ROYAL CARIBBEAN CRUISES LTD
Form 10-Q
April 23, 2009
**Table of Contents**

# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

**(Mark One)**

**x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the quarterly period ended March 31, 2009**

**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** | **98-0081645** |
|---|---|
| **(State or other jurisdiction of incorporation or organization)** | **(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 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 ¨ 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. (Check one):

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

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

There were 213,753,108 shares of common stock outstanding as of April 13, 2009.

Table of Contents

**ROYAL CARIBBEAN CRUISES LTD.**

**TABLE OF CONTENTS**


| | Page |
|---|---|
| **PART I. FINANCIAL INFORMATION** | |
| Item 1. Financial Statements | 1 |
| Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations | 18 |
| Item 3. Quantitative and Qualitative Disclosures About Market Risk | 34 |
| Item 4. Controls and Procedures | 34 |
| **PART II. OTHER INFORMATION** | |
| Item 1. Legal Proceedings | 35 |
| Item 6. Exhibits | 35 |
| **SIGNATURES** | 36 |

Table of Contents

**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**ROYAL CARIBBEAN CRUISES LTD.**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

**(unaudited, in thousands, except per share data)**

| | Quarter Ended March 31, | |
|---|---|---|
| | **2009** | **2008** |
| Passenger ticket revenues | $ 949,270 | $ 1,037,903 |
| Onboard and other revenues | 376,332 | 391,182 |
| Total revenues | 1,325,602 | 1,429,085 |
| Cruise operating expenses: | | |
| Commissions, transportation and other | 235,829 | 257,940 |
| Onboard and other | 83,234 | 78,520 |
| Payroll and related | 168,746 | 154,239 |
| Food | 85,403 | 83,002 |
| Fuel | 154,875 | 158,234 |
| Other operating | 224,249 | 230,251 |
| Total cruise operating expenses | 952,336 | 962,186 |
| Marketing, selling and administrative expenses | 189,157 | 204,941 |
| Depreciation and amortization expenses | 139,856 | 124,390 |
| **Operating Income** | 44,253 | 137,568 |
| Other income (expense): | | |
| Interest income | 1,730 | 2,508 |
| Interest expense, net of interest capitalized | (79,462) | (77,948) |
| Other (expense) income | (2,759) | 13,479 |
| | (80,491) | (61,961) |
| **Net (Loss) Income** | $ (36,238) | $ 75,607 |
| **(Loss) Earnings per Share:** | | |
| Basic | $ (0.17) | $ 0.35 |
| Diluted | $ (0.17) | $ 0.35 |
| **Weighted-Average Shares Outstanding:** | | |
| Basic | 213,687 | 213,326 |

| | | |
|---|---|---|
| Diluted | 213,687 | 214,464 |

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)**

| | As of | |
|---|---|---|
| | March 31, 2009 (unaudited) | December 31, 2008 |
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | $ 455,884 | $ 402,878 |
| Trade and other receivables, net | 194,508 | 271,287 |
| Inventories | 91,957 | 96,077 |
| Prepaid expenses and other assets | 124,780 | 125,160 |
| Derivative financial instruments | 33,030 | 81,935 |
| Total current assets | 900,159 | 977,337 |
| Property and equipment, net | 13,578,700 | 13,878,998 |
| Goodwill | 753,774 | 779,246 |
| Other assets | 958,394 | 827,729 |
| | $ 16,191,027 | $ 16,463,310 |
| **Liabilities and Shareholders Equity** | | |
| Current liabilities | | |
| Current portion of long-term debt | $ 473,579 | $ 471,893 |
| Accounts payable | 241,431 | 245,225 |
| Accrued interest | 108,573 | 128,879 |
| Accrued expenses and other liabilities | 565,051 | 687,369 |
| Customer deposits | 934,430 | 968,520 |
| Hedged firm commitments | 139,729 | 172,339 |
| Total current liabilities | 2,462,793 | 2,674,225 |
| Long-term debt | 6,493,714 | 6,539,510 |
| Other long-term liabilities | 484,775 | 446,563 |
| Commitments and contingencies (Note 6) | | |
| 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; 224,061,664 and 223,899,076 shares issued, March 31, 2009 and December 31, 2008, respectively) | 2,241 | 2,239 |
| Paid-in capital | 2,958,477 | 2,952,540 |
| Retained earnings | 4,556,291 | 4,592,529 |
| Accumulated other comprehensive loss | (353,560) | (319,936) |
| Treasury stock (10,308,683 and 11,076,701 common shares at cost, March 31, 2009 and December 31, 2008, respectively) | (413,704) | (424,360) |
| Total shareholders equity | 6,749,745 | 6,803,012 |
| | $ 16,191,027 | $ 16,463,310 |

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, | |
|---|---|---|
| | **2009** | **2008** |
| **Operating Activities** | | |
| Net (loss) income | $ (36,238) | $ 75,607 |
| Adjustments: | | |
| Depreciation and amortization | 139,856 | 124,390 |
| Changes in operating assets and liabilities: | | |
| Decrease in trade and other receivables, net | 64,954 | 81,033 |
| Decrease (increase) in inventories | 2,959 | (227) |
| Increase in prepaid expenses and other assets | (500) | (17,593) |
| Decrease in accounts payable | (2,304) | (19,878) |
| Decrease in accrued interest | (20,306) | (41,545) |
| Decrease in accrued expenses and other liabilities | (28,610) | (10,220) |
| (Decrease) increase in customer deposits | (33,143) | 112,092 |
| Other, net | 27,240 | (1,856) |
| Net cash provided by operating activities | 113,908 | 301,803 |
| **Investing Activities** | | |
| Purchases of property and equipment | (219,339) | (260,788) |
| Cash received on settlement of derivative financial instruments | 26,658 | 154,502 |
| Loans and equity contributions to unconsolidated affiliates | (152,209) | (16,000) |
| Proceeds from the sale of Celebrity Galaxy | 290,928 | |
| Other, net | (6,434) | (9,132) |
| Net cash used in investing activities | (60,396) | (131,418) |
| **Financing Activities** | | |
| Debt proceeds | 813 | 345,000 |
| Debt issuance costs | (105) | (11,121) |
| Repayments of debt | (1,502) | (265,846) |
| Dividends paid | | (32,015) |
| Proceeds from exercise of common stock options | | 2,788 |
| Other, net | (567) | 176 |
| Net cash (used in) provided by financing activities | (1,361) | 38,982 |
| Effect of exchange rate changes on cash | 855 | 976 |
| Net increase in cash and cash equivalents | 53,006 | 210,343 |
| Cash and cash equivalents at beginning of period | 402,878 | 230,784 |
| Cash and cash equivalents at end of period | $ 455,884 | $ 441,127 |

| | | |
|---|---|---|
| **Supplemental Disclosure** | | |
| Cash paid during the period for: | | |
| Interest, net of amount capitalized | $ 70,884 | $ 87,791 |

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 the terms Royal Caribbean International, Celebrity Cruises, Pullmantur, Azamara Cruises and CDF Croisières de France refer to our cruise brands. 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, 2008.*

**Note 1. General**

*Description of Business*

We are a global cruise company. We own five cruise brands, Royal Caribbean International, Celebrity Cruises, Pullmantur, Azamara Cruises, and CDF Croisières de France. In addition, we have a 50% investment in a joint venture with TUI AG which operates the brand 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. Estimates are required for the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America. Actual results could differ from these estimates.

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. For affiliates where significant influence over financial and operating policies exists, usually evidenced by a direct ownership interest from 20% to 50%, the investment is accounted for using the equity method.

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

Table of Contents

**Note 2. Summary of Significant Accounting Policies**

*Recently Adopted Accounting Standards*

On January 1, 2009, we adopted the provisions of Statement of Financial Accounting Standard ( SFAS ) No. 141 (revised 2007), *Business Combinations*, ( SFAS 141R ). SFAS 141R requires the acquiring entity in a business combination to recognize the full fair value of assets acquired and liabilities assumed in the transaction whether full or partial acquisition, establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed, requires expensing of most transaction and restructuring costs, and requires the acquirer to disclose all information needed to evaluate and understand the nature and financial effect of the business combination. SFAS 141R applies to all transactions or other events in which an entity obtains control of one or more businesses, including combinations achieved without the transfer of consideration, for example, by contract alone or through the lapse of minority veto rights. The adoption of these provisions did not have a material impact on our consolidated financial statements, but will have an impact on the accounting for future business combinations.

On January 1, 2009, we adopted the provisions of SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements An Amendment of ARB No. 51*, ( SFAS 160 ). SFAS 160 requires reporting entities to present noncontrolling (minority) interests as equity instead of as a liability or mezzanine equity and provides guidance on the accounting for transactions between an entity and noncontrolling interests. SFAS 160 applies prospectively as of the beginning of the fiscal year SFAS 160 is initially applied, except for the presentation and disclosure requirements which are applied retrospectively for all periods presented subsequent to adoption. The adoption of SFAS 160 did not have a material impact on our consolidated financial statements.

