MARRIOTT VACATIONS WORLDWIDE Corp
Form 10-Q
August 03, 2017

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vac:transaction xbrli:shares vac:Segment vac:program
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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 June 30, 2017

OR

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

For the transition period from __________ to __________

Commission file number 001-35219

Marriott Vacations Worldwide Corporation

(Exact name of registrant as specified in its charter)

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

(407) 206-6000

(Registrant's telephone number, including area code)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth 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	¨
		Emerging growth company	¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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 July 28, 2017 was 27,029,239.

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Throughout this 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. Brand names, trademarks, service marks and trade names that we own or license from Marriott International include Marriott Vacation Club®, Marriott Vacation Club Destinations™, Marriott Vacation Club Pulse℠, Marriott Grand Residence Club®, Grand Residences by Marriott®, and The Ritz-Carlton Club®. We also refer to Marriott International's Marriott Rewards® customer loyalty program. We may also refer to brand names, trademarks, service marks and trade names of other companies and organizations, and these brand names, trademarks, service marks and trade names are the property of their respective owners.

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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)

	Quarter Ended		Year to Date Ended	
	June 30, 2017 (91 days)	June 17, 2016 (84 days)	June 30, 2017 (182 days)	June 17, 2016 (168 days)
REVENUES				
Sale of vacation ownership products	$191,010	$146,450	$363,165	$284,819
Resort management and other services	79,158	74,156	152,122	137,864
Financing	32,530	28,654	64,641	57,878
Rental	84,188	75,069	169,444	155,357
Cost reimbursements	110,734	98,842	234,367	206,375
TOTAL REVENUES	497,620	423,171	983,739	842,293
EXPENSES				
Cost of vacation ownership products	46,143	33,753	88,763	69,370
Marketing and sales	104,029	78,919	204,690	157,331
Resort management and other services	44,008	44,007	85,653	83,870
Financing	3,449	2,621	7,466	7,201
Rental	70,163	66,028	140,595	130,688
General and administrative	29,534	25,361	57,073	50,720
Litigation settlement	183	—	183	(303)
Consumer financing interest	5,654	5,117	11,592	10,479
Royalty fee	16,307	14,026	32,377	27,383
Cost reimbursements	110,734	98,842	234,367	206,375
TOTAL EXPENSES	430,204	368,674	862,759	743,114
(Losses) gains and other (expense) income	(166)	10,668	(225)	10,675
Interest expense	(1,757)	(2,087)	(2,538)	(4,069)
Other	(100)	(1,911)	(469)	(4,453)
INCOME BEFORE INCOME TAXES	65,393	61,167	117,748	101,332
Provision for income taxes	(21,117)	(24,858)	(39,772)	(40,615)
NET INCOME	$44,276	$36,309	$77,976	$60,717
EARNINGS PER SHARE				
Earnings per share - Basic	$1.62	$1.28	$2.86	$2.11
Earnings per share - Diluted	$1.58	$1.26	$2.79	$2.08
CASH DIVIDENDS DECLARED PER SHARE	$0.35	$0.30	$0.70	$0.60

See Notes to Interim Consolidated Financial Statements

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

	Quarter Ended		Year to Date Ended	
	June 30, 2017 (91 days)	June 17, 2016 (84 days)	June 30, 2017 (182 days)	June 17, 2016 (168 days)
Net income	$44,276	$36,309	$77,976	$60,717
Other comprehensive income (loss):				
Foreign currency translation adjustments	2,465	606	6,681	1,753
Derivative instrument adjustment, net of tax	23	(808)	48	(399)
Total other comprehensive income (loss), net of tax	2,488	(202)	6,729	1,354
COMPREHENSIVE INCOME	$46,764	$36,107	$84,705	$62,071

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) June 30, 2017	December 30, 2016
ASSETS		
Cash and cash equivalents	$85,151	$147,102
Restricted cash (including $31,005 and $27,525 from VIEs, respectively)	58,753	66,000
Accounts and contracts receivable, net (including $4,311 and $4,865 from VIEs, respectively)	131,395	161,733
Vacation ownership notes receivable, net (including $655,180 and $717,543 from VIEs, respectively)	1,036,449	972,311
Inventory	744,430	712,536
Property and equipment	249,264	202,802
Other (including $10,647 and $0 from VIEs, respectively)	127,994	128,935
TOTAL ASSETS	$2,433,436	$2,391,419
LIABILITIES AND EQUITY		
Accounts payable	$76,456	$124,439
Advance deposits	59,401	55,542
Accrued liabilities (including $537 and $584 from VIEs, respectively)	112,916	147,469
Deferred revenue	115,536	95,495
Payroll and benefits liability	87,000	95,516
Deferred compensation liability	69,928	62,874
Debt, net (including $671,221 and $738,362 from VIEs, respectively)	773,557	737,224
Other	12,989	15,873
Deferred taxes	156,835	149,168
TOTAL LIABILITIES	1,464,618	1,483,600
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; 36,839,064 and 36,633,868 shares issued, respectively	368	366
Treasury stock — at cost; 9,669,970 and 9,643,562 shares, respectively	(610,115)	(606,631)
Additional paid-in capital	1,161,507	1,162,283
Accumulated other comprehensive income	12,189	5,460
Retained earnings	404,869	346,341
TOTAL EQUITY	968,818	907,819
TOTAL LIABILITIES AND EQUITY	$2,433,436	$2,391,419

