

ROYAL CARIBBEAN CRUISES LTD

Form 10-Q

April 25, 2013

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2013

OR

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

For the transition period from _____ to _____

Commission File Number: 1-11884

ROYAL CARIBBEAN CRUISES LTD.

(Exact name of registrant as specified in its charter)

Republic of Liberia
(State or other jurisdiction of incorporation or organization)

98-0081645
(I.R.S. Employer Identification No.)

1050 Caribbean Way, Miami, Florida 33132

(Address of principal executive offices) (zip code)

(305) 539-6000

(Registrant's telephone number, including area code)

N/A

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a 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

Edgar Filing: ROYAL CARIBBEAN CRUISES LTD - Form 10-Q

There were 219,406,547 shares of common stock outstanding as of April 17, 2013.

Table of Contents

ROYAL CARIBBEAN CRUISES LTD.

TABLE OF CONTENTS

	<u>Page</u>
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements</u>	1
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	22
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	37
<u>Item 4. Controls and Procedures</u>	37
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	38
<u>Item 1A. Risk Factors</u>	38
<u>Item 6. Exhibits</u>	38
<u>SIGNATURES</u>	40

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****ROYAL CARIBBEAN CRUISES LTD.****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)****(unaudited; in thousands, except per share data)**

	Quarter Ended March 31,	
	2013	2012
Passenger ticket revenues	\$ 1,393,778	\$ 1,352,238
Onboard and other revenues	517,442	482,242
Total revenues	1,911,220	1,834,480
Cruise operating expenses:		
Commissions, transportation and other	322,937	320,738
Onboard and other	121,487	107,595
Payroll and related	209,923	210,114
Food	119,483	113,625
Fuel	241,652	228,994
Other operating	266,708	274,046
Total cruise operating expenses	1,282,190	1,255,112
Marketing, selling and administrative expenses	274,034	264,601
Depreciation and amortization expenses	189,364	179,392
Operating Income	165,632	135,375
Other income (expense):		
Interest income	3,747	6,346
Interest expense, net of interest capitalized	(90,182)	(92,666)
Other expense	(2,971)	(2,091)
	(89,406)	(88,411)
Net Income	\$ 76,226	\$ 46,964
Earnings per Share:		
Basic	\$ 0.35	\$ 0.22
Diluted	\$ 0.35	\$ 0.21
Weighted-Average Shares Outstanding:		
Basic	219,097	217,584
Diluted	220,484	219,230
Comprehensive Income (Loss)		
Net Income	\$ 76,226	\$ 46,964
Other comprehensive income (loss):		

Edgar Filing: ROYAL CARIBBEAN CRUISES LTD - Form 10-Q

Foreign currency translation adjustments	(4,244)	3,340
(Loss) gain on cash flow derivative hedges	(22,600)	147,470
Total other comprehensive (loss) income	(26,844)	150,810
Comprehensive Income	\$ 49,382	\$ 197,774

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

ROYAL CARIBBEAN CRUISES LTD.
CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

	March 31, 2013 (unaudited)	As of	December 31, 2012
Assets			
Current assets			
Cash and cash equivalents	\$ 215,888		\$ 194,855
Trade and other receivables, net	308,030		281,421
Inventories	145,922		146,295
Prepaid expenses and other assets	236,954		207,662
Derivative financial instruments	51,820		57,827
Total current assets	958,614		888,060
Property and equipment, net	17,473,793		17,451,034
Goodwill	429,198		432,975
Other assets	1,004,496		1,055,861
	\$ 19,866,101		\$ 19,827,930
Liabilities and Shareholders' Equity			
Current liabilities			
Current portion of long-term debt	\$ 2,491,064		\$ 1,519,483
Accounts payable	337,441		351,587
Accrued interest	103,838		106,366
Accrued expenses and other liabilities	493,788		541,722
Customer deposits	1,634,373		1,546,993
Total current liabilities	5,060,504		4,066,151
Long-term debt	5,975,890		6,970,464
Other long-term liabilities	491,172		482,566
Commitments and contingencies (Note 7)			
Shareholders' equity			
Preferred stock (\$0.01 par value; 20,000,000 shares authorized; none outstanding)	-		-
Common stock (\$0.01 par value; 500,000,000 shares authorized; 229,705,743 and 229,080,109 shares issued, March 31, 2013 and December 31, 2012, respectively)	2,297		2,291
Paid-in capital	3,117,135		3,109,887
Retained earnings	5,794,167		5,744,791
Accumulated other comprehensive loss	(161,360)		(134,516)
Treasury stock (10,308,683 common shares at cost, March 31, 2013 and December 31, 2012)	(413,704)		(413,704)
Total shareholders' equity	8,338,535		8,308,749
	\$ 19,866,101		\$ 19,827,930

