MARRIOTT VACATIONS WORLDWIDE Corp
Form 10-Q
April 28, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 25, 2016

OR

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

For the transition period from ________ to ________

Commission file number 001-35219

Marriott Vacations Worldwide Corporation

(Exact name of registrant as specified in its charter)

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

(407) 206-6000

(Registrant s telephone number, including area code)

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

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

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

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

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

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

The number of shares outstanding of the issuer s common stock, par value $0.01 per share, as of April 22, 2016 was 28,218,122.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

MARRIOTT VACATIONS WORLDWIDE CORPORATION

INTERIM CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share amounts)

(Unaudited)

	Twelve Weeks Ended	
	March 25, 2016	**March 27, 2015**
REVENUES		
Sale of vacation ownership products	$ 138,369	$ 183,906
Resort management and other services	69,629	64,417
Financing	29,224	29,052
Rental	80,288	76,199
Cost reimbursements	107,533	101,306
TOTAL REVENUES	425,043	454,880
EXPENSES		
Cost of vacation ownership products	35,617	64,962
Marketing and sales	78,412	79,995
Resort management and other services	45,797	42,409
Financing	4,629	4,905
Rental	64,660	60,158
General and administrative	25,297	22,777
Reversal of litigation expense	(303)	(262)
Organizational and separation related		192
Consumer financing interest	5,362	6,021
Royalty fee	13,357	13,000
Cost reimbursements	107,533	101,306
TOTAL EXPENSES	380,361	395,463
Gains and other income	7	887
Interest expense	(1,982)	(2,974)
Other	(2,542)	13
INCOME BEFORE INCOME TAXES	40,165	57,343
Provision for income taxes	(15,757)	(23,289)

NET INCOME	$	24,408	$	34,054
Basic earnings per share	$	0.84	$	1.05
Shares used in computing basic earnings per share		29,123		32,299
Diluted earnings per share	$	0.82	$	1.03
Shares used in computing diluted earnings per share		29,640		33,009
Dividends declared per share of common stock	$	0.30	$	0.25

See Notes to Interim Consolidated Financial Statements

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MARRIOTT VACATIONS WORLDWIDE CORPORATION

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	Twelve Weeks Ended	
	March 25, 2016	**March 27, 2015**
Net income	$ 24,408	$ 34,054
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	1,147	(5,602)
Derivative instrument adjustment	409	
Total other comprehensive income (loss), net of tax	1,556	(5,602)
COMPREHENSIVE INCOME	$ 25,964	$ 28,452

See Notes to the Interim Consolidated Financial Statements

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MARRIOTT VACATIONS WORLDWIDE CORPORATION

INTERIM CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

	(Unaudited) March 25, 2016	January 1, 2016
ASSETS		
Cash and cash equivalents	$ 106,613	$ 177,061
Restricted cash (including $24,768 and $26,884 from VIEs, respectively)	55,252	71,451
Accounts and contracts receivable, net (including $4,527 and $4,893 from VIEs, respectively)	131,538	131,850
Vacation ownership notes receivable, net (including $680,888 and $669,179 from VIEs, respectively)	908,587	920,631
Inventory	715,072	669,243
Property and equipment	222,516	288,803
Other	191,207	140,679
Total Assets	$ 2,330,785	$ 2,399,718
LIABILITIES AND EQUITY		
Accounts payable	$ 80,618	$ 139,120
Advance deposits	77,141	69,064
Accrued liabilities (including $292 and $669 from VIEs, respectively)	178,642	164,791
Deferred revenue	28,562	35,276
Payroll and benefits liability	75,749	104,331
Liability for Marriott Rewards customer loyalty program		35
Deferred compensation liability	55,437	51,031
Mandatorily redeemable preferred stock of consolidated subsidiary, net	39,029	38,989
Debt, net (including $688,023 and $684,604 from VIEs, respectively)	689,234	678,793
Other	72,582	32,945
Deferred taxes	114,765	109,076
Total Liabilities	1,411,759	1,423,451
Contingencies and Commitments (Note 8)		
Preferred stock — $0.01 par value; 2,000,000 shares authorized; none issued or outstanding		
Common stock — $0.01 par value; 100,000,000 shares authorized; 36,564,810 and 36,393,800 shares issued, respectively	366	364
Treasury stock — at cost; 8,171,238 and 6,844,256 shares, respectively	(503,218)	(429,990)
Additional paid-in capital	1,149,442	1,150,731

Accumulated other comprehensive income		12,937		11,381
Retained earnings		259,499		243,781
Total Equity		919,026		976,267
Total Liabilities and Equity	$	2,330,785	$	2,399,718

The abbreviation VIEs above means Variable Interest Entities.

See Notes to Interim Consolidated Financial Statements

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MARRIOTT VACATIONS WORLDWIDE CORPORATION

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Twelve Weeks Ended	
	March 25, 2016	**March 27, 2015**
OPERATING ACTIVITIES		
Net income	$ 24,408	$ 34,054
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	5,125	4,065
Amortization of debt issuance costs	1,300	1,267
Provision for loan losses	8,287	8,437
Share-based compensation	2,524	2,643
Deferred income taxes	5,549	8,600
Equity method income	(28)	(13)
Gain on disposal of property and equipment, net	(7)	(887)
Non-cash reversal of litigation expense	(303)	(262)
Net change in assets and liabilities:		
Accounts and contracts receivable	21	(4,643)
Notes receivable originations	(57,524)	(48,946)
Notes receivable collections	60,532	67,518
Inventory	(14,970)	44,883
Purchase of operating properties for future conversion to inventory		(46,614)
Other assets	(5,285)	(8,096)
Accounts payable, advance deposits and accrued liabilities	(27,836)	(25,064)
Deferred revenue	(6,785)	(11,624)
Payroll and benefit liabilities	(28,586)	(19,583)
Liability for Marriott Rewards customer loyalty program	(36)	(4,474)
Deferred compensation liability	4,406	2,921
Other liabilities	39,399	27,937
Other, net	(313)	(50)
Net cash provided by operating activities	9,878	32,069
INVESTING ACTIVITIES		
Capital expenditures for property and equipment (excluding inventory)	(6,331)	(10,562)
Decrease in restricted cash	16,133	47,103
Dispositions, net	9	197
Net cash provided by investing activities	9,811	36,738