On January 1, 2009, we adopted the provisions of SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities An Amendment of FASB Statement No. 133 ( SFAS 133 )*, ( SFAS 161 ). SFAS 161 requires enhanced disclosures about an entity s derivative and hedging activities and thereby improves the transparency of financial reporting. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. See Note 9. *Fair Value Measurements and Derivative Instruments* for our disclosures required under SFAS 161.

In February 2008, the Financial Accounting Standards Board ( FASB ) issued FASB Staff Position FAS 157-2, *Effective date of FASB Statement No. 157* ( FSP 157-2 ). FSP 157-2 provided a one year deferral of SFAS No. 157, *Fair Value Measurements* ( SFAS 157 ) for non-financial assets and liabilities that are recognized or disclosed at fair value on a non-recurring basis. These provisions became effective for us as of January 1, 2009, and will not significantly impact the determination of fair values when we perform impairment reviews for goodwill, trademarks and other long-lived assets.

*Recent Accounting Pronouncements*

In April 2009, the FASB issued FASB Staff Position FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments* ( the FSP ). The FSP requires disclosures about fair value of financial instruments whenever summarized financial information for interim reporting periods is presented. Entities shall disclose the methods and significant assumptions used

Table of Contents

to estimate the fair value of financial instruments and shall describe changes in methods and significant assumptions, if any, during the period. The FSP is effective for interim reporting periods ending after June 15, 2009. The FSP is effective for our second quarter 2009 interim reporting period and the relevant disclosures will be added at such time.

*Reclassifications*

Reclassifications have been made to prior year cash flow amounts to conform to the current year presentation.

**Note 3. Earnings (Loss) Per Share**

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

| | Quarter Ended March 31, | |
|---|---|---|
| | **2009** | **2008** |
| Net (loss) income for basic and diluted (loss) earnings per share | $ (36,238) | $ 75,607 |
| Weighted-average common shares outstanding | 213,687 | 213,326 |
| Dilutive effect of stock options and restricted stock awards | | 1,138 |
| Diluted weighted-average shares outstanding | 213,687 | 214,464 |
| Basic (loss) earnings per share | $ (0.17) | $ 0.35 |
| Diluted (loss) earnings per share | $ (0.17) | $ 0.35 |

Diluted (loss) earnings per share did not include options to purchase 6.5 million shares for the quarter ending March 31, 2009 and 4.4 million shares for the quarter ending March 31, 2008 because the effect of including them would have been antidilutive.

**Note 4. Long-Term Debt**

In February 2009, we entered into a credit agreement based on terms originally agreed in June 2007 providing financing for our fourth Solstice-class ship, which is scheduled for delivery in the third quarter of 2011. The credit agreement provides for an unsecured term loan for up to 80% of the purchase price of the vessel. The loan will have a 12-year life with semi-annual amortization, and will bear interest at a fixed rate of 5.82% (inclusive of the applicable margin).

Our debt agreements contain covenants that require us, among other things, to maintain minimum net worth and fixed charge coverage ratio and limit our net debt-to-capital ratio. We are in compliance with all covenants as of March 31, 2009.

Table of Contents

**Note 5. Goodwill and Other Assets**

We review goodwill for impairment whenever events or circumstances indicate but at least annually. Due to the fact that the book value of our shareholders equity exceeded our market capitalization, we performed an interim test for impairment of goodwill during the first quarter of 2009. We determined the fair value of our two reporting units which include goodwill, Royal Caribbean International and Pullmantur, exceeded their carrying values. Therefore, we do not consider goodwill to be impaired and we did not proceed to step two of the impairment analysis.

We have determined that our 50% interest in the TUI Cruises GmbH joint venture with TUI AG, which operates the brand TUI Cruises, is a variable interest entity. In March 2009, we sold *Celebrity Galaxy* to TUI Cruises for 224.4 million to serve as its first ship. The ship was renamed *Mein Schiff* and will begin sailing in May 2009. Concurrently with entering into the agreement to sell *Celebrity Galaxy*, we executed certain forward exchange contracts to lock in the sales price at approximately $315.0 million. We deferred the entire gain on the sale of $35.9 million and will recognize this amount over the remaining life of the ship estimated to be 23 years. We and TUI AG each invested 112.2 million in the joint venture to fund the ship s purchase. As of March 31, 2009, our investment in this entity which is also our maximum exposure to loss, was approximately $158.9 million and was included within other assets in the consolidated balance sheet. We have determined that we are not the primary beneficiary as we would not absorb the majority of TUI Cruises expected losses nor receive a majority of TUI Cruises residual returns. Accordingly, we do not consolidate this entity and account for this investment under the equity method of accounting.

**Note 6. Commitments and Contingencies**

***Capital Expenditures*** As of March 31, 2009, the expected dates our ships on order will enter service and their planned berths are as follows:

| Ship | Expected to Enter Service | Approximate Berths |
|---|---|---|
| Royal Caribbean International: | | |
| Oasis-class: | | |
| *Oasis of the Seas* | 4th Quarter 2009 | 5,400 |
| *Allure of the Seas* | 4th Quarter 2010 | 5,400 |
| Celebrity Cruises: | | |
| Solstice-class: | | |
| *Celebrity Equinox* | 3rd Quarter 2009 | 2,850 |
| *Celebrity Eclipse* | 2nd Quarter 2010 | 2,850 |
| *Unnamed* | 3rd Quarter 2011 | 2,850 |
| *Unnamed* | 4th Quarter 2012 | 2,850 |
| | Total Berths | 22,200 |

The anticipated aggregate cost of these ships is approximately $6.5 billion, of which we have deposited $669.2 million as of March 31, 2009. Approximately 9.0% of the aggregate cost was exposed to fluctuations in the euro exchange rate at March 31, 2009. As of March 31, 2009, we anticipated overall capital expenditures, including the six ships on order, will be approximately $2.1 billion for 2009, $2.2 billion for 2010, $1.0 billion for 2011, and $1.0 billion for 2012.

Table of Contents

***Litigation***

In January 2006, a purported class action lawsuit was filed in the United States District Court for the Southern District of New York alleging that we infringed rights in copyrighted works and other intellectual property by presenting performances on our cruise ships without securing the necessary licenses. The suit seeks payment of damages, disgorgement of profits and a permanent injunction against future infringement. In April 2006, we filed a motion to sever and transfer the case to the United States District Court for the Southern District of Florida. In March 2009, the Court dismissed the complaint for failure to state a claim with sufficient particularity and denied our motion to sever and transfer because it was unable to determine from the pleadings whether the Court has subject matter jurisdiction over the case. The Court granted plaintiff the right to file an amended complaint. We are not able at this time to estimate the impact of this proceeding.

We have a lawsuit pending in the Circuit Court for Miami-Dade County, Florida against Rolls Royce, co-producer of the Mermaid pod-propulsion system on Millennium-class ships, for the recurring Mermaid pod failures. Alstom Power Conversion, the other co-producer of the pod-propulsion system, settled out of this suit in January 2006 for $38.0 million. In December 2008, Rolls Royce filed its answer to our lawsuit denying the allegations and asserting various affirmative defenses. At the same time, Rolls Royce counterclaimed that we engaged in a civil conspiracy with Alstom Power Conversion and its related parties ( Alstom ), that we tortiously interfered with Rolls Royce s joint venture agreement with Alstom and that we caused Alstom to breach its fiduciary obligations owing to Rolls Royce under the joint venture agreement. Rolls Royce alleges damages against us in excess of $100.0 million for these claims. They also brought a third-party complaint against Alstom. We are not able at this time to estimate the outcome of the Rolls Royce proceeding although we believe we have meritorious claims against Rolls Royce and meritorious defenses to the counterclaims, both of which we intend to vigorously pursue.

In July 2006, a purported class action lawsuit was filed in the United States District Court for the Central District of California alleging that we failed to timely pay crew wages and failed to pay proper crew overtime. The suit seeks payment of damages, including penalty wages under the United States Seaman s Wage Act and equitable relief damages under the California Unfair Competition Law. In December 2006, the District Court granted our motion to dismiss the claim and held that it should be arbitrated pursuant to the arbitration provision in Royal Caribbean s collective bargaining agreement. In November 2008, the United States Ninth Circuit Court of Appeals affirmed the District Court s finding and plaintiffs subsequent request for rehearing and rehearing en banc was denied. Plaintiffs have filed a petition for writ of certiorari with the United States Supreme Court. We do not believe that this matter will have a material impact on our financial condition or results of operation.

The Miami District Office of the United States Equal Employment Opportunity Commission ( EEOC ) has alleged that certain of our shipboard employment practices do not comply with United States employment laws. In June 2007, the EEOC proposed payment of monetary sanctions and certain remedial actions. Following discussions with the EEOC regarding this matter, the EEOC informed us that they transferred the matter to its legal unit for litigation review. To date, no legal proceedings have been initiated. We do not believe that this matter will have a material adverse impact on our financial condition or results of operations.