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

ROYAL CARIBBEAN CRUISES LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited, in thousands)

	Quarter Ended March 31,	
	2013	2012
Operating Activities		
Net income	\$ 76,226	\$ 46,964
Adjustments:		
Depreciation and amortization	189,364	179,392
Gain on fuel call options	-	(2,681)
Changes in operating assets and liabilities:		
Decrease in trade and other receivables, net	2,257	21,069
Decrease (increase) in inventories	152	(3,141)
Increase in prepaid expenses and other assets	(19,990)	(30,612)
Decrease in accounts payable	(13,043)	(14,263)
Decrease in accrued interest	(2,528)	(22,294)
Decrease in accrued expenses and other liabilities	(45,953)	(21,938)
Increase in customer deposits	55,751	77,360
Other, net	(979)	(14,641)
Net cash provided by operating activities	241,257	215,215
Investing Activities		
Purchases of property and equipment	(178,376)	(177,235)
Cash (paid) received on settlement of derivative financial instruments	(8,747)	8,027
Equity contribution to unconsolidated affiliate	(19,487)	-
Cash payments received on loan to unconsolidated affiliate	11,993	11,813
Other, net	1,104	(1,048)
Net cash used in investing activities	(193,513)	(158,443)
Financing Activities		
Debt proceeds	120,000	145,000
Debt issuance costs	(15,516)	(16,260)
Repayments of debt	(106,137)	(131,810)
Dividends paid	(27,735)	(43,506)
Proceeds from exercise of common stock options	3,339	1,557
Other, net	377	424
Net cash used in financing activities	(25,672)	(44,595)
Effect of exchange rate changes on cash	(1,039)	3,170
Net increase in cash and cash equivalents	21,033	15,347
Cash and cash equivalents at beginning of period	194,855	262,186
Cash and cash equivalents at end of period	\$ 215,888	\$ 277,533
Supplemental Disclosure		
Cash paid during the period for:		
Interest, net of amount capitalized	\$ 88,229	\$ 101,065

Non cash Investing Activities

Purchases of property and equipment through asset trade in	\$	46,375	\$	-
--	----	--------	----	---

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

ROYAL CARIBBEAN CRUISES LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

As used in this Quarterly Report on Form 10-Q, the terms Royal Caribbean, the Company, we, our and us refer to Royal Caribbean Cruises Ltd. and, depending on the context, Royal Caribbean Cruises Ltd.'s consolidated subsidiaries and/or affiliates. The terms Royal Caribbean International, Celebrity Cruises, Pullmantur, Azamara Club Cruises, CDF Croisières de France, and TUI Cruises refer to our cruise brands. However, because TUI Cruises is an unconsolidated investment, our operating results and other disclosures herein do not include TUI Cruises unless otherwise specified. In accordance with cruise vacation industry practice, the term berths is determined based on double occupancy per cabin even though many cabins can accommodate three or more passengers. This report should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2012, including the audited consolidated financial statements and related notes included therein.

This Quarterly Report on Form 10-Q also includes trademarks, trade names and service marks of other companies. Use or display by us of other parties' trademarks, trade names or service marks is not intended to and does not imply a relationship with, or endorsement or sponsorship of us by, these other parties other than as described herein.

