (Marriott International) was completed. In the Spin-Off, Marriott International's vacation ownership operations and related residential business were separated from Marriott International through a special tax-free dividend to Marriott International's shareholders of all of the issued and outstanding common stock of our company. As a result of the Spin-Off, we are an independent company, and our common stock is listed on the New York Stock Exchange under the symbol VAC. Following the Spin-Off, we and Marriott International have operated independently, and neither company has any ownership interest in the other.

In connection with the Spin-Off, we entered into several material agreements with Marriott International pertaining to the rights and obligations of each company following the Spin-Off. The agreements include a License, Services, and Development Agreement with Marriott International and its subsidiary Marriott Worldwide Corporation (the Marriott License Agreement) and a License, Services, and Development Agreement with The Ritz-Carlton Hotel Company, L.L.C. (the Ritz-Carlton License Agreement) and, together with the Marriott License Agreement, the License Agreements). 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.

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

Since the Spin-Off, Marriott International has continued to provide us with certain information technology and other administrative services pursuant to transition services agreements. In connection with our continued organizational and separation related activities, we have incurred expenses to complete our separation from Marriott International. These costs primarily relate to establishing our own information technology systems and services, independent payroll and accounts payable functions and reorganizing existing human resources, information technology, and related finance and accounting organizations to support our stand-alone public company needs. Organizational and separation related charges were \$3 million for the twenty-four weeks ended June 14, 2013, as reflected in our Statements of Operations. In addition, during the twenty-four weeks ended June 14, 2013, \$2 million of additional separation related charges was capitalized to Property and equipment on our Balance Sheets. We expect to incur an additional \$16 million to \$21 million in connection with these organizational and separation related efforts through 2014. Once completed, we expect these efforts will generate approximately \$15 million to \$20 million of annualized savings. Approximately \$2 million of these incremental savings are reflected in our twenty-four weeks ended June 14, 2013 financial results.





## **Table of Contents**

### **Business Overview**

We are the exclusive worldwide developer, marketer, seller and manager of vacation ownership and related products under the Marriott Vacation Club and Grand Residences by Marriott brands. We are also the exclusive worldwide developer, marketer and seller of vacation ownership and related products under the Ritz-Carlton Destination Club brand, and we have the non-exclusive right to develop, market and sell whole ownership residential products under the Ritz-Carlton Residences brand. The Ritz-Carlton Hotel Company, L.L.C. generally provides on-site management for Ritz-Carlton branded properties.

Our business is grouped into three reportable segments: North America, Europe and Asia Pacific. Effective December 29, 2012, we combined the reporting of the financial results of the former Luxury segment with the North America segment based upon our decision to scale back separate development activity for the Luxury market and to aggregate future marketing and sales of both upscale tier and luxury tier inventory. Existing service standards and on-site management remain unaffected by our reporting changes. Prior year amounts have been recast for consistency with the current year's presentation.

We operate 63 properties in the United States and nine other countries and territories. We generate most of our revenues from four primary sources: selling vacation ownership products; managing our resorts; financing consumer purchases of vacation ownership products; and renting vacation ownership inventory.

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

#### *Sale of Vacation Ownership Products*

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

A binding sales contract has been executed;

The statutory rescission period has expired;

The receivable is deemed collectible;

The criteria for percentage of completion accounting are met; and

The remainder of our obligations are substantially completed.

Sales of vacation ownership products may be made for cash or we may provide financing. For sales where we provide financing, we defer revenue recognition until we receive a minimum down payment equal to ten percent of the purchase price plus the fair value of certain sales incentives provided to the purchaser. These sales incentives typically include Marriott Rewards Points or an alternative sales incentive that we refer to as plus points. 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.

## Edgar Filing: MARRIOTT VACATIONS WORLDWIDE Corp - Form 10-Q

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 from 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 Operations 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 in our Statements of Operations 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 Operations.

**Table of Contents**

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 includes revenues we earn for managing our resorts, for providing ancillary offerings including food and beverage, retail, and golf and spa offerings, from annual club dues and certain transaction-based fees charged to owners and other third parties for services, and for providing other services to our guests.

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

Resort management and other services expenses include costs to operate the food and beverage and other ancillary operations and overall customer support services, including reservations.

*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:

	Twenty-Four Weeks Ended	
	June 14, 2013	June 15, 2012
Average FICO score	733	733

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 vacation ownership notes 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 Operations.

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 leveled out since then. As a result, we expect that interest income will continue to decline over the next few years until new originations outpace the decline in principal amount 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 typically 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 in our Statements of Operations. Historical default rates, which represent defaults as a percentage of each year's beginning gross vacation ownership notes receivable balance, were as follows:

Twenty-Four Weeks Ended	
June 14, 2013	June 15, 2012

Historical default rates	2.1%	2.6%
--------------------------	------	------

*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 various usage options.

## Table of Contents

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

Rental expenses include:

Maintenance fees on unsold inventory;

Costs to provide alternate usage options, including Marriott Rewards Points, 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;

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 inventory at our Ritz-Carlton branded properties and in our Asia Pacific segment is often limited on a site-by-site basis, rental operations may not generate adequate rental revenues to cover associated costs. Our vacation units are either full villas or lock-off villas. Lock-off villas are units that can be separated into a master unit and a guest room. Full villas are non-lock-off villas because they cannot be separated. A key is the lowest increment for reporting occupancy statistics based upon the mix of non-lock-off and lock-off villas. Lock-off villas represent two keys and non-lock-off villas represent one key. The transient keys metric represents the blended mix of inventory available for rent and includes all of the combined inventory configurations available in our resort system.

### *Other*

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

### *Cost Reimbursements*

Cost reimbursements revenues include direct and indirect costs that property owners' associations and joint ventures in which we participate reimburse to us. In accordance with the accounting guidance for gross versus net presentation, we record these revenues on a gross basis. We recognize cost reimbursements revenue 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, and for development and marketing and sales services that joint ventures contract with us to perform. Cost reimbursements are based upon actual expenses with no added margin.

### *Interest Expense*

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

*Other Items*

We measure operating performance using the following key metrics:

Contract sales from the sale of vacation ownership products;

Development margin percentage; and

Volume per guest ( VPG ), which we calculate by dividing contract sales, excluding 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 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.

---

**Table of Contents**

*Rounding*

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

*Restatement of Prior Financial Statements*

During the course of an internal review of certain sales documentation processes related to the sale of certain vacation ownership interests in properties associated with our Europe segment, we determined that the documentation we provided for certain sales of vacation ownership products was not strictly compliant. As a result, in accordance with applicable European regulation, the period of time during which purchasers of such interests may rescind their purchases was extended. We record revenues from the sale of vacation ownership products once the rescission period has ended. Originally, we recorded revenues from these sales of vacation ownership products based on the rescission periods in effect assuming compliant documentation had been provided to the purchasers rather than the extended periods. As a result, we recognized revenue in incorrect periods between fiscal years 2010 and 2013 and misstated revenues in our previously filed consolidated financial statements.

The documentation issue described above was limited to sales documentation provided to purchasers of certain interests in properties associated with our Europe segment. We have taken corrective measures and compliant documentation is now being provided to purchasers. In addition, we have provided compliant documentation to purchasers for whom the extended rescission period had not yet expired. The cumulative impact of these items through December 28, 2012 was a reduction in reported income before income taxes of \$12 million. The cumulative impact of these items through March 22, 2013 was a reduction in reported income before income taxes of \$11 million. However, as compliant documentation has since been provided, the extended rescission period for most of the purchases at issue ended during the second quarter of 2013, with sales having a net pre-tax impact of \$1 million actually having been rescinded. As a result, approximately \$9 million and \$10 million of this cumulative impact is reflected as an increase in pre-tax income for the twelve and twenty-four weeks ended June 14, 2013, respectively, with approximately \$1 million expected to be reflected in our results for the third quarter of 2013.

The consolidated restated financial statements will include certain other corrections related to the timing of recording adjustments to previously reported deferred tax balances. Certain deferred tax assets were determined to not be realizable in future years and thus were eliminated, albeit in the incorrect fiscal year for the years ended December 28, 2012, December 30, 2011 and December 31, 2010. These corrections were identified while we were developing internal processes relating to deferred taxes after we became a standalone public company. In addition to the adjustments required as a result of the errors described above, the restated consolidated financial statements will include certain previously unrecorded immaterial adjustments to our financial statements for fiscal years 2010 and 2011 relating to cost reimbursements, which previously were recorded on a net basis.

The adjustments necessary to correct all of the errors have no impact on previously reported cash flows from operations and do not have a material impact on our balance sheet as of any date. In accordance with applicable accounting guidance, an adjustment to the financial statements for each individual period presented is required to reflect the correction of the period-specific effects of the errors described above, if material. Based on our evaluation of relevant quantitative and qualitative factors, we determined the identified misstatements are not material to our individual prior period consolidated financial statements; however, the cumulative correction of the prior period errors would be material to our current year consolidated financial statements. Consequently, we will restate the consolidated Statements of Operations for the years ended December 28, 2012 and December 30, 2011, and the Statements of Operations for the periods ended March 22, 2013 and March 23, 2012. We have restated the consolidated Balance Sheet as of December 28, 2012 and the Statement of Operations for the twelve and twenty-four weeks ended June 15, 2012.

The cumulative impact of these misstatements on our 2012 annual and interim consolidated statements of cash flows is inconsequential as the impact on individual line items within operating activities is not material and had no impact on net cash provided by (used in) operating, investing or financing activities. However, we will restate the 2012 statement of cash flows when disclosed in our Annual Report on Form 10-K for the fiscal year ended January 3, 2014 to reflect changes to individual line items within operating activities.

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

The following discussion presents an analysis of our results of operations for the twelve and twenty-four weeks ended June 14, 2013, compared to the twelve and twenty-four weeks ended June 15, 2012.