Table of Contents

The Florida Attorney General s office is investigating whether there is or has been a violation of state or federal anti-trust laws in connection with the setting by us and other cruise line operators of fuel supplements in 2007. We are cooperating with the Attorney General s office in connection with this investigation and are not able at this time to estimate the impact of this investigation.

In October 2008, we were named as a defendant in a purported class action filed in the United States District Court, Western District of Washington against Park West Galleries, Inc. ( Park West ), Fine Arts Sales, Inc., HSBC Bank Nevada, NA, HSBC Finance Corporation, Holland America Line Inc., Holland America Line USA Inc. and other unnamed parties on behalf of purchasers of artwork from Park West. The suit alleges that Park West sold art pieces that Park West falsely claimed were authored by certain artists. The suit seeks damages and equitable relief on behalf of the class members and alleges claims for violation of the Racketeer Influenced and Corrupt Organizations Act (RICO), breach of contract, statutory fraud and other similar claims. Park West has a concession to sell artwork onboard Royal Caribbean International and Celebrity Cruises ships. In January 2009, we were dismissed without prejudice from the case.

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.

***Other***

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 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. We have been advised by the lessor that the United Kingdom tax authorities are disputing the lessor s accounting treatment of the lease and that the parties 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 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.

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 obligation is probable.

Table of Contents

If any person other than A. Wilhelmsen AS. and Cruise Associates, our two principal shareholders, acquires ownership of more than 30% of our common stock and our two principal shareholders, in the aggregate, own less of our common stock than such person and do not collectively have the right to elect, or to designate for election, at least a majority of the board of directors, 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. If this were to occur, it could have an adverse impact on our liquidity and operations.

**Note 7. Shareholders Equity**

We declared cash dividends on our common stock of $0.15 per share during the first quarter of 2008. Commencing in the fourth quarter 2008, our board of directors discontinued the quarterly dividends.

**Note 8. Comprehensive Income (Loss)**

Comprehensive income (loss) includes net income (loss), foreign currency translation adjustments and changes in the fair value of derivative instruments that qualify as cash flow hedges. The cumulative changes in fair value of the derivatives are deferred and recorded as a component of accumulated other comprehensive income (loss) until the hedged transactions are realized and recognized in earnings.

Comprehensive income (loss) was as follows (in thousands):

| | Quarter Ended March 31, | |
|---|---|---|
| | 2009 | 2008 |
| Net (loss) income | $ (36,238) | $ 75,607 |
| Changes related to cash flow derivative hedges | (15,965) | 104,756 |
| Foreign currency translation adjustments | (17,659) | (4,266) |
| Total comprehensive (loss) income | $ (69,862) | $ 176,097 |

Table of Contents

**Note 9. Fair Value Measurements and Derivative Instruments**

**Fair Value Measurements**

Assets that are recorded at fair value have been categorized based upon the fair value hierarchy described in Note 2. *Summary of Significant Accounting Policies* in our annual report on Form 10-K for the year ended December 31, 2008.

The following table presents information about the Company s financial instruments recorded at fair value on a recurring basis (in thousands):

| | Fair Value Measurements at March 31, 2009 Using | | | | Fair Value Measurements at December 31, 2008 Using | | | |
|---|---|---|---|---|---|---|---|---|
| **Description** | **Total** | **Level 1[1]** | **Level 2[2]** | **Level 3[3]** | **Total** | **Level 1[1]** | **Level 2[2]** | **Level 3[3]** |
| **Assets:** | | | | | | | | |
| Derivative financial instruments[4] | $ 212,245 | | 212,245 | | $ 284,175 | | 284,175 | |
| Investments[5] | $ 7,338 | 7,338 | | | $ 14,238 | 14,238 | | |
| **Total Assets** | $ 219,583 | $ 7,338 | $ 212,245 | $ | $ 298,413 | $ 14,238 | $ 284,175 | $ |
| **Liabilities:** | | | | | | | | |
| Derivative financial instruments[6] | $ 394,699 | | 394,699 | | $ 360,941 | | 360,941 | |
| **Total Liabilities** | $ 394,699 | $ | $ 394,699 | $ | $ 360,941 | $ | $ 360,941 | $ |

1 Inputs based on quoted prices (unadjusted) in active markets for identical assets or liabilities that we have the ability to access.

2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

3 Inputs that are unobservable for the asset or liability.

4 Consists of foreign currency forward contracts and interest rate, cross currency and fuel swaps.

5 Consists of exchange-traded equity securities and mutual funds.

6 Consists of fuel swaps and foreign currency forward contracts.

**Derivative Instruments**

We are exposed to market risk attributable to changes in interest rates, foreign currency exchange rates and fuel prices. We manage these risks through a combination of our normal operating and financing activities and through the use of derivative financial instruments pursuant to our hedging practices and policies. The financial impact of these hedging instruments is primarily offset by corresponding changes in the underlying exposures being hedged. We achieve this by closely matching the amount, term and conditions of the derivative instrument with the underlying risk being hedged. We do not hold or issue derivative financial instruments for trading or other speculative purposes. We monitor our derivative positions using techniques including market valuations and sensitivity analyses.

Table of Contents

We enter into various forward, swap and option contracts to manage our interest rate exposure and to limit our exposure to fluctuations in foreign currency exchange rates and fuel prices. We also have a non-derivative financial instrument designated as a hedge of our net investment in our foreign operations. These instruments are designated as hedges and are recorded on the balance sheet at their fair value.

At inception of the hedge relationship, a derivative instrument that hedges the exposure to changes in the fair value of a firm commitment or a recognized asset or liability is designated as a fair value hedge. A derivative instrument that hedges a forecasted transaction or the variability of cash flows related to a recognized asset or liability is designated as a cash flow hedge.

Changes in the fair value of derivatives that are designated as fair value hedges are offset against changes in the fair value of the underlying hedged assets, liabilities or firm commitments. Changes in fair value of derivatives that are designated as cash flow hedges are recorded as a component of accumulated other comprehensive income (loss) until the underlying hedged transactions are recognized in earnings. The foreign-currency transaction gain or loss of our nonderivative financial instrument designated as a hedge of our net investment in our foreign operations is recognized as a component of accumulated other comprehensive income (loss) along with the associated foreign currency translation adjustment of the foreign operation.

On an ongoing basis, we assess whether derivatives used in hedging transactions are highly effective in offsetting changes in the fair value or cash flow of hedged items. If it is determined that a derivative is not highly effective as a hedge or hedge accounting is discontinued, any change in fair value of the derivative since the last date at which it was determined to be effective is recognized in earnings. In addition, the ineffective portion of our highly effective hedges is recognized in earnings immediately and reported in other income (expense) in our consolidated statements of operations.

Cash flows from derivative instruments that are designated as fair value or cash flow hedges are classified in the same category as the cash flows from the underlying hedged items. In the event that hedge accounting is discontinued, cash flows subsequent to the date of discontinuance are classified consistent with the nature of the instrument.

*Interest Rate Risk*

Our exposure to market risk for changes in interest rates relates to our long-term debt obligations including future interest payments. At March 31, 2009, approximately 44% of our long-term debt was effectively fixed and approximately 56% was floating. We enter into interest rate and cross currency swap agreements to modify our exposure to interest rate movements and to manage our interest expense. We assess the risk that changes in interest rates will have either on the fair value of debt obligations or on the amount of future interest payments by monitoring changes in interest rate exposures and by evaluating hedging opportunities.

Market risk associated with our long-term fixed rate debt is the potential increase in fair value resulting from a decrease in interest rates. We enter into interest swap agreements that effectively convert a portion of our fixed-rate debt to a floating-rate basis to manage this risk. At March 31, 2009 our interest rate swap agreements effectively changed $350.0 million of debt with a fixed rate of 7.25% to LIBOR-based floating rate debt, and 1.0 billion of debt with a fixed rate of 5.625% to EURIBOR-based floating rate. In addition, at March 31, 2009 we had cross currency swap agreements that effectively changed 300.0 million of the 1.0 billion floating EURIBOR-based debt to $389.1 million of floating LIBOR-based debt.

Table of Contents

Our interest rate swaps and cross currency swap agreements are accounted for as fair value hedges. During 2009, we recognized in earnings, a net loss of approximately $5.1 million which represented the total ineffectiveness of the fair value hedges pertaining to interest rate and cross currency swaps. This amount includes an out of period adjustment of approximately $7.1 million which represents the cumulative reduction in the fair value of certain interest rate swaps during 2007 and 2008 due to an error in data embedded in the software we use to assist with calculating the fair value of our interest rate swaps. Because the adjustment, both individually and in the aggregate, was not material to any of the prior years financial statements, and the impact of correcting the adjustment in the current year is not expected to be material to the full year 2009 financial statements, we recorded the correction of this adjustment in the financial statements in the first quarter of 2009.

The notional amount of outstanding debt related to interest rate swaps as of March 31, 2009 was $1.7 billion. The notional amount of outstanding debt related to cross currency swaps as of March 31, 2009 was $389.1 million.

