

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

FORM 10-K

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

For the Fiscal Year Ended January 2, 2015

or

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

For the transition period from _____ to _____

Commission File No. 001-35219

MARRIOTT VACATIONS WORLDWIDE CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

45-2598330
(IRS Employer
Identification No.)

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

32821
(Zip Code)

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

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

Title of Each Class
Common Stock, \$0.01 par value

Name of Each Exchange on Which Registered
New York Stock Exchange

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

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

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

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

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

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

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

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

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

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

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement prepared for the 2015 Annual Meeting of Shareholders are incorporated by reference into Part III of this report.

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

Fiscal Year	Fiscal Year-End Date
2014	January 2, 2015
2013	January 3, 2014
2012	December 28, 2012
2011	December 30, 2011
2010	December 31, 2010

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

Throughout this Annual Report, we refer to brands that we own, as well as those brands that we license from Marriott International, Inc. (Marriott International) or its affiliates, as our brands.

By referring to our corporate website, www.marriottvacationsworldwide.com, or any other website, we do not incorporate any such website or its contents in this Annual Report.

SPECIAL NOTE ABOUT FORWARD-LOOKING STATEMENTS

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

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

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

PART I

**Item 1. Business
Overview**

We are one of the world's largest companies whose business is focused almost entirely on vacation ownership, based on number of owners, number of resorts and revenues. We are the exclusive worldwide developer, marketer, seller and manager of vacation ownership and related products under the Marriott Vacation

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Club and Grand Residences by Marriott brands. We are also the exclusive worldwide developer, marketer and seller of vacation ownership and related products under The Ritz-Carlton Destination Club brand, and we have the non-exclusive right to develop, market and sell whole ownership residential products under The Ritz-Carlton Residences brand.

We generate most of our revenues from four primary sources: selling vacation ownership products; managing our resorts; financing consumer purchases of vacation ownership products; and renting vacation ownership inventory. Our business is grouped into three reportable segments: North America, Europe and Asia Pacific. As of January 2, 2015, we operated 58 properties in the United States and seven other countries and territories and had approximately 415,000 owners of our vacation ownership and residential products.

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

The Vacation Ownership Industry

The vacation ownership industry (also known as the timeshare industry) enables customers to share ownership and use of fully-furnished vacation accommodations. Typically, a vacation ownership purchaser acquires either a fee simple interest in a property (or collection of properties), which gives the purchaser title to a fraction of a unit, or a right to use a property for a specific period of time. These rights may consist of an interest in a trust that owns one or more resorts, a deeded interest in a specified accommodation unit, or an undivided interest in a building or resort. Generally, a vacation ownership purchaser's fee simple interest in or right to use a property is referred to as a vacation ownership interest. By purchasing a vacation ownership interest, owners make a commitment to vacation. For many vacation ownership interest purchasers, vacation ownership is an attractive vacation alternative to traditional lodging accommodations (such as hotels, resorts and condominium rentals). By purchasing a vacation ownership interest, owners can avoid the volatility in room rates to which lodging customers are subject. Owners can also enjoy vacation ownership accommodations that are, on average, more than twice the size of traditional hotel rooms and typically have more amenities, such as kitchens, than traditional hotel rooms. Other vacation ownership purchasers find vacation ownership preferable to owning a second home because vacation ownership is more convenient, reduces maintenance and upkeep concerns and offers owners greater flexibility.

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

After the initial purchase, most vacation ownership programs require the owner of the vacation ownership interest to pay an annual maintenance fee. This fee represents the owner's allocable share of the costs and expenses of operating and maintaining the vacation ownership resorts, including management fees and expenses, taxes, insurance, and other

related costs, and of providing program services (such as reservation services). This fee typically includes a property management fee payable to the management company for providing management services as well as an assessment for funds to be deposited into a capital asset reserve fund and used to renovate, refurbish and replace furnishings, common areas and other assets (such as parking lots or roofs) as needed over time. Owners typically reserve their usage of vacation accommodations in advance through a reservation system (often provided by the management company or an affiliated entity), unless a vacation ownership interest specifies fixed usage dates and a particular unit every year.