Note 1. General

Description of Business

We are a global cruise company. We own Royal Caribbean International, Celebrity Cruises, Pullmantur, Azamara Club Cruises, CDF Croisières de France and a 50% joint venture interest in TUI Cruises.

Basis for Preparation of Consolidated Financial Statements

The unaudited consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). Estimates are required for the preparation of financial statements

in accordance with these principles. Actual results could differ from these estimates. See Note 2. *Summary of Significant Accounting Policies* in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2012 for a discussion of our significant accounting policies.

All significant intercompany accounts and transactions are eliminated in consolidation. We consolidate entities over which we have control, usually evidenced by a direct ownership interest of greater than 50%, and variable interest entities where we are determined to be the primary beneficiary. See Note 6. *Goodwill and Other Assets* for further information regarding our variable interest entities. For affiliates we do not control but over which we have significant influence on financial and operating policies, usually evidenced by a direct ownership interest from 20% to 50%, the investment is accounted for using the equity method. We consolidate the operating results of Pullmantur and CDF Croisières de France, on a two-month lag to allow for more timely preparation of our consolidated financial statements. No material events or transactions affecting Pullmantur or CDF Croisières de France have occurred during the two-month lag period of February and March 2013 that would require disclosure or adjustment to our consolidated financial statements as of and for the quarter ended March 31, 2013.

Table of Contents

We believe the accompanying unaudited consolidated financial statements contain all normal recurring accruals necessary for a fair statement. Our revenues are seasonal and results for interim periods are not necessarily indicative of results for the entire year.

Note 2. Summary of Significant Accounting Policies

Property and Equipment

During the first quarter of 2013, we performed a review of the estimated useful lives and associated residual values of ships in our fleet approaching the last third of their estimated useful lives. As a result, effective January 1, 2013, we revised the estimated useful lives of five ships from 30 years with a 15% associated residual value, to 35 years with a 10% associated residual value. The change in the estimated useful lives and associated residual value was accounted for prospectively as a change in accounting estimate. The 35-year useful life with a 10% associated residual value is based on revised estimates of the weighted-average useful life of all major ship components for these ships. The change in estimate is consistent with our recent investments in and future plans to continue to invest in the revitalization of these ships and the use of certain ship components longer than originally estimated. The change allows us to better match depreciation expense with the periods these assets are expected to be in use. The effect of this change on operating income, net income and basic and diluted earnings per share was immaterial for the quarter ended March 31, 2013. For the full year 2013, the effect of this change on operating income and net income is estimated to be an increase of approximately \$11.0 million and the impact on earnings per share is estimated to be \$0.05 per share on a basic and diluted basis. For further information on our significant accounting policies, refer to Note 2. *Summary of Significant Accounting Policies* in our Annual Report on Form 10-K for the year ended December 31, 2012.

Recently Adopted Accounting Standards

In January 2013, we adopted authoritative guidance issued in 2012 regarding the periodic impairment testing of indefinite-lived intangible assets. The new guidance allows an entity to assess qualitative factors to determine if it is more-likely-than-not that indefinite-lived intangible assets might be impaired and, based on this assessment, to determine whether it is necessary to perform the quantitative impairment tests. The adoption of this guidance did not have an impact on our consolidated financial statements.

In March 2013, we adopted authoritative guidance regarding the presentation of amounts reclassified from accumulated other comprehensive income to net income. The new guidance requires an entity to present, either in a

single note or parenthetically on the face of the financial statements, the effect of significant amounts reclassified from each component of accumulated other comprehensive income based on its source (e.g., the release due to cash flow hedges from interest rate contracts) and the income statement line items affected by the reclassification (e.g., interest income or interest expense). We elected to present this information in a single note. See Note 9. *Changes in Accumulated Other Comprehensive Income (Loss)* for our disclosures required under this guidance.

Table of Contents*Recent Accounting Pronouncement*

In March 2013, amended guidance was issued regarding the release of cumulative translation adjustments into net income. The new guidance provides clarification of when to release the cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets within a foreign entity. This guidance will be effective for our interim and annual reporting periods beginning after December 15, 2013. The adoption of this newly issued guidance is not expected to have a material impact on our consolidated financial statements, but will have an impact on the accounting for future sales of investments or changes in control of foreign entities.