FINANCING ACTIVITIES			
Borrowings from securitization transactions	51,130		
Repayment of debt related to securitization transactions	(47,711)		(78,811)
Proceeds from vacation ownership inventory arrangement			5,375
Repurchase of common stock	(73,228)		(51,281)
Payment of dividends	(17,585)		(8,081)
Proceeds from stock option exercises			90
Payment of withholding taxes on vesting of restricted stock units	(3,864)		(9,061)
Other	591		80
Net cash used in financing activities	(90,667)		(141,689)
Effect of changes in exchange rates on cash and cash equivalents	530		(1,453)
DECREASE IN CASH AND CASH EQUIVALENTS	(70,448)		(74,335)
CASH AND CASH EQUIVALENTS, beginning of period	177,061		346,515
CASH AND CASH EQUIVALENTS, end of period	$ 106,613	$	272,180
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES			
Non-cash issuance of note receivable	$	$	(500)
Property acquired via capital lease	7,221		
Non-cash transfer of Property and equipment to assets held for sale, within Other assets	45,201		

See Notes to Interim Consolidated Financial Statements

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MARRIOTT VACATIONS WORLDWIDE CORPORATION

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Our Business

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

Our business is grouped into three reportable segments: North America, Europe and Asia Pacific. As of March 25, 2016, our portfolio consisted of over 60 properties in the United States and eight other countries and territories. We generate most of our revenues from four primary sources: selling vacation ownership products; managing our resorts; financing consumer purchases of vacation ownership products; and renting vacation ownership inventory.

Principles of Consolidation and Basis of Presentation

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

In order to make this report easier to read, we refer throughout to (i) our Interim Consolidated Financial Statements as our Financial Statements, (ii) our Interim Consolidated Statements of Income as our Statements of Income, (iii) our Interim Consolidated Balance Sheets as our Balance Sheets, and (iv) our Interim Consolidated Statements of Cash Flows as our Cash Flows. In addition, references throughout to numbered Footnotes refer to the numbered Notes in these Notes to Interim Consolidated Financial Statements, unless otherwise noted.

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

Fiscal Year	Quarter-End Date
2016 First Quarter	March 25, 2016
2015 First Quarter	March 27, 2015

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

These Financial Statements have not been audited. Amounts as of January 1, 2016 included in these Financial Statements have been derived from the audited consolidated financial statements as of that date. We have condensed or omitted certain information and footnote disclosures normally included in financial statements presented in accordance with GAAP. Although we believe our footnote disclosures are adequate to make the information presented not misleading, you should read these Financial Statements in conjunction with the consolidated financial statements and notes to those consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended January 1, 2016.

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

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

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Future Adoption of Accounting Standards

Accounting Standards Update No. 2016-09 *Compensation-Stock Compensation (Topic 718)* (ASU 2016-09)

In March 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-09 which changes how entities account for certain aspects of share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. The update is effective for annual periods beginning after December 15, 2016 and interim periods within those annual periods. We are evaluating the impact that ASU 2016-09 will have on our financial statements and disclosures.

Accounting Standards Update No. 2016-02 *Leases (Topic 842)* (ASU 2016-02)

In February 2016, the FASB issued ASU 2016-02 to increase transparency and comparability of information regarding an entity s leasing activities by providing additional information to users of financial statements. ASU 2016-02 amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. The new standard requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. This update is effective for annual periods beginning after December 15, 2018, with early adoption permitted. We are evaluating the impact that ASU 2016-02, including the method and timing of implementation, will have on our financial statements and disclosures.

Accounting Standards Update No. 2016-01 *Financial Instruments Overall (Subtopic 825-10)* (ASU 2016-01)

In January 2016, the FASB issued ASU 2016-01, which updates certain aspects of recognition, measurement, presentation and disclosure of financial instruments. For public business entities, the amendments in ASU 2016-01 will be effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. We do not expect the adoption of ASU 2016-01 to have a material impact on our Financial Statements.

Accounting Standards Update No. 2014-09 *Revenue from Contracts with Customers (Topic 606)* (ASU 2014-09), Accounting Standards Update No. 2016-08 *Revenue from Contracts with Customers (Topic 606), Principal versus Agent Considerations* (ASU 2016-08) and Accounting Standards Update No. 2016-10 *Revenue from Contracts with Customers (Topic 606), Identifying Performance Obligations and Licensing* (ASU 2016-10)

In May 2014, the FASB issued ASU 2014-09. ASU 2014-09 supersedes the revenue recognition requirements in Topic 605, *Revenue Recognition*, as well as most industry-specific guidance, and significantly enhances comparability of revenue recognition practices across entities and industries by providing a principles-based, comprehensive framework for addressing revenue recognition issues. In order for a provider of promised goods or services to recognize as revenue the consideration that it expects to receive in exchange for the promised goods or services, the provider should apply the following five steps: (1) identify the contract with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09 will be effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. The new standard may be applied prospectively to each prior period presented or retrospectively with the cumulative effect recognized on the date of adoption. We expect to adopt ASU 2014-09 commencing in our fiscal year 2018.

In March 2016, the FASB issued ASU 2016-08, which amends the implementation guidance on principal versus agent revenue recognition considerations in the previously issued ASU 2014-09. In April 2016, the FASB issued ASU 2016-10, which amends the guidance on identifying performance obligations and amends the implementation guidance on identifying performance obligations and licensing. We continue to evaluate the impact that adoption of these ASUs, including the method of implementation, will have on our financial statements and disclosures.

2. INCOME TAXES

We file income tax returns with U.S. federal and state and non-U.S. jurisdictions and are subject to audits in these jurisdictions. Our total unrecognized tax benefit balance that, if recognized, would impact our effective tax rate was $2.4 million at each of March 25, 2016 and January 1, 2016.