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)

	Year to Date Ended	
	June 30, 2017	**June 17, 2016**
	(182 days)	**(168 days)**
OPERATING ACTIVITIES		
Net income	$77,976	$60,717
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	10,192	10,177
Amortization of debt issuance costs	2,726	2,559
Provision for loan losses	26,821	19,591
Share-based compensation	8,451	6,856
Loss (gain) on disposal of property and equipment, net	225	(10,675)
Deferred income taxes	11,778	15,792
Net change in assets and liabilities:		
Accounts and contracts receivable	30,079	(11,084)
Notes receivable originations	(227,643)	(124,318)
Notes receivable collections	136,731	120,548
Inventory	16,007	(13,924)
Purchase of vacation ownership units for future transfer to inventory	(33,594)	—
Other assets	4,406	26,111
Accounts payable, advance deposits and accrued liabilities	(70,470)	(86,355)
Deferred revenue	19,654	22,627
Payroll and benefit liabilities	(8,698)	(27,313)
Deferred compensation liability	7,053	6,536
Other liabilities	(585)	1,081
Other, net	3,021	2,152
Net cash provided by operating activities	14,130	21,078
INVESTING ACTIVITIES		
Capital expenditures for property and equipment (excluding inventory)	(11,344)	(15,142)
Purchase of company owned life insurance	(10,092)	—
Dispositions, net	11	69,738
Net cash (used in) provided by investing activities	(21,425)	54,596

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

	Year to Date Ended	
	June 30, 2017 (182 days)	June 17, 2016 (168 days)
FINANCING ACTIVITIES		
Borrowings from securitization transactions	50,260	91,281
Repayment of debt related to securitization transactions	(117,400)	(84,040)
Borrowings from Revolving Corporate Credit Facility	60,000	85,000
Repayment of Revolving Corporate Credit Facility	(12,500)	(40,000)
Debt issuance costs	(1,219)	(231)
Repurchase of common stock	(3,868)	(163,359)
Accelerated stock repurchase forward contract	—	(14,470)
Payment of dividends	(28,552)	(26,067)
Payment of withholding taxes on vesting of restricted stock units	(9,962)	(3,876)
Other, net	(624)	572
Net cash used in financing activities	(63,865)	(155,190)
Effect of changes in exchange rates on cash, cash equivalents and restricted cash	1,962	(3,238)
Decrease in cash, cash equivalents, and restricted cash	(69,198)	(82,754)
Cash, cash equivalents and restricted cash, beginning of period	213,102	248,512
Cash, cash equivalents and restricted cash, end of period	$143,904	$165,758
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Property acquired via capital lease	$—	$7,221
Non-cash issuance of treasury stock for employee stock purchase plan	622	307
Disposition accruals not yet paid	—	4,636
Non-cash transfer from Inventory to Property and equipment	—	9,741
Non-cash issuance of debt in connection with acquisition of vacation ownership units	63,558	—

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 ("we," "us," "Marriott Vacations Worldwide" or the "Company," which includes our consolidated subsidiaries except where the context of the reference is to a single corporate entity) is the exclusive worldwide developer, marketer, seller and manager of vacation ownership and related products under the Marriott Vacation Club and Grand Residences by Marriott brands. In 2016, we introduced Marriott Vacation Club Pulse, an extension to the Marriott Vacation Club brand. We are also the exclusive worldwide developer, marketer and seller of vacation ownership and related products under The Ritz-Carlton Destination Club brand, and we have the non-exclusive right to develop, market and sell whole ownership residential products under The Ritz-Carlton Residences brand. The Ritz-Carlton Hotel Company, L.L.C., a subsidiary of Marriott International, provides on-site management for Ritz-Carlton branded properties.

Our business is grouped into three reportable segments: North America, Asia Pacific and Europe. As of June 30, 2017, our portfolio consisted of over 65 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.

Beginning with our 2017 fiscal year, we changed our financial reporting cycle to a calendar year-end and end-of-month quarterly reporting cycle. Accordingly, our 2017 fiscal year began on December 31, 2016 (the day after the end of the 2016 fiscal year) and will end on December 31, 2017, and our 2017 quarters include the three month periods ended March 31, June 30, September 30, and December 31, except that the period ended March 31, 2017 also includes December 31, 2016. Our future fiscal years will begin on January 1 and end on December 31. Historically, our fiscal year was a 52 or 53 week fiscal year that ended on the Friday nearest to December 31, and our quarterly reporting cycle included twelve week periods for the first, second, and third quarters and a sixteen week period (or in some cases a seventeen week period) for the fourth quarter. We have not restated, and do not plan to restate, historical results.

The table below shows the reporting periods as we refer to them in this report, their date ranges, and the number of days in each:

Reporting Period	Date Range	Number of Days
2017 second quarter	April 1, 2017 — June 30, 2017	91
2016 second quarter	March 26, 2016 — June 17, 2016	84
2017 first half	December 31, 2016 — June 30, 2017	182
2016 first half	January 2, 2016 — June 17, 2016	168
2017 fiscal year	December 31, 2016 — December 31, 2017	366
2016 fiscal year	January 2, 2016 — December 30, 2016	364

As a result of the change in our financial reporting cycle, our 2017 second quarter had seven more days of activity than our 2016 second quarter, and our 2017 first half had 14 more days of activity than our 2016 first half. While our 2017 full fiscal year will have only two additional days of activity as compared to our 2016 full fiscal year, our 2017 third quarter will have eight additional days of activity, and our 2017 fourth quarter will have 20 fewer days of activity than the corresponding periods in our 2016 fiscal year.