(\$ in millions)	Twelve Weeks Ended		Twenty-Four Weeks Ended	
	June 14, 2013	June 15, 2012	June 14, 2013	June 15, 2012
<b>Revenues</b>				
Sale of vacation ownership products	\$ 169	\$ 141	\$ 310	\$ 273
Resort management and other services	61	62	117	116
Financing	32	35	65	71
Rental	65	54	128	110
Other	9	8	15	14
Cost reimbursements	85	83	176	173
<b>Total revenues</b>	<b>421</b>	<b>383</b>	<b>811</b>	<b>757</b>
<b>Expenses</b>				
Cost of vacation ownership products	57	50	101	97
Marketing and sales	74	78	148	152
Resort management and other services	45	49	87	93
Financing	6	7	11	13
Rental	56	52	112	100
Other	3	3	7	5
General and administrative	22	20	43	39
Litigation settlement		2	(1)	2
Organizational and separation related	2	4	3	6
Interest	11	14	22	27
Royalty fee	15	14	28	27
Impairment	1		1	
Cost reimbursements	85	83	176	173
<b>Total expenses</b>	<b>377</b>	<b>376</b>	<b>738</b>	<b>734</b>
Gains and other income			1	
Impairment reversals on equity investment		2		2
Income before income taxes	44	9	74	25
Provision for income taxes	(14)	(4)	(25)	(12)
<b>Net income</b>	<b>\$ 30</b>	<b>\$ 5</b>	<b>\$ 49</b>	<b>\$ 13</b>

**Contract Sales**

Twelve Weeks Ended June 14, 2013

(\$ in millions)	Twelve Weeks Ended		Change	% Change
	June 14, 2013	June 15, 2012		



Edgar Filing: MARRIOTT VACATIONS WORLDWIDE Corp - Form 10-Q

Contract Sales							
Vacation ownership	\$	156	\$	168	\$	(12)	(8%)
Residential products		1				1	NM
Total contract sales	\$	157	\$	168	\$	(11)	(7%)

*NM = not meaningful*

The \$11 million decrease in total contract sales was driven by \$7 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, \$3 million of lower contract sales in our Europe segment as we continued to sell through existing inventory and as a result of higher rescission activity associated with extended rescission periods in our Europe segment during the second quarter of 2013, and \$1 million of lower contract sales in our North America segment.

**Table of Contents**

The decrease in contract sales in our North America segment reflected a 6 percent decline in tours in the twelve weeks ended June 14, 2013, partially offset by an 8 percent increase in VPG to \$3,211 in the twelve weeks ended June 14, 2013 from \$2,968 in the prior year comparable period. The decline in tours was driven by an increase in weeks-based owner utilization of the MVCD program, with owners taking advantage of the program's flexibility through shorter stays and alternative usage options. This has reduced our existing owner tour-flow, which we intend to replace through new programs in the future as well as increased new buyer tours. The 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.

*Twenty-Four Weeks Ended June 14, 2013*

(\$ in millions)	Twenty-Four Weeks Ended		Change	% Change
	June 14, 2013	June 15, 2012		
Contract Sales				
Vacation ownership	\$ 312	\$ 322	\$ (10)	(3%)
Residential products	1		1	NM
Total contract sales	\$ 313	\$ 322	\$ (9)	(3%)

The \$9 million decrease in total contract sales was driven by \$11 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 \$6 million of lower contract sales in our Europe segment as we continued to sell through existing inventory and as a result of higher rescission activity associated with extended rescission periods in our Europe segment during the second quarter of 2013. These decreases were partially offset by \$8 million, or 3 percent, of higher contract sales in our key North America segment.

The increase in contract sales in our North America segment reflected a 10 percent increase in VPG to \$3,238 in the twenty-four weeks ended June 14, 2013 from \$2,955 in the prior year comparable period. The increase in VPG was due to a 3 percent price increase and a slightly more than 1 percentage point increase in closing efficiency resulting from improved marketing and sales execution. These increases were partially offset by a 5 percent decline in tours. The decline in tours was driven by an increase in weeks-based owner utilization of the MVCD program, with owners taking advantage of the program's flexibility through shorter stays and alternative usage options. This has reduced our existing owner tour-flow, which we intend to replace through new programs in the future as well as increased new buyer tours.

**Development Margin***Twelve Weeks Ended June 14, 2013*

(\$ in millions)	Twelve Weeks Ended		Change	% Change
	June 14, 2013	June 15, 2012		
Sale of vacation ownership products	\$ 169	\$ 141	\$ 28	20%
Cost of vacation ownership products	(57)	(50)	(7)	(14%)
Marketing and sales	(74)	(78)	4	6%
Development margin	\$ 38	\$ 13	\$ 25	NM
Development margin percentage	23.1%	9.3%	13.8 pts	

The increase in revenues from the sale of vacation ownership products was due to \$34 million of higher revenue reportability compared to the prior year comparable period and \$5 million of lower vacation ownership notes receivable reserve activity due to lower estimated default and delinquency activity in our North America segment in the twelve weeks ended June 14, 2013, partially offset by the \$11 million decrease in contract sales. The \$34 million of higher revenue reportability resulted from \$25 million of higher revenue reportability in the twelve weeks ended June 14, 2013 compared to \$9 million of lower revenue reportability in the prior year comparable period. Revenue reportability was

## Edgar Filing: MARRIOTT VACATIONS WORLDWIDE Corp - Form 10-Q

higher in the current year quarter, as the rescission period related to certain sales had expired, of which \$17 million related to the impact of the extended rescission periods in our Europe segment. The lower reportability in the prior year quarter reflected the impact of certain sales not meeting the down payment requirement for revenue recognition purposes prior to the end of the period. Revenue reportability can affect quarter-to-quarter earnings but typically has no material impact on year-over-year earnings; however, given the impact of the extended rescission periods in our Europe segment, we expect that revenue reportability will have a material impact on year-over-year earnings.

**Table of Contents**

The increase in development margin reflects \$20 million from higher revenue reportability year-over-year (of which \$12 million is related to the impact of the extended rescission periods in our Europe segment), a \$5 million increase from lower contract sales volume net of lower direct variable expenses (i.e., cost of vacation ownership products and marketing and sales) due to a favorable mix of lower cost real estate inventory being sold and more efficient marketing and sales spending, and a \$2 million benefit from the lower estimated default and delinquency activity. These increases are partially offset by \$3 million of favorable product cost true-ups in the prior year period compared to less than \$1 million in the twelve weeks ended June 14, 2013.

The 14 percentage point improvement in the development margin percentage reflects a 9 percentage point increase due to higher revenue reportability year-over-year, a 2 percentage point increase from the lower cost of vacation ownership products due to a favorable mix of lower cost real estate inventory being sold offset by the favorable product cost true-up activity in the prior year comparable period, a 2 percentage point increase from efficiencies in marketing and sales spending and a 1 percentage point increase from the lower estimated default and delinquency activity.

*Twenty-Four Weeks Ended June 14, 2013*

(\$ in millions)	Twenty-Four Weeks Ended		Change	% Change
	June 14, 2013	June 15, 2012		
Sale of vacation ownership products	\$ 310	\$ 273	\$ 37	14%
Cost of vacation ownership products	(101)	(97)	(4)	(4%)
Marketing and sales	(148)	(152)	4	3%
Development margin	\$ 61	\$ 24	\$ 37	NM
Development margin percentage	19.8%	9.0%	10.8 pts	

The increase in revenues from the sale of vacation ownership products was due to \$43 million of higher revenue reportability compared to the prior year comparable period and \$5 million of lower vacation ownership notes receivable reserve activity due to lower estimated default and delinquency activity in our North America segment in the twenty-four weeks ended June 14, 2013, partially offset by the \$9 million decrease in contract sales. The \$43 million of higher revenue reportability resulted from \$23 million of higher revenue reportability in the twenty-four weeks ended June 14, 2013 compared to \$20 million of lower revenue reportability in the prior year comparable period. Revenue reportability was higher in the current year period, as the rescission period related to certain sales had expired, of which \$18 million related to impact of the extended rescission periods in our Europe segment. The lower reportability in the prior year period reflected the impact of certain sales remaining in the statutory rescission period or not meeting the down payment requirement for revenue recognition purposes prior to the end of the period. Revenue reportability can affect quarter-to-quarter earnings, but typically has no material impact on year-over-year earnings; however, given the impact of the extended rescission periods in our Europe segment, we expect that revenue reportability will have a material impact on year-over-year earnings.

The increase in development margin reflects \$25 million from higher revenue reportability year-over-year (of which \$14 million is related to the impact of the extended rescission periods in our Europe segment), a \$9 million increase from lower contract sales volume net of lower direct variable expenses (i.e., cost of vacation ownership products and marketing and sales) due to a favorable mix of lower cost real estate inventory being sold and more efficient marketing and sales spending, nearly \$2 million of favorable product cost true-ups (nearly \$7 million in the twelve weeks ended June 14, 2013 compared to more than \$5 million in the prior year comparable period), a \$2 million benefit from the lower estimated default and delinquency activity and \$1 million of other charges in the prior year period. These increases were partially offset by \$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 the twenty-four weeks ended June 14, 2013 were the result of \$3 million from lower estimated common construction costs, \$2 million from changes in sequencing of inventory into the MVCD program due to the continued reacquisition of previously sold inventory, and more than \$1 million from an increase in estimated future revenues associated with our Asia Pacific product.

The 11 percentage point improvement in the development margin percentage reflects a 6 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 and, to a lesser extent, favorable product cost true-up activity, and a 2 percentage point increase from efficiencies in marketing and sales spending. These increases were partially offset by a less than 1 percentage point decline due to severance charges in our Europe segment as discussed above.





## Edgar Filing: MARRIOTT VACATIONS WORLDWIDE Corp - Form 10-Q

The improvement in the resort management and other services margin reflects \$4 million of additional annual club dues earned in connection with the MVCD program net of expenses, \$2 million of higher ancillary revenues net of expenses primarily due to the disposition of a golf course and related assets at one of our Ritz-Carlton branded projects late in 2012, which experienced an operating loss in the prior year comparable period, and a \$1 million increase in management fees net of expenses.