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The vacation ownership industry has grown through expansion of established vacation ownership developers as well as the entrance into this market of well-known lodging and entertainment companies, including Marriott International, Wyndham Worldwide Corporation, Starwood Hotels & Resorts Worldwide, Inc., Hilton Hotels Corporation, Hyatt Hotels Corporation and The Walt Disney Company, which have developed larger resorts as the vacation ownership resort industry has matured. The industry's growth can also be attributed to increased market acceptance of vacation ownership resorts, stronger consumer protection laws and the evolution of vacation ownership interests from a fixed- or floating-week product, which provides the right to use the same property every year, to membership in multi-resort vacation networks, which offer a more flexible vacation experience. These vacation networks often issue their members an annual allotment of points that the member can redeem in exchange for stays at the vacation ownership resorts included in the network or for other vacation options available through the program.

To enhance the appeal of their products, vacation ownership developers with multiple resorts and/or hotel affiliations typically establish systems that enable owners to use resorts across their resort portfolio and/or their affiliated hotel networks. In addition to these resort systems, developers of all sizes typically also affiliate with vacation ownership exchange service providers in order to give customers the ability to exchange their rights to use the developer's resorts into a broader network of resorts. The two leading exchange service providers are Interval International, with which we are associated, and RCI. Interval International's and RCI's networks include approximately 2,900 and approximately 4,500 affiliated resorts, respectively, as identified on each company's website.

According to the American Resort Development Association (ARDA), a trade association representing the vacation ownership and resort development industries, as of December 31, 2013, the U.S. vacation ownership community was comprised of over 1,500 resorts, representing over 192,000 units and an estimated 8.5 million vacation ownership week equivalents. According to ARDA, sales in the U.S. market were \$7.6 billion in 2013. We believe there is considerable potential for further growth in the industry both in the U.S. and globally.

Our History

During 2014, we celebrated our 30-year anniversary of providing vacation memories and experiences to millions of families. Prior to the incorporation of Marriott Vacations Worldwide Corporation in Delaware in June 2011, our operations were the vacation ownership division of Marriott International. Marriott International completed the spin-off of its vacation ownership division on November 21, 2011 (the Spin-Off). Since the Spin-Off, we have been an independent company, with our common stock listed on the New York Stock Exchange under the symbol VAC and our corporate headquarters located in Orlando, Florida.

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

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

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In connection with the Spin-Off, we entered into a License, Services, and Development Agreement (the Marriott License Agreement) with Marriott International and its subsidiary Marriott Worldwide Corporation and a License, Services, and Development Agreement (the Ritz-Carlton License Agreement and, together with

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

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

Our Business Strategy

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

Drive profitable contract sales growth

We intend to continue to generate growth in vacation ownership sales by leveraging our globally recognized brand names and targeting high-quality inventory that would allow us to add desirable new destinations to our system with new on-site sales locations. We will also continue to focus on our approximately 415,000 owners around the world. In 2014, approximately 60 percent of our sales of vacation ownership products were to our existing owners. In addition, we are concentrating on growing our tour flow cost effectively as we seek to generate more first-time buyer tours and achieve our long term goal of selling to an equal mix of new buyers and existing buyers. Our strategy includes an emphasis on new sales channels geared toward first-time buyers. We are also committed to maximizing development margin through more efficient marketing and sales spending and managing inventory costs and development activities.

Maximize cash flow and optimize our capital structure

Through the use of our points-based products, we are able to more closely match inventory development with sales pace and reduce inventory levels, thereby generating continuing strong cash flows over time. Additionally, by limiting the amount of completed inventory on hand, we are able to reduce the maintenance fees that we pay on unsold inventory. Over the last few years, we have significantly reduced our costs, and we intend to continue to control costs as sales volumes grow.

