

ROYAL CARIBBEAN CRUISES LTD  
Form 10-Q  
October 22, 2007

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

## **FORM 10-Q**

**(Mark One)**

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

**For the quarterly period ended September 30, 2007**

**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)

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**Republic of Liberia**

(State or other jurisdiction of incorporation or organization)

**98-0081645**

(I.R.S. Employer Identification No.)

**1050 Caribbean Way, Miami, Florida 33132**

(Address of principal executive offices) (zip code)

**(305) 539-6000**

(Registrant's telephone number, including area code)

**N/A**

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

There were 223,376,450 shares of common stock outstanding as of October 12, 2007.

**ROYAL CARIBBEAN CRUISES LTD.**

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**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****ROYAL CARIBBEAN CRUISES LTD.****CONSOLIDATED STATEMENTS OF OPERATIONS**

(unaudited, in thousands, except per share data)

	<b>Quarter Ended September 30,</b>	
	<b>2007</b>	<b>2006</b>
Passenger ticket revenues	\$1,423,179	\$1,211,758
Onboard and other revenues	530,413	425,093
<b>Total revenues</b>	<b>1,953,592</b>	<b>1,636,851</b>
Cruise operating expenses		
Commissions, transportation and other	356,471	289,462
Onboard and other	148,218	123,167
Payroll and related	153,106	130,039
Food	87,062	74,606
Fuel	140,655	126,077
Other operating	263,732	200,815
<b>Total cruise operating expenses</b>	<b>1,149,244</b>	<b>944,166</b>
Marketing, selling and administrative expenses	199,169	163,745
Depreciation and amortization expenses	122,345	109,331
<b>Operating Income</b>	<b>482,834</b>	<b>419,609</b>
Other income (expense)		
Interest income	5,704	4,472
Interest expense, net of interest capitalized	(85,270)	(71,824)
Other expense	(8,268)	(6,885)
	(87,834)	(74,237)
<b>Net Income</b>	<b>\$ 395,000</b>	<b>\$ 345,372</b>

**Earnings Per Share:**

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Basic	\$1.85	\$1.66
	<hr/>	<hr/>
Diluted	\$1.84	\$1.63
	<hr/>	<hr/>
<b>Weighted-Average Shares Outstanding:</b>		
Basic	213,039	208,129
	<hr/>	<hr/>
Diluted	214,295	213,526
	<hr/>	<hr/>

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

## ROYAL CARIBBEAN CRUISES LTD.

## CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited, in thousands, except per share data)

	<b>Nine Months Ended September 30,</b>	
	<b>2007</b>	<b>2006</b>
Passenger ticket revenues	\$3,360,586	\$3,006,928
Onboard and other revenues	1,297,459	1,069,443
<b>Total revenues</b>	<b>4,658,045</b>	<b>4,076,371</b>
Cruise operating expenses		
Commissions, transportation and other	844,784	720,460
Onboard and other	316,792	267,945
Payroll and related	432,686	370,800
Food	236,044	205,898
Fuel	384,070	360,307
Other operating	741,736	573,863
<b>Total cruise operating expenses</b>	<b>2,956,112</b>	<b>2,499,273</b>
Marketing, selling and administrative expenses	578,547	518,681
Depreciation and amortization expenses	360,021	313,513
<b>Operating Income</b>	<b>763,365</b>	<b>744,904</b>
Other income (expense)		
Interest income	16,655	11,789
Interest expense, net of interest capitalized	(251,266)	(196,136)
Other income	3,821	26,742
	(230,790)	(157,605)
<b>Net Income</b>	<b>\$ 532,575</b>	<b>\$ 587,299</b>
<b>Earnings Per Share:</b>		
Basic	\$2.50	\$2.79
Diluted	\$2.49	\$2.70
<b>Weighted-Average Shares Outstanding:</b>		
Basic	212,667	210,239

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Diluted

214,170

224,078

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

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## ROYAL CARIBBEAN CRUISES LTD.

## CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	As of	
	September 30, 2007	December 31, 2006
	(unaudited)	
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 411,906	\$ 104,520
Trade and other receivables, net	337,889	185,886
Inventories	88,796	76,969
Prepaid expenses and other assets	221,680	134,529
Total current assets	1,060,271	501,904
Property and equipment, net	12,274,180	11,429,106
Goodwill	772,816	721,514
Other assets	1,058,551	740,564
	\$15,165,818	\$13,393,088
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Current portion of long-term debt	\$ 558,618	\$ 373,422
Accounts payable	192,424	193,794
Accrued expenses and other liabilities	644,494	408,209
Customer deposits	1,175,262	896,943
Total current liabilities	2,570,798	1,872,368
Long-term debt	5,350,523	5,040,322
Other long-term liabilities	589,040	388,823
Commitments and contingencies (Note 6)		
Shareholders' equity		
Preferred stock (\$.01 par value; 20,000,000 shares authorized; none outstanding, September 30, 2007 and December 31, 2006)	-	-
Common stock (\$.01 par value; 500,000,000 shares authorized; 223,365,773 and 222,489,872 shares issued, September 30, 2007 and December 31, 2006)		
Paid-in capital	2,234	2,225
Retained earnings	2,935,123	2,904,041
	4,076,028	3,639,211



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Accumulated other comprehensive income (loss)	65,592	(30,802)
Treasury stock (11,016,185 and 10,985,927 common shares at cost, September 30, 2007 and December 31, 2006)	(423,520)	(423,100)
	<hr/>	<hr/>
Total shareholders' equity	6,655,457	6,091,575
	<hr/>	<hr/>
	\$15,165,818	\$13,393,088
	<hr/>	<hr/>

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

## ROYAL CARIBBEAN CRUISES LTD.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, in thousands)

	<b>Nine Months Ended September 30,</b>	
	<b>2007</b>	<b>2006</b>
<b>Operating Activities</b>		
Net income	\$ 532,575	\$ 587,299
Adjustments:		
Depreciation and amortization	360,021	313,513
Accretion of original issue discount on debt	1,354	17,578
Changes in operating assets and liabilities:		
Increase in trade and other receivables, net	(146,569)	(11,437)
Increase in inventories	(11,532)	(11,629)
Increase in prepaid expenses and other assets	(60,020)	(18,923)
(Decrease) increase in accounts payable	(4,730)	8,811
Increase in accrued expenses and other liabilities	212,871	43,162
Increase in customer deposits	273,372	74,877
Accreted interest paid on LYONs repurchase	-	(121,199)
Other, net	2,711	25,982
Net cash provided by operating activities	1,160,053	908,034
<b>Investing Activities</b>		
Purchases of property and equipment	(1,225,065)	(1,019,462)
Purchases of notes from First Choice Holidays PLC	-	(100,000)
Other, net	43,033	(13,204)
Net cash used in investing activities	(1,182,032)	(1,132,666)
<b>Financing Activities</b>		
Net proceeds from issuance of debt	1,904,979	1,806,215
Debt issuance costs	(10,134)	(8,804)
Repayments of debt	(1,515,101)	(1,276,673)
Dividends	(66,339)	(63,543)
Proceeds from exercise of common stock options	16,932	19,161
Purchase of treasury stock	-	(164,582)
Other, net	(1,818)	8,011
Net cash provided by financing activities	328,519	319,785

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Effect of exchange rate changes on cash	846	-
	<hr/>	
Net increase in cash and cash equivalents	307,386	95,153
Cash and cash equivalents at beginning of period	104,520	125,385
	<hr/>	
Cash and cash equivalents at end of period	\$ 411,906	\$ 220,538
	<hr/>	
<b>Supplemental Disclosure</b>		
Cash paid during the period for:		
Interest, net of amount capitalized	\$ 190,995	\$ 276,785
	<hr/>	

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

**ROYAL CARIBBEAN CRUISES LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**(unaudited)**

*As used in this document, the terms "Royal Caribbean," the "Company," "we," "our" and "us" refer to Royal Caribbean Cruises Ltd., the term "Celebrity" refers to Celebrity Cruise Lines Inc., the term "Pullmantur" refers to Pullmantur S.A. and the terms "Royal Caribbean International," "Celebrity Cruises," "Pullmantur Cruises," "Azamara Cruises" and "CDF Croisieres de France" refer to our five cruise brands. "The Scholar Ship" refers to our education program at sea for graduate and undergraduate students. 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.*

**Note 1. Basis for Preparation of Consolidated Financial Statements**

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.