*Foreign Currency Exchange Rate Risk*

Our primary exposure to foreign currency exchange rate risk relates to our ship construction firm commitments denominated in euros and a portion of our euro-denominated debt. We enter into euro-denominated forward contracts to manage our exposure to movements in foreign currency exchange rates. As discussed above, we also have cross currency swap agreements that effectively change 300.0 million of floating EURIBOR-based debt to $389.1 million of floating LIBOR-based debt at March 31, 2009. At March 31, 2009, approximately 9.0% of the aggregate cost of the ships was exposed to fluctuations in the euro exchange rate.

Our foreign exchange contracts are accounted for as fair value and cash flow hedges depending on the designation of the related hedge. During 2009, we recognized in earnings, a net gain of approximately $5.0 million, which represented the total ineffectiveness of the fair value hedges pertaining to foreign exchange contracts. During 2009, we recognized in earnings, a net loss of approximately $0.7 million which represented the total ineffectiveness of the cash flow hedges pertaining to foreign exchange contracts.

The notional amount of outstanding foreign exchange contracts as of March 31, 2009 was $4.6 billion.

We consider our investments in foreign subsidiaries to be denominated in relatively stable currencies and of a long-term nature. We partially address the exposure of our investments in foreign subsidiaries by denominating a portion of our debt in our subsidiaries functional currencies (generally euros). Specifically, we have assigned debt of approximately 403.5 million, or approximately $534.7 million, as a hedge of our net investment in Pullmantur and, accordingly, have included approximately $29.1 million of foreign-currency transaction gains in the foreign currency translation adjustment component of accumulated other comprehensive income (loss) at March 31, 2009.

Table of Contents

*Fuel Price Risk*

Our exposure to market risk for changes in fuel prices relates to the consumption of fuel on our ships. We use a range of instruments including fuel swap agreements to mitigate the financial impact of fluctuations in fuel prices. As of March 31, 2009, we have entered into fuel related swap agreements, which pertain to approximately 600,000 metric tons of our projected 2009 fuel purchases, 400,000 metric tons of our projected 2010 fuel purchases and 200,000 metric tons of our projected 2011 fuel purchases. Such agreements pertain to 48% of our projected 2009 fuel requirements, 30% of our projected 2010 fuel requirements and 15% of our projected 2011 fuel requirements.

Our fuel swap agreements are accounted for as cash flow hedges. During 2009, there was no ineffectiveness related to cash flow hedges pertaining to fuel swap agreements.

At March 31, 2009, $100.2 million of estimated unrealized net losses associated with our cash flow hedges pertaining to fuel swap agreements are expected to be reclassified as earnings from other accumulated comprehensive income (loss) within the next twelve months. Reclassification is expected to occur primarily as the result of fuel consumption associated with our hedged forecasted fuel purchases. At March 31, 2009, we have hedged the variability in future cash flows for certain forecasted transactions occurring through the second half of 2011.

**Table of Contents**

At March 31, 2009, the fair value and line item caption of derivative instruments recorded were as follows:

**Fair Value of Derivative Instruments**

| | Asset Derivatives As of March 31, 2009 Balance Sheet | | Liability Derivatives As of March 31, 2009 | |
|---|---|---|---|---|
| *In thousands* | **Location** | **Fair Value** | **Balance Sheet Location** | **Fair Value** |
| **Derivatives designated as hedging instruments under Statement 133[1]** | | | | |
| Interest rate contracts | Other Assets | $ 158,017 | Other long-term liabilities | $ |
| Cross currency contracts | Other Assets | 19,823 | Other long-term liabilities | |
| Foreign exchange contracts | Derivative Financial Instruments | 32,476 | Accrued expenses and other liabilities | (103,151) |
| Foreign exchange contracts | Other Assets | | Other long-term liabilities | (167,949) |
| Commodity contracts | Derivative Financial Instruments | 554 | Accrued expenses and other liabilities | (98,897) |
| Commodity contracts | Other Assets | 1,378 | Other long-term liabilities | (24,702) |
| Total derivatives designated as hedging instruments under Statement 133 | | $ 212,248 | | $ (394,699) |

[1] SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*

At March 31, 2009, the fair value and line item caption of non-derivative instruments recorded was as follows:

| **Non-derivative instrument designated as hedging instrument under Statement 133** *In thousands* | **Balance Sheet Location** | **Carrying Value** |
|---|---|---|
| Foreign currency debt | Long-term debt | $ (534,749) |
| | | $ (534,749) |

**Table of Contents**

The effect of derivative instruments qualifying and designated as hedging instruments and the related hedged items in fair value hedges on the consolidated statement of operations for the quarter ended March 31, 2009 was as follows:

| Derivatives and related Hedged Items in Statement 133 Fair Value Hedging Relationships<br>*In thousands* | Location of Gain (Loss) Recognized in Income on Derivative and Hedged Item | Amount of Gain (Loss) Recognized in Income on Derivative Quarter Ended March 31, 2009 | Amount of Gain (Loss) Recognized in Income on Hedged Item Quarter Ended March 31, 2009 |
|---|---|---|---|
| Interest rate contracts | Interest expense, net of interest capitalized | $ 6,633 | $ |
| Cross currency contracts | Interest expense, net of interest capitalized | 1,198 | |
| Interest rate contracts | Other income (expense) | 16,296 | (24,563) |
| Cross currency contracts | Other income (expense) | (17,351) | 20,475 |
| Foreign exchange contracts | Other income (expense) | (61,651) | 66,664 |
| | | $ (54,875) | $ 62,576 |

The effect of derivative instruments qualifying and designated as hedging instruments in cash flow hedges on the consolidated financial statements for the quarter ended March 31, 2009 was as follows:

| Derivatives in Statement 133 Cash Flow Hedging Relationships<br>*In thousands* | Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion) Quarter Ended March 31, 2009 | Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) | Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) Quarter Ended March 31, 2009 | Location of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing) | Amount of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness testing) Quarter Ended March 31, 2009 |
|---|---|---|---|---|---|
| Interest rate contracts | $ | Interest Expense, net of interest capitalized | $ (308) | Other income (expense) | $ |
| Foreign exchange contracts | (107,614) | Depreciation and amortization expenses | 70 | Other income (expense) | (793) |
| Foreign exchange contracts | | Passenger ticket revenues | 103 | Other income (expense) | |
| Foreign exchange contracts | 22,069 | Other income (expense) | | Other income (expense) | 94 |
| Commodity contracts | 16,835 | Fuel | (53,323) | Other income (expense) | |
| | $ (68,710) | | $ (53,458) | | $ (699) |

16

Table of Contents

The effect of derivative instruments qualifying and designated as hedging instruments in net investment hedges on the consolidated financial statements for the quarter ended March 31, 2009 was as follows:

| Non-derivative instrument in Statement 133 Net Investment Hedging Relationships | Amount of Gain (Loss) Recognized in OCI (Effective Portion) Quarter Ended March 31, 2009 | Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) | Amount of Gain (Loss) Recognized in Income (Ineffective Portion and Amount Excluded from Effectiveness Testing) Quarter Ended March 31, 2009 |
|---|---|---|---|
| *In thousands* | | | |
| Foreign Currency Debt | $ 29,094 | Other Income (expense) | $ |

*Contingent Features*

Starting in 2012, our interest rate and cross currency derivative instruments may require us to post collateral if our Standard & Poor s and Moody s credit ratings are below specified levels. Specifically, if on the fifth anniversary of entering into a derivative transaction and on all succeeding fifth-year anniversaries our credit ratings were to be below BBB- by Standard & Poor s and Baa3 by Moody s, then each counterparty to such derivatives with whom we are in a net liability position that exceeds the applicable minimum call amount may demand that we post collateral in an amount equal to the net liability position. The amount of collateral required to be posted following such event will change each time our net liability position increases or decreases by more than the applicable minimum call amount. If our credit rating is equal to or above BBB- by Standard & Poor s or Baa3 by Moody s, then any collateral posted at such time will be released to us. Currently, our credit ratings are Ba2 with a negative outlook by Moody s and BB- with a negative outlook by Standard & Poor s. Only our interest rate and cross currency derivative instruments have a term of at least five years and will not reach their fifth anniversary until 2012. Therefore, as of March 31, 2009, we are not required to post any collateral for our derivative instruments.

**Note 10. Subsequent Events**

In April 2009, we arranged commitments for unsecured financing in the amount of $1.1 billion or up to 80% of the contract price of *Oasis of the Seas*. The facility will be 95% guaranteed by Finnvera, the official export credit agency of Finland, and amortizes over 12 years. BNP Paribas, Nordea Bank and SEB have each committed to provide 20% of the financing and each may elect to opt-out after six years. Finnish Export Credit Ltd. will provide funding for the remaining 40%. We have an option of a floating or fixed rate of interest. The commitments are subject to customary funding conditions.

In April 2009, we sold *Oceanic* for $14.5 million. The sale resulted in an immaterial gain.