We expect our modest level of debt and the use of capital efficient (asset light) structures will enable us to maintain a level of liquidity that ensures financial flexibility, giving us the ability to pursue strategic growth opportunities, withstand potential future economic downturns, optimize our cost of capital, and pursue strategies for returning capital to shareholders. We intend to meet our liquidity needs through operating cash flow, the disposition of excess undeveloped and partially developed land and excess built luxury inventory, our \$200 million revolving credit facility (the Revolving Corporate Credit Facility), our \$250 million non-recourse warehouse credit facility (the Warehouse

Credit Facility), and continued access to the asset-backed securities (ABS) term financing market. We intend to continue to pursue growth opportunities in ways that optimize the timing of our capital investments, including working with third party partners to develop new inventory or convert previously built units to be sold to us close to when we need such inventory for sale. The asset light structures we may use include transactions in which a third party agrees to develop and deliver completed units to us which we will purchase at an agreed upon price in the future, thereby limiting our upfront capital investment.

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Focus on our owners, guests and associates

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

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

Opportunistically dispose of excess assets

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

Selectively pursue compelling new business opportunities

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

Our Brands

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

The **Marriott Vacation Club** brand is our signature offering in the upscale tier of the vacation ownership industry. Marriott Vacation Club resorts typically combine many of the comforts of home, such as spacious accommodations with one, two and three bedroom options, living and dining areas, in-unit kitchens and laundry facilities, with resort amenities such as large feature swimming pools, restaurants and bars, convenience stores, fitness facilities and spas, as well as sports and recreation facilities appropriate for each resort's unique location.

Grand Residences by Marriott is an upscale tier vacation ownership and whole ownership residence brand. The accommodations for this brand are similar to those we offer under the Marriott Vacation Club brand. The time period for each Grand Residences by Marriott vacation ownership interest ranges between three and thirteen weeks. We also offer whole ownership residential products under this brand.

The Ritz-Carlton Destination Club is a luxury tier vacation ownership brand. The Ritz-Carlton Destination Club provides luxurious vacation experiences commensurate with the legacy of the Ritz-Carlton brand. The Ritz-Carlton

Destination Club resorts typically feature two, three and four bedroom units that generally include marble foyers, walk-in closets, custom kitchen cabinetry and luxury resort amenities such as large feature pools and access to full service restaurants and bars. On-site management and services, which usually include daily maid service, valet, in-residence dining, and access to fitness facilities as well as spa and sports facilities as appropriate for each destination, are provided by The Ritz-Carlton Hotel Company.

The Ritz-Carlton Residences is a luxury tier whole ownership residence brand. The Ritz-Carlton Residences includes whole ownership luxury residential condominiums co-located with The Ritz-Carlton Destination Club resorts. Owners can typically purchase condominiums that vary in size from one-bedroom

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apartments to spacious penthouses. Owners of The Ritz-Carlton Residences can avail themselves of the services and facilities that are associated with the co-located The Ritz-Carlton Destination Club resort on an a la carte basis. On-site management and services are provided by The Ritz-Carlton Hotel Company.

Our Products

Our Points-Based Vacation Ownership Products

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

The MVCD and the Marriott Vacation Club, Asia Pacific programs allow owners to bank and borrow their annual point allotments, access other Marriott Vacation Club locations, through internal exchange programs that we and Interval International operate and access Interval International s approximately 2,900 affiliated resorts. Owners can also trade their vacation ownership usage rights for Marriott Rewards Points, which can be used to access the vast majority of Marriott International s system of over 3,700 participating hotels or redeem their Marriott Rewards Points for airline miles or other merchandise offered through the Marriott Rewards customer loyalty program. MVCD owners hold an interest in real estate, owned in perpetuity. Our Marriott Vacation Club, Asia Pacific program offers usage for a term of approximately 50 years from the program s 2006 launch date.

Our Weeks-Based Vacation Ownership Products

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

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

weeks-based owners have enrolled nearly 243,000 weeks in the MVCD program since its launch.

Our Sources of Revenue

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

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Sale of Vacation Ownership Products

Our principal source of revenue is the sale of vacation ownership interests. See [Marketing and Sales Activities](#) below for information regarding our marketing and sales activities.