**Table of Contents****Financing Revenues, Expenses and Margin***Twelve Weeks Ended June 14, 2013*

(\$ in millions)	Twelve Weeks Ended		Change	% Change
	June 14, 2013	June 15, 2012		
Interest income	\$ 31	\$ 33	\$ (2)	(9%)
Other financing revenues	1	2	(1)	(3%)
<b>Financing revenues</b>	<b>32</b>	<b>35</b>	<b>(3)</b>	<b>(8%)</b>
Financing expenses	(6)	(7)	1	12%
<b>Financing margin</b>	<b>\$ 26</b>	<b>\$ 28</b>	<b>\$ (2)</b>	<b>(8%)</b>

Financing propensity 38%      38%

The decrease in financing revenues is due to a \$113 million decline in the average gross vacation ownership notes receivable balance. This decline reflects our continued collection of existing vacation ownership notes receivable at a faster pace than our origination of new vacation ownership notes receivable. The \$2 million decrease in financing margin from the prior year comparable period reflects the lower interest income, partially offset by lower expenses due to lower foreclosure activity and lower expenses associated with our Revolving Corporate Credit Facility.

Financing margin net of consumer financing interest expense increased \$1 million to \$19 million in the twelve weeks ended June 14, 2013 from \$18 million in the prior year comparable period. See [Interest Expense](#) below for a discussion of consumer financing interest expense.

*Twenty-Four Weeks Ended June 14, 2013*

(\$ in millions)	Twenty-Four Weeks Ended		Change	% Change
	June 14, 2013	June 15, 2012		
Interest income	\$ 63	\$ 68	\$ (5)	(9%)
Other financing revenues	2	3	(1)	(2%)
<b>Financing revenues</b>	<b>65</b>	<b>71</b>	<b>(6)</b>	<b>(8%)</b>
Financing expenses	(11)	(13)	2	15%
<b>Financing margin</b>	<b>\$ 54</b>	<b>\$ 58</b>	<b>\$ (4)</b>	<b>(7%)</b>

Financing propensity 39%      40%

The decrease in financing revenues is due to a \$114 million decline in the average gross vacation ownership notes receivable balance. This decline reflects our continued collection of existing vacation ownership notes receivable at a faster pace than our origination of new vacation ownership notes receivable. The \$4 million decrease in financing margin from the prior year comparable period reflects the lower interest income, partially offset by lower expenses due to lower foreclosure activity and lower expenses associated with our Revolving Corporate Credit Facility.

Financing margin net of consumer financing interest expense increased \$1 million to \$39 million in the twenty-four weeks ended June 14, 2013 from \$38 million in the prior year comparable period. See [Interest Expense](#) below for a discussion of consumer financing interest expense.





**Table of Contents****Rental Revenues, Expenses and Margin***Twelve Weeks Ended June 14, 2013*

(\$ in millions)	Twelve Weeks Ended		Change	% Change
	June 14, 2013	June 15, 2012		
Rental revenues	\$ 65	\$ 54	\$ 11	18%
Unsold maintenance fees upscale	(12)	(11)	(1)	(21%)
Unsold maintenance fees luxury	(3)	(3)		15%
Unsold maintenance fees	(15)	(14)	(1)	(14%)
Other expenses	(41)	(38)	(3)	(3%)
Rental margin	\$ 9	\$ 2	\$ 7	NM
Rental margin percentage	13.3%	3.5%	9.8 pts	

	Twelve Weeks Ended		Change	% Change
	June 14, 2013	June 15, 2012		
Transient keys rented <sup>(1)</sup>	255,353	229,591	25,762	11%
Average transient key rate	\$ 204.44	\$ 190.72	\$ 13.72	7%
Resort occupancy	89.7%	90.2%	(0.5 pts)	

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

The increase in rental revenues is due to a company-wide 11 percent increase in transient keys rented (\$5 million), which were primarily sourced from a 9 percent increase in available keys (36,000 additional available keys) resulting from an increase in the number of owners choosing to exchange their vacation ownership interests for alternative usage options and additional inventory from a new phase completed at one of our projects in Hawaii subsequent to the second quarter of 2012, as well as a company-wide 7 percent increase in average transient rate (\$5 million) driven by stronger consumer demand and favorable mix of available inventory. In addition, plus points revenue (which is recognized upon utilization of plus points for stays at our resorts or upon expiration of the points) increased by \$1 million.

The increase in rental margin reflects \$6 million of higher rental revenues net of direct variable expenses (such as housekeeping), expenses incurred due to owners choosing alternative usage options, and higher unsold maintenance fees, as well as the \$1 million increase in plus points revenue. The increase in unsold maintenance fees reflects 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.

*Twenty-Four Weeks Ended June 14, 2013*

(\$ in millions)	Twenty-Four Weeks Ended		Change	% Change
	June 14, 2013	June 15, 2012		
Rental revenues	\$ 128	\$ 110	\$ 18	15%
Unsold maintenance fees upscale	(25)	(21)	(4)	(22%)
Unsold maintenance fees luxury	(5)	(6)	1	15%
Unsold maintenance fees	(30)	(27)	(3)	(14%)

Edgar Filing: MARRIOTT VACATIONS WORLDWIDE Corp - Form 10-Q

Other expenses	(82)	(73)	(9)	(11%)
Rental margin	\$ 16	\$ 10	\$ 6	56%
Rental margin percentage	12.2%	9.1%	3.1 pts	

	Twenty-Four Weeks Ended			
	June 14, 2013	June 15, 2012	Change	% Change
Transient keys rented <sup>(1)</sup>	519,245	450,115	69,130	15%
Average transient key rate	\$ 207.35	\$ 193.64	\$ 13.71	7%
Resort occupancy	88.9%	89.0%	(0.1 pts)	

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

**Table of Contents**

The increase in rental revenues is due to a company-wide 15 percent increase in transient keys rented (\$13 million), which were primarily sourced from a 9 percent increase in available keys (78,000 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 subsequent to the second quarter of 2012 and a lower utilization of plus points for stays at our resorts, as well as a company-wide 7 percent increase in average transient rate (nearly \$9 million) driven by stronger consumer demand and favorable mix of available inventory. These increases were partially offset by a \$4 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 our reduced use of plus points as incentives for enrollment in the MVCD program.

The increase in rental margin reflects \$10 million of higher rental revenues net of direct variable expenses (such as housekeeping), expenses incurred due to owners choosing alternative usage options, and higher unsold maintenance fees, partially offset by the \$4 million decline in plus points revenue. The increase in unsold maintenance fees reflects 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.

**Other***Twelve Weeks Ended June 14, 2013*

(\$ in millions)	Twelve Weeks Ended	
	June 14, 2013	June 15, 2012
Other revenues	\$ 9	\$ 8
Other expenses	(3)	(3)
Other revenues, net of expenses	\$ 6	\$ 5

Other revenues net of expenses increased mainly as a result of higher settlement and other miscellaneous revenues in the twelve weeks ended June 14, 2013 compared to the prior year comparable period.

*Twenty-Four Weeks Ended June 14, 2013*

(\$ in millions)	Twenty-Four Weeks Ended	
	June 14, 2013	June 15, 2012
Other revenues	\$ 15	\$ 14
Other expenses	(7)	(5)
Other revenues, net of expenses	\$ 8	\$ 9

Other revenues net of expenses decreased mainly as a result of higher expenses associated with an external exchange company and other miscellaneous expenses in the twenty-four weeks ended June 14, 2013 compared to the prior year comparable period.

**Cost Reimbursements***Twelve Weeks Ended June 14, 2013*

Cost reimbursements increased \$2 million, or 3 percent, over the prior year comparable period, reflecting an increase of \$3 million in cost reimbursements due to growth across the system, partially offset by \$1 million of lower costs associated with the termination of the management contract for a joint venture project in early 2013.

## Edgar Filing: MARRIOTT VACATIONS WORLDWIDE Corp - Form 10-Q

*Twenty-Four Weeks Ended June 14, 2013*

Cost reimbursements increased \$3 million, or 2 percent, over the prior year comparable period, reflecting an increase of \$5 million in cost reimbursements due to growth across the system, partially offset by \$2 million of lower costs associated with the termination of the management contract for a joint venture project in early 2013.

**Table of Contents****General and Administrative***Twelve Weeks Ended June 14, 2013*

General and administrative expense increased \$2 million (from \$20 million to \$22 million) over the prior year comparable period due to \$2 million of higher personnel related costs, \$2 million of higher legal and audit related expenses, and \$1 million of higher standalone public company costs. These increases were offset by \$1 million of savings related to organizational and separation related efforts in the human resources, information technology and finance and accounting areas, \$1 million from lower depreciation expense, and \$1 million from timing of expenses as compared to the prior year comparable period.

*Twenty-Four Weeks Ended June 14, 2013*

General and administrative expense increased \$4 million (from \$39 million to \$43 million) over the prior year comparable period due to \$3 million of higher personnel related costs, \$3 million of higher legal and audit related expenses, and \$2 million of higher standalone public company costs. These increases were offset by \$2 million of savings related to organizational and separation related efforts in the human resources, information technology and finance and accounting areas, \$1 million from the favorable resolution of an international tax (non-income tax) matter, and \$1 million from lower depreciation expense.

**Interest Expense***Twelve Weeks Ended June 14, 2013*

(\$ in millions)	Twelve Weeks Ended	
	June 14, 2013	June 15, 2012
Consumer financing interest expense	\$ (7)	\$ (10)
Non-consumer financing interest expense	(4)	(4)
<b>Interest expense</b>	<b>\$ (11)</b>	<b>\$ (14)</b>

The decline in consumer financing interest expense was due to the lower outstanding debt balances of securitized vacation ownership notes receivable and associated interest costs as well as a lower average interest rate. The lower average interest rate reflects the continued pay-down of older securitization transactions that carried higher overall interest rates and the benefit of lower interest rates applicable to our most recently completed securitization of vacation ownership notes receivables.

Non-consumer financing interest expense of \$4 million remained unchanged from the prior year comparable period.

*Twenty-Four Weeks Ended June 14, 2013*

(\$ in millions)	Twenty-Four Weeks Ended	
	June 14, 2013	June 15, 2012
Consumer financing interest expense	\$ (15)	\$ (20)
Non-consumer financing interest expense	(7)	(7)
<b>Interest expense</b>	<b>\$ (22)</b>	<b>\$ (27)</b>

The decline in consumer financing interest expense was due to the lower outstanding debt balances of securitized vacation ownership notes receivable and associated interest costs as well as a lower average interest rate. The lower average interest rate reflects the continued pay-down of older securitization transactions that carried higher overall interest rates and the benefit of lower interest rates applicable to our most recently

completed securitization of vacation ownership notes receivables.