The interim unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2006.

**Note 2. Business Combination**

On November 14, 2006, we completed our acquisition of Pullmantur S.A. ("Pullmantur"), a Madrid-based cruise and tour operator. We purchased all of the capital stock of Pullmantur for €436.3 million, or approximately \$558.9 million. For reporting purposes, we have included Pullmantur's results of operations on a two-month lag for the quarter and nine months ended September 30, 2007.

The acquisition was accounted for as a business combination using the purchase method of accounting under the provisions of Statement of Financial Accounting Standards No. 141, "*Business Combinations*". The purchase price was allocated to tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values at the acquisition date, with the excess allocated to goodwill. Approximately €343.2 million or \$439.7 million was allocated to goodwill and approximately €189.4 million or \$242.6 million was allocated to acquired intangible assets. Approximately €168.6 million or \$216.0 million of the acquired intangible assets was assigned to the value associated with the awareness and reputation of the Pullmantur brand among its customers and is considered an indefinite life intangible asset. Amortizable intangible assets identified of approximately €20.8 million or \$26.6 million have a weighted-average useful life of approximately 4.8 years.



**Note 3. Earnings Per Share**

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

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Net income	\$395,000	\$345,372	\$532,575	\$587,299
Interest on dilutive convertible notes	-	1,641	-	17,096
Net income for diluted earnings per share	\$395,000	\$347,013	\$532,575	\$604,395
Weighted-average common shares outstanding	213,039	208,129	212,667	210,239
Dilutive effect of stock options and restricted stock awards	1,256	1,433	1,503	1,745
Dilutive effect of convertible notes	-	3,964	-	12,094
Diluted weighted-average shares outstanding	214,295	213,526	214,170	224,078
Basic earnings per share:	\$1.85	\$1.66	\$2.50	\$2.79
Diluted earnings per share:	\$1.84	\$1.63	\$2.49	\$2.70

Diluted earnings per share did not include options to purchase 3.5 million and 3.3 million shares for the third quarters of 2007 and 2006, respectively, and 2.9 million and 3.3 million shares for the first nine months of 2007 and 2006, respectively, because the effect of including them would have been antidilutive.

**Note 4. Long-Term Debt**

In January 2007, we issued €1.0 billion, or approximately \$1.3 billion, of 5.625% senior unsecured notes due 2014 at a price of 99.638% of par. The net proceeds from the offering were used to retire the €701.0 million, or approximately \$906.5 million, outstanding balance on our unsecured bridge loan facility obtained to finance our acquisition of Pullmantur. The remainder of the net proceeds, approximately €289.0 million, or approximately \$374.8 million, was used to repay a portion of the outstanding balance on our unsecured revolving credit facility.

In February 2007, we entered into interest rate swap agreements that effectively change €1.0 billion of fixed rate debt with a weighted-average fixed rate of 5.625% to EURIBOR-based floating rate debt. We also entered into cross currency swap agreements that effectively changes €300.0 million of floating EURIBOR-based debt to \$389.1 million floating LIBOR-based debt.

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In March 2007, we entered into a \$589.0 million unsecured term loan due through 2014 at a rate of 4.215%. The contractual interest rate under this loan agreement varies with our debt rating. In April 2007, we drew in full the \$589.0 million available under this unsecured term loan. The proceeds were used towards the purchase of *Liberty of the Seas*, which was delivered in April 2007.

In June 2007, we amended and restated our unsecured revolving credit facility to increase the amount available from \$1.0 billion to \$1.2 billion, reduce the effective interest rate to LIBOR plus 0.485%, change the 0.175% commitment fee to a 0.140% facility fee and extend the maturity date from March 27, 2010 to June 29, 2012.