In April 2009, we entered into a credit agreement based on terms originally agreed in September 2005 providing financing for *Celebrity Equinox*, which is scheduled for delivery in the third quarter of 2009. The credit agreement provides for an unsecured term loan not to exceed 80% of the purchase price of the vessel. The loan will have a 12-year life with semi-annual amortization, and will bear interest at a floating rate of LIBOR plus a margin of 50 basis points.

Table of Contents

**Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations**

**Cautionary Note Concerning Factors That May Affect Future Results**

Certain statements under this caption Management s Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this document constitute forward-looking statements under the Private Securities Litigation Reform Act of 1995. Words such as anticipate, believe, could, estimate, expect, goal, intend, may, plan, project, seek, should, will, and similar expressions are intended forward-looking statements. Forward-looking statements do not guarantee future performance and may involve risks, uncertainties and other factors, which could cause our actual results, performance or achievements to differ materially from the future results, performance or achievements expressed or implied in those forward-looking statements. Examples of these risks, uncertainties and other factors include, but are not limited to the following:

- the adverse impact of the continuing worldwide economic downturn on the demand for cruises,
- the impact of the economic downturn on the availability of our credit facility and on our ability to generate cash flows from operations or obtain new borrowings from the credit or capital markets in amounts sufficient to satisfy our capital expenditures, debt repayments and other financing needs,
- the impact of disruptions in the global financial markets on the ability of our counterparties and others to perform their obligations to us,
- the uncertainties of conducting business internationally and expanding into new markets,
- the volatility in fuel prices and foreign exchange rates,
- the impact of changes in operating and financing costs, including changes in foreign currency, interest rates, fuel, food, payroll, airfare for our shipboard personnel, insurance and security costs,
- the impact of problems encountered at shipyards and their subcontractors including insolvency or financial difficulties,
- vacation industry competition and changes in industry capacity and overcapacity,
- the impact of tax and environmental laws and regulations affecting our business or our principal shareholders,
- the impact of changes in other laws and regulations affecting our business,
- the impact of pending or threatened litigation, enforcement actions, fines or penalties,
- the impact of delayed or cancelled ship orders,

Table of Contents

the impact of emergency ship repairs, including the related lost revenue,

the impact on prices of new ships due to shortages in available shipyard facilities, component parts and shipyard consolidations,

negative incidents involving cruise ships including those involving the health and safety of passengers,

reduced consumer demand for cruises as a result of any number of reasons, including geo-political and economic uncertainties and the unavailability or cost of air service,

the international political climate, fears of terrorist and pirate attacks, armed conflict and the resulting concerns over safety and security aspects of traveling,

the impact of the spread of contagious diseases,

the impact of changes or disruptions to external distribution channels for our guest bookings,

the loss of key personnel or our inability to retain or recruit qualified personnel,

changes in our stock price or principal shareholders,

uncertainties of a foreign legal system as we are not incorporated in the United States,

the unavailability of ports of call,

weather.

The above examples are not exhaustive and new risks emerge from time to time. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. For a further discussion of risk factors related to our business, see Part I, Item 1A. *Risk Factors* in our annual report on Form 10-K for the year ended December 31, 2008.

**Critical Accounting Policies**

We review goodwill for impairment whenever events or circumstances indicate but at least annually. Due to the fact that the book value of our shareholders equity exceeded our market capitalization, we performed an interim test for impairment of goodwill during the first quarter of 2009. We determined the fair value of our two reporting units which include goodwill, Royal Caribbean International and Pullmantur, exceeded their carrying values. Therefore, we do not consider goodwill to be impaired and we did not proceed to step two of the impairment analysis.

For a further discussion of our critical accounting policies, refer to *Management s Discussion and Analysis of Financial Condition and Results of Operations* within our annual report on Form 10-K for the year ended December 31, 2008.

Table of Contents

**Terminology**

Our revenues are seasonal based on demand for cruises. Demand is strongest for cruises during the Northern Hemisphere summer months and holidays.

Our revenues consist of the following:

Passenger ticket revenues consist of revenue recognized from the sale of passenger tickets and the sale of air transportation to and from our ships.

Onboard and other revenues consist primarily of revenues from the sale of goods and/or services onboard our ships not included in passenger ticket prices, cancellation fees, sales of vacation protection insurance, pre- and post-cruise tours, Pullmantur s land-based tours and hotel and air packages. Also included are revenues we receive from independent third party concessionaires that pay us a percentage of their revenues in exchange for the right to provide selected goods and/or services onboard our ships.

Our cruise operating expenses consist of the following:

Commissions, transportation and other expenses consist of those costs directly associated with passenger ticket revenues, including travel agent commissions, air and other transportation expenses, port costs that vary with passenger head counts and related credit card fees.

Onboard and other expenses consist of the direct costs associated with onboard and other revenues. These costs include the cost of products sold onboard our ships, vacation protection insurance premiums, costs associated with pre- and post-cruise tours and related credit card fees. These costs also include minimal costs associated with concession revenues, as the costs are mostly incurred by third-party concessionaires.

Payroll and related expenses consist of costs for shipboard personnel.

Food expenses include food costs for both passengers and crew.

Fuel expenses include fuel and related delivery and storage costs, including the financial impact of fuel swap agreements.

Other operating expenses consist primarily of operating costs such as repairs and maintenance, port costs that do not vary with passenger head counts, vessel operating lease costs, costs associated with Pullmantur s land-based tours, vessel related insurance and entertainment.

We do not allocate payroll and related costs, food costs, fuel costs or other operating costs to the expense categories attributable to passenger ticket revenues or onboard and other revenues since they are incurred to provide the total cruise vacation experience.

Table of Contents

**Non-GAAP Financial Measures**

Available Passenger Cruise Days ( APCD ) are our measurement of capacity and represent double occupancy per cabin multiplied by the number of cruise days for the period. We use this measure to perform capacity and rate analysis to identify our main non-capacity drivers which cause our cruise revenue and expenses to vary.

Gross Cruise Costs represent the sum of total cruise operating expenses plus marketing, selling and administrative expenses.

Gross Yields represent total revenues per APCD.

Net Cruise Costs represent Gross Cruise Costs excluding commissions, transportation and other expenses and onboard and other expenses (each of which is described above under the Terminology heading). In measuring our ability to control costs in a manner that positively impacts net income, we believe changes in Net Cruise Costs to be the most relevant indicator of our performance. A reconciliation of historical Gross Cruise Costs to Net Cruise Costs is provided below under *Summary of Historical Results of Operations*. We have not provided a quantitative reconciliation of projected Gross Cruise Costs to projected Net Cruise Costs due to the significant uncertainty in projecting the costs deducted to arrive at this measure. Accordingly, we do not believe that reconciling information for such projected figures would be meaningful.

Net Debt-to-Capital is a ratio which represents total long-term debt, including current portion of long-term debt, less cash and cash equivalents ( Net Debt ) divided by the sum of Net Debt and total shareholders equity. We believe Net Debt and Net Debt-to-Capital, along with total long-term debt and shareholders equity are useful measures of our capital structure. A reconciliation of historical Debt-to-Capital to Net Debt-to-Capital is provided below under *Summary of Historical Results of Operations*.

Net Revenues represent total revenues less commissions, transportation and other expenses and onboard and other expenses (each of which is described under the Terminology heading).

Net Yields represent Net Revenues per APCD. We utilize Net Revenues and Net Yields to manage our business on a day-to-day basis as we believe that it is the most relevant measure of our pricing performance because it reflects the cruise revenues earned by us net of our most significant variable costs, which are commissions, transportation and other expenses and onboard and other expenses. A reconciliation of historical Gross Yields to Net Yields is provided below under *Summary of Historical Results of Operations*. We have not provided a quantitative reconciliation of projected Gross Yields to projected Net Yields due to the significant uncertainty in projecting the costs deducted to arrive at this measure. Accordingly, we do not believe that reconciling information for such projected figures would be meaningful.

Occupancy, in accordance with cruise vacation industry practice, is calculated by dividing Passenger Cruise Days by APCD. A percentage in excess of 100% indicates that three or more passengers occupied some cabins.

Passenger Cruise Days represent the number of passengers carried for the period multiplied by the number of days of their respective cruises.

Table of Contents

The use of certain significant non-GAAP measures, such as Net Yields and Net Cruise Costs, allow us to perform capacity and rate analyses to separate the impact of known capacity changes from other less predictable changes which affect our business. We believe these non-GAAP measures provide expanded insight to measure revenue and cost performance in addition to the standard United States GAAP based financial measures. There are no specific rules or regulations for determining non-GAAP measures, and as such, there exists the possibility that they may not be comparable to measures used by other companies within the industry.

***Summary of Historical Results of Operations***

We have continued to experience a compression in our booking window and forward bookings are lagging behind levels achieved during the last few years as consumers are delaying their purchase decisions. To offset these trends and increase booking demand, we utilize discounted pricing. This discounting has exceeded levels of discounting within the past several years. Total revenues decreased 7.2% to $1.3 billion in 2009 from total revenues of $1.4 billion for the same period in 2008 primarily due to the decrease in ticket prices and a 12.9% decrease in Gross Yields. Net Yields decreased by approximately 13.5% compared to the same period in 2008. The decrease in Net Yields was primarily due to the decrease in ticket prices and a decrease in occupancy. As a result, our net loss was $36.2 million or $0.17 per share on a diluted basis for the first quarter of 2009 compared to net income of $75.6 million or $0.35 per share on a diluted basis for the first quarter of 2008.