Our tax returns are subject to examination by relevant tax authorities; currently our 2012, 2013 and 2014 returns are being audited by state tax authorities in U.S. jurisdictions, and our 2013 and 2014 returns are being audited by tax authorities in non-U.S. jurisdictions. Although we do not anticipate that a significant impact to our unrecognized tax benefit balance will occur during the next fiscal year, the amount of our liability for unrecognized tax benefits could change as a result of these audits.

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3. VACATION OWNERSHIP NOTES RECEIVABLE

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

($ in thousands)	March 25, 2016	January 1, 2016
Vacation ownership notes receivable securitized	$ 680,888	$ 669,179
Vacation ownership notes receivable non-securitized		
Eligible for securitization [1]	97,561	104,671
Not eligible for securitization [1]	130,138	146,781
Subtotal	227,699	251,452
Total vacation ownership notes receivable	$ 908,587	$ 920,631

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

The following tables show future principal payments, net of reserves, as well as interest rates for our non-securitized and securitized vacation ownership notes receivable at March 25, 2016:

($ in thousands)	Non-Securitized Vacation Ownership Notes Receivable	Securitized Vacation Ownership Notes Receivable	Total
2016	$ 52,452	$ 76,658	$ 129,110
2017	38,165	87,971	126,136
2018	24,279	84,295	108,574
2019	18,257	78,000	96,257
2020	16,234	76,183	92,417
Thereafter	78,312	277,781	356,093
Balance at March 25, 2016	$ 227,699	$ 680,888	$ 908,587
Weighted average stated interest rate	11.9%	12.8%	12.5%
Range of stated interest rates	0.0% to 19.5%	4.9% to 19.5%	0.0% to 19.5%

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

	Twelve Weeks Ended	
($ in thousands)	**March 25, 2016**	**March 27, 2015**
Interest income associated with vacation ownership notes receivable securitized	$ 21,191	$ 22,074
Interest income associated with vacation ownership notes receivable non-securitized	6,583	5,493
Total interest income associated with vacation ownership notes receivable	$ 27,774	$ 27,567

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

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The following table summarizes the activity related to our vacation ownership notes receivable reserve for the twelve weeks ended March 25, 2016:

($ in thousands)	Non-Securitized Vacation Ownership Notes Receivable Reserve	Securitized Vacation Ownership Notes Receivable Reserve	Total
Balance at January 1, 2016	$ 55,584	$ 47,655	$ 103,239
Provision for loan losses	3,157	5,194	8,351
Securitizations	(4,044)	4,044	
Write-offs	(6,883)		(6,883)
Defaulted vacation ownership notes receivable repurchase activity [(1)]	7,513	(7,513)	
Balance at March 25, 2016	$ 55,327	$ 49,380	$ 104,707

(1) 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 securitized vacation ownership notes receivable.

Although we consider loans to owners to be past due if we do not receive payment within 30 days of the due date, we suspend accrual of interest only on those loans that are over 90 days past due. We consider loans over 150 days past due to be in default. We apply payments we receive for vacation ownership notes receivable on non-accrual status first to interest, then to principal and any remainder to fees. We resume accruing interest when vacation ownership notes receivable are less than 90 days past due. We do not accept payments for vacation ownership notes receivable during the foreclosure process unless the amount is sufficient to pay all past due principal, interest, fees and penalties owed and fully reinstate the note. We write off uncollectible vacation ownership notes receivable against the reserve once we receive title to the vacation ownership products through the foreclosure or deed-in-lieu process or, in Europe or Asia Pacific, when revocation is complete. For both non-securitized and securitized vacation ownership notes receivable, we estimated average remaining default rates of 6.81 percent and 6.92 percent as of March 25, 2016 and January 1, 2016, respectively. A 0.5 percentage point increase in the estimated default rate would have resulted in an increase in our allowance for loan losses of $4.7 million as of both March 25, 2016 and January 1, 2016.

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

($ in thousands)	Non-Securitized Vacation Ownership Notes Receivable	Securitized Vacation Ownership Notes Receivable	Total
Investment in vacation ownership notes receivable on non-accrual status at March 25, 2016	$ 46,694	$ 10,132	$ 56,826

Investment in vacation ownership notes receivable on non-accrual status at January 1, 2016	$	46,024	$	8,717	$	54,741
Average investment in vacation ownership notes receivable on non-accrual status during the twelve weeks ended March 25, 2016	$	46,359	$	9,425	$	55,784
Average investment in vacation ownership notes receivable on non-accrual status during the twelve weeks ended March 27, 2015	$	56,974	$	9,043	$	66,017

The following table shows the aging of the recorded investment in principal, before reserves, in vacation ownership notes receivable as of March 25, 2016:

($ in thousands)	**Non-Securitized Vacation Ownership Notes Receivable**		**Securitized Vacation Ownership Notes Receivable**		**Total**	
31 90 days past due	$	9,115	$	21,003	$	30,118
91 150 days past due		4,533		8,674		13,207
Greater than 150 days past due		42,161		1,458		43,619
Total past due		55,809		31,135		86,944
Current		227,217		699,133		926,350
Total vacation ownership notes receivable	$	283,026	$	730,268	$	1,013,294

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

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

4. FINANCIAL INSTRUMENTS

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

($ in thousands)	At March 25, 2016 Carrying Amount	Fair Value(1)	At January 1, 2016 Carrying Amount	Fair Value(1)
Vacation ownership notes receivable				
Securitized	$ 680,888	$ 813,125	$ 669,179	$ 803,533
Non-securitized	227,699	248,360	251,452	274,799
Total financial assets	$ 908,587	$ 1,061,485	$ 920,631	$ 1,078,332
Non-recourse debt associated with vacation ownership notes receivable securitizations, gross	$ (637,294)	$ (630,642)	$ (684,604)	$ (677,595)
Warehouse credit facility	(50,729)	(49,288)		
Other debt, gross	(4,087)	(4,087)	(3,496)	(3,496)
	(40,000)	(41,914)	(40,000)	(42,258)

Mandatorily redeemable preferred stock of consolidated subsidiary, gross				
Other liabilities	(2,868)	(2,868)	(4,515)	(4,515)
Total financial liabilities	$ (734,978)	$ (728,799)	$ (732,615)	$ (727,864)

(1) Fair value of financial instruments, with the exception of derivative instruments, has been determined using Level 3 inputs. Fair value of derivative instruments has been determined using Level 2 inputs.