## **Table of Contents**

Non-consumer financing interest expense of \$7 million remained unchanged from the prior year comparable period. A \$1 million decline in expense associated with our liability for Marriott Rewards Points under the Marriott Rewards Affiliation Agreement between us and Marriott International was offset by a reduction of nearly \$1 million in capitalized interest costs.

### **Royalty Fee**

#### *Twelve Weeks Ended June 14, 2013*

Royalty fee expense increased \$1 million to \$15 million in the twelve weeks ended June 14, 2013 compared to \$14 million in the prior year comparable period due to a lower portion of sales of pre-owned inventory, which carries a lower royalty fee as compared to initial sales of our real estate inventory (1 percent versus 2 percent).

#### *Twenty-Four Weeks Ended June 14, 2013*

Royalty fee expense increased \$1 million to \$28 million in the twenty-four weeks ended June 14, 2013 compared to \$27 million in the prior year comparable period due to a lower portion of sales of pre-owned inventory, which carries a lower royalty fee as compared to initial sales of our real estate inventory (1 percent versus 2 percent).

### **Income Tax**

#### *Twelve Weeks Ended June 14, 2013*

Income tax expense increased by \$10 million to \$14 million, compared to \$4 million in the prior year comparable period. The increase in income tax expense is primarily related to an increase in the 2013 pretax income attributable to the United States as noted in the discussion of our North America segment results below offset by a rate reduction in a foreign jurisdiction that contributed approximately \$2 million of income tax benefit.

#### *Twenty-Four Weeks Ended June 14, 2013*

Income tax expense increased by \$13 million to \$25 million, compared to \$12 million in the prior year comparable period. The increase in income tax expense is primarily related to an increase in the 2013 pretax income attributable to the United States as noted in the discussion of our North America segment results below offset by a rate reduction in a foreign jurisdiction that contributed approximately \$2 million of income tax benefit.

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

EBITDA, a financial measure which is not prescribed or authorized by GAAP, reflects earnings excluding the impact of interest expense, provision for income taxes, depreciation and amortization. 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 EBITDA, 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.

We also evaluate Adjusted EBITDA, another non-GAAP financial measure, as an indicator of performance. Adjusted EBITDA excludes the impact of non-cash impairment charges or reversals and restructuring charges and includes the impact of interest expense associated with the debt from the Warehouse Credit Facility and from the securitization of our vacation ownership notes receivable in the ABS market, which together we refer to as consumer financing interest expense. We deduct consumer financing interest expense in determining Adjusted EBITDA since the debt is secured by vacation ownership notes receivable that have been sold to bankruptcy remote special purpose entities and is generally non-recourse to us. We evaluate Adjusted EBITDA, which adjusts for these items, to allow for period-over-period comparisons of our ongoing core operations before material charges. Adjusted EBITDA is also useful in measuring our ability to service our non-securitized debt. Together, EBITDA and Adjusted EBITDA facilitate our comparison of results from our ongoing operations with results from other vacation ownership companies.



## Edgar Filing: MARRIOTT VACATIONS WORLDWIDE Corp - Form 10-Q

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

**Table of Contents**

(\$ in millions)	Twelve Weeks Ended		Twenty-Four Weeks Ended	
	June 14, 2013	June 15, 2012	June 14, 2013	June 15, 2012
Net income	\$ 30	\$ 5	\$ 49	\$ 13
Interest expense	11	14	22	27
Tax provision	14	4	25	12
Depreciation and amortization	5	7	11	14
<b>EBITDA</b>	<b>60</b>	<b>30</b>	<b>107</b>	<b>66</b>
Impairment charges:				
Impairment	1		1	
Impairment reversals on equity investment		(2)		(2)
Consumer financing interest expense	(7)	(10)	(15)	(20)
Adjusted EBITDA	\$ 54	\$ 18	\$ 93	\$ 44

**Business Segments**

Our business is grouped into three reportable business segments: North America, Europe and Asia Pacific. Prior to 2013, our business was grouped into four reportable segments: North America, Luxury, Europe and Asia Pacific. Effective December 29, 2012, we combined the reporting of the financial results of the former Luxury segment with the North America segment based upon our decision to scale back separate development activity for the Luxury market and to aggregate future marketing and sales of both upscale tier and luxury tier inventory. Existing service standards and on-site management remain unaffected by our reporting changes. Prior year amounts have been recast for consistency with the current year's presentation. See Footnote No. 13, Business Segments, of the Notes to our Financial Statements for further information on our segments.

At June 14, 2013, we operated the following 63 properties by segment:

	U.S. <sup>(1)</sup>	Non-U.S.	Total
North America	49	5	54
Europe		5	5
Asia Pacific		4	4
Total	49	14	63

<sup>(1)</sup> Includes incorporated U.S. territories.

**Table of Contents***North America*

(\$ in millions)	Twelve Weeks Ended		Twenty-Four Weeks Ended	
	June 14, 2013	June 15, 2012	June 14, 2013	June 15, 2012
<b>Revenues</b>				
Sale of vacation ownership products	\$ 136	\$ 123	\$ 262	\$ 237
Resort management and other services	52	53	102	102
Financing	30	33	61	67
Rental	57	48	116	100
Other	9	8	15	14
Cost reimbursements	75	73	156	155
<b>Total revenues</b>	<b>359</b>	<b>338</b>	<b>712</b>	<b>675</b>
<b>Expenses</b>				
Cost of vacation ownership products	46	44	86	85
Marketing and sales	62	61	126	121
Resort management and other services	38	42	74	81
Rental	48	46	99	88
Other	3	3	7	5
Litigation settlement		2	(1)	2
Royalty fee	3	2	4	3
Cost reimbursements	75	73	156	155
<b>Total expenses</b>	<b>275</b>	<b>273</b>	<b>551</b>	<b>540</b>
Gains and other income			1	
Impairment reversals on equity investment		2		2
<b>Segment financial results</b>	<b>\$ 84</b>	<b>\$ 67</b>	<b>\$ 162</b>	<b>\$ 137</b>

**Contract Sales***Twelve Weeks Ended June 14, 2013*

(\$ in millions)	Twelve Weeks Ended		Change	% Change
	June 14, 2013	June 15, 2012		
<b>Contract Sales</b>				
Vacation ownership	\$ 141	\$ 143	\$ (2)	(1%)
Residential products	1		1	NM
<b>Total contract sales</b>	<b>\$ 142</b>	<b>\$ 143</b>	<b>\$ (1)</b>	<b>(1%)</b>

The decrease in contract sales in our North America segment reflected a 6 percent decline in tours in the twelve weeks ended June 14, 2013, partially offset by an 8 percent increase in VPG to \$3,211 in the twelve weeks ended June 14, 2013 from \$2,968 in the prior year comparable period. The decline in tours was driven by an increase in weeks-based owner utilization of the MVCD program, with owners taking advantage of the program's flexibility through shorter stays and alternative usage options. This has reduced our existing owner tour-flow, which we intend to replace through new programs in the future as well as increased new buyer tours. The 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.

Edgar Filing: MARRIOTT VACATIONS WORLDWIDE Corp - Form 10-Q

Twenty-Four Weeks Ended June 14, 2013

(\$ in millions)	Twenty-Four Weeks Ended		Change	% Change
	June 14, 2013	June 15, 2012		
Contract Sales				
Vacation ownership	\$ 284	\$ 277	\$ 7	3%
Residential products	1		1	NM
Total contract sales	\$ 285	\$ 277	\$ 8	3%

**Table of Contents**

The increase in contract sales in our North America segment reflected a 10 percent increase in VPG to \$3,238 in the twenty-four weeks ended June 14, 2013 from \$2,955 in the prior year comparable period. This increase in VPG was due to a 3 percent price increase and a slightly more than 1 percentage point increase in closing efficiency resulting from improved marketing and sales execution. These increases were partially offset by a 5 percent decline in tours. The decline in tours was driven by an increase in weeks-based owner utilization of the MVCD program, with owners taking advantage of the program's flexibility through shorter stays and alternative usage options. This has reduced our existing owner tour-flow, which we intend to replace through new programs in the future as well as increased new buyer tours.

**Development Margin**

*Twelve Weeks Ended June 14, 2013*

(\$ in millions)	Twelve Weeks Ended		Change	% Change
	June 14, 2013	June 15, 2012		
Sale of vacation ownership products	\$ 136	\$ 123	\$ 13	10%
Cost of vacation ownership products	(46)	(44)	(2)	(5%)
Marketing and sales	(62)	(61)	(1)	(1%)
Development margin	\$ 28	\$ 18	\$ 10	57%
Development margin percentage	20.8%	14.6%	6.2 pts	

The increase in revenues from the sale of vacation ownership products was due to \$11 million of higher revenue reportability compared to the prior year comparable period and \$3 million of lower vacation ownership notes receivable reserve activity due to lower estimated default and delinquency activity in the twelve weeks ended June 14, 2013, partially offset by the \$1 million decrease in contract sales. The \$11 million of higher revenue reportability resulted from \$5 million of higher revenue reportability in the twelve weeks ended June 14, 2013 compared to \$6 million of lower revenue reportability in the prior year comparable period. The impact of revenue reportability was higher in the current year quarter because the statutory rescission period had expired for more sales and more sales met the down payment requirement for revenue recognition purposes than in the prior year comparable period.

The increase in development margin reflects \$6 million from higher revenue reportability year-over-year, a \$6 million increase from lower contract sales volume net of lower direct variable expenses (i.e., cost of vacation ownership products and marketing and sales) due to a favorable mix of lower cost real estate inventory being sold and more efficient marketing and sales spending, and a \$1 million benefit from the lower estimated default and delinquency activity. These increases are partially offset by nearly \$3 million of favorable product cost true-ups in the prior year period.

The 6 percentage point improvement in the development margin percentage reflects a 3 percentage point increase due to higher revenue reportability year-over-year, a 2 percentage point increase from the lower cost of vacation ownership products due to a favorable mix of lower cost real estate inventory being sold (4 percentage points) offset by the favorable product cost true-up activity in the prior year comparable period (2 percentage points), and a 2 percentage point increase from efficiencies in marketing and sales spending.