Reclassifications

For the quarter ended March 31, 2012, \$11.8 million has been reclassified in the consolidated statement of cash flows from *other, net to cash payments received on loan to unconsolidated affiliate* within *net cash flows used in investing activities* in order to conform to the current year presentation.

Other

Revenues and expenses include port costs that vary with guest head counts. The amounts of such port costs included in *passenger ticket revenues* on a gross basis were \$115.7 million and \$113.1 million for the quarters ended March 31, 2013 and 2012, respectively.

Note 3. Earnings Per Share

A reconciliation between basic and diluted earnings per share is as follows (in thousands, except per share data):

	Quarter Ended March 31,	
	2013	2012
Net income for basic and diluted earnings per share	\$ 76,226	\$ 46,964

Edgar Filing: ROYAL CARIBBEAN CRUISES LTD - Form 10-Q

Weighted-average common shares outstanding	219,097	217,584
Dilutive effect of stock options, performance share awards and restricted stock awards	1,387	1,646
Diluted weighted-average shares outstanding	220,484	219,230
Basic earnings per share	\$ 0.35	\$ 0.22
Diluted earnings per share	\$ 0.35	\$ 0.21

Diluted earnings per share did not reflect options to purchase an aggregate of 2.6 million and 3.8 million shares for the first quarters of 2013 and 2012, respectively, because the effect of including them would have been antidilutive.

Table of Contents

Note 4. Long-Term Debt

During the first quarter of 2013, we increased the capacity of our revolving credit facility due July 2016 by \$20.0 million, bringing our total capacity under this facility to \$1.128 billion as of March 31, 2013. We have the ability to increase the capacity of this facility by an additional \$47.0 million subject to the receipt of additional or increased lender commitments. We also have a revolving credit facility due November 2014 with capacity of \$525.0 million as of March 31, 2013, giving us an aggregate revolving borrowing capacity of \$1.653 billion.

Note 5. Property and Equipment

In March 2013, our conditional agreement with STX France S.A. to build the third Oasis-class ship for Royal Caribbean International became effective. We received a commitment for the unsecured financing of the ship for up to 80% of the ship's cash contract price. Compagnie Francaise d'Assurance pour le Commerce Extérieur (COFACE), the official export credit agency of France, has agreed to guarantee to the lenders 100% of the financing. The ship will have a capacity of approximately 5,400 berths and is expected to enter service in the second quarter of 2016. Pullmantur's *Atlantic Star*, which has been out of operation since 2009, was transferred to an affiliate of STX France S.A. as part of the consideration. The *Atlantic Star* was transferred at carrying value, which approximates fair value. The transfer did not result in a gain or a loss.

Note 6. Goodwill and Other Assets

We believe no events or circumstances have occurred subsequent to our annual impairment evaluation that would require us to perform interim testing of our goodwill, trademarks or trade names as of March 31, 2013.

Variable Interest Entities

A Variable Interest Entity (VIE) is an entity in which the equity investors have not provided enough equity to finance the entity's activities or the equity investors (1) cannot directly or indirectly make decisions about the entity's activities through their voting rights or similar rights; (2) do not have the obligation to absorb the expected losses of the entity; (3) do not have the right to receive the expected residual returns of the entity; or (4) have voting rights that are not proportionate to their economic interests and the entity's activities involve or are conducted on behalf of an investor with a disproportionately small voting interest.