Vacation Ownership Notes Receivable

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

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

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

	At March 25, 2016				At January 1, 2016			
($ in thousands)		**Carrying Amount**		**Fair Value**		**Carrying Amount**		**Fair Value**
Vacation ownership notes receivable								
Eligible for securitization	$	97,561	$	118,222	$	104,671	$	128,018
Not eligible for securitization		130,138		130,138		146,781		146,781
Total non-securitized	$	227,699	$	248,360	$	251,452	$	274,799

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 and Warehouse Credit Facility

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

Mandatorily Redeemable Preferred Stock of Consolidated Subsidiary

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.

5. ACQUISITIONS AND DISPOSITIONS

Acquisitions

Miami Beach, Florida

During the first quarter of 2016, we completed the acquisition of an operating property located in the South Beach area of Miami Beach, Florida, for $23.5 million. The acquisition was treated as a business combination, accounted for using the acquisition method of accounting and included within Operating activities on our Cash Flows and presented as Inventory. As consideration for the acquisition, we paid $23.5 million in cash; the value of the acquired property was allocated to inventory. We rebranded this property as Marriott Vacation Club, South Beach and intend to use it in the future in our Marriott Vacation Club Destinations™ (MVCD) program.

San Diego, California

During the first quarter of 2015, we completed the acquisition of an operating property located in San Diego, California, for $55.0 million. The acquisition was treated as a business combination and accounted for using the acquisition method of accounting. As consideration for the acquisition, we paid $55.0 million in cash, which was allocated based on the fair value at the date of acquisition as follows: $54.3 million to property and equipment and $0.7 million to other assets. Fair value was determined using an independent appraisal, which was primarily based on a discounted cash flow model, a Level 3 fair value input. We intend to convert this property, in its entirety, into vacation ownership interests for future use in our MVCD program. In order to ensure consistency with the expected related future cash flow presentation, $46.6 million of the cash purchase price allocated to property and equipment was included as an operating activity in the Purchase of operating property for future conversion to inventory line on our Cash Flows for the twelve weeks ended March 27, 2015. The remaining $7.7 million was included as an investing activity in the Capital expenditures for property and equipment line on our Cash Flows for the twelve weeks ended March 27, 2015, as it was allocated to assets to be used prior to conversion of the property into vacation ownership interests, as well as ancillary and sales center assets to be retained after the conversion.

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Dispositions

Marco Island, Florida

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

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

As of March 25, 2016, our Balance Sheet reflects $8.2 million of Other liabilities that relate to the deferral of gain recognition for this transaction, which will reduce our basis in the asset if we repurchase the property. In addition, the note receivable of $0.5 million and other receivables of $0.2 million are included in the Accounts and contracts receivable line on the Balance Sheet as of March 25, 2016. The cash consideration received for the sale of the real property is included in Proceeds from vacation ownership inventory arrangements on our Cash Flows for the twelve weeks ended March 27, 2015. We believe that our maximum exposure to loss as a result of our involvement with this variable interest entity is our interest in the note receivable and the other receivables discussed above as of March 25, 2016.

6. EARNINGS PER SHARE

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

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

	Twelve Weeks Ended	
(in thousands, except per share amounts)	**March 25, 2016[1]**	**March 27, 2015[2]**
Computation of Basic Earnings Per Share		
Net income	$ 24,408	$ 34,054
Weighted average shares outstanding	29,123	32,299
Basic earnings per share	$ 0.84	$ 1.05

Computation of Diluted Earnings Per Share		
Net income	$ 24,408	$ 34,054
Weighted average shares outstanding	29,123	32,299
Effect of dilutive shares outstanding		
Employee stock options and SARs	375	473
Restricted stock units	142	237
Shares for diluted earnings per share	29,640	33,009
Diluted earnings per share	$ 0.82	$ 1.03

(1) The computations of diluted earnings per share exclude approximately 278,000 shares of common stock, the maximum number of shares issuable as of March 25, 2016 upon the vesting of certain performance-based awards, because the performance conditions required for the shares subject to such awards to vest were not achieved by the end of the reporting period.

(2) The computations of diluted earnings per share exclude approximately 203,000 shares of common stock, the maximum number of shares issuable as of March 27, 2015 upon the vesting of certain performance-based awards, because the performance conditions required for the shares subject to such awards to vest were not achieved by the end of the reporting period.

In accordance with the applicable accounting guidance for calculating earnings per share, for the twelve weeks ended March 25, 2016, we excluded 194,615 shares underlying stock appreciation rights (SARs) that may be settled in shares of common stock, with exercise prices ranging from $61.71 to $77.42, from our calculation of diluted earnings per share because these exercise prices were greater than the average market price for the applicable period.

In addition, for the twelve weeks ended March 27, 2015, we excluded 62,018 shares underlying SARs that may be settled in shares of common stock, with an exercise price of $77.42, from our calculation of diluted earnings per share because this exercise price was greater than the average market price for the applicable period.

7. INVENTORY

The following table shows the composition of our inventory balances:

($ in thousands)	**At March 25, 2016**	**At January 1, 2016**
Finished goods[1]	$ 317,856	$ 332,888
Work-in-progress	29,961	
Land and infrastructure[2]	362,066	331,042
Real estate inventory	709,883	663,930
Operating supplies and retail inventory	5,189	5,313
	$ 715,072	$ 669,243

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

(2) Includes $70.6 million of inventory related to estimated future foreclosures at March 25, 2016.

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

During the first quarter of 2016, $27.3 million was transferred from Property and equipment to Inventory as we commenced conversion of portions of the operating properties in Surfers Paradise, Australia and San Diego, California. The acquisition of these properties was previously included within Operating Activities on our Cash Flows and presented as Purchase of operating properties for future conversion to inventory within Operating Activities.