Other significant items for the first quarter of 2009 include:

Net Cruise Costs per APCD decreased by approximately 7.0% compared to the same period in 2008.

The Net Debt-to-Capital and Debt-to-Capital ratios remained consistent to December 31, 2008.

In February 2009, we entered into a credit agreement based on terms originally agreed in June 2007 providing financing for our fourth Solstice-class ship, which is scheduled for delivery in the third quarter of 2011. The credit agreement provides for an unsecured term loan for up to 80% of the purchase price of the vessel. The loan will have a 12-year life with semi-annual amortization, and will bear interest at a fixed rate of 5.82% (inclusive of the applicable margin).

We sold *Celebrity Galaxy*, a 1,850-berth ship for 224.4 to TUI Cruises to serve as its first ship and will sail under the name *Mein Schiff* beginning in May 2009. Concurrently with entering into the agreement to sell *Celebrity Galaxy*, we executed certain forward foreign exchange contracts to lock in the sales price at approximately $315.0 million. In connection with the sale, we deferred a gain of approximately $35.9 million which we will recognize over the remaining life of the ship estimated to be 23 years.

In connection with the sale of our 50% investment in a joint venture with TUI Travel PLC, formerly First Choice Holidays PLC, we terminated the charter of *Island Star* to Island Cruises. We took delivery of the ship in April 2009 and redeployed it to Pullmantur where it is undergoing renovations to incorporate the brand s signature elements. The ship will sail under the name *Pacific Dream* beginning in May 2009.

Table of Contents

Other Items:

In April 2009, we arranged commitments for unsecured financing in the amount of $1.1 billion or up to 80% of the contract price of *Oasis of the Seas*. The facility will be 95% guaranteed by Finnvera, the official export credit agency of Finland.

In April 2009, we entered into a credit agreement based on terms originally agreed in September 2005 providing financing for *Celebrity Equinox*, which is scheduled for delivery in the third quarter of 2009. The credit agreement provides for an unsecured term loan not to exceed 80% of the purchase price of the vessel. The loan will have a 12-year life with semi-annual amortization, and will bear interest at a floating rate of LIBOR plus a margin of 50 basis points.

**Table of Contents**

The following table presents the current quarter s operating results compared to the same quarter in the prior year:

| | Quarter Ended March 31, | | | |
|---|---|---|---|---|
| | 2009 | | 2008 | |
| | | % of Total Revenues | | % of Total Revenues |
| Passenger ticket revenues | $ 949,270 | 71.6% | $ 1,037,903 | 72.6% |
| Onboard and other revenues | 376,332 | 28.4% | 391,182 | 27.4% |
| Total revenues | 1,325,602 | 100% | 1,429,085 | 100% |
| Cruise operating expenses: | | | | |
| Commissions, transportation and other | 235,829 | 17.8% | 257,940 | 18.0% |
| Onboard and other | 83,234 | 6.3% | 78,520 | 5.5% |
| Payroll and related | 168,746 | 12.7% | 154,239 | 10.8% |
| Food | 85,403 | 6.4% | 83,002 | 5.8% |
| Fuel | 154,875 | 11.7% | 158,234 | 11.1% |
| Other operating | 224,249 | 16.9% | 230,251 | 16.1% |
| Total cruise operating expenses | 952,336 | 71.8% | 962,186 | 67.3% |
| Marketing, selling and administrative expenses | 189,157 | 14.3% | 204,941 | 14.3% |
| Depreciation and amortization expenses | 139,856 | 10.6% | 124,390 | 8.7% |
| **Operating Income** | 44,253 | 3.3% | 137,568 | 9.6% |
| Other income (expense): | | | | |
| Interest income | 1,730 | 0.1% | 2,508 | 0.2% |
| Interest expense, net of interest capitalized | (79,462) | (6.0)% | (77,948) | (5.5)% |
| Other (expense) income | (2,759) | (0.2)% | 13,479 | 0.9% |
| | (80,491) | (6.1)% | (61,961) | (4.3)% |
| **Net (Loss) Income** | (36,238) | (2.7)% | 75,607 | 5.3% |
| **Diluted (Loss) Earnings per Share** | $ (0.17) | | $ 0.35 | |

**Table of Contents**

Selected historical statistical information is shown in the following table:

| | Quarter Ended March 31, | |
|---|---|---|
| | 2009 | 2008 |
| Passengers Carried | 973,666 | 1,031,668 |
| Passenger Cruise Days | 6,822,368 | 6,612,925 |
| APCD | 6,743,456 | 6,332,099 |
| Occupancy | 101.2% | 104.4% |

Gross Yields and Net Yields were calculated as follows (in thousands, except APCD and Yields):

| | Quarter Ended March 31, | | |
|---|---|---|---|
| | 2009 | 2008 | % Change |
| Passenger ticket revenues | $ 949,270 | $ 1,037,903 | |
| Onboard and other revenues | 376,332 | 391,182 | |
| Total revenues | 1,325,602 | 1,429,085 | (7.2)% |
| Less: | | | |
| Commissions, transportation and other | 235,829 | 257,940 | |
| Onboard and other | 83,234 | 78,520 | |
| Net revenues | $ 1,006,539 | $ 1,092,625 | (7.9)% |
| APCD | 6,743,456 | 6,332,099 | 6.5% |
| Gross Yields | $ 196.58 | $ 225.69 | (12.9)% |
| Net Yields | $ 149.26 | $ 172.55 | (13.5)% |

Gross Cruise Costs and Net Cruise Costs were calculated as follows (in thousands, except APCD and costs per APCD):

| | Quarter Ended March 31, | | |
|---|---|---|---|
| | 2009 | 2008 | % Change |
| Total cruise operating expenses | $ 952,336 | $ 962,186 | |
| Marketing, selling and administrative expenses | 189,157 | 204,941 | |
| Gross Cruise Costs | 1,141,493 | 1,167,127 | (2.2)% |
| Less: | | | |
| Commissions, transportation and other | 235,829 | 257,940 | |
| Onboard and other | 83,234 | 78,520 | |
| Net Cruise Costs | $ 822,430 | $ 830,667 | (1.0)% |
| APCD | 6,743,456 | 6,332,099 | 6.5% |
| Gross Cruise Costs per APCD | $ 169.27 | $ 184.32 | (8.2)% |
| Net Cruise Costs per APCD | $ 121.96 | $ 131.18 | (7.0)% |

**Table of Contents**

Net Debt-to-Capital was calculated as follows (in thousands):

| | As of | |
|---|---|---|
| | **March 31, 2009** | **December 31, 2008** |
| Long-term debt, net of current portion | $ 6,493,714 | $ 6,539,510 |
| Current portion of long-term debt | 473,579 | 471,893 |
| Total debt | 6,967,293 | 7,011,403 |
| Less: Cash and cash equivalents | 455,884 | 402,878 |
| Net Debt | $ 6,511,409 | $ 6,608,525 |
| Total shareholders equity | $ 6,749,745 | $ 6,803,012 |
| Total debt | 6,967,293 | 7,011,403 |
| Total debt and shareholders equity | 13,717,038 | 13,814,415 |
| Debt-to-Capital | 50.8% | 50.8% |
| Net Debt | 6,511,409 | 6,608,525 |
| Net Debt and shareholders equity | $ 13,261,154 | $ 13,411,537 |
| Net Debt-to-Capital | 49.1% | 49.3% |

Table of Contents

***Outlook***

*Second Quarter 2009*

We expect Net Yields will decrease approximately 17% compared to 2008.

We expect Net Cruise Costs per APCD to decrease in the range of 11% to 12% compared to 2008. Excluding fuel, we expect Net Cruise Costs per APCD to decrease approximately 9% compared to 2008.

We expect a 3.5% increase in capacity, primarily driven by the addition of *Celebrity Solstice* and a full quarter of *Independence of the Seas*.

Depreciation and amortization expenses are expected to be in the range of $135.0 million to $140.0 million and interest expense is expected to be in the range of $65.0 million to $70.0 million.

We do not forecast fuel prices and our cost calculations for fuel are based on current at-the-pump prices net of any hedging impacts. If fuel prices for the second quarter of 2009 remain at the level of current at-the-pump prices, fuel expenses for the second quarter of 2009 would be approximately $142.0 million. For the second quarter of 2009, our fuel expense is approximately 51% hedged and a 10% change in fuel prices would result in a change of fuel expenses of approximately $7.0 million for the second quarter of 2009, after taking into account existing hedges.

Based on the expectations above, and assuming that fuel prices remain at the level of current at-the-pump prices, we expect second quarter 2009 earnings (loss) per share to be in the range of $0.00 to a loss of $0.05.

*Full Year 2009*

We expect Net Yields to decrease in the range of 12% to 13% compared to 2008.