We have determined that Grand Bahama Shipyard Ltd. (Grand Bahama), a ship repair and maintenance facility in which we have a 40% noncontrolling interest, is a VIE. The facility serves cruise and cargo ships, oil and gas tankers, and offshore units. We utilize this facility, among other ship repair facilities, for our regularly scheduled drydocks and certain emergency repairs as may be required. We have determined we are not the primary beneficiary of this facility, as we do not have the power to direct the activities that most significantly impact the facility's economic performance. Accordingly, we do not consolidate this entity and we account for this investment under the equity method of accounting. As of March 31, 2013 and December 31, 2012, the net book value of our investment in Grand Bahama, including equity and loans, was approximately \$59.5 million and \$59.3 million, respectively, which is also our maximum exposure to loss as we are not contractually required to provide any financial or other support to the facility. The majority of our loans to Grand Bahama are in non-accrual status and the majority of this amount is included within *other assets* in our consolidated balance sheets. During the

Table of Contents

first three months of 2013, we received approximately \$1.6 million in principal and interest payments related to loans that are in accrual status from Grand Bahama and recorded income associated with our investment in Grand Bahama. We monitor credit risk associated with these loans through our participation on Grand Bahama's board of directors along with our review of Grand Bahama's financial statements and projected cash flows. Based on this review, we believe the risk of loss associated with these loans was not probable as of March 31, 2013.

In conjunction with our acquisition of Pullmantur in 2006, we obtained a 49% noncontrolling interest in Pullmantur Air, S.A. (Pullmantur Air), a small air business that operates four aircraft in support of Pullmantur's operations. We have determined Pullmantur Air is a VIE for which we are the primary beneficiary as we have the power to direct the activities that most significantly impact its economic performance and we are obligated to absorb its losses. In accordance with authoritative guidance, we have consolidated the assets and liabilities of Pullmantur Air. We do not separately disclose the assets and liabilities of Pullmantur Air as they are immaterial to our March 31, 2013 and December 31, 2012 consolidated financial statements.

We have determined that TUI Cruises GmbH, our 50%-owned joint venture, which operates the brand TUI Cruises, is a VIE. As of March 31, 2013 and December 31, 2012, our investment in TUI Cruises, including equity and loans, was approximately \$286.8 million and \$287.0 million, respectively, and the majority of this amount was included within *other assets* in our consolidated balance sheets. In addition, in conjunction with our sale of *Celebrity Mercury* to TUI Cruises in 2011, we and TUI AG each guaranteed the repayment of 50% of an 180.0 million 5-year bank loan provided to TUI Cruises (refer to further details below). This investment amount and the potential obligations under this guarantee are substantially our maximum exposure to loss. We have determined that we are not the primary beneficiary of TUI Cruises. We believe that the power to direct the activities that most significantly impact TUI Cruises' economic performance are shared between ourselves and our joint venture partner, TUI AG. All the significant operating and financial decisions of TUI Cruises require the consent of both parties which we believe creates shared power over TUI Cruises. Accordingly, we do not consolidate this entity and account for this investment under the equity method of accounting.

In connection with our sale of *Celebrity Mercury* to TUI Cruises in 2011, we provided a debt facility to TUI Cruises in the amount of up to 90.0 million. The outstanding principal amount of the facility as of March 31, 2013 was 62.9 million, or \$80.7 million based on the exchange rate at March 31, 2013. The loan bears interest at the rate of 9.54% per annum, is payable over seven years, is 50% guaranteed by TUI AG (our joint venture partner) and is secured by second mortgages on both of TUI Cruises' ships, *Mein Schiff 1* and *Mein Schiff 2*. In addition, we and TUI AG each guaranteed the repayment of 50% of an 180.0 million 5-year bank loan provided to TUI Cruises, of which 148.5 million, or approximately \$190.7 million based on the exchange rate at March 31, 2013, remains outstanding as of March 31, 2013, in connection with the sale of the ship. The bank loan amortizes quarterly and is secured by first mortgages on both *Mein Schiff 1* and *Mein Schiff 2*. Based on current facts and circumstances, we do not believe potential obligations under this guarantee are probable.

During 2011 and 2012, TUI Cruises entered into construction agreements with STX Finland to build its first and second newbuild ships, scheduled for delivery in the second quarter of 2014 and the second quarter of 2015, respectively. TUI Cruises has entered into credit agreements for the financing of up to 80% of the contract price of each ship. The remaining portion of the contract price of the ship will be funded through either TUI Cruises' cash flows from operations or loans and/or equity contributions from us and TUI AG. The construction agreement includes certain restrictions on each of our and TUI AG's ability to reduce our current ownership interest in TUI Cruises below 37.5% through the construction

Table of Contents

period. In addition, the credit agreements extend this restriction through 2019. The remaining portion of the contract price of the ship will be funded through either TUI Cruises' cash flows from operations or loans and/or equity contributions from us and TUI AG.