8. CONTINGENCIES AND COMMITMENTS

Guarantees

We have historically issued guarantees to certain lenders in connection with the provision of third-party financing for our sale of vacation ownership products for the North America and Asia Pacific segments. The terms of these guarantees generally require us to fund if the purchaser fails to pay under the term of its note payable. We are entitled to recover any payments we make to third-party lenders under these guarantees through reacquisition and resale of the financed vacation ownership product. Our commitments under these guarantees expire as the underlying notes mature or are repaid. The terms of the underlying notes extend to 2022.

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, which is included on our Balance Sheet in the Other caption within Liabilities.

($ in thousands)	**Maximum Potential Amount of Future Fundings At March 25, 2016**	**Liability for Expected Future Fundings At March 25, 2016**
Segment		
Asia Pacific	$ 4,836	$ 37
North America	2,846	163
Total guarantees where we are the primary obligor	$ 7,682	$ 200

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Commitments and Letters of Credit

In addition to the guarantees we describe in the preceding paragraphs, as of March 25, 2016, we had the following commitments outstanding:

We have various contracts for the use of information technology hardware and software that we use in the normal course of business. Our aggregate commitments under these contracts were $26.6 million, of which we expect $9.8 million, $7.0 million, $3.5 million, $1.9 million, $1.7 million and $2.7 million will be paid in 2016, 2017, 2018, 2019, 2020 and thereafter, respectively.

We have commitments of $2.6 million to subsidize vacation ownership associations, which we expect to pay in 2016.

We have a commitment to purchase an operating property located in New York, New York for $158.5 million. We expect to acquire the units in the property, in their current form, over time, and we expect to make payments for these units of $96.8 million and $61.7 million in 2018 and 2019, respectively. We are currently managing this property, which we have rebranded as Marriott Vacation Club, New York City. In connection with this commitment, we entered into a capital lease arrangement for ancillary and operations space. See Footnote No. 13, Variable Interest Entities, for additional information on this transaction.

We have commitments to purchase vacation ownership units located in two resorts in Bali, Indonesia in two separate transactions, contingent upon completion of construction at agreed upon standards within specified timeframes, for use in our Asia Pacific segment. We expect to complete the acquisition of 51 vacation ownership units in 2017 pursuant to one of the commitments, and to make payments with respect to these units, when specific construction milestones are completed, as follows: $4.7 million in 2016 and $19.0 million in 2017. We expect to complete the acquisition of 88 vacation ownership units in 2019 pursuant to the other commitment, and to make payments with respect to these units, when specific construction milestones are completed, as follows: $7.8 million in 2016, $5.9 million in 2018, and $25.4 million in 2019.

We have a commitment of $137.1 million to purchase vacation ownership units located in Marco Island, Florida, of which we expect $33.3 million, $50.0 million and $53.8 million will be paid in 2017, 2018 and 2019, respectively. See Footnote No. 5, Acquisitions and Dispositions, for additional information on this transaction.

We have a commitment of $38.5 million to purchase vacation ownership units located on the Big Island of Hawaii, for use in our MVCD program, contingent upon the seller subjecting the units to a condominium regime prior to our purchase. We made a deposit of $1.5 million in connection with this commitment in 2014, and we were committed to make the remaining payment of $37.0 million upon satisfaction of the condition that the seller subject the units to a condominium regime.

Upon acquisition, we were committed to renovate the units pursuant to a property improvement plan to be agreed upon at a later date. Subsequent to the 2016 first quarter, we entered into a capital efficient arrangement, which amended the terms of our commitment to purchase the units to be contingent upon the renovation of the vacation ownership units. We also loaned the purchaser $0.5 million secured by a subordinated mortgage on the property. We expect to acquire the completed vacation ownership units in 2017 and to pay the purchase price as follows: $27.5 million in 2017, $32.7 million in 2018 and $30.9 million in 2019. Concurrent with this amendment, we purchased space to be converted to a sales center for $3.0 million.

Surety bonds issued as of March 25, 2016 totaled $57.8 million, the majority of which were requested by federal, state or local governments related to our operations.

Additionally, as of March 25, 2016, we had $3.3 million of letters of credit outstanding under our $200 million revolving credit facility (the Revolving Corporate Credit Facility).

Loss Contingencies

In April 2013, Krishna and Sherrie Narayan and other owners of 12 residential units at the resort formerly known as The Ritz-Carlton Residences, Kapalua Bay (Kapalua Bay) filed 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 defendants mismanaged funds of the residential owners association (the Kapalua Bay Association), created a conflict of interest by permitting their employees to serve on the Kapalua Bay Association s board, and failed to disclose documents to which the plaintiffs were allegedly entitled. The amended complaint alleges breach of fiduciary duty, violations of the Hawaii Unfair and Deceptive Trade Practices Act and the Hawaii condominium statute, intentional misrepresentation and concealment, unjust enrichment and civil conspiracy. The relief sought in the amended complaint includes injunctive relief, repayment of all sums paid to us and our subsidiaries and Marriott International and its subsidiaries, compensatory and punitive damages, and treble damages under the Hawaii Unfair and Deceptive

Trade Practices Act. We dispute the material allegations in the amended complaint and continue to defend against this action vigorously. We filed a motion in the Circuit Court to compel arbitration of plaintiffs claims. That motion was denied, but on appeal the Hawaii Intermediate Court of Appeals reversed. The Hawaii Supreme Court reversed the decision of the Intermediate Court of Appeals and reinstated the action in Circuit Court, which set the case for trial beginning September 16, 2016. We filed a petition with the United States Supreme Court seeking review of the Hawaii Supreme Court s decision. On January 11, 2016, the United States Supreme Court issued an order vacating the Hawaii Supreme Court s decision and remanding the case with instructions to reconsider its ruling in light of a recent U.S. Supreme Court decision reiterating the obligation of courts to enforce arbitration agreements. On January 27, 2016, we filed a motion to stay proceedings in the Circuit Court based on the order of the U.S. Supreme Court. Plaintiffs opposed the motion. The Circuit Court stayed proceedings until May 27, 2016, and set a hearing for that date. Additionally, in 2014, owners of two residential units agreed to release their claims in this action. Given the inherent uncertainties of litigation, we cannot estimate a range of the potential liability, if any, at this time.