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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 December 30, 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 December 30, 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, loss contingencies and income taxes. Accordingly, actual amounts may differ from these estimated amounts.
We have reclassified certain prior year amounts to conform to our current period presentation. Our Financial Statements include adjustments for the 2016 second quarter and 2016 first half to correct immaterial presentation errors, consistent with those reported in our Annual Report on Form 10-K for the fiscal year ended December 30, 2016, within the following line items on our Statements of Income: Resort management and other services revenues, Resort management and other services expenses and General and administrative expenses. Correction of these immaterial errors had no impact on our consolidated Net income.
The impact of these adjustments on the Financial Statements is as follows:

	Quarter Ended June 17, 2016 (84 days)		**Year to Date Ended June 17, 2016 (168 days)**	
($ in thousands)	**As Revised**	**Previous Filing**	**As Revised**	**Previous Filing**
Resort management and other services	$74,156	$80,930	$137,864	$150,559
TOTAL REVENUES	$423,171	$429,945	$842,293	$854,988
Resort management and other services	$44,007	$49,311	$83,870	$95,108
General and administrative	$25,361	$24,588	$50,720	$49,885
TOTAL EXPENSES	$368,674	$375,448	$743,114	$755,809

Deferred Compensation Plan
Beginning in our 2017 fiscal year, participants in the Marriott Vacations Worldwide Deferred Compensation Plan (the “Deferred Compensation Plan”) may select a rate of return based on various market-based investment alternatives for a portion of their contributions, as well as any future Company contributions, to the Deferred Compensation Plan, and may also select such a rate for a portion of their existing account balances. To support our ability to meet a portion of our obligations under the Deferred Compensation Plan, we acquired company owned insurance policies (the “COLI policies”) on the lives of certain participants in the Deferred Compensation Plan, the proceeds of which are intended to be aligned with the investment alternatives elected by plan participants and are payable to a rabbi trust with the Company as grantor. A portion of a participant’s contributions to the Deferred Compensation Plan must be subject to a fixed rate of return, which for our 2017 fiscal year was reduced to 3.5 percent.
We consolidate the liabilities of the Deferred Compensation Plan and the related assets, which consist of the COLI policies held in the rabbi trust. The rabbi trust is considered a variable interest entity (“VIE”). We are considered the primary beneficiary of the rabbi trust because we direct the activities of the trust and are the beneficiary of the trust. At June 30, 2017, the value of the assets held in the rabbi trust was $10.6 million, which is included in the Other line within assets on our Balance Sheets.

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New Accounting Standards

Accounting Standards Update No. 2017-09 – "*Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting*" ("ASU 2017-09")

In May 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2017-09, which clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as modifications for the purpose of applying the modification guidance in Accounting Standards Codification Topic 718. This update is effective for all entities for annual periods beginning after December 15, 2017, and for interim periods within those annual periods, with early adoption permitted. Our early adoption of ASU 2017-09 in the 2017 second quarter did not have an impact on our financial statements or disclosures.

Accounting Standards Update No. 2016-18 – "*Restricted Cash*" ("ASU 2016-18")

In November 2016, the FASB issued ASU 2016-18, which requires entities to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. As a result, we will no longer present changes in restricted cash as a component of investing activities. This update is effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. We adopted ASU 2016-18 on a retrospective basis commencing in the 2017 first quarter.

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

In March 2016, the FASB issued ASU 2016-09, which changes how entities account for certain aspects of share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. The new guidance requires all income tax effects of awards, including excess tax benefits, to be recorded as income tax expense (or benefit) in the income statement, which resulted in benefits to our provision for income taxes of $2.8 million in the 2017 second quarter and $5.2 million in the 2017 first half. The new guidance requires excess tax benefits to be presented as an operating inflow rather than as a financing inflow in the statement of cash flows. Prior to the adoption of ASU 2016-09, excess tax benefits were recorded in additional paid-in-capital on the balance sheet. This update is effective for annual periods beginning after December 15, 2016 and interim periods within those annual periods. We adopted ASU 2016-09 in the 2017 first quarter. The adoption of ASU 2016-09 decreased our provision for income taxes, the amount of which depends on the vesting activity of our share-based compensation awards in any given period, and eliminated the presentation of excess tax benefits as a financing inflow on our statement of cash flows. Further, we made an accounting policy election to recognize forfeitures of share-based compensation awards as they occur, the cumulative effect of which resulted in an adjustment of $0.4 million to opening retained earnings. The adoption of ASU 2016-09 did not have any other material impacts on our financial statements and disclosures.

Future Adoption of Accounting Standards

Accounting Standards Update No. 2016-16 – "*Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory*" ("ASU 2016-16")

In October 2016, the FASB issued ASU 2016-16, which changes the timing of when certain intercompany transactions are recognized within the provision for income taxes. This update is effective for public companies for annual periods beginning after December 15, 2017, and for annual periods and interim periods thereafter, with early adoption permitted. We are evaluating the impact that ASU 2016-16, including the timing of implementation, will have on our financial statements and disclosures.