**Note 5. Shareholders' Equity**

We declared and paid cash dividends on our common stock of \$0.15 per share during the first two quarters of 2007 and 2006. We declared cash dividends on our common stock of \$0.15 per share during the third quarters of 2007 and 2006. The dividends for the third quarters of 2007 and 2006 were paid in October 2007 and October 2006, respectively.

**Note 6. Commitments and Contingencies**

**Capital Expenditures.** As of September 30, 2007, the expected delivery dates and planned berths of our ships on order are as follows:

<u>Ship</u>	<u>Expected Delivery Date</u>	<u>Approximate Berths</u>
Royal Caribbean International:		
Freedom-class:		
<i>Independence of the Seas</i>	2nd Quarter 2008	3,600
Project Genesis:		
<i>Unnamed</i>	3rd Quarter 2009	5,400
<i>Unnamed</i>	3rd Quarter 2010	5,400
Celebrity Cruises:		
Solstice-class:		
<i>Celebrity Solstice</i>	4th Quarter 2008	2,850
<i>Celebrity Equinox</i>	3rd Quarter 2009	2,850
<i>Celebrity Eclipse</i>	2nd Quarter 2010	2,850
<i>Unnamed</i>	3rd Quarter 2011	<u>2,850</u>
	Total Berths	<u>25,800</u>

The anticipated aggregate cost of these ships is approximately \$7.0 billion, of which we have deposited \$499.6 million as of September 30, 2007. Approximately 16.2% of the aggregate cost was exposed to fluctuations in the euro exchange rate at September 30, 2007. As of September 30, 2007, we anticipated overall capital expenditures, including the seven ships on order, will be approximately \$1.3 billion for 2007, \$1.8 billion for 2008, \$2.0 billion for 2009, \$2.2 billion for 2010 and \$1.0 billion for 2011.

**Litigation.** In April 2005, a purported class action lawsuit was filed in the United States District Court for the Southern District of Florida alleging that Celebrity Cruises improperly requires its cabin stewards to share guest gratuities with assistant cabin stewards. The suit sought payment of damages, including penalty wages under the U.S. Seaman's Wage Act. In March 2006, the Southern District of Florida dismissed the suit and held that the case should be arbitrated pursuant to the arbitration provision in Celebrity's collective bargaining agreement. In June 2007, following an appeal by the plaintiff to the United States 11th Circuit Court of Appeals, the Court of Appeals affirmed the District Court's order dismissing the suit. In August 2007, the Court of Appeals denied the plaintiff's petition for re-hearing and petition for re-hearing en banc. We are not able at this time to estimate the impact of this proceeding on us. However, we believe that we have meritorious defenses and we intend to



vigorously defend against this action.

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In January 2006, we partially settled a pending lawsuit against Rolls Royce and Alstom Power Conversion, co-producers of the Mermaid pod-propulsion system on Millennium-class ships, for the recurring Mermaid pod failures. Under the terms of the partial settlement, we received \$38.0 million from Alstom and released them from the suit, which remains pending against Rolls Royce. The \$38.0 million settlement resulted in a gain of \$36.0 million, net of reimbursements to insurance companies, which we have recorded within other income in our consolidated statements of operations for the nine month period ended September 30, 2006.

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. The motion is pending. We are not able at this time to estimate the impact of this proceeding on us.

In June 2006, a federal court jury in New York awarded Celebrity Cruises approximately \$193.0 million, exclusive of pre-judgment interest and attorneys fees, in a lawsuit against Essef Corp. for damages stemming from a 1994 outbreak of Legionnaires' disease on one of Celebrity's ships. In January 2007, the trial court rejected that portion of the jury's award attributed to Celebrity's claim for loss of Celebrity's enterprise value and ordered a new trial to redetermine the amount of lost profits sustained by Celebrity. A retrial was held in June 2007 and the jury awarded Celebrity Cruises approximately \$15.0 million. When combined with approximately \$10.0 million of the original award not subject to a retrial, Celebrity has been awarded a total of approximately \$25.0 million in the lawsuit, exclusive of pre-judgment interest and attorneys fees. The verdict is subject to appeal and, due to the ongoing nature of the proceedings, the ultimate financial impact to Celebrity is undetermined at this time. As a result no portion of this award has been reflected in our financial statements.