We expect Net Cruise Costs per APCD to decrease in the range of 10% to 12% compared to 2008. Excluding fuel, we expect Net Cruise Costs per APCD to decrease in the range of 6% to 8% compared to 2008.

We expect a 5.9% increase in capacity in 2009, primarily driven by a full year of *Celebrity Solstice*, a full year of *Independence of the Sea*s, the addition of *Celebrity Equinox*, which will enter service during the third quarter of 2009, and the addition of *Oasis of the Seas,* which will enter service in the fourth quarter of 2009.

Depreciation and amortization expenses are expected to be in the range of $560.0 million to $565.0 million, and interest expense is expected to be in the range of $295.0 million to $300.0 million.

We do not forecast fuel prices and our cost calculations for fuel are based on current at-the-pump prices net of any hedging impacts. If fuel prices for the full year 2009 remain at the level of current at-the-pump prices, fuel expenses for the full year 2009 would be approximately $574.0 million. For the full year 2009, our fuel expense is approximately 48% hedged and a 10% change in fuel prices would result in a change in fuel expenses of approximately $22.0 million for the full year 2009, after taking into account existing hedges.

Table of Contents

Based on the expectations above, and assuming that fuel prices remain at the level of current at-the-pump prices, we expect full year 2009 earnings per share to be around $1.35.

***Quarter Ended March 31, 2009 Compared to Quarter Ended March 31, 2008***

*Revenues*

Total revenues for 2009 decreased $103.5 million or 7.2% to $1.3 billion from $1.4 billion for the same period in 2008. Approximately $196.3 million of this decrease is attributable to discounted ticket prices and a decrease in onboard spending. This decrease was partially offset by an increase of approximately $92.8 million attributable to an increase in capacity of 6.5%. Although the number of passengers carried for the first quarter of 2009 decreased as compared to the same period in 2008, on average, passengers sailed more days per voyage in 2009 as compared to the same period in 2008 due to certain itinerary changes. The increase in capacity is primarily due to the addition of *Independence of the Seas*, which entered service in May 2008, the addition of *Celebrity Solstice,* which entered service in November 2008 and a full quarter of *Ocean Dream*, which entered service in March 2008.

Onboard and other revenues included concession revenues of $54.2 million in 2009 compared to $60.1 million for the same period in 2008. The decrease in concession revenues was primarily due to a decrease in spending on a per passenger basis, partially offset by the increase in capacity mentioned above.

*Cruise Operating Expenses*

Total cruise operating expenses for 2009 decreased $9.9 million or 1.0% to $952.3 million from $962.2 million for the same period in 2008. This decrease was primarily due to a decrease in commissions, related to the decrease in ticket prices, and a decrease in air expense due to a reduction in guests booking air service through us. In addition, fuel expenses, which are net of the financial impact of fuel swap agreements, decreased 2.4% per metric ton in 2009 as compared to 2008 primarily as a result of lower fuel prices. To a lesser extent, the decrease was also related to a decrease in air expenses associated with our Pullmantur brand and a decrease in operating expenses, due to the discontinuance of The Scholar Ship program in the second quarter of 2008. These decreases were partially offset by the increase in capacity mentioned above.

*Marketing, Selling and Administrative Expenses*

Marketing, selling and administrative expenses for 2009 decreased $15.7 million or 7.7% to $189.2 million from $204.9 million for the same period in 2008. The decrease was primarily due to a reduction in payroll expenses as a result of the cost savings initiative announced during the third quarter of 2008 to reduce spending. As part of this initiative, we eliminated approximately 400 shore-side positions during the third quarter of 2008.

*Depreciation and Amortization expenses*

Depreciation and amortization expenses for 2009 increased $15.5 million or 12.5% to $139.9 million from $124.4 million for the same period in 2008. The increase is primarily due to the addition of *Independence of the Seas*, which entered service in May 2008 and the addition of *Celebrity Solstice,* which entered service in November 2008. The remainder of the increase is due to depreciation associated with shipboard and shore-side additions.

Table of Contents

*Other Income (Expense)*

Interest expense, net of interest capitalized, increased to $79.5 million in 2009 from $77.9 million in 2008. Gross interest expense decreased to $89.5 million in 2009 from $90.8 million in 2008. The decrease was primarily due to lower interest rates, partially offset by a higher average debt level. Interest capitalized decreased to $10.0 million in 2009 from $12.9 million in 2008 primarily due to a lower average level of investment in ships under construction and lower interest rates.

Other expense decreased to $2.8 million in 2009 from other income of $13.5 million in 2008 for a net change of $16.3 million when comparing these periods. The change was primarily due to an out of period adjustment of approximately $7.1 million which represents the cumulative reduction in the fair value of certain interest rate swaps during 2007 and 2008 due to an error in data embedded in the software we use to assist with calculating the fair value of our interest rate swaps. The change was also attributable to an increase in tax expense of $6.3 million primarily due to a change in the Spanish tax law which resulted in the recapture of certain tax losses.

*Net Yields*

Net Yields decreased 13.5% in 2009 compared to 2008 primarily due to the decrease in ticket prices as mentioned above. Occupancy in 2009 was 101.2% compared to 104.4% in 2008. The decrease in occupancy was driven by the current worldwide economic downturn with disproportionate pressure out of our Spanish brand Pullmantur.

*Net Cruise Costs*

Net Cruise Costs decreased 1.0% in 2009 compared to 2008 due a 7.0% decrease in Net Cruise Cost per APCD offset by the 6.5% increase in capacity mentioned above. As mentioned above, the net decrease in Net Cruise Costs per APCD was primarily driven by decreases in fuel expenses, air expenses associated with our Pullmantur brand, and the discontinuance of The Scholar Ship. The remainder of the decrease is due to the decrease in marketing, selling and administrative expenses as mentioned above.

***Recently Adopted, and Future Application of, Accounting Standards***

Refer to Note 2. *Summary of Significant Accounting Policies* to our financial statements for further information on *Recently Adopted Accounting Standards* and *Future Application of Accounting Standards*.

***Liquidity and Capital Resources***

*Sources and Uses of Cash*

Cash flow generated from operations provides us with a significant source of liquidity. Net cash provided by operating activities decreased $187.9 million to $113.9 million for the first quarter of 2009 compared to $301.8 million for the same period in 2008. This decrease was primarily a result of a net loss of $36.2 million for the first quarter of 2009 compared to net income of $75.6 million for

Table of Contents

the same period in 2008 as well as a decrease of $145.2 million in the net change in customer deposits during the first quarter of 2009 compared to the same period in 2008. The decrease in customer deposits is a result of a compression in the booking window, forward bookings lagging behind the prior year and cruises being purchased for lower ticket prices compared to the prior year. The decrease in customer deposits was also attributable, to a lesser extent, to a decrease in the value of foreign denominated customer deposits due to the strengthening of the United States dollar during the first quarter of 2009 as compared to the same period in 2008.

Net cash used in investing activities decreased to $60.4 million for the first quarter 2009 from $131.4 million for the same period in 2008. The decrease was primarily due to the proceeds received from the sale of *Celebrity Galaxy* of $290.9 million and a decrease in capital expenditures of approximately $41.4 million. Our capital expenditures decreased to approximately $219.3 million for the first quarter of 2009 from $260.8 million for the same period in 2008, primarily due to the decrease in number of ships under construction. These decreases were offset by a decrease in settlements of approximately $127.8 million on our foreign currency forward contracts and an increase in equity contributions to our unconsolidated affiliates of $136.2 million.

Net cash used in financing activities was $1.4 million in the first quarter of 2009 compared to net cash provided by financing activities of $39.0 million for the same period in 2008. The change was primarily due to a decrease in debt proceeds of approximately $344.2 million, partially offset by a decrease in repayments of debt of approximately $264.3 million and a decrease in dividends paid of approximately $32.0 million during the first quarter in 2009 compared to the same period in 2008.

Interest capitalized during the first quarter of 2009 decreased to $10.0 million from $12.9 million for the same period in 2008 due to a lower average level of investment in ships under construction and lower interest rates.

***Future Capital Commitments***

Our future capital commitments consist primarily of new ship orders. As of March 31, 2009, we had two ships of a new Oasis-class designated for Royal Caribbean International and four Solstice-class ships, designated for Celebrity Cruises, on order for an aggregate additional capacity of approximately 22,200 berths. The aggregate cost of the six ships is approximately $6.5 billion, of which we have deposited $669.2 million as of March 31, 2009. Approximately 9.0% of the aggregate cost of ships was exposed to fluctuations in the euro exchange rate at March 31, 2009.

As of March 31, 2009 we anticipated overall capital expenditures, including the six ships on order, will be approximately $2.1 billion for 2009, $2.2 billion for 2010, $1.0 billion for 2011, and $1.0 billion for 2012.