Accounting Standards Update No. 2016-13 – "*Financial Instruments – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments*" ("ASU 2016-13")

In June 2016, the FASB issued ASU 2016-13, which replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses. The update is intended to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. This update is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, with early adoption permitted for fiscal years beginning after December 15, 2018. We are evaluating the impact that ASU 2016-13, including the timing of implementation, will have on our financial statements and disclosures.

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

In February 2016, the FASB issued ASU 2016-02 to increase transparency and comparability of information regarding an entity's leasing activities by providing additional information to users of financial statements. ASU 2016-02 amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. The new standard requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. This update is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. Although we expect to adopt ASU 2016-02 in fiscal year 2019 and have commenced our implementation efforts, we continue to evaluate the impact that adoption of this accounting standards update 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"), as Amended

In May 2014, the FASB issued ASU 2014-09, which, as amended, supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, as well as most industry-specific guidance, and significantly enhances comparability of revenue recognition practices across entities and industries by providing a principle-based, comprehensive framework for addressing revenue recognition issues. In order for a provider of promised goods or services to recognize as revenue the consideration that it expects to receive in exchange for the promised goods or services, the provider should apply the following five steps: (1) identify the contract with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09, as amended, will be effective for annual reporting periods, and interim periods within those reporting periods, beginning after December 15, 2017. The new standard may be applied retrospectively or on a modified retrospective basis with the cumulative effect recognized on the date of adoption. We will adopt ASU 2014-09, as amended, commencing in fiscal year 2018, on a retrospective basis. While we continue to evaluate the impact that adoption of this accounting standards update will have on our financial statements and disclosures, we expect the amount and timing of revenue recognition related to our accounting for management fee revenues, ancillary revenues and rental revenues will remain materially consistent with our current accounting. We expect adoption of ASU 2014-09 will result in the following with respect to the recognition of revenues from the sale of vacation ownership products within our North America segment:

- alignment of our assessment of collectibility of the transaction price with our credit granting policies;
- deferral of revenue recognition deemed collectible from expiration of the statutory rescission period to closing, when control of the vacation ownership product is transferred to the customer;
- no impact to sales reserve accounting; and
- net presentation of certain sales incentives (e.g., Marriott Rewards Points).

In addition, we expect to elect the practical expedient available in ASU 2014-09 to expense all marketing and sales costs as they are incurred. We anticipate disclosing additional detail on the impact of adoption of this accounting standards update later in 2017.

2. INCOME TAXES

We file income tax returns with U.S. federal and state and non-U.S. jurisdictions and are subject to audits in these jurisdictions. Although we do not anticipate that a significant impact to our unrecognized tax benefit balance will occur during the next fiscal year, the amount of our liability for unrecognized tax benefits could change as a result of audits in these jurisdictions. Our total unrecognized tax benefit balance that, if recognized, would impact our effective tax rate, was $1.5 million at both June 30, 2017 and December 30, 2016.

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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)	**At June 30, 2017**	**At December 30, 2016**
Vacation ownership notes receivable — securitized	$655,180	$ 717,543
Vacation ownership notes receivable — non-securitized		
Eligible for securitization[1]	224,560	98,508
Not eligible for securitization[1]	156,709	156,260
Subtotal	381,269	254,768
Total vacation ownership notes receivable	$1,036,449	$ 972,311

(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 June 30, 2017:

($ in thousands)	**Non-Securitized Vacation Ownership Notes Receivable**	**Securitized Vacation Ownership Notes Receivable**	**Total**
2017, remaining	$ 29,584	$45,052	$74,636
2018	45,320	84,684	130,004
2019	37,375	79,633	117,008
2020	33,947	79,289	113,236
2021	31,669	78,257	109,926
Thereafter	203,374	288,265	491,639
Balance at June 30, 2017	$ 381,269	$655,180	$1,036,449
Weighted average stated interest rate at June 30, 2017	11.6%	12.7%	12.3%
Range of stated interest rates at June 30, 2017	0.0% to 18.0%	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:

	Quarter Ended		**Year to Date Ended**	
($ in thousands)	**June 30, 2017 (91 days)**	**June 17, 2016 (84 days)**	**June 30, 2017 (182 days)**	**June 17, 2016 (168 days)**
Interest income associated with vacation ownership notes receivable — securitized	$22,948	$21,201	$46,294	$42,392
Interest income associated with vacation ownership notes receivable — non-securitized	7,855	6,052	14,865	12,635
Total interest income associated with vacation ownership notes receivable	$30,803	$27,253	$61,159	$55,027

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 2017 first half:

($ in thousands)	**Non-Securitized Vacation Ownership Notes Receivable**	**Securitized Vacation Ownership Notes Receivable**	**Total**
Balance at December 30, 2016	$ 56,628	$ 53,735	$ 110,363
Provision for loan losses	22,426	4,558	26,984
Securitizations	(4,011)	4,011	—
Write-offs	(26,854)	—	(26,854)
Defaulted vacation ownership notes receivable repurchase activity[1]	14,318	(14,318)	—
Balance at June 30, 2017	$ 62,507	$ 47,986	$ 110,493

(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 defaulted securitized vacation ownership notes receivable.