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 U.S. 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 January 2007, the plaintiffs appealed the order to the United States Ninth Circuit Court of Appeals. We are not able at this time to estimate the impact of this proceeding on us. However, we believe that we have meritorious defenses and we intend to vigorously defend against this action.

The Miami District Office of the U.S. Equal Employment Opportunity Commission ("EEOC") has alleged that certain of our shipboard employment practices do not comply with U.S. employment laws. In June 2007, the EEOC proposed payment of monetary sanctions and certain remedial actions. We are reviewing the matter with the EEOC, and no legal proceedings have been initiated. We do not believe that this matter will have a material adverse effect upon our financial condition, results of operations or liquidity.

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 effect upon our financial condition, results of operations or liquidity.



**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 and capital allowance deductions. These indemnifications could result in an increase in our lease payments. We are unable to estimate the maximum potential increase in such lease payments due to the various circumstances, timing or combination of events that could trigger such indemnifications. Under current circumstances, we do not believe an indemnification in any material amount is probable.

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

If 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. Comprehensive Income

Comprehensive income includes net income, 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 until the hedged transactions are realized and recognized in earnings. Comprehensive income was as follows (in thousands):

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Net income	\$395,000	\$345,372	\$532,575	\$587,299
Changes related to cash flow derivative hedges	57,172	(21,992)	94,941	9,459
Currency translation adjustment	4,474	-	1,453	-
Total comprehensive income	\$456,646	\$323,380	\$628,969	\$596,758



**Note 8. Recent Accounting Pronouncements**

In June 2006, the Financial Accounting Standards Board (“FASB”) issued Interpretation No. 48, “*Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No.109*”(“FIN 48”). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in the tax return. We adopted FIN 48 on January 1, 2007. The adoption will not have a material impact on our 2007 consolidated financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standard (“SFAS”) No. 157, “*Fair Value Measurements*.” SFAS 157 defines fair value, establishes a formal framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 is effective the first fiscal year beginning after November 15, 2007. We are currently evaluating the impact of SFAS 157, but do not expect the adoption will have a material impact on our consolidated financial statements.

In February 2007, the FASB issued SFAS 159, “*The Fair Value Option for Financial Assets and Financial Liabilities*.” Under SFAS 159, entities will have the option to measure certain financial instruments and other items at fair value that are not currently required to be measured at fair value. This statement expands the use of fair value measurement and applies to entities that elect the fair value option at a specified election date. SFAS 159 is effective the first fiscal year beginning after November 15, 2007. We are currently evaluating the impact of SFAS 159, but do not expect the adoption will have a material impact on our consolidated financial statements.



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

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 “expect,” “anticipate,” “goal,” “project,” “plan,” “believe,” “seek” and similar expressions are intended to identify these 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:

- general economic and business conditions;
  
- vacation industry competition and changes in industry capacity and overcapacity;
  
- the impact of tax 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;
  
- the delivery of scheduled new ships;
  
- emergency ship repairs;
  
- 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 of air service;



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- fears of terrorist attacks, armed conflict and the resulting concerns over safety and security aspects of traveling;
- the impact of the spread of contagious diseases;
- the availability under our unsecured revolving credit facility, cash flows from operations and our ability to obtain new borrowings and raise new capital on terms that are favorable or consistent with our expectations to fund operations, debt payment requirements, capital expenditures and other commitments;
- changes in our stock price or principal shareholders;
- the impact of changes in operating and financing costs, including changes in foreign currency, interest rates, fuel, food, payroll, insurance and security costs; and
- 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, 2006.

This report should be read in conjunction with our annual report on Form 10-K for the year ended December 31, 2006.

### **Terminology and 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.

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 below under the Overview 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 Operations*.

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

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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.

### Overview

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. Concession revenues have minimal costs associated with them, as the costs related to these activities are incurred by the 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, net of the financial impact of fuel swap agreements.
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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, 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.