*Twenty-Four Weeks Ended June 14, 2013*

(\$ in millions)	Twenty-Four Weeks Ended		Change	% Change
	June 14, 2013	June 15, 2012		
Sale of vacation ownership products	\$ 262	\$ 237	\$ 25	10%
Cost of vacation ownership products	(86)	(85)	(1)	(2%)
Marketing and sales	(126)	(121)	(5)	(4%)
Development margin	\$ 50	\$ 31	\$ 19	59%

## Edgar Filing: MARRIOTT VACATIONS WORLDWIDE Corp - Form 10-Q

Development margin percentage	19.1%	13.2%	5.9 pts
-------------------------------	-------	-------	---------

The increase in revenues from the sale of vacation ownership products was due to \$16 million of higher revenue reportability in the twenty-four weeks ended June 14, 2013 compared to the prior year comparable period, the \$8 million increase in contract sales and \$3 million of lower vacation ownership notes receivable reserve activity due to lower estimated default and delinquency activity in the twenty-four weeks ended June 14, 2013. These increases were partially offset by \$2 million of higher sales incentives issued in the current year period for plus points that 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. The \$16 million of higher revenue reportability resulted from \$16 million of

**Table of Contents**

lower revenue reportability in the prior year comparable period, compared to no impact from revenue reportability in the twenty-four weeks ended June 14, 2013. There was no impact from revenue reportability in the current year period because the increase in sales that met the down payment requirement for revenue recognition purposes was offset by the increase in sales that did not meet the rescission requirement for revenue recognition purposes. In the prior year comparable period, revenue reportability was lower because of an increase in sales that did not meet the down payment requirement for revenue recognition purposes and an increase in sales that did not meet the rescission requirement for revenue recognition purposes.

The increase in development margin reflects \$9 million from higher revenue reportability year-over-year, a \$9 million increase from higher contract sales volume net of direct variable expenses (i.e., cost of vacation ownership products and marketing and sales) due to a favorable mix lower cost of real estate inventory being sold and more efficient marketing and sales spending and a \$1 million benefit from the lower estimated default and delinquency activity. There was no impact from product cost true-ups in the twenty-four weeks ended June 14, 2013 compared to the prior year comparable period because there were \$5 million of favorable product cost true-ups in each period.

The favorable product cost true-ups recorded in the twenty-four weeks ended June 14, 2013 were the result of \$3 million from lower estimated common construction costs and \$2 million from changes in sequencing of inventory into the MVCD program due to the continued reacquisition of previously sold inventory.

The 6 percentage point improvement in the development margin percentage reflects a 3 percentage point increase due to higher revenue reportability year-over-year, a more than 2 percentage point increase from the lower cost of vacation ownership products due to a favorable mix of lower cost real estate inventory being sold, and a 1 percentage point increase from efficiencies in marketing and sales spending.

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

*Twelve Weeks Ended June 14, 2013*

(\$ in millions)	Twelve Weeks Ended		Change	% Change
	June 14, 2013	June 15, 2012		
Management fee revenues	\$ 14	\$ 13	\$ 1	3%
Other services revenues	38	40	(2)	1%
<b>Resort management and other services revenues</b>	<b>52</b>	<b>53</b>	<b>(1)</b>	<b>2%</b>
Resort management and other services expenses	(38)	(42)	4	7%
<b>Resort management and other services margin</b>	<b>\$ 14</b>	<b>\$ 11</b>	<b>\$ 3</b>	<b>30%</b>

Resort management and other services margin percentage 28.3% 22.1% 6.2 pts

The decrease in resort management and other services revenues is driven by \$2 million of lower ancillary revenues, which reflects a \$3 million decline due to the disposition of a golf course and related assets at one of our Ritz-Carlton branded projects late in 2012, partially offset by a \$1 million increase in ancillary revenues from food and beverage and golf offerings at our existing resorts. This decrease is partially offset by \$1 million of additional annual club dues earned in connection with the MVCD program due to the cumulative increase in owners enrolled in the program.

The improvement in the resort management and other services margin reflects \$2 million of additional annual club dues earned in connection with the MVCD program net of expenses and \$1 million of higher ancillary revenues net of expenses primarily due to the disposition of a golf course and related assets at one of our Ritz-Carlton branded projects late in 2012, which experienced an operating loss in the prior year comparable period.

*Twenty-Four Weeks Ended June 14, 2013*

**Twenty-Four Weeks Ended**

**Change % Change**

Edgar Filing: MARRIOTT VACATIONS WORLDWIDE Corp - Form 10-Q

<i>(\$ in millions)</i>	<b>June 14, 2013</b>	<b>June 15, 2012</b>		
Management fee revenues	\$ 28	\$ 27	\$ 1	4%
Other services revenues	74	75	(1)	0%
<b>Resort management and other services revenues</b>	<b>102</b>	<b>102</b>		<b>1%</b>
Resort management and other services expenses	(74)	(81)	7	8%
<b>Resort management and other services margin</b>	<b>\$ 28</b>	<b>\$ 21</b>	<b>\$ 7</b>	<b>34%</b>
Resort management and other services margin percentage	27.7%	20.8%	6.9 pts	



**Table of Contents**

Resort management and other services revenues of \$102 million in the twenty-four weeks ended June 14, 2013 were unchanged from the prior year comparable period. Results include \$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 and \$1 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. These increases were partially offset by \$3 million of lower ancillary revenues, which reflects a \$6 million decline due to the disposition of a golf course and related assets at one of our Ritz-Carlton branded projects late in 2012 partially offset by a \$3 million increase in ancillary revenues from food and beverage and golf offerings at our existing resorts, and a \$1 million decrease in other miscellaneous revenues.

The improvement in the resort management and other services margin reflects \$4 million of additional annual club dues earned in connection with the MVCD program net of expenses, \$2 million of higher ancillary revenues net of expenses primarily due to the disposition of a golf course and related assets at one of our Ritz-Carlton branded projects late in 2012, which experienced an operating loss in the prior year comparable period, and a \$1 million increase in management fees net of expenses.

**Financing Revenues**

*Twelve Weeks Ended June 14, 2013*

(\$ in millions)	Twelve Weeks Ended		Change	% Change
	June 14, 2013	June 15, 2012		
Interest income	\$ 29	\$ 31	\$ (2)	(9%)
Other financing revenues	1	2	(1)	(2%)
Financing revenues	\$ 30	\$ 33	\$ (3)	(9%)
Financing propensity	37%	38%		

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

*Twenty-Four Weeks Ended June 14, 2013*

(\$ in millions)	Twenty-Four Weeks Ended		Change	% Change
	June 14, 2013	June 15, 2012		
Interest income	\$ 59	\$ 64	\$ (5)	(9%)
Other financing revenues	2	3	(1)	(2%)
Financing revenues	\$ 61	\$ 67	\$ (6)	(9%)
Financing propensity	37%	39%		

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

**Rental Revenues, Expenses and Margin**

*Twelve Weeks Ended June 14, 2013*

(\$ in millions)	Twelve Weeks Ended	Change	% Change
------------------	--------------------	--------	----------

Edgar Filing: MARRIOTT VACATIONS WORLDWIDE Corp - Form 10-Q

	June 14, 2013	June 15, 2012		
Rental revenues	\$ 57	\$ 48	\$ 9	20%
Unsold maintenance fees upscale	(11)	(9)	(2)	(22%)
Unsold maintenance fees luxury	(3)	(3)		15%
Unsold maintenance fees	(14)	(12)	(2)	(14%)
Other expenses	(34)	(34)		(4%)
Rental margin	\$ 9	\$ 2	\$ 7	NM
Rental margin percentage	15.0%	4.2%	10.8 pts	

**Table of Contents**

	Twelve Weeks Ended		Change	% Change
	June 14, 2013	June 15, 2012		
Transient keys rented <sup>(1)</sup>	230,898	206,030	24,868	12%
Average transient key rate	\$ 199.52	\$ 183.68	\$ 15.84	9%
Resort occupancy	90.8%	90.9%	(0.1 pts)	

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

The increase in rental revenues is due to a 12 percent increase in transient keys rented (more than \$4 million), which were primarily sourced from an 8 percent increase in available keys (31,000 additional available keys) resulting from an increase in the number of owners choosing to exchange their vacation ownership interests for alternative usage options and additional inventory from a new phase completed at one of our projects in Hawaii subsequent to the second quarter of 2012, as well as a 9 percent increase in average transient rate (\$4 million) driven by stronger consumer demand and favorable mix of available inventory. In addition, plus points revenue (which is recognized upon utilization of plus points for stays at our resorts or upon expiration of the points) increased by \$1 million.

The increase in rental margin reflects \$6 million of higher rental revenues net of direct variable expenses (such as housekeeping), expenses incurred due to owners choosing alternative usage options and higher unsold maintenance fees, as well as the \$1 million increase in plus points revenue. The increase in unsold maintenance fees reflects 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.

*Twenty-Four Weeks Ended June 14, 2013*

(\$ in millions)	Twenty-Four Weeks Ended		Change	% Change
	June 14, 2013	June 15, 2012		
Rental revenues	\$ 116	\$ 100	\$ 16	16%
Unsold maintenance fees upscale	(22)	(18)	(4)	(22%)
Unsold maintenance fees luxury	(5)	(6)	1	15%
Unsold maintenance fees	(27)	(24)	(3)	(13%)
Other expenses	(72)	(64)	(8)	(12%)
Rental margin	\$ 17	\$ 12	\$ 5	45%
Rental margin percentage	14.7%	11.8%	2.9 pts	

	Twenty-Four Weeks Ended		Change	% Change
	June 14, 2013	June 15, 2012		
Transient keys rented <sup>(1)</sup>	477,281	410,914	66,367	16%
Average transient key rate	\$ 204.38	\$ 189.06	\$ 15.32	8%
Resort occupancy	90.2%	90.2%	0.0 pts	

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

The increase in rental revenues is due to a 16 percent increase in transient keys rented (nearly \$13 million), which were primarily sourced from a 10 percent increase in available keys (73,000 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 subsequent to the second quarter of 2012 and a lower utilization of plus points for stays at our resorts, as well as an 8 percent increase in average transient rate (\$7 million) driven by stronger consumer demand and favorable mix of available inventory. These increases were partially offset by a \$4 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 our reduced use of plus points as incentives for enrollment in our MVCD program.