Although we consider loans to owners to be past due if we do not receive payment within 30 days of the due date, we suspend accrual of interest only on those loans that are over 90 days past due. We consider loans over 150 days past due to be in default. We apply payments we receive for vacation ownership notes receivable on non-accrual status first to interest, then to principal and any remainder to fees. We resume accruing interest when vacation ownership notes receivable are less than 90 days past due. We do not accept payments for vacation ownership notes receivable during the foreclosure process unless the amount is sufficient to pay all past due principal, interest, fees and penalties owed and fully reinstate the note. We write off uncollectible vacation ownership notes receivable against the reserve once we receive title to the vacation ownership products through the foreclosure or deed-in-lieu process or, in Asia Pacific or Europe, when revocation is complete. For both non-securitized and securitized vacation ownership notes receivable, we estimated average remaining default rates of 7.14 percent and 7.09 percent as of June 30, 2017 and December 30, 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 $5.4 million and $5.0 million as of June 30, 2017 and December 30, 2016, respectively.

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 June 30, 2017	$ 38,478	$ 6,990	$ 45,468
Investment in vacation ownership notes receivable on non-accrual status at December 30, 2016	$ 43,792	$ 6,687	$ 50,479
Average investment in vacation ownership notes receivable on non-accrual status during the 2017 second quarter	$ 38,179	$ 7,484	$ 45,663
Average investment in vacation ownership notes receivable on non-accrual status during the 2016 second quarter	$ 47,471	$ 10,407	$ 57,878
Average investment in vacation ownership notes receivable on non-accrual status during the 2017 first half	$ 41,135	$ 6,839	$ 47,974
Average investment in vacation ownership notes receivable on non-accrual status during the 2016 first half	$ 47,136	$ 9,699	$ 56,835

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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 June 30, 2017:

($ in thousands)	**Non-Securitized Vacation Ownership Notes Receivable**	**Securitized Vacation Ownership Notes Receivable**	**Total**
31 – 90 days past due	$ 7,338	$ 12,714	$ 20,052
91 – 150 days past due	4,047	6,990	11,037
Greater than 150 days past due	34,431	—	34,431
Total past due	45,816	19,704	65,520
Current	397,960	683,462	1,081,422
Total vacation ownership notes receivable	$ 443,776	$ 703,166	$ 1,146,942

The following table shows the aging of the recorded investment in principal, before reserves, in vacation ownership notes receivable as of December 30, 2016:

($ in thousands)	**Non-Securitized Vacation Ownership Notes Receivable**	**Securitized Vacation Ownership Notes Receivable**	**Total**
31 – 90 days past due	$ 7,780	$ 16,468	$ 24,248
91 – 150 days past due	3,981	6,687	10,668
Greater than 150 days past due	39,811	—	39,811
Total past due	51,572	23,155	74,727
Current	259,824	748,123	1,007,947
Total vacation ownership notes receivable	$ 311,396	$ 771,278	$ 1,082,674

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.

	At June 30, 2017		**At December 30, 2016**	
($ in thousands)	**Carrying Amount**	**Fair Value[(1)]**	**Carrying Amount**	**Fair Value[(1)]**
Vacation ownership notes receivable — securitized	$ 655,180	$ 764,004	$ 717,543	$ 834,009
Vacation ownership notes receivable — non-securitized	381,269	415,074	254,768	269,161
Other assets	10,647	10,647	—	—
Total financial assets	$ 1,047,096	$ 1,189,725	$ 972,311	$ 1,103,170
Non-recourse debt associated with vacation ownership notes receivable securitizations, net	$ (614,157)	$ (614,386)	$ (729,188)	$ (725,963)
Warehouse credit facility, net	(48,002)	(48,503)	—	—
Revolving corporate credit facility, net	(45,175)	(45,175)	—	—
Non-interest bearing note payable, net	(58,808)	(58,808)	—	—
Total financial liabilities	$ (766,142)	$ (766,872)	$ (729,188)	$ (725,963)

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

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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 Asia or Europe. 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.

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 June 30, 2017		**At December 30, 2016**	
($ in thousands)	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Vacation ownership notes receivable				
Eligible for securitization	$224,560	$258,365	$98,508	$112,901
Not eligible for securitization	156,709	156,709	156,260	156,260
Total non-securitized	$381,269	$415,074	$254,768	$269,161

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

Other Assets

We estimate the fair value of our other assets that are financial instruments using Level 2 inputs. These assets consist of COLI policies held in a rabbi trust. The carrying value of the COLI policies is equal to their cash surrender value.

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.

Revolving Corporate Credit Facility

The carrying value of the outstanding balance on our $200 million revolving corporate credit facility (the "Revolving Corporate Credit Facility") approximates fair value, as the contractual interest rate for funds currently borrowed floats at an annual borrowing rate as defined in the Revolving Corporate Credit Facility, which is determined based on certain publicly available rates plus an applicable margin based on our credit rating.

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Non-Interest Bearing Note Payable

The carrying value of our non-interest bearing note payable issued in connection with the acquisition of vacation ownership units located on the Big Island of Hawaii approximates fair value, because the imputed interest rate used to discount this note payable is consistent with current market rates. See Footnote No. 5, "Acquisitions and Dispositions," and Footnote No. 9, "Debt," for additional information on this transaction.

5. ACQUISITIONS AND DISPOSITIONS

Acquisitions

Marco Island, Florida

During the 2017 second quarter, we acquired 36 completed vacation ownership units located at our resort in Marco Island, Florida for $33.6 million. The transaction was accounted for as an asset acquisition with all of the purchase price allocated to Property and equipment. To ensure consistency with the expected related future cash flow presentation, the cash purchase price was included as an operating activity in the Purchase of vacation ownership units for future transfer to inventory line on our Cash Flows. See Footnote No. 8, "Contingencies and Commitments," for information on our remaining commitment related to this property.