Resort Management and Other Services

We generate revenue from fees we earn for managing each of our resorts. See [Property Management Activities](#) below for additional information on the terms of our management agreements. In addition, we earn revenue for providing ancillary offerings, including food and beverage, retail, and golf and spa offerings at our resorts. We also receive annual fees, club dues, settlement fees from the sale of vacation ownership products and certain transaction-based fees from owners and other third parties, including external exchange service providers with which we are associated.

Financing

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

Rental

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

Marketing and Sales Activities

We sell our upscale tier vacation ownership products under the Marriott Vacation Club brand primarily through our worldwide network of resort-based sales centers and certain off-site sales locations. The Marriott Vacation Club products are currently marketed for sale throughout the United States and in over 30 countries around the world, targeting customers who vacation regularly with a focus on family, relaxation and recreational activities. In 2014, approximately 80 percent of our sales originated at sales centers that are co-located with one of our resorts. We maintain a range of different off-site sales centers, including our central telesales organization based in Orlando, our network of third-party brokers in Latin America and Europe, and our city-based sales centers, such as our sales centers in Dubai and Singapore. We have over 50 global sales locations focused on the sale of Marriott Vacation Club products. We utilize a number of marketing channels to attract qualified customers to our sales locations for our Marriott Vacation Club vacation ownership products.

We solicit our owners primarily while they are staying in our resorts, but also offer our owners the opportunity to make additional purchases through direct phone sales, owner events and inquiries from our central customer service center located in Salt Lake City, Utah. In 2014, approximately 60 percent of our sales of vacation ownership products were to our existing owners. In addition, we are concentrating on growing our tour flow cost effectively as we seek to generate more first-time buyer tours and achieve our long term goal of selling to an equal mix of new buyers and existing buyers. Our strategy includes an emphasis on new sales channels geared toward first-time buyers.

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

We also market to existing Marriott Rewards customer loyalty program members and travelers who are staying in locations where we have resorts. We market extensively to guests in Marriott International hotels that are located near one of our sales locations and have marketing partnerships with Marriott International's North American reservation centers. In addition, we operate other local marketing venues in various high-traffic areas.

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A significant part of our direct marketing activities are focused on prospects in the Marriott Rewards customer loyalty program database and our in-house database of qualified prospects. We offer guests who do not buy a vacation ownership interest during their initial tour a special package for a future stay at our resorts. These return guests are typically twice as likely to purchase as a first-time visitor.

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

We believe consumers place a great deal of trust in the Marriott and Ritz-Carlton brands and the strength of these brands is important to our ability to attract qualified prospects in the marketplace. We maintain a prominent presence on the www.marriott.com and www.ritzcarlton.com websites. Our proprietary sites, which include www.marriottvacationsworldwide.com, www.marriottvacationclub.com and www.ritzcarltonclub.com, had over 6.5 million visits in 2014.

Inventory and Development Activities

We secure inventory by building additional phases at our existing resorts, repurchasing inventory in the secondary market, repurchasing inventory as a result of owner loan or maintenance fee defaults, or developing or acquiring resorts in strategic markets. We proactively buy back previously sold vacation ownership interests under our repurchase program at lower costs than would be required to develop new inventory. We also intend to further control inventory spending by continuing to place additional Ritz-Carlton branded inventory that we own into the MVCD program.

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

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

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

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

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

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

Property Management Activities

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

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

The Ritz-Carlton Hotel Company manages the on-site operations for substantially all The Ritz-Carlton Destination Club and The Ritz-Carlton Residences properties in our portfolio under separate management agreements with us or the relevant property owners' association or trust for each property. We provide property owners' association governance and vacation ownership program management services for The Ritz-Carlton Destination Club and co-located The Ritz-Carlton Residences properties, including preparing association

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budgets, facilitating association meetings, billing and collecting maintenance fees, and supporting reservations, vacation experience planning and other off-site member services. We and The Ritz-Carlton Hotel Company typically split the management fees equally for these resorts. If a management agreement for a resort expires or is terminated, the resort loses the ability to use the Ritz-Carlton name and trademarks. The owners at such resorts also lose their ability to access other usage benefits, such as access to accommodations at other The Ritz-Carlton Destination Club resorts, preferential access to Ritz-Carlton hotels worldwide and access to our internal exchange and vacation travel options.