Note 7. Commitments and Contingencies***Capital Expenditures***

As of March 31, 2013, the aggregate cost of our ships on order was approximately \$3.5 billion, of which we had deposited \$202.9 million as of such date. Approximately 46.7% of the aggregate cost was exposed to fluctuations in the euro exchange rate at March 31, 2013. (See Note 10. *Fair Value Measurements and Derivative Instruments*).

Our brands, including our 50% joint venture, TUI Cruises, have five ships on order. As of March 31, 2013, the expected dates that our ships on order will enter service and their approximate berths are as follows:

Ship	Expected to Enter Service	Approximate Berths
Royal Caribbean International		
Quantum-class:		
<i>Quantum of the Seas</i>	4th Quarter 2014	4,150
<i>Anthem of the Seas</i>	2nd Quarter 2015	4,150
Oasis-class:		
<i>Unnamed</i>	2nd Quarter 2016	5,400
TUI Cruises		
<i>Mein Schiff 3</i>	2nd Quarter 2014	2,500
<i>Mein Schiff 4</i>	2nd Quarter 2015	2,500
	Total Berths	18,700

Litigation

Between August 1, 2011 and September 8, 2011, three similar purported class action lawsuits were filed against us and certain of our current and former officers in the United States District Court of the Southern District of Florida. The cases have since been consolidated and a consolidated amended complaint was filed on February 17, 2012. The consolidated amended complaint was filed on behalf of a purported class of purchasers of our common stock during the period from October 26, 2010 through July 27, 2011 and names the Company, our Chairman and CEO, our CFO,

the President and CEO of our Royal Caribbean International brand and the former President and CEO of our Celebrity Cruises brand as defendants. The consolidated amended complaint alleges violations of Section 10(b) of the Securities Exchange Act of 1934 and SEC Rule 10b-5 as well as, in the case of the individual defendants, the control person provisions of the Securities Exchange Act. The complaint principally alleges that the defendants knowingly made incorrect statements concerning the Company's outlook for 2011 by not taking into proper account lagging European and Mediterranean bookings. The consolidated amended complaint seeks unspecified damages, interest, and attorneys' fees. We filed a motion to dismiss the complaint for failure to state a claim on April 9, 2012. On April 18, 2013, the district judge granted our motion and ordered the case dismissed with prejudice. Plaintiffs have the right to file a notice to appeal within thirty days from the date the order is entered.

Table of Contents

A class action complaint was filed in June 2011 against Royal Caribbean Cruises Ltd. in the United States District Court for the Southern District of Florida on behalf of a purported class of stateroom attendants employed onboard Royal Caribbean International cruise vessels alleging that they were required to pay other crew members to help with their duties in violation of the U.S. Seaman's Wage Act. The lawsuit also alleges that certain stateroom attendants were required to work back of house assignments without the ability to earn gratuities in violation of the U.S. Seaman's Wage Act. Plaintiffs seek judgment for damages, wage penalties and interest in an indeterminate amount. In May 2012, the Court granted our motion to dismiss the complaint on the basis that the applicable collective bargaining agreement requires any such claims to be arbitrated. Plaintiffs' appeal of this decision was dismissed for lack of jurisdiction by the United States Court of Appeals, 11th Circuit. Plaintiffs are seeking to renew their appeal. We believe the appeal is without merit as are the underlying claims made against us and we intend to vigorously defend ourselves against them.

Because of the inherent uncertainty as to the outcome of the proceedings described above, we are unable at this time to estimate the possible impact of these matters on us.

We are routinely involved in other claims typical within the cruise vacation industry. The majority of these claims are covered by insurance. We believe the outcome of such claims, net of expected insurance recoveries, will not have a material adverse impact on our financial condition or results of operations and cash flows.