**Table of Contents**

The increase in rental margin reflects \$9 million of higher rental revenues net of direct variable expenses (such as housekeeping), expenses incurred due to owners choosing alternative usage options and higher unsold maintenance fees, partially offset by the \$4 million decline in plus points revenue. The increase in unsold maintenance fees reflects 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.

*Europe*

(\$ in millions)	Twelve Weeks Ended		Twenty-Four Weeks Ended	
	June 14, 2013	June 15, 2012	June 14, 2013	June 15, 2012
<b>Revenues</b>				
Sale of vacation ownership products	\$ 25	\$ 4	\$ 32	\$ 10
Resort management and other services	8	8	13	12
Financing	1	1	2	2
Rental	6	5	8	7
Cost reimbursements	6	6	13	12
<b>Total revenues</b>	<b>46</b>	<b>24</b>	<b>68</b>	<b>43</b>
<b>Expenses</b>				
Cost of vacation ownership products	9	2	9	3
Marketing and sales	7	7	13	13
Resort management and other services	7	7	12	11
Rental	5	5	8	8
Impairment	1		1	
Cost reimbursements	6	6	13	12
<b>Total expenses</b>	<b>35</b>	<b>27</b>	<b>56</b>	<b>47</b>
Segment financial results	\$ 11	\$ (3)	\$ 12	\$ (4)

*Overview*

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.

**Contract Sales***Twelve Weeks Ended June 14, 2013*

(\$ in millions)	Twelve Weeks Ended		Change	% Change
	June 14, 2013	June 15, 2012		
<b>Contract Sales</b>				
Vacation ownership	\$ 7	\$ 10	\$ (3)	(39%)
<b>Total contract sales</b>	<b>\$ 7</b>	<b>\$ 10</b>	<b>\$ (3)</b>	<b>(39%)</b>

The decline in contract sales reflects our strategy to sell through existing inventory and higher rescission activity associated with extended rescission periods in this segment during the second quarter of 2013.

Edgar Filing: MARRIOTT VACATIONS WORLDWIDE Corp - Form 10-Q

Twenty-Four Weeks Ended June 14, 2013

(\$ in millions)	Twenty-Four Weeks Ended		Change	% Change
	June 14, 2013	June 15, 2012		
<b>Contract Sales</b>				
Vacation ownership	\$ 11	\$ 17	\$ (6)	(38%)
<b>Total contract sales</b>	<b>\$ 11</b>	<b>\$ 17</b>	<b>\$ (6)</b>	<b>(38%)</b>

The decline in contract sales reflects our strategy to sell through existing inventory and higher rescission activity associated with extended rescission periods in this segment during the second quarter of 2013.

**Table of Contents****Development Margin***Twelve Weeks Ended June 14, 2013*

(\$ in millions)	Twelve Weeks Ended		Change	% Change
	June 14, 2013	June 15, 2012		
Sale of vacation ownership products	\$ 25	\$ 4	\$ 21	NM
Cost of vacation ownership products	(9)	(2)	(7)	NM
Marketing and sales	(7)	(7)		NM
Development margin	\$ 9	\$ (5)	\$ 14	NM
Development margin percentage	41.8%	NM	NM	

The higher revenue from the sale of vacation ownership products reflects \$23 million of higher revenue reportability and \$1 million of lower vacation ownership notes receivable reserve activity, partially offset by a \$3 million decline in contract sales. The \$23 million of higher revenue reportability resulted from \$19 million of higher revenue reportability in the twelve weeks ended June 14, 2013 compared to \$4 million of lower revenue reportability in the prior year comparable period. Revenue reportability was higher in the current year quarter, as the rescission period related to certain sales had expired, of which \$17 million related to the impact of the extended rescission periods in this segment. The lower reportability in the prior year quarter reflected the impact of certain sales remaining in the statutory rescission period at the end of the period. Revenue reportability can affect quarter-to-quarter earnings but typically has no material impact on year-over-year earnings; however, given the impact of the extended rescission periods in this segment, we expect that revenue reportability will have a material impact on year-over-year earnings.

The increase in development margin reflects \$13 million from higher revenue reportability year-over-year (of which \$12 million is related to the impact of the extended rescission periods in this segment), a \$1 million increase from lower contract sales volume net of lower direct variable expenses (i.e., cost of vacation ownership products and marketing and sales) due to a favorable mix of lower cost real estate inventory being sold and more efficient marketing and sales spending, and a \$1 million benefit from the lower estimated default and delinquency activity. These increases were partially offset by \$1 million of severance charges related to the restructuring of sales locations in early 2013.

*Twenty-Four Weeks Ended June 14, 2013*

(\$ in millions)	Twenty-Four Weeks Ended		Change	% Change
	June 14, 2013	June 15, 2012		
Sale of vacation ownership products	\$ 32	\$ 10	\$ 22	NM
Cost of vacation ownership products	(9)	(3)	(6)	NM
Marketing and sales	(13)	(13)		NM
Development margin	\$ 10	\$ (6)	\$ 16	NM
Development margin percentage	32.2%	NM	NM	

The higher revenue from the sale of vacation ownership products reflects \$27 million of higher revenue reportability and \$1 million of lower vacation ownership notes receivable reserve activity, partially offset by a \$6 million decline in contract sales. The \$27 million of higher revenue reportability resulted from \$23 million of higher revenue reportability in the twenty-four weeks ended June 14, 2013 compared to \$4 million of lower revenue reportability in the prior year comparable period. Revenue reportability was higher in the current year quarter as the rescission period related to certain sales had expired, of which \$18 million related to the impact of the extended rescission periods in this segment. The lower reportability in the prior year quarter reflected the impact of certain sales remaining in the statutory rescission period at the end of the period. Revenue reportability can affect quarter-to-quarter earnings but typically has no material impact on year-over-year earnings; however, given the impact of the extended rescission periods in this segment, we expect that revenue reportability will have a material impact on year-over-year earnings.

## Edgar Filing: MARRIOTT VACATIONS WORLDWIDE Corp - Form 10-Q

The increase in development margin reflects \$14 million from higher revenue reportability year-over-year (all of which related to the impact of the extended rescission periods in this segment), a \$2 million increase from lower contract sales volume net of lower direct variable expenses (i.e., cost of vacation ownership products and marketing and sales) due to a favorable mix of lower cost real estate inventory being sold and more efficient marketing and sales spending, a \$1 million benefit from a favorable product cost true-up and a favorable resolution of a tax (non-income tax) matter in the current year period and a \$1 million benefit from the lower estimated default and delinquency activity. These increases were partially offset by \$2 million of severance charges related to the restructuring of sales locations in early 2013.



**Table of Contents***Asia Pacific*

<i>(\$ in millions)</i>	Twelve Weeks Ended		Twenty-Four Weeks Ended	
	June 14, 2013	June 15, 2012	June 14, 2013	June 15, 2012
<b>Revenues</b>				
Sale of vacation ownership products	\$ 8	\$ 14	\$ 16	\$ 26
Resort management and other services	1	1	2	2
Financing	1	1	2	2
Rental	2	1	4	3
Cost reimbursements	4	4	7	6
<b>Total revenues</b>	<b>16</b>	<b>21</b>	<b>31</b>	<b>39</b>
<b>Expenses</b>				
Cost of vacation ownership products	1	3	3	6
Marketing and sales	5	10	9	18
Resort management and other services			1	1
Rental	3	1	5	4
Royalty fee	1	1	1	1
Cost reimbursements	4	4	7	6
<b>Total expenses</b>	<b>14</b>	<b>19</b>	<b>26</b>	<b>36</b>
Segment financial results	\$ 2	\$ 2	\$ 5	\$ 3

**Overview**

In our Asia Pacific segment, we continue to identify opportunities for development margin improvement and, as a result, we closed our off-site sales locations in Hong Kong and Japan in the fourth quarter of 2012. Our on-site sales locations are more efficient sales channels than our off-site sales locations and we plan to focus on future inventory acquisitions with strong on-site sales distribution potential.

**Contract Sales**

*Twelve Weeks Ended June 14, 2013*

<i>(\$ in millions)</i>	Twelve Weeks Ended		Change	% Change
	June 14, 2013	June 15, 2012		
<b>Contract Sales</b>				
Vacation ownership	\$ 8	\$ 15	\$ (7)	(47%)
<b>Total contract sales</b>	<b>\$ 8</b>	<b>\$ 15</b>	<b>\$ (7)</b>	<b>(47%)</b>

The decline in contract sales reflects the closure of off-site sales locations in 2012, partially offset by improvements at existing sales locations. These changes resulted in a 56 percent decrease in sales tours and a \$488 increase in VPG.

*Twenty-Four Weeks Ended June 14, 2013*

Edgar Filing: MARRIOTT VACATIONS WORLDWIDE Corp - Form 10-Q

(\$ in millions)	Twenty-Four Weeks Ended		Change	% Change
	June 14, 2013	June 15, 2012		
Contract Sales				
Vacation ownership	\$ 17	\$ 28	\$ (11)	(41%)
Total contract sales	\$ 17	\$ 28	\$ (11)	(41%)

The decline in contract sales reflects the closure of off-site sales locations in 2012, partially offset by improvements at existing sales locations. These changes resulted in a 58 percent decrease in sales tours and a \$914 increase in VPG.

**Table of Contents****Development Margin***Twelve Weeks Ended June 14, 2013*

(\$ in millions)	Twelve Weeks Ended		Change	% Change
	June 14, 2013	June 15, 2012		
Sale of vacation ownership products	\$ 8	\$ 14	\$ (6)	(48%)
Cost of vacation ownership products	(1)	(3)	2	59%
Marketing and sales	(5)	(10)	5	50%
Development margin	\$ 2	\$ 1	\$ 1	9%
Development margin percentage	17.8%	10.2%	7.6 pts	

The increase in development margin was due to the lower sales volume net of direct variable expenses (i.e., cost of vacation ownership products and marketing and sales) as a result of more efficient marketing and sales spending at our existing sales locations in the twelve weeks ended June 14, 2013.