In June 2013, Earl C. and Patricia A. Charles, owners of a fractional interest at Kapalua Bay, together with owners of 38 other fractional interests at Kapalua Bay, filed an amended complaint in the Circuit Court of the Second Circuit for the State of Hawaii against us, certain of our subsidiaries, Marriott International, certain of its subsidiaries, the Joint Venture, and other entities that have equity investments in the Joint Venture. The plaintiffs allege that the defendants failed to disclose the financial condition of the Joint Venture and the commitment of the defendants to the Joint Venture, and that defendants actions constituted fraud and violated the Hawaii Unfair and Deceptive Trade Practices Act, the Hawaii Condominium Property Act and the Hawaii Time Sharing Plans statute. The relief sought includes compensatory and punitive damages, attorneys fees, pre-judgment interest, declaratory relief, rescission and treble damages under the Hawaii Unfair and Deceptive Trade Practices Act. The complaint was subsequently further amended to add owners of two additional fractional interests as plaintiffs. The Circuit Court granted our motion to compel arbitration of the claims asserted by the plaintiffs. Plaintiffs appealed that decision to the Hawaii Intermediate Court of Appeals and also initiated arbitration. On July 24, 2015, the Intermediate Court of Appeals reversed the decision of the Circuit Court and directed that the action be reinstated in the Circuit Court, based on the Hawaii Supreme Court s decision in the Narayan case discussed above, which has since been vacated by the U.S. Supreme Court. We dispute the material allegations in the amended complaint and intend to defend against this action vigorously. Given the early stages of the action and the inherent uncertainties of litigation, we cannot estimate a range of the potential liability, if any, at this time. Additionally, owners of two fractional interests have since agreed to release their claims in this action, and the owners of another fractional interest, who are not parties to the Charles action, agreed to release similar claims, in each instance for nominal sums.

In August 2014, Michael and Marla Flynn, owners of weeks-based Marriott Vacation Club vacation ownership products at two of our resorts in Hawaii, filed a claim with the American Arbitration Association on behalf of a putative class consisting of themselves and all others similarly situated. The claimants alleged that the introduction of our points-based MVCD program caused an actionable decrease in the value of their vacation ownership interests. The relief sought included compensatory and exemplary damages, restitution, injunctive relief, interest and attorneys fees pursuant to applicable timeshare and unfair trade practices acts and common-law theories of breach of contract and breach of an implied covenant of good faith and fair dealing. On March 30, 2015, the arbitrator ruled that the Flynns claims are not subject to arbitration, and dismissed the Flynn proceeding. On October 2, 2015, Michael and Marla Flynn, joined by Patrick and Mary Flynn as Trustees of the Flynn Family Trust, filed a civil action in the United States District Court for the District of Hawaii, asserting similar claims and seeking similar relief on behalf of themselves and a putative class consisting of themselves and all others similarly situated. On December 24, 2015, we filed a motion to dismiss. On February 29, 2016, the Court granted the motion in part and denied it in part. On March 24, 2016, plaintiffs filed a motion for leave to amend their complaint. We dispute the material allegations in the complaint and intend to defend against the action vigorously. Given the early stages of the action and the inherent uncertainties of litigation, we cannot estimate a range of potential liability, if any, at this time.

On May 26, 2015, we and certain of our subsidiaries were named as defendants in an action filed in the Superior Court of San Francisco County, California, by William and Sharon Petrick and certain other present and former owners of fractional interests at The Ritz-Carlton Club and Residences, San Francisco (the RCC San Francisco). The case is not filed as a putative class action. The plaintiffs allege that the affiliation of the RCC San Francisco with our points-based MVCD program, certain alleged sales practices, and other acts we and the other defendants allegedly took caused an actionable decrease in the value of their fractional interests. The relief sought includes, among other things, compensatory and punitive damages, rescission, and pre- and post-judgment interest. Plaintiffs filed amended complaints on October 9, 2015 and April 25, 2016. On January 22, 2016, we filed a motion to dismiss; the Court has not yet ruled on the motion. We dispute the material allegations in the amended complaint and intend to defend against the action vigorously. Given the early stages of the action and the inherent uncertainties of litigation, we cannot estimate a range of the potential liability, if any, at this time.

On December 31, 2015, we and certain of our subsidiaries were named as defendants in an action filed in the District Court of Pitkin County, Colorado by RCHFU, L.L.C., the owner of a fractional interest at The Ritz-Carlton Club, Aspen Highlands (RCC-Aspen Highlands). The case is filed as a putative class action; the plaintiff seeks to represent a class consisting of itself and all others similarly situated. The plaintiff alleges that its fractional interest was devalued by the affiliation of RCC-Aspen Highlands and other Ritz-Carlton Clubs with our points-based MVCD program. The relief sought includes, among other things, unspecified damages, pre- and post-judgment interest, and attorneys fees. The complaint has not been served. We dispute the material allegations in the complaint and intend to defend against the action vigorously. Given the early stages of the action and the inherent uncertainties of litigation, we cannot estimate a range of the potential liability, if any, at this time.

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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 $4.9 million, of which $4.5 million is included within liabilities on our Balance Sheet at March 25, 2016. This estimate is based on our current development plans, which remain subject to change, and we expect the phases currently under development will be completed by 2016.

9. DEBT

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

($ in thousands)	At March 25, 2016	At January 1, 2016
Vacation ownership notes receivable securitizations, gross[(1)]	$ 637,294	$ 684,604
Unamortized debt issuance costs	(8,238)	(9,043)
	629,056	675,561
Warehouse credit facility[(2)]	50,729	
Unamortized debt issuance costs[(3)]	(1,595)	
	49,134	
Other debt, gross	4,087	3,496
Unamortized debt issuance costs	(264)	(264)
	3,823	3,232
Capital leases	7,221	
	$ 689,234	$ 678,793

(1) Interest rates as of March 25, 2016 range from 2.2% to 6.3% with a weighted average interest rate of 2.6%.