Each management agreement requires the property owners' association or trust to provide sufficient funds to pay for the vacation ownership program and resort operating costs. To satisfy this requirement, owners of vacation ownership interests pay an annual maintenance fee. This fee represents the owner's allocable share of the costs of operating and maintaining the vacation ownership resorts, including management fees and expenses, taxes (in some locations), insurance, and other related costs, and the costs of providing program services (such as reservation services). This fee includes a management fee payable to us for providing management services as well as an assessment for funds to be deposited into a capital asset reserve fund and used to renovate, refurbish and replace furnishings, common areas and other assets (such as parking lots or roofs) as needed over time. As the owner of completed but unsold vacation ownership inventory, we also pay maintenance fees in accordance with the legal requirements of the jurisdictions applicable to such resorts and programs. In addition, in early phases of development at a resort, we sometimes enter into subsidy agreements with the property owners' associations under which we agree to pay costs that otherwise would be covered by annual maintenance fees associated with vacation ownership interests or units that have not yet been built. These subsidy arrangements help keep maintenance fees at a customary level for owners who purchase in the early stages of development.

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

Consumer Financing

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

In our North America segment in 2014, approximately 42 percent of Marriott Vacation Club customers financed their purchase with us. The average loan for our Marriott Vacation Club products totaled approximately \$23,000, which represented 88 percent of the average purchase price. Our policy is to require a minimum down payment of 10 percent of the purchase price for qualified applicants, although down payments and interest rates are typically higher for applicants with credit scores below certain levels and for purchasers who do not have credit scores, such as non-U.S. purchasers. The average interest rate for loans for our Marriott Vacation Club products originated in 2014 was 12.59 percent and the average term was 9.8 years. Interest rates are fixed, and a loan fully amortizes over the life of the loan. The average monthly mortgage payment for a Marriott Vacation Club owner who received a loan in 2014 was \$430. We do not impose any prepayment penalties. Generally, loans for The Ritz-Carlton Destination Club products have a significantly higher balance, a longer term and a lower interest rate than loans for our Marriott Vacation Club products.

In 2014, approximately 84 percent of our loans were used to finance U.S.-based products. In our North American business, we perform a credit investigation or other review or inquiry to determine the purchaser's credit history before originating a loan. The interest rates on the loans we provide are based primarily upon the purchaser's credit score, the size of the purchase, and the term of the loan. We base our financing terms largely on a purchaser's FICO score, which is a branded version of a consumer credit score widely used in the United States by banks and lending institutions. FICO scores range from 300 to 850 and are calculated based on

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information obtained from one or more of the three major U.S. credit reporting agencies that compile and report on a consumer's credit history. In 2014, the average FICO score of our customers who were U.S. citizens or residents who financed a vacation ownership purchase was 730; 67 percent had a credit score of over 700, 88 percent had a credit score of over 650 and over 97 percent had a credit score of over 600.

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

In the event of a default, we generally have the right to foreclose on or revoke the defaulting owner's vacation ownership interest. We typically resell interests that we reacquire through foreclosure or revocation or place such interests into the MVCD or Marriott Vacation Club, Asia Pacific programs.

We securitize the majority of the consumer loans we originate in support of our North American business. Historically, we have sold these loans to institutional investors in the ABS market on a non-recourse basis, completing securitization transactions once or twice each year. During 2014, we completed two securitization transactions, which are discussed in detail in Footnote No. 10, Debt, to our Financial Statements. On an ongoing basis, we have the ability to use our Warehouse Credit Facility to securitize eligible consumer loans. Those loans may later be transferred to term securitizations transactions in the ABS market, which we intend to complete at least once per year. Excluding amounts securitized through the Warehouse Credit Facility, since the early 1990s, we have securitized nearly \$5.4 billion of loans. We retain the servicing and collection responsibilities for the loans we securitize, for which we receive a servicing fee.