Table of Contents

***Contractual Obligations and Off-Balance Sheet Arrangements***

As of March 31, 2009, our contractual obligations were as follows (in thousands):

| | | Payments due by period | | | |
|---|---|---|---|---|---|
| | Total | Less than 1 year | 1-3 years | 3-5 years | More than 5 years |
| Long-term debt obligations(1) | $ 6,912,936 | $ 467,103 | $ 1,636,371 | $ 3,482,748 | $ 1,326,714 |
| Capital lease obligations(1) | 54,357 | 6,476 | 7,668 | 3,245 | 36,968 |
| Operating lease obligations(2)(3) | 372,963 | 47,116 | 86,241 | 207,802 | 31,804 |
| Ship purchase obligations(4) | 5,173,026 | 1,935,850 | 2,543,992 | 693,184 | |
| Other(5) | 654,416 | 127,794 | 182,406 | 156,134 | 188,082 |
| Total | $ 13,167,698 | $ 2,584,339 | $ 4,456,678 | $ 4,543,113 | $ 1,583,568 |

(1) Amounts exclude interest as a significant portion of our debt is variable-rate debt.
(2) We are obligated under noncancelable operating leases primarily for a ship, offices, warehouses and motor vehicles.
(3) Under the *Brilliance of the Seas* lease agreement, we may be required to make a termination payment of approximately £126.0 million, or approximately $180.6 million based on the exchange rate at March 31, 2009, if the lease is canceled in 2012. This amount is included in the 3-5 years column.
(4) Amounts represent contractual obligations with initial terms in excess of one year.
(5) Amounts represent future commitments with remaining terms in excess of one year to pay for our usage of certain port facilities, marine consumables, services and maintenance contracts.

As a normal part of our business, depending on market conditions, pricing and our overall growth strategy, we continuously consider opportunities to enter into contracts for the building of additional ships. We may also consider the sale of ships or the purchase of existing ships. We continuously consider potential acquisitions and strategic alliances. If any of these were to occur, they would be financed through the incurrence of additional indebtedness, the issuance of additional shares of equity securities or through cash flows from operations.

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 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. We have been advised by the lessor that the United Kingdom tax authorities are disputing the lessor s accounting treatment of the lease and that the parties 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 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.

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

Table of Contents

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 obligation is probable.

Other than the items described above, we are not party to any other off-balance sheet arrangements, including guarantee contracts, retained or contingent interest, certain derivative instruments and variable interest entities, that either have, or are reasonably likely to have, a current or future material effect on our financial position.

***Funding Sources***

As of March 31, 2009, our liquidity was $1.1 billion consisting of approximately $455.9 million in cash and cash equivalents and $625.0 million available under our unsecured revolving credit facility. In addition, we had a working capital deficit of $1.6 billion as of March 31, 2009 as compared to our working capital deficit of $1.7 billion as of December 31, 2008. Our March 31, 2009 deficit included $934.4 million of customer deposits compared to $968.5 million at December 31, 2008. Customer deposits represent payments received on sales of cruises in advance of sailings. Historically, the aggregate level of customer deposits has been relatively steady. Most of the deposits collected are not refunded and deposits for new bookings are also continuously collected. We generate substantial cash flows from operations and our business model has historically allowed us to maintain this working capital deficit and still meet our operating, investing and financing needs. We expect that we will continue to have working capital deficits in the future.

We have significant contractual obligations of which the capital expenditures associated with our ship purchases and our debt maturities represent our largest funding needs. We have $2.6 billion in contractual obligations due during the twelve month period ending March 31, 2010 of which approximately $1.9 billion relates to the acquisition of the *Celebrity Equinox* and *Oasis of the Seas* along with progress payments on other ship purchases. In addition, we have $10.6 billion in contractual obligations due beyond the twelve month period ending March 31, 2010 of which debt maturities and ship purchase obligations represent $6.4 billion and $3.2 billion, respectively.

We have four Solstice-class ships under construction in Germany, all of which have committed unsecured bank financing arrangements and include a financing guarantee from HERMES (Euler Hermes Kreditrersicherungs AG), the export credit agency of the German government for 95% of the financed amount. The terms of the financings are similar to those established for the *Celebrity Solstice* and are subject to customary funding conditions.

We also have two Oasis-class vessels under construction in Finland. We have commitments for unsecured financing in the amount of $1.1 billion or up to 80% of the contract price of *Oasis of the Seas*. The facility will be 95% guaranteed by Finnvera, the official export credit agency of Finland. BNP Paribas, Nordea Bank and SEB have each committed to provide 20% of the financing and may elect to opt-out after six years. Finnish Export Credit Ltd. will provide funding for the remaining 40%. The commitments are subject to customary funding conditions. We also have a commitment for a financing guarantee from Finnvera for 80% of the financed amount for *Allure of the Seas* and we believe we will obtain committed financing on acceptable terms for the ship before its delivery date.

We anticipate that our cash flows from operations, our current available credit facilities, and these financing arrangements will be adequate to meet our capital expenditures and debt repayments in the foreseeable future.

Table of Contents

The current worldwide economic downturn has adversely impacted our cash flows from operations. In addition, the turmoil in the credit and capital markets may make it more difficult for us to secure new financing or to raise additional capital or to do so on acceptable terms. As previously disclosed, in January 2009 our credit rating was lowered from Ba1 with a stable outlook to Ba2 with a negative outlook by Moody s. Further, in March 2009, Standard and Poor s downgraded our credit rating from BB with a negative outlook to BB- with a negative outlook. There is no assurance that our credit ratings will not be lowered further. The lowering of our credit ratings may increase our cost of financing and can make it more difficult for us to access the credit and capital markets.

If any person other than A. Wilhelmsen AS. and Cruise Associates, our two principal shareholders, acquires ownership of more than 30% of our common stock and our two principal shareholders, in the aggregate, own less of our common stock than such person and do not collectively have the right to elect, or to designate for election, at least a majority of the board of directors, 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. If this were to occur, it could have an adverse impact on our liquidity and operations.

***Debt Covenants***

Our financing agreements contain covenants that require us, among other things, to maintain minimum net worth and fixed coverage ratio and limit our net debt-to-capital ratio. Our minimum net worth and maximum net debt-to-capital calculations exclude the impact of accumulated other comprehensive income (loss) on total shareholders equity. The fixed coverage ratio is calculated by dividing net cash from operations by the sum of dividend payments plus scheduled principal debt payments in excess of any new financings. We are currently in compliance with all debt covenants. The specific covenants and related definitions can be found in the applicable debt agreements, the majority of which have been previously filed with the Securities and Exchange Commission. As of March 31, 2009, our net worth was $7.1 billion compared with a minimum requirement of $5.1 billion, our fixed coverage ratio was 9.20x compared with a minimum requirement of 1.25x and our net-debt-to-capital was 47.8% compared to a maximum requirement of 62.5%.

Table of Contents

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

For a discussion of certain market risks related to our business, see Part II, Item 7A. *Quantitative and Qualitative Disclosures About Market Risk* in our annual report on Form 10-K for the year ended December 31, 2008. There have been no significant developments or material changes with respect to our exposure to the market risks previously reported in Form 10-K.

**Item 4. Controls and Procedures**

**Evaluation of Disclosure Controls and Procedures**

Under the supervision and with the participation of our management, including our Chairman and Chief Executive Officer and Executive Vice President and Chief Financial Officer, we carried out an evaluation of the effectiveness of our disclosure controls and procedures, as such term is defined in Exchange Act Rule 13a-15(e), as of the end of the period covered by this quarterly report and concluded that those controls and procedures were effective.

**Changes in Internal Control Over Financial Reporting**

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 and 15d-15 during the quarter ended March 31, 2009 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

It should be noted that any system of controls, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system will be met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events. Because of these and other inherent limitations of control systems, there is only reasonable assurance that our controls will succeed in achieving their goals under all potential future conditions.

Table of Contents

## PART II. OTHER INFORMATION

**Item 1. Legal Proceedings**

As reported in our annual report on Form 10-K for the year ended December 31, 2008, in January 2006, a purported class action lawsuit was filed in the United States District Court for the Southern District of New York alleging that we infringed rights in copyrighted works and other intellectual property by presenting performances on our cruise ships without securing the necessary licenses. The suit seeks payment of damages, disgorgement of profits and a permanent injunction against future infringement. In April 2006, we filed a motion to sever and transfer the case to the United States District Court for the Southern District of Florida. In March 2009, the Court dismissed the complaint for failure to state a claim with sufficient particularity and denied our motion to sever and transfer because it was unable to determine from the pleadings whether the Court has subject matter jurisdiction over the case. The Court granted plaintiff the right to file an amended complaint. We are not able at this time to estimate the impact of this proceeding.

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.

**Item 6. Exhibits**

31 Certifications required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities and Exchange Act of 1934.

32 Certifications pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code.

Table of Contents

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ROYAL CARIBBEAN CRUISES LTD.
(Registrant)

/s/ BRIAN J. RICE
Brian J. Rice
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

Date: April 23, 2009

Table of Contents

**Exhibit Index**

| Exhibit No. | Description |
|---|---|
| 31 | Certifications required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities and Exchange Act of 1934. |
| 32 | Certifications pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code. |