(2) The effective interest rate as of March 25, 2016 is 2.2%.

(3) As no borrowings were outstanding at January 1, 2016, unamortized debt issuance costs of $1.8 million were included in the Other line within Assets on the Balance Sheet.

See Footnote No. 13, Variable Interest Entities, for a discussion of the collateral for the non-recourse debt associated with the securitized vacation ownership notes receivable and the Warehouse Credit Facility. All of our other debt was, and to the extent currently outstanding is, recourse to us but unsecured. The Warehouse Credit Facility currently terminates on November 22, 2017 and if not renewed, any amounts outstanding thereunder would become due and payable 13 months after termination, at which time all principal and interest collected with respect to the vacation ownership notes receivable held in the Warehouse Credit Facility would be redirected to the lenders to pay down the outstanding debt under the facility. We generally expect to securitize our vacation ownership notes receivable, including any vacation ownership notes receivable held in the Warehouse Credit Facility, in the ABS market once per year.

Although no cash borrowings were outstanding as of March 25, 2016 under our Revolving Corporate Credit Facility, any amounts that are borrowed under that facility, as well as obligations with respect to letters of credit issued pursuant to that facility, are secured by a perfected first priority security interest in substantially all of the assets of the borrower under, and guarantors of, that facility (which include Marriott Vacations Worldwide and each of our direct and indirect, existing and future, domestic subsidiaries, excluding certain bankruptcy remote special purpose subsidiaries), in each case including inventory, subject to certain exceptions.

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

($ in thousands)	Vacation Ownership Notes Receivable Securitizations [1]	Warehouse Credit Facility	Other Debt	Capital Leases	Total
Debt Principal Payments Year					
2016	$ 77,830	$ 2,043	$ 59	$	$ 79,932
2017	88,534	2,746	664		91,944
2018	83,942	45,940	69	7,221	137,172
2019	75,318		74		75,392
2020	72,607		81		72,688
Thereafter	239,063		3,140		242,203
Balance at March 25, 2016	$ 637,294	$ 50,729	$ 4,087	$ 7,221	$ 699,331

[1] The debt associated with our vacation ownership notes receivable securitizations and the Warehouse Credit Facility

is non-recourse to us.

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

We paid cash for interest, net of amounts capitalized, of $4.6 million and $6.6 million in the twelve weeks ended March 25, 2016 and March 27, 2015, respectively.

Debt Associated with Vacation Ownership Notes Receivable Securitizations

Each of the transactions in which we have securitized vacation ownership notes receivable contains various triggers relating to the performance of the underlying vacation ownership notes receivable. If a pool of securitized vacation ownership notes receivable fails to perform within the pool s established parameters (default or delinquency thresholds vary by transaction), transaction provisions effectively redirect the monthly excess spread we would otherwise receive from that pool (attributable to the interests we retained) to accelerate the principal payments to investors (taking into account the subordination of the different tranches to the extent there are multiple tranches) until the performance trigger is cured. During the twelve weeks ended March 25, 2016 and as of March 25, 2016, no securitized vacation ownership notes receivable pools were out of compliance with the established parameters. As of March 25, 2016, we had 6 securitized vacation ownership notes receivable pools outstanding.

Warehouse Credit Facility Borrowing

On February 24, 2016, we made a draw on the Warehouse Credit Facility. The carrying amount of the notes receivable securitized was $60.2 million. The advance rate was 85 percent, which resulted in gross proceeds of $51.1 million. Net proceeds were $50.7 million due to the funding of reserve accounts in the amount of $0.4 million.

Capital Leases

During the first quarter of 2016, we entered into a capital lease arrangement for ancillary and operations space in connection with the commitment to purchase an operating property located in New York, New York. See Footnote No. 8, Contingencies and Commitments, for additional information on this transaction.

10. MANDATORILY REDEEMABLE PREFERRED STOCK OF CONSOLIDATED SUBSIDIARY

In October 2011, our subsidiary MVW US Holdings, Inc. (MVW US Holdings) issued $40.0 million of its mandatorily redeemable Series A (non-voting) preferred stock to Marriott International as part of Marriott International s internal reorganization prior to our spin-off from Marriott International. Subsequently, Marriott International sold all of this preferred stock to third-party investors. Until October 2016, 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. In October 2016, if we do not elect to redeem the preferred stock, the annual cash dividend rate will be reset to the five-year U.S. Treasury Rate in effect on such date plus the same 10.958 percent spread. The 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 (i.e., beginning in October 2016) at par. The Series A preferred stock has an aggregate liquidation preference of $40.0 million plus any accrued and unpaid dividends and an additional premium if liquidation occurs during the first five years after the issuance of the preferred stock. As of March 25, 2016, 1,000 shares of Series A preferred stock were authorized, of which 40 shares were issued and outstanding. The dividends are recorded as a component of Interest expense as the Series A preferred stock is treated as a liability for accounting purposes.

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

($ in thousands)	At March 25, 2016	At January 1, 2016
Mandatorily redeemable preferred stock of consolidated subsidiary, gross	$ 40,000	$ 40,000
Unamortized debt issuance costs	(971)	(1,011)
	$ 39,029	$ 38,989

11. SHAREHOLDERS EQUITY

Marriott Vacations Worldwide has 100,000,000 authorized shares of common stock, par value of $0.01 per share. At March 25, 2016, there were 36,564,810 shares of Marriott Vacations Worldwide common stock issued, of which 28,393,572 shares were outstanding and 8,171,238 shares were held as treasury stock. At January 1, 2016, there were 36,393,800 shares of Marriott Vacations Worldwide common stock issued, of which 29,549,544 shares were outstanding and 6,844,256 shares were held as treasury stock. Marriott Vacations Worldwide has 2,000,000 authorized shares of preferred stock, par value of $0.01 per share, none of which were issued or outstanding as of March 25, 2016 or January 1, 2016.