Big Island of Hawaii

During the 2017 second quarter, we acquired 112 completed vacation ownership units located on the Big Island of Hawaii. The transaction was accounted for as an asset acquisition with all of the purchase price allocated to Inventory. As consideration for the acquisition, we paid $27.3 million in cash, settled a $0.5 million note receivable from the seller on a non-cash basis, and issued a non-interest bearing note payable for $63.6 million. See Footnote No. 9, "Debt," for information on the non-interest bearing note payable.

Miami Beach, Florida

During the 2016 first quarter, 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. As consideration for the acquisition, we paid $23.5 million in cash; the value of the acquired property was allocated to Inventory. We rebranded this property as Marriott Vacation Club Pulse, South Beach and converted it, in its entirety, into vacation ownership inventory.

Dispositions

San Francisco, California

During the 2016 second quarter, we disposed of 19 residential units located at The Ritz-Carlton Club and Residences, San Francisco (the "RCC San Francisco") for gross cash proceeds of $19.5 million. We accounted for the sale under the full accrual method in accordance with the authoritative guidance on accounting for sales of real estate and recorded a gain of $10.5 million in the (Losses) gains and other (expense) income line on our Statements of Income for the 2016 second quarter and the 2016 first half.

Surfers Paradise, Australia

During 2015, we completed the acquisition of an operating property located in Surfers Paradise, Australia. During the 2016 second quarter, we disposed of the portion of this operating property that we did not intend to convert into vacation ownership inventory for gross cash proceeds of AUD $70.5 million ($50.9 million). We accounted for the sale under the full accrual method in accordance with the authoritative guidance on accounting for sales of real estate. As part of the disposition, we guaranteed the net operating income of this portion of the operating property through 2021 up to a specified maximum of AUD $2.9 million ($2.2 million), which was recorded as a deferred gain in the Other line within liabilities on our balance sheet. We recognized a loss, inclusive of the deferred gain, of AUD $1.2 million ($0.9 million) in connection with the sale, which was recorded in (Losses) gains and other (expense) income line on the Statement of Income for the 2016 second quarter and the 2016 first half.

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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.

	Quarter Ended		Year to Date Ended	
	June 30, 2017[1]	June 17, 2016[2]	June 30, 2017[1]	June 17, 2016[2]
(in thousands, except per share amounts)	(91 days)	(84 days)	(182 days)	(168 days)
Computation of Basic Earnings Per Share				
Net income	$44,276	$36,309	$77,976	$60,717
Shares for basic earnings per share	27,319	28,345	27,285	28,734
Basic earnings per share	$1.62	$1.28	$2.86	$2.11
Computation of Diluted Earnings Per Share				
Net income	$44,276	$36,309	$77,976	$60,717
Shares for basic earnings per share	27,319	28,345	27,285	28,734
Effect of dilutive shares outstanding				
Employee stock options and SARs	464	368	457	379
Restricted stock units	182	121	187	131
Shares for diluted earnings per share	27,965	28,834	27,929	29,244
Diluted earnings per share	$1.58	$1.26	$2.79	$2.08

(1) The computations of diluted earnings per share exclude approximately 306,000 shares of common stock, the maximum number of shares issuable as of June 30, 2017 upon the vesting of certain performance-based awards, because the performance conditions required to be met 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 263,000 shares of common stock, the maximum number of shares issuable as of June 17, 2016 upon the vesting of certain performance-based awards, because the performance conditions required to be met 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 2017 second quarter and the 2017 first half, our calculation of diluted earnings per share included shares of underlying stock appreciation rights ("SARs") that may be settled in shares of common stock, because the exercise prices of such SARs were less than or equal to the average market prices for the applicable period.

For the 2016 second quarter, we excluded from our calculation of diluted earnings per share 62,018 shares underlying SARs that may be settled in shares of common stock because the exercise price of $77.42 of such SARs was greater than the average market price for the applicable period.

For the 2016 first half, we excluded from our calculation of diluted earnings per share 194,615 shares underlying SARs that may be settled in shares of common stock because the exercise prices of such SARs, which ranged from $61.71 to $77.42, were greater than the average market price for the applicable period.

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7. INVENTORY

The following table shows the composition of our inventory balances:

($ in thousands)	**At June 30, 2017**	**At December 30, 2016**
Finished goods[(1)]	$421,082	$ 337,949
Work-in-progress	—	39,486
Land and infrastructure[(2)]	318,351	330,728
Real estate inventory	739,433	708,163
Operating supplies and retail inventory	4,997	4,373
	$744,430	$ 712,536

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

(2) Includes $65.8 million of inventory related to estimated future foreclosures at June 30, 2017.

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. Product cost true-up activity relating to vacation ownership products decreased carrying values of inventory by $0.4 million during the 2017 first half and increased carrying values of inventory by $10.7 million during the 2016 first half.

In addition to the above, at June 30, 2017, we had $48.7 million of completed vacation ownership units which have been classified as a component of Property and equipment until the time at which they are legally registered for sale as vacation ownership products. Furthermore, at June 30, 2017, we also had $315.2 million of commitments to acquire completed vacation ownership units as discussed below in Footnote No. 8, "Contingencies and Commitments."