Other

In July 2002, we entered into an operating lease denominated in British pound sterling for the *Brilliance of the Seas*. The lease payments vary based on sterling LIBOR. The lease has a contractual life of 25 years; however, both the lessor and we have certain rights to cancel the lease at year 18 (i.e. 2020) upon advance notice given approximately one year prior to cancellation. In the event of early termination at year 18, we have the option to cause the sale of the vessel at its fair value and to use the proceeds towards the applicable termination payment. Alternatively, we could opt at such time to make a termination payment of approximately £65.4 million, or approximately \$99.3 million based on the exchange rate at March 31, 2013, and relinquish our right to cause the sale of the vessel. Under current circumstances we do not believe early termination of this lease is probable.

Under the *Brilliance of the Seas* operating lease, we have agreed to indemnify the lessor to the extent its after-tax return is negatively impacted by unfavorable changes in corporate tax rates, capital allowance deductions and certain unfavorable determinations which may be made by the United Kingdom tax authorities. These indemnifications could result in an increase in our lease payments. We are unable to estimate the maximum potential increase in our lease payments due to the various circumstances, timing or a combination of events that could trigger such indemnifications. The United Kingdom tax authorities are disputing the lessor's accounting treatment of the lease and

the lessor and tax authorities are in discussions on the matter. If the characterization of the lease is ultimately determined to be incorrect, we could be required to indemnify the lessor under certain circumstances. The lessor has advised us that they believe their characterization of the lease is correct. Based on the foregoing and our review of available information, we do not believe an indemnification payment is probable. However, if the lessor loses its dispute and we are required to indemnify the lessor, we cannot at this time predict the impact that such an occurrence would have on our financial condition and results of operations.

Table of Contents

Some of the contracts that we enter into include indemnification provisions that obligate us to make payments to the counterparty if certain events occur. These contingencies generally relate to changes in taxes, increased lender capital costs and other similar costs. The indemnification clauses are often standard contractual terms and are entered into in the normal course of business. There are no stated or notional amounts included in the indemnification clauses and we are not able to estimate the maximum potential amount of future payments, if any, under these indemnification clauses. We have not been required to make any payments under such indemnification clauses in the past and, under current circumstances, we do not believe an indemnification in any material amount is probable.

If (i) any person other than A. Wilhelmsen AS. and Cruise Associates and their respective affiliates (the Applicable Group) acquires ownership of more than 33% of our common stock and the Applicable Group owns less of our common stock than such person, or (ii) subject to certain exceptions, during any 24-month period, a majority of the Board is no longer comprised of individuals who were members of the Board on the first day of such period, we may be obligated to prepay indebtedness outstanding under the majority of our credit facilities, which we may be unable to replace on similar terms. Certain of our outstanding debt securities also contain change of control provisions that would be triggered by the acquisition of greater than 50% of our common stock by a person other than a member of the Applicable Group coupled with a ratings downgrade. If this were to occur, it would have an adverse impact on our liquidity and operations.

Note 8. Shareholders Equity

During the first quarter of 2013, we declared and paid a cash dividend on our common stock of \$0.12 per share.

Note 9. Changes in Accumulated Other Comprehensive Income (Loss)

The following table presents the changes in accumulated other comprehensive income (loss) by component for the quarter ended March 31, 2013 (in thousands):

Gains and losses on cash flow derivative hedges	Defined benefit plans	Foreign currency translation adjustments	Accumulated other comprehensive loss
\$ (84,505)	\$ (34,823)	\$ (15,188)	\$ (134,516)

Edgar Filing: ROYAL CARIBBEAN CRUISES LTD - Form 10-Q

Accumulated comprehensive loss at beginning of the year				
Other comprehensive loss before reclassifications	(7,330)	-	(4,244)	(11,574)
Amounts reclassified from accumulated other comprehensive loss	(15,270)	-	-	(15,270)
Net current-period other comprehensive income	(22,600)	-	(4,244)	(26,844)
Ending balance	\$ (107,105)	\$ (34,823)	\$ (19,432)	\$ (161,360)