*Twenty-Four Weeks Ended June 14, 2013*

(\$ in millions)	Twenty-Four Weeks Ended		Change	% Change
	June 14, 2013	June 15, 2012		
Sale of vacation ownership products	\$ 16	\$ 26	\$ (10)	(41%)
Cost of vacation ownership products	(3)	(6)	3	58%
Marketing and sales	(9)	(18)	9	48%
Development margin	\$ 4	\$ 2	\$ 2	90%
Development margin percentage	22.5%	7.0%	15.5 pts	

The increase in development margin was due to the lower sales volume net of direct variable expenses (i.e., cost of vacation ownership products and marketing and sales) as a result of more efficient marketing and sales spending at our existing sales locations in the twenty-four weeks ended June 14, 2013.

**Corporate and Other**

(\$ in millions)	Twelve Weeks Ended		Twenty-Four Weeks Ended	
	June 14, 2013	June 15, 2012	June 14, 2013	June 15, 2012
Cost of vacation ownership products	\$ 1	\$ 1	\$ 3	\$ 3
Financing	6	7	11	13
General and administrative	22	20	43	39
Organizational and separation related	2	4	3	6
Interest	11	14	22	27
Royalty fee	11	11	23	23
Total Expenses	\$ 53	\$ 57	\$ 105	\$ 111

## Edgar Filing: MARRIOTT VACATIONS WORLDWIDE Corp - Form 10-Q

Corporate and Other captures information not specifically attributable to an individual segment, including expenses in support of our financing operations, non-capitalizable development expenses supporting overall company development, company-wide general and administrative costs, the fixed royalty fee payable under our License Agreements and interest expense.

*Twelve Weeks Ended June 14, 2013*

Total expenses decreased \$4 million over the prior year comparable period. The \$4 million decrease was the result of \$3 million of lower interest expense, \$2 million of lower organizational and separation related expenses and \$1 million of lower financing expenses due to lower foreclosure activity and lower expenses associated with our Revolving Corporate Credit Facility, partially offset by \$2 million of higher general and administrative expenses.

The \$3 million decline in interest expense was due to \$3 million of lower consumer financing interest expense. The decline in consumer financing interest expense was due to the lower outstanding debt balances of securitized vacation ownership notes receivable and associated interest costs as well as a lower average interest rate. The lower average interest rate reflects the continued pay-down of older securitization transactions that carried higher overall interest rates and the benefit of lower interest rates applicable to our most recently completed securitization of vacation ownership notes receivables. Non-consumer financing interest expense remained unchanged from the prior year comparable period.

---

## **Table of Contents**

General and administrative expense increased \$2 million (from \$20 million to \$22 million) over the prior year comparable period due to \$2 million of higher personnel related costs, \$2 million of higher legal and audit related expenses, and \$1 million of higher standalone public company costs. These increases were offset by \$1 million of savings related to organizational and separation related efforts in the human resources, information technology and finance and accounting areas, \$1 million from lower depreciation expense, and \$1 million from timing of expenses as compared to the prior year comparable period.

### *Twenty-Four Weeks Ended June 14, 2013*

Total expenses decreased \$6 million over the prior year comparable period. The \$6 million decrease was the result of \$5 million of lower interest expense, \$3 million of lower organizational and separation related expenses and \$2 million of lower financing expenses due to lower foreclosure activity and lower expenses associated with our Revolving Corporate Credit Facility, partially offset by \$4 million of higher general and administrative expenses.

The \$5 million decline in interest expense was due to \$5 million of lower consumer financing interest expense. The decline in consumer financing interest expense was due to the lower outstanding debt balances of securitized vacation ownership notes receivable and associated interest costs as well as a lower average interest rate. The lower average interest rate reflects the continued pay-down of older securitization transactions that carried higher overall interest rates and the benefit of lower interest rates applicable to our most recently completed securitization of vacation ownership notes receivables. Non-consumer financing interest expense of \$7 million remained unchanged from the prior year comparable period. A \$1 million decline in expense associated with our liability for Marriott Rewards Points under the Marriott Rewards Affiliation Agreement between us and Marriott International was offset by a reduction of nearly \$1 million in capitalized interest costs.

General and administrative expense increased \$4 million (from \$39 million to \$43 million) over the prior year comparable period due to \$3 million of higher personnel related costs, \$3 million of higher legal and audit related expenses, and \$2 million of higher standalone public company costs. These increases were offset by \$2 million of savings related to organizational and separation related efforts in the human resources, information technology and finance and accounting areas, \$1 million from the favorable resolution of an international tax (non-income tax) matter, and \$1 million from lower depreciation expense.

### **New Accounting Standards**

See Footnote No. 1 to our Financial Statements, Summary of Significant Accounting Policies, for information related to our adoption of new accounting standards in the twenty-four weeks ended June 14, 2013.

### **Liquidity and Capital Resources**

Our capital needs are supported by cash on hand (\$104 million at the end of the second quarter of 2013), cash generated from operations, our ability to raise capital through securitizations in the ABS market, and to the extent necessary, funds available under the Warehouse Credit Facility and the Revolving Corporate Credit Facility. We believe these sources will be adequate to meet our short-term and long-term liquidity requirements, finance our long-term growth plans, satisfy debt service requirements, and fulfill other cash requirements. At the end of the second quarter of 2013, \$643 million of the \$647 million of total debt outstanding was non-recourse debt associated with securitized vacation ownership notes receivable, including \$104 million outstanding under the Warehouse Credit Facility. In addition, we have \$40 million of mandatorily redeemable preferred stock of a consolidated subsidiary that we are not required to redeem until October 2021; however we may redeem the preferred stock after October 2016 at our option.

We have sufficient real estate inventory to meet expected demand for our vacation ownership products for the next several years. At the end of the second quarter of 2013, we had \$862 million of real estate inventory on hand, comprised of \$425 million of finished goods, \$168 million of work-in-process, and \$269 million of land and infrastructure. As a result, we expect our real estate inventory spending (discussed below) will be less than or in line with cost of sales for the near term. We also expect to sell excess Ritz-Carlton branded inventory and dispose of undeveloped land over the next few years, and plan to sell most of our remaining Ritz-Carlton branded inventory through the MVCD program, in order to generate incremental cash and reduce related carrying costs.

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

of vacation ownership products by slowing down or accelerating construction as demand across our portfolio and market conditions dictate.

**Table of Contents**

During the twenty-four weeks ended June 14, 2013 we had a net increase in cash and cash equivalents of \$1 million compared to a \$27 million net decrease in cash and cash equivalents during the twenty-four weeks ended June 15, 2012. The following table summarizes these changes:

(\$ in millions)	Twenty-Four Weeks Ended	
	June 14, 2013	June 15, 2012
Cash provided by (used in):		
Operating activities	\$ 34	\$ 106
Investing activities		5
Financing activities	(33)	(136)
Effect of changes in exchange rates on cash and cash equivalents		(2)
Net change in cash and cash equivalents	\$ 1	\$ (27)

Cash from Operating Activities

In the twenty-four weeks ended June 14, 2013, we generated \$34 million of cash flows from operating activities, compared to \$106 million in the twenty-four weeks ended June 15, 2012. Our primary sources of funds from operations are (1) cash sales and down payments on financed sales, (2) cash from our financing operations, including principal and interest payments received on outstanding vacation ownership notes receivable, and (3) net cash generated from our rental and resort management and other services operations. Outflows include spending for the development of new phases of existing resorts or turnkey purchases of new inventory as well as funding our working capital needs.

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

During the twenty-four weeks ended June 14, 2013, cash from operating activities was impacted by the timing of unsold maintenance fee payments to property owners associations as compared to the prior year comparable period, higher bonus payouts associated with 2012 financial performance and payment of previously accrued legal settlements.

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

*Real estate inventory spending less than cost of sales*

(\$ in millions)	Twenty-Four Weeks Ended	
	June 14, 2013	June 15, 2012
Real estate inventory spending	\$ (73)	\$ (40)
Real estate inventory costs	95	91
Real estate inventory spending less than cost of sales	\$ 22	\$ 51

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

Given the significant level of completed real estate inventory on hand, as well as the capital efficiency resulting from our MVCD program, our spending for real estate inventory remained below the amount of real estate inventory costs in each of the twenty-four week periods ended June 14, 2013 and June 15, 2012. We expect our real estate inventory spending to remain in line with or below real estate inventory costs in the

near term.

Through our vacation ownership interest repurchase program, we proactively buy back previously sold vacation ownership interests at lower costs than would be required to develop new inventory. By repurchasing inventory in desirable locations we expect to be able to stabilize the future cost of vacation ownership products for the next several years.



**Table of Contents***Notes receivable collections in excess of new mortgages*

(\$ in millions)	Twenty-Four Weeks Ended	
	June 14, 2013	June 15, 2012
Vacation ownership notes receivable collections non-securitized	\$ 58	\$ 49
Vacation ownership notes receivable collections securitized	90	99
New vacation ownership notes receivable	(100)	(99)
Vacation ownership notes receivable collections in excess of new mortgages	\$ 48	\$ 49

Vacation ownership notes receivable collections include principal from non-securitized and securitized vacation ownership notes receivable for all periods reported. Collections in the twenty-four weeks ended June 14, 2013 remained in line with the prior year comparable period. New vacation ownership notes receivable increased slightly in the twenty-four weeks ended June 14, 2013 compared to the twenty-four weeks ended June 15, 2012 due to an increase in the number of contract closings that occurred in the twenty-four weeks ended June 14, 2013 compared to the twenty-four weeks ended June 15, 2012, mainly in our North America segment, partially offset by a two percentage point decline in the financing propensity of purchasers in our North America segment to 37 percent in the twenty-four weeks ended June 14, 2013 from 39 percent in the prior year comparable period. During the twenty four weeks ended June 14, 2013, and as of June 14, 2013, no pools were out of compliance with performance triggers.

*Cash from Investing Activities*

(\$ in millions)	Twenty-Four Weeks Ended	
	June 14, 2013	June 15, 2012
Capital expenditures for property and equipment	\$ (7)	\$ (7)
Decrease in restricted cash	4	9
Dispositions	3	3
Net cash provided by investing activities	\$	\$ 5

*Capital expenditures for property and equipment*

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

In the twenty-four weeks ended June 14, 2013, capital expenditures for property and equipment of \$7 million included \$5 million of spending to support normal business operations (such as sales locations and ancillary assets) and \$2 million for technology spending.

In the twenty-four weeks ended June 15, 2012, capital expenditures for property and equipment of \$7 million included \$5 million of spending to support normal business operations (such as sales locations and ancillary assets) and \$2 million for technology spending.