8. CONTINGENCIES AND COMMITMENTS

Commitments and Letters of Credit

As of June 30, 2017, 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 $26.2 million, of which we expect $6.7 million, $11.4 million, $4.2 million, $1.7 million, $0.8 million and $1.4 million will be paid in 2017, 2018, 2019, 2020, 2021 and thereafter, respectively.
- We have a commitment to purchase an operating property located in New York, New York, for $158.5 million, of which $7.2 million is attributed to a related capital lease arrangement and recorded in Debt. We expect to acquire the units in the property in their current form, over time, and we expect to make payments for these units of $96.8 million and $61.7 million in 2018 and 2019, respectively. We currently manage this property, which we have rebranded as Marriott Vacation Club Pulse, New York City. See Footnote No. 12, "Variable Interest Entities," for additional information on this transaction.
- We have commitments to purchase vacation ownership units located in two resorts in Bali, Indonesia in two separate transactions, contingent upon completion of construction to agreed-upon standards within specified timeframes, for use in our Asia Pacific segment. We expect to complete the acquisition of 51 vacation ownership units in the 2017 third quarter pursuant to one of the commitments, subject to the completion of specific construction milestones, and to make remaining payments of $15.4 million with respect to these units. 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 2017, $5.9 million in 2018 and $25.4 million in 2019.
- We have a remaining commitment to purchase vacation ownership units located at our resort in Marco Island, Florida for $102.2 million, which we expect will be paid as follows: $50.0 million in 2018 and $52.2 million in 2019. See Footnote No. 5, "Acquisitions and Dispositions," and Footnote No. 12, "Variable Interest Entities," for additional information on this transaction.

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- We have new operating lease commitments that expire in 2029. Our aggregate minimum lease payments under these contracts are $17.6 million, of which we expect $0.2 million, $0.4 million, $1.7 million, $1.7 million, $1.9 million and $11.7 million will be paid in 2017, 2018, 2019, 2020, 2021 and thereafter, respectively.

Surety bonds issued as of June 30, 2017 totaled $37.7 million, the majority of which were requested by federal, state or local governments in connection with our operations.

Additionally, as of June 30, 2017, we had $4.6 million of letters of credit outstanding under our Revolving Corporate Credit Facility.

Loss Contingencies

In April 2013, Krishna and Sherrie Narayan and other owners of 12 residential units (owners of two of which subsequently agreed to release their claims) at the resort formerly known as The Ritz-Carlton Residences, Kapalua Bay ("Kapalua Bay") filed an amended complaint in Circuit Court for Maui County, Hawaii against us, certain of our subsidiaries, Marriott International, certain of its subsidiaries, and the joint venture in which we have an equity investment that developed and marketed vacation ownership and residential products at Kapalua Bay (the "Joint Venture"). In the original complaint, the plaintiffs alleged that defendants mismanaged funds of the residential owners association (the "Kapalua Bay Association"), created a conflict of interest by permitting their employees to serve on the Kapalua Bay Association's board, and failed to disclose documents to which the plaintiffs were allegedly entitled. The amended complaint alleges breach of fiduciary duty, violations of the Hawaii Unfair and Deceptive Trade Practices Act and the Hawaii condominium statute, intentional misrepresentation and concealment, unjust enrichment and civil conspiracy. The relief sought in the amended complaint includes injunctive relief, repayment of all sums paid to us and our subsidiaries and Marriott International and its subsidiaries, compensatory and punitive damages, and treble damages under the Hawaii Unfair and Deceptive Trade Practices Act. We dispute the material allegations in the amended complaint and continue to defend against the action vigorously. We filed a motion in the Circuit Court to compel arbitration of plaintiffs' claims. That motion was denied, but on appeal the Hawaii Intermediate Court of Appeals reversed. The Hawaii Supreme Court reversed the decision of the Intermediate Court of Appeals and reinstated the action in Circuit Court, which set the case for trial. We filed a petition with the United States Supreme Court seeking review of the Hawaii Supreme Court's decision. In January 2016, the U.S. Supreme Court issued an order vacating the Hawaii Supreme Court's decision and remanding the case with instructions to reconsider its ruling in light of a recent U.S. Supreme Court decision reiterating the obligation of courts to enforce arbitration agreements. On July 14, 2017, the Hawaii Supreme Court issued a decision reaffirming its prior ruling and remanding the case to the Circuit Court for trial. On July 24, 2017, we filed a motion for reconsideration of that decision. Given the inherent uncertainties of litigation, we cannot estimate a range of the potential liability, if any, at this time.

In June 2013, Earl C. and Patricia A. Charles, owners of a fractional interest at Kapalua Bay, together with owners of 38 other fractional interests (owners of two of which subsequently agreed to release their claims) at Kapalua Bay, filed an amended complaint in the Circuit Court of the Second Circuit for the State of Hawaii against us, certain of our subsidiaries, Marriott International, certain of its subsidiaries, the Joint Venture, and other entities that have equity investments in the Joint Venture. The plaintiffs allege that the defendants failed to disclose the financial condition of the Joint Venture and the commitment of the defendants to the Joint Venture, and that defendants' actions constituted fraud and violated the Hawaii Unfair and Deceptive Trade Practices Act, the Hawaii Condominium Property Act and the Hawaii Time Sharing Plans statute. The relief sought includes compensatory and punitive damages, attorneys' fees, pre-judgment interest, declaratory relief, rescission and treble damages under the Hawaii Unfair and Deceptive Trade Practices Act. The complaint was subsequently further amended to add owners of two additional fractional interests as plaintiffs. The Circuit Court granted our motion to compel arbitration of the claims asserted by the plaintiffs. Plaintiffs appealed that decision to the Hawaii Intermediate Court of Appeals and also initiated arbitration. In July 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 was subsequently vacated by the U.S. Supreme Court. On July 14, 2017, the Hawaii Supreme Court issued an opinion reaffirming its 2015 ruling in the Nayayan case and remanding that case to the trial court. We filed a motion for reconsideration of the Hawaii Supreme Court's decision in the Narayan case on July 24, 2017, which remains pending. 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.