Table of Contents

The following table presents reclassifications out of accumulated other comprehensive income (loss) for the quarter ended March 31, 2013 (in thousands):

Details about Accumulated Other Comprehensive Income Components	Amount of Gain (Loss) Reclassified from Accumulated OCI into Income	Affected Line Item in Statements of Comprehensive Income (Loss)
Gains (losses) on cash flow derivative hedges:		
Cross currency swaps	\$ (871)	Interest expense, net of interest capitalized
Foreign currency forward contracts	(449)	Depreciation and amortization expenses
Foreign currency forward contracts	(238)	Other income (expense)
Fuel swaps	16,828	Fuel
Total reclassifications for the period	\$ 15,270	

Note 10. Fair Value Measurements and Derivative Instruments**Fair Value Measurements**

The estimated fair value of our financial instruments that are not measured at fair value on a recurring basis, categorized based upon the fair value hierarchy, are as follows (in thousands):

Description	Fair Value Measurements At March 31, 2013 Using				Fair Value Measurements at December 31, 2012 Using			
	Total	Level 11	Level 22	Level 33	Total	Level 11	Level 22	Level 33
Assets:								
Cash and cash equivalents ⁴	\$ 215,888	215,888			\$ 194,855	194,855		
Total Assets	\$ 215,888	\$ 215,888	\$	\$	\$ 194,855	\$ 194,855	\$	\$
Liabilities:								
Long-term debt (including current portion of long-term debt) ⁵	\$ 8,795,336	3,845,459	4,949,877		\$ 8,859,310	3,917,398	4,941,912	
Total Liabilities	\$ 8,795,336	\$ 3,845,459	\$ 4,949,877	\$	\$ 8,859,310	\$ 3,917,398	\$ 4,941,912	\$

- Inputs based on quoted prices (unadjusted) in active markets for identical assets or liabilities that we have the ability to access. Valuation of these items does not entail a significant amount of judgment.
- Inputs other than quoted prices included within Level 1 that are observable for the liability, either directly or indirectly. For unsecured revolving credit facilities and unsecured term loans, fair value is determined utilizing the income valuation approach. This valuation model takes into account the contract terms of our debt such as the debt maturity and the interest rate on the debt. The valuation model also takes into account our

Edgar Filing: ROYAL CARIBBEAN CRUISES LTD - Form 10-Q

creditworthiness based on publicly available credit default swap rates.

3. Inputs that are unobservable. The Company did not use any Level 3 inputs as of March 31, 2013 and December 31, 2012.
4. Consists of cash and marketable securities with original maturities of less than 90 days.

Table of Contents

5. Consists of unsecured revolving credit facilities, unsecured senior notes, senior debentures and unsecured term loans. Does not include our capital lease obligations.

Other Financial Instruments

The carrying amounts of accounts receivable, accounts payable, accrued interest and accrued expenses approximate fair value at March 31, 2013 and December 31, 2012.

Assets and liabilities that are recorded at fair value have been categorized based upon the fair value hierarchy. The following table presents information about the Company's financial instruments recorded at fair value on a recurring basis (in thousands):

<u>Description</u>	Fair Value Measurements at March 31, 2013 Using				Fair Value Measurements at December 31, 2012 Using			
	<u>Total</u>	<u>Level 11</u>	<u>Level 22</u>	<u>Level 33</u>	<u>Total</u>	<u>Level 11</u>	<u>Level 22</u>	<u>Level 33</u>
Assets:								
Derivative financial instruments ⁴	\$ 85,427		85,427		\$ 96,489	-	96,489	
Investments ⁵	\$ 6,218	6,218			\$ 6,231	6,231		
Total Assets	\$ 91,645	\$ 6,218	\$ 85,427	\$	\$ 102,720	\$ 6,231	\$ 96,489	\$
Liabilities:								
Derivative financial instruments ⁶	\$ 97,362		97,362		\$ 85,119		85,119	
Total Liabilities	\$ 97,362	\$	\$ 97,362	\$	\$ 85,119	\$		