*Summary of Historical Results of Operations*

We experienced an improved demand environment during the third quarter of 2007 compared to the same period in 2006, resulting in a 4.1% increase in Net Yields. Our increase in capacity of 13.7% combined with a 5.0% increase in Gross Yields resulted in an increase in total revenues of 19.4% for the third quarter of 2007 compared to the same period in 2006. The increase in total revenues was partially offset by an increase in expenses primarily due to the increase in capacity and the acquisition of Pullmantur. As a result, our net income was \$395.0 million or \$1.84 per share on a diluted basis for the third quarter of 2007 compared to \$345.4 million or \$1.63 per share for the third quarter of 2006.

Highlights for the third quarter of 2007 include:

- Total revenues increased by approximately 19.4% to \$2.0 billion from total revenues of \$1.6 billion for the same period in 2006. Net Yields increased by approximately 4.1% compared to the same period in 2006.
- Net Cruise Costs per APCD increased by approximately 6.4% compared to the same period in 2006.
- Net Debt-to-Capital increased to 45.2% as of September 30, 2007 compared to 41.2% as of September 30, 2006. Similarly, our Debt-to-Capital ratio increased to 47.0% as of September 30, 2007 compared to 42.4% as of September 30, 2006.
- We launched our new cruise brand CDF Croisieres de France which will serve the French market and will begin sailings in May 2008. In 2008, *Holiday Dream* will be redeployed from Pullmantur Cruises to CDF Croisieres de France and will sail under the name *Bleu de France*.
- We redeployed *Blue Moon* from Pullmantur Cruises to Azamara Cruises to sail under the name *Azamara Quest*.
- The Scholar Ship, our education program at sea for graduate and undergraduate students, commenced its first semester. We lease a 29,000-ton ocean liner under a vessel operating lease agreement that was renovated into the program's first campus at sea.

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



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The following table presents historical operating data as a percentage of total revenues:

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Passenger ticket revenues	72.8	74.0	72.2	73.8
Onboard and other revenues	27.2	26.0	27.8	26.2
<b>Total revenues</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
Cruise operating expenses				
Commissions, transportation and other	18.2	17.7	18.1	17.7
Onboard and other	7.6	7.5	6.8	6.6
Payroll and related	7.8	7.9	9.3	9.1
Food	4.5	4.6	5.1	5.1
Fuel	7.2	7.7	8.3	8.8
Other operating	13.5	12.3	15.9	14.0
<b>Total cruise operating expenses</b>	<b>58.8</b>	<b>57.7</b>	<b>63.5</b>	<b>61.3</b>
Marketing, selling and administrative expenses	10.2	10.0	12.4	12.7
Depreciation and amortization expenses	6.3	6.7	7.7	7.7
<b>Operating income</b>	<b>24.7</b>	<b>25.6</b>	<b>16.4</b>	<b>18.3</b>
Other income (expense)	(4.5)	(4.5)	(5.0)	(3.9)
<b>Net income</b>	<b>20.2%</b>	<b>21.1%</b>	<b>11.4%</b>	<b>14.4%</b>

Selected historical statistical information is shown in the following table:

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Passengers Carried	1,054,422	957,019	2,932,981	2,698,770
Passenger Cruise Days	7,277,757	6,428,544	19,711,739	17,749,885
APCD	6,668,881	5,865,782	18,526,888	16,543,430
Occupancy	109.1%	109.6%	106.4%	107.3%

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



	<b>Quarter Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Passenger ticket revenues	\$1,423,179	\$1,211,758	\$3,360,586	\$3,006,928
Onboard and other revenue	530,413	425,093	1,297,459	1,069,443
<b>Total revenues</b>	<b>1,953,592</b>	<b>1,636,851</b>	<b>4,658,045</b>	<b>4,076,371</b>
<b>Less:</b>				
Commissions, transportation and other	356,471	289,462	844,784	720,460
Onboard and other	148,218	123,167	316,792	267,945
<b>Net revenues</b>	<b>\$1,448,903</b>	<b>\$1,224,222</b>	<b>\$3,496,469</b>	<b>\$3,087,966</b>
APCD	6,668,881	5,865,782	18,526,888	16,543,430
Gross Yields	\$ 292.94	\$ 279.05	\$ 251.42	\$ 246.40
Net Yields	\$