Our Competitive Advantages

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

A leading global pure-play vacation ownership company

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

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

The breadth and depth of our operations enables us to offer a variety of products and to continue to adapt those products to the ever changing needs and preferences of our existing and future customers. For example, in addition to traditional resort experiences, our owners can enjoy studio units in properties located in the heart of some of the most sought after global destinations. We cater to a diverse range of customers through our upscale tier Marriott-branded resorts and our luxury tier Ritz-Carlton branded resorts.

Premier global brands

We believe that our exclusive licenses of the Marriott and Ritz-Carlton brands for use in the vacation ownership business provide us with a meaningful competitive advantage. Marriott International is a leading

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lodging company with more than 3,900 properties in 72 countries and territories, including Marriott and Ritz-Carlton branded properties. Consumer confidence in these renowned brands helps us attract and retain guests and owners. In addition, we provide our customers with access to the award-winning Marriott Rewards customer loyalty program. We also utilize the Marriott and Ritz-Carlton websites, www.marriott.com and www.ritzcarlton.com, as relatively low-cost marketing tools to introduce Marriott and Ritz-Carlton guests to our products and rent available inventory.

Loyal, highly satisfied customers

We have a large, highly satisfied customer base. In 2014, based on nearly 221,000 survey responses, approximately 90 percent of respondents indicated that they were highly satisfied with our products, sales and owner services and their on-site experiences (by selecting 8, 9 or 10 on a 10-point scale). Owner satisfaction is also demonstrated by the fact that our average resort occupancy was 90 percent in 2014, significantly higher than the overall vacation ownership industry average of nearly 77 percent in 2013, the most recent year for which average resort occupancy data was reported by ARDA. We believe that strong customer satisfaction and brand loyalty result in more frequent use of our products and encourage owners to purchase additional products and to recommend our products to friends and family, which in turn generates higher revenues.

Long-standing track record, experienced management and engaged associates

We have been a pioneer in the vacation ownership industry since 1984, when Marriott International became the first company to introduce a lodging-branded vacation ownership product. Our seasoned management team is led by Stephen P. Weisz, our President and Chief Executive Officer. Mr. Weisz has served as President of our company since 1996 and has over 42 years of combined experience at Marriott International and Marriott Vacations Worldwide. William J. Shaw, the Chairman of our Board of Directors, is the former Vice Chairman, President and Chief Operating Officer of Marriott International and has nearly 37 years of experience at Marriott International. Our nine executive officers have an average of over 25 years of total combined experience at Marriott Vacations Worldwide and Marriott International, with half of those years spent leading our business. We believe our management team's extensive public company and vacation ownership industry experience has enabled us to achieve solid operating results and will enable us to continue to respond quickly and effectively to changing market conditions and consumer trends. Our management's experience in the highly regulated vacation ownership industry also provides us with a competitive advantage in expanding existing product forms and developing new ones.

We believe that our associates provide superior customer service, which enhances our competitive position. We leverage outstanding associate engagement and strong corporate culture to deliver positive customer experiences in sales, marketing and resort operations. We survey our associates regularly through an external survey provider to understand their satisfaction and engagement, defined as how passionate employees are about the company's mission and their willingness to go the extra mile to see it succeed. We routinely rank highly compared to other companies participating in such surveys. In 2014, 84 percent of our associates indicated that they were engaged, which is three points above Aon Hewitt's Global Best Employer benchmark of 81 percent. This external benchmark is based on research conducted by Aon Hewitt of more than 500 organizations that are considered to be Best Employers.

Segments

Our operations are grouped into three reportable business segments: North America, Europe and Asia Pacific. The Corporate and Other information described below includes activities that do not collectively comprise a separate reportable segment. The table below shows our revenue for 2014 for each of our segments and each of our revenue sources (dollars in millions).

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

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Financial information by segment and geographic area for 2014, 2013 and 2012 appears in Footnote No. 17, Business Segments, to our Financial Statements.

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

Our Properties

As of January 2, 2015, we operated 58 properties with 12,866 vacation ownership villas (units) and approximately 415,000 owners. The following table shows our vacation ownership and residential properties as of January 2, 2015, and indicates the segment that operates such property:

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