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On May 26, 2015, we and certain of our subsidiaries were named as defendants in an action filed in the Superior Court of San Francisco County, California, by William and Sharon Petrick and certain other present and former owners of 69 fractional interests at the RCC San Francisco. The plaintiffs allege that the affiliation of the RCC San Francisco with our points-based Marriott Vacation Club Destinations ("MVCD") program, certain alleged sales practices, and other acts we and the other defendants allegedly took caused an actionable decrease in the value of their fractional interests. The relief sought includes, among other things, compensatory and punitive damages, rescission, and pre- and post-judgment interest. Plaintiffs filed an amended complaint on April 25, 2016. We filed a motion to dismiss. The Court held a hearing and the parties are awaiting a decision. We dispute the material allegations in the amended complaint and intend to defend against the action vigorously. Given the early stages of the action and the inherent uncertainties of litigation, we cannot estimate a range of the potential liability, if any, at this time.

On March 31, 2017, RCHFU, L.L.C. and other owners of 232 fractional interests at The Ritz-Carlton Club, Aspen Highlands ("RCC Aspen Highlands") served an amended complaint in an action pending in the court against us, certain of our subsidiaries, and other third party defendants. The U.S. District Court for the District of Colorado has ordered that no further amendments will be permitted. The amended complaint alleges that the plaintiffs' fractional interests were devalued by the affiliation of RCC Aspen Highlands and other Ritz-Carlton Clubs with our points-based MVCD program. The relief sought includes, among other things, unspecified damages, pre- and post-judgment interest, and attorneys' fees. We filed a motion to dismiss the amended complaint, which remains pending. We dispute the plaintiffs' material allegations and intend to defend against the action vigorously. Given the early stages of the action and the inherent uncertainties of litigation, we cannot estimate a range of the potential liability, if any, at this time.

On May 20, 2016, we, certain of our subsidiaries, and other third parties were named as defendants in an action filed in the U.S. District Court for the Middle District of Florida by Anthony and Beth Lennen. The case is filed as a putative class action; the plaintiffs seek to represent a class consisting of themselves and all other purchasers of MVCD points, from inception of the MVCD program in June 2010 to the present, as well as all individuals who own or have owned weeks in any resorts for which weeks have been added to the MVCD program. Plaintiffs challenge the characterization of the beneficial interests in the MVCD trust that are sold to customers as real estate interests under Florida law. They also challenge the structure of the trust and associated operational aspects of the trust product. The relief sought includes, among other things, declaratory relief, an unwinding of the MVCD product, and punitive damages. On September 15, 2016, we filed a motion to dismiss the complaint and a motion to stay the case pending referral of certain questions to Florida state regulators, which motions remain pending. 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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9. DEBT

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

($ in thousands)	At June 30, 2017	At December 30, 2016
Vacation ownership notes receivable securitizations, gross[1]	$621,602	$ 738,362
Unamortized debt issuance costs	(7,445)	(9,174)
	614,157	729,188
Warehouse Credit Facility, gross[2]	49,619	—
Unamortized debt issuance costs[3]	(1,617)	—
	48,002	—
Revolving Corporate Credit Facility, gross[4]	47,500	—
Unamortized debt issuance costs[5]	(2,325)	—
	45,175	—
Non-interest bearing note payable	63,558	—
Unamortized discount[6]	(4,750)	—
	58,808	—
Other debt, gross	212	834
Unamortized debt issuance costs	(18)	(19)
	194	815
Capital leases	7,221	7,221
	$773,557	$ 737,224

(1) Interest rates as of June 30, 2017 range from 2.2% to 6.3% with a weighted average interest rate of 2.5%.

(2) The effective interest rate as of June 30, 2017 was 2.2%.

(3) As no borrowings were outstanding at December 30, 2016, unamortized debt issuance costs of $0.9 million were included in the Other line within Assets on the Balance Sheet.

(4) The effective interest rate as of June 30, 2017 was 5.1%.

(5) As no borrowings were outstanding at December 30, 2016, unamortized debt issuance costs of $2.9 million were included in the Other line within Assets on the Balance Sheet.

(6) Discount based on imputed interest rate of 6.0%.

See Footnote No. 12, “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.

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The following table shows scheduled future principal payments for our debt as of June 30, 2017:

($ in thousands)	**Vacation Ownership Notes Receivable Securitizations[1]**	**Warehouse Credit Facility[1]**	**Revolving Corporate Credit Facility**	**Non-Interest Bearing Note Payable**	**Other Debt**	**Capital Leases**	**Total**
Debt Principal Payments Year							
2017, remaining	$ 44,767	$ 1,420	$ —	$ —	$ 4		