The following table details changes in shareholders equity during the twelve weeks ended March 25, 2016:

($ in thousands)	Common Stock	Treasury Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total Equity
Balance at January 1, 2016	$ 364	$ (429,990)	$ 1,150,731	$ 11,381	$ 243,781	$ 976,267
Net income					24,408	24,408
Foreign currency translation adjustments				1,147		1,147
Derivative instruments adjustment				409		409
Amounts related to share-based compensation	2		(1,289)			(1,287)
Repurchase of common stock		(73,228)				(73,228)
Dividends					(8,690)	(8,690)
Balance at March 25, 2016	$ 366	$ (503,218)	$ 1,149,442	$ 12,937	$ 259,499	$ 919,026

Share Repurchase Program

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

($ in thousands, except per share amounts)	**Number of Shares Repurchased**	**Cost of Shares Repurchased**	**Average Price Paid per Share**
As of January 1, 2016	6,854,083	$ 430,609	$ 62.83
For the twelve weeks ended March 25, 2016	1,326,982	73,228	55.18
As of March 25, 2016	8,181,065	$ 503,837	$ 61.59

On February 11, 2016, our Board of Directors approved the repurchase of up to an additional 2,000,000 shares of our common stock under our existing share repurchase program through March 24, 2017. Prior to that authorization, our Board of Directors had authorized the repurchase of an aggregate of up to 8,900,000 shares of our common stock under the share repurchase program since the initiation of the program in October 2013. As of March 25, 2016, 2.7 million shares remained available for repurchase under the authorization approved by our Board of Directors.

Dividends

We declared cash dividends to holders of common stock during the quarter ended March 25, 2016 as follows:

Declaration Date	**Shareholder Record Date**	**Distribution Date**	**Dividend per Share**
February 11, 2016	February 25, 2016	March 10, 2016	$ 0.30

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

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12. SHARE-BASED COMPENSATION

A total of 6 million shares are authorized for issuance under the Marriott Vacations Worldwide Corporation Stock and Cash Incentive Plan (the Stock Plan). As of March 25, 2016, 1.5 million shares were available for grants under the Stock Plan.

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

We recorded share-based compensation expense related to award grants to our officers, directors and employees of $2.5 million and $2.6 million for the twelve weeks ended March 25, 2016 and March 27, 2015, respectively. Our deferred compensation liability related to unvested awards held by our employees totaled $25.9 million and $13.3 million at March 25, 2016 and January 1, 2016, respectively.

Restricted Stock Units (RSUs)

We granted 150,784 RSUs, exclusive of RSUs with performance vesting conditions, to our employees and non-employee directors during the twelve weeks ended March 25, 2016. RSUs granted in the twelve weeks ended March 25, 2016 had a weighted average grant-date fair value of $58.79. RSUs issued to our employees generally vest over four years in annual installments commencing one year after the date of grant. RSUs issued to our non-employee directors vest in full on the date of grant.

During the twelve weeks ended March 25, 2016 and March 27, 2015, we granted RSUs with performance vesting conditions to members of management. The number of RSUs earned, if any, is determined following the end of a three-year performance period based upon our cumulative achievement over that period of specific quantitative operating financial measures. The maximum number of RSUs that may be earned under the RSUs with performance-based vesting criteria granted during the twelve weeks ended March 25, 2016 and March 27, 2015 was approximately 142,000 and 74,000, respectively.

Stock Appreciation Rights (SARs)

We granted 132,597 SARs to members of management during the twelve weeks ended March 25, 2016. These SARs had a weighted average grant-date fair value of $16.12 and a weighted average exercise price of $61.71. SARs generally expire ten years after the date of grant and both vest and become exercisable in cumulative installments of one quarter of the grant at the end of each of the first four years following the date of grant.

We use the Black-Scholes model to estimate the fair value of the SARs granted. For SARs granted under the Stock Plan in the twelve weeks ended March 25, 2016, the expected stock price volatility was calculated based on the historical volatility from the stock prices of a group of identified peer companies. The average expected life was calculated using the simplified method. The risk-free interest rate was calculated based on U.S. Treasury zero-coupon issues with a remaining term equal to the expected life assumed at the date of grant. The dividend yield assumption listed below is based on the expectation of future payouts.

The following table outlines the assumptions used to estimate the fair value of grants during the twelve weeks ended March 25, 2016:

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

13. VARIABLE INTEREST ENTITIES

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

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Variable Interest Entities Related to Our Vacation Ownership Notes Receivable Securitizations

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

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

The following table shows consolidated assets, which are collateral for the obligations of these variable interest entities, and consolidated liabilities included on our Balance Sheet at March 25, 2016:

($ in thousands)	**Vacation Ownership Notes Receivable Securitizations**	**Warehouse Credit Facility**	**Total**
Consolidated Assets:			
Vacation ownership notes receivable, net of reserves	$ 625,804	$ 55,084	$ 680,888
Interest receivable	4,169	358	4,527
Restricted cash	23,278	1,490	24,768
Total	$ 653,251	$ 56,932	$ 710,183
Consolidated Liabilities:			
Interest payable	$ 265	$ 27	$ 292
Debt	637,294	50,729	688,023
Total	$ 637,559	$ 50,756	$ 688,315

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 March 25, 2016:

($ in thousands)

	Vacation Ownership Notes Receivable Securitizations		Warehouse Credit Facility		Total	
Interest income	$	20,186	$	1,005	$	21,191
Interest expense to investors	$	3,970	$	364	$	4,334
Debt issuance cost amortization	$	805	$	223	$	1,028
Administrative expenses	$	104	$	42	$	146

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The following table shows cash flows between us and the vacation ownership notes receivable securitization variable interest entities during the twelve weeks ended March 25, 2016 and March 27, 2015:

	Twelve Weeks Ended	
($ in thousands)	**March 25, 2016**	**March 27, 2015**
Cash inflows:		
Principal receipts	$ 40,224	$ 48,608
Interest receipts	20,906	22,933
Reserve release	161	1,425
Total	61,291	72,966
Cash outflows:		
Principal to investors	(39,939)	(48,054)
Voluntary repurchases of defaulted vacation ownership notes receivable	(7,371)	(6,031)
Voluntary clean-up call		(24,726)
Interest to investors	(4,323)	(5,219)
Total	(51,633)	(84,030)