*Decrease in Restricted Cash*

Restricted cash primarily consists of cash held in a reserve account related to vacation ownership notes receivable securitizations, cash collected for maintenance fees to be remitted to property owners associations, and deposits received, primarily associated with vacation ownership products that are held in escrow until the associated contract has closed or the period in which it can be rescinded has expired, depending on legal requirements. The decrease in restricted cash in the twenty-four weeks ended June 14, 2013 compared to the prior year period reflects payments to property owners associations for maintenance fees collected on their behalf prior to the end of 2012, offset partially by an increase in cash received related to securitized notes receivable that was distributed to investors subsequent to the end of the quarter. We expect the fluctuation in restricted cash for maintenance fee activity to be relatively stable, with cash inflows occurring in the fourth quarter upon receipt of maintenance fees and cash out flows occurring in the first quarter upon remittance to property owners associations.

*Dispositions*

Dispositions in the twenty-four weeks ended June 14, 2013 related to the sale of a multi-family parcel and several lots in St. Thomas, USVI.

**Table of Contents**Cash from Financing Activities

<i>(\$ in millions)</i>	<b>Twenty-Four Weeks Ended</b>	
	<b>June 14, 2013</b>	<b>June 15, 2012</b>
Borrowings from securitization transactions		
Warehouse Credit Facility	\$ 111	\$
<b>Subtotal</b>	<b>111</b>	
Repayment of debt related to securitization transactions		
Bonds payable on securitized vacation ownership notes receivable	(134)	(122)
Warehouse Credit Facility	(8)	(14)
<b>Subtotal</b>	<b>(142)</b>	<b>(136)</b>
Borrowings on Revolving Corporate Credit Facility	25	15
Repayment of Revolving Corporate Credit Facility	(25)	(15)
Proceeds from stock option exercises	2	3
Payment of withholding taxes on vesting of restricted stock units	(4)	(3)
<b>Net cash used in financing activities</b>	<b>\$ (33)</b>	<b>\$ (136)</b>

Borrowings / Repayments of debt related to securitizations

We reflect proceeds from securitizations of vacation ownership notes receivable, including draw downs on the Warehouse Credit Facility, as Borrowings from securitization transactions, and we reflect payments of bonds associated with vacation ownership notes receivable securitizations and on the Warehouse Credit Facility, including vacation ownership notes receivable repurchases, as Repayment of debt related to securitization transactions, within Cash from Financing Activities.

Repayments on the non-recourse debt associated with our securitized vacation ownership notes receivable totaled \$142 million (including \$51 million for voluntary retirement clean-up calls) and \$136 million (including \$30 million for voluntary clean-up calls) in each of the twenty-four weeks ended June 14, 2013 and June 15, 2012, respectively.

Contractual Obligations and Off-Balance Sheet Arrangements

There have been no significant changes to our Contractual Obligations and Off-Balance Sheet Arrangements as reported in Management's Discussion and Analysis of Financial Condition and Results of Operations, in our Annual Report on Form 10-K for the year ended December 28, 2012, other than those resulting from changes in the amount of debt outstanding. As of the end of the second quarter of 2013, debt decreased by \$31 million to \$647 million compared to \$678 million at year-end 2012, all of which related to a decrease in non-recourse debt associated with previously securitized vacation ownership notes receivable, including draw downs on the Warehouse Credit Facility. At the end of the second quarter of 2013, future debt payments to be paid out of collections from our vacation ownership notes receivable, including principal and interest, totaled \$723 million and are due as follows: \$67 million in 2013; \$116 million in 2014; \$188 million in 2015; \$104 million in 2016; \$75 million in 2017; and \$173 million thereafter.

We provided guarantees to certain lenders in connection with the provision of third-party financing for our vacation ownership product sales, which guarantees generally have a stated maximum amount of funding and a term of five to ten years. The terms of the guarantees require us to fund if the purchaser fails to pay under the terms of the note payable. We are then entitled to repossess the property securing the debt and retain the proceeds from its resale. Our commitments under these guarantees diminish as principal payments are made by the purchaser to the third-party lender. Our current exposure under such guarantees as of the end of the second quarter of 2013 in the Asia Pacific and North America segments is \$15 million and \$3 million, respectively, and the underlying debt to third-party lenders will mature between 2013 and 2022.

Additionally, in connection with an equity method investment, we provided a completion guarantee in favor of the project lenders. The joint venture has since delivered a completed operational project. Although we have not received a release of our guarantee, we do not believe we have any funding exposure under this guarantee.

## Edgar Filing: MARRIOTT VACATIONS WORLDWIDE Corp - Form 10-Q

For additional information on these guarantees and the circumstances under which they were entered into, see the Guarantees caption within Footnote No. 7, Contingencies and Commitments, of the Notes to our Financial Statements.

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

## **Table of Contents**

### **Critical Accounting Estimates**

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect reported amounts and related disclosures. Management considers an accounting estimate to be critical if: (1) it requires assumptions to be made that are uncertain at the time the estimate is made; and (2) changes in the estimate, or different estimates that could have been selected, could have a material effect on our consolidated results of operations or financial condition.

While we believe that our estimates, assumptions, and judgments are reasonable, they are based on information presently available. Actual results may differ significantly. Additionally, changes in our assumptions, estimates or assessments as a result of unforeseen events or otherwise could have a material impact on our financial position or results of operations. We have discussed those estimates that we believe are critical and require the use of complex judgment in their application in our most recent Annual Report on Form 10-K. Since the date of our most recent Annual Report on Form 10-K, there have been no material changes to our critical accounting policies or the methodologies or assumptions we apply under them.

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

Our exposure to market risk has not changed materially from that disclosed in the Annual Report on Form 10-K for the year ended December 28, 2012.

### **Item 4. Controls and Procedures**

#### *Disclosure Controls and Procedures*

As of the end of the period covered by this Quarterly Report on Form 10-Q, we evaluated, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the Exchange Act)), and management necessarily applied its judgment in assessing the costs and benefits of such controls and procedures, which by their nature, can provide only reasonable assurance about management's control objectives. Our disclosure controls and procedures have been designed to provide reasonable assurance of achieving the desired control objectives. However, you should note that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and we cannot assure you that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote. Based upon the foregoing evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective and operating to provide reasonable assurance that we record, process, summarize and report the information we are required to disclose in the reports that we file or submit under the Exchange Act within the time periods specified in the rules and forms of the SEC, and to provide reasonable assurance that we accumulate and communicate such information to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions about required disclosure.

#### *Changes in Internal Control Over Financial Reporting*

We continue to use Marriott International's financial systems to process and record various transactions and we expect to implement additional new controls as we continue to replace services provided by Marriott International.

There were no changes in our internal control over financial reporting during the second quarter of 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **Part II. OTHER INFORMATION**

### **Item 1. Legal Proceedings**

Currently, and from time to time, we are subject to claims in legal proceedings arising in the normal course of business, including, among others, the legal actions discussed in Footnote No. 7, Contingencies and Commitments, to our Consolidated Financial Statements. While management presently believes that the ultimate outcome of these proceedings, individually and in the aggregate, will not materially harm our financial

## Edgar Filing: MARRIOTT VACATIONS WORLDWIDE Corp - Form 10-Q

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.

**Table of Contents**

**Item 1A. Risk Factors**

There have been no material changes from the risk factors disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 28, 2012.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

Exhibits filed or furnished as a part of this Quarterly Report on Form 10-Q are listed on the Index to Exhibits on page E-1, which is incorporated by reference herein.

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MARRIOTT VACATIONS WORLDWIDE CORPORATION

July 18, 2013

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

/s/ John E. Geller, Jr.  
John E. Geller, Jr.  
Executive Vice President and Chief Financial Officer



**Table of Contents****INDEX TO EXHIBITS****Exhibit**

<b>No.</b>	<b>Description</b>
3.1	Restated Certificate of Incorporation of Marriott Vacations Worldwide Corporation, incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K filed on November 22, 2011.
3.2	Restated Bylaws of Marriott Vacations Worldwide Corporation, incorporated by reference to Exhibit 3.2 of the Company's Current Report on Form 8-K filed on November 22, 2011.
10.1	First Amendment, dated June 12, 2013, among Marriott Vacations Worldwide Corporation, Marriott Ownership Resorts, Inc., the several banks and other financial institutions or entities from time to time party thereto, Bank of America, N.A. and Deutsche Bank Securities Inc., as co-documentation agents, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Deutsche Bank Securities Inc., as co-syndication agents, and JPMorgan Chase Bank, N.A., as administrative agent, to the Amended and Restated Credit Agreement filed as Exhibit 10.29 to the Company's Annual Report on Form 10-K filed on February 22, 2013, incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on June 13, 2013.
10.2	First Amendment, dated June 12, 2013, made by Marriott Vacations Worldwide Corporation, Marriott Ownership Resorts, Inc., and certain subsidiaries of Marriott Vacations Worldwide Corporation in favor of JPMorgan Chase Bank, N.A., as administrative agent, to the Amended and Restated Guarantee and Collateral Agreement filed as Exhibit 10.30 to the Company's Annual Report on Form 10-K filed on February 22, 2013, incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed on June 13, 2013.
10.3	Marriott Vacations Worldwide Corporation Deferred Compensation Plan, incorporated by reference to Exhibit 10.3 of the Company's Current Report on Form 8-K filed on June 13, 2013.
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
32.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(b) and Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(b) and Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Label Linkbase Document.
101.PRE	XBRL Taxonomy Presentation Linkbase Document.

We have attached the following documents formatted in XBRL (Extensible Business Reporting Language) as Exhibit 101 to this report: (i) the Interim Consolidated Statements of Operations for the twelve and twenty-four weeks ended June 14, 2013 and June 15, 2012, respectively; (ii) the Interim Consolidated Statements of Comprehensive Income (Loss) for the twelve and twenty-four weeks ended June 14, 2013 and June 15, 2012, respectively; (iii) the Interim Consolidated Balance Sheets at June 14, 2013 and December 28, 2012; and (iv) the Interim Consolidated Statements of Cash Flows for the twenty-four weeks ended June 14, 2013 and June 15, 2012, respectively. Pursuant to Rule 406T of Regulation S-T, the interactive data files in Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, and otherwise are not subject to liability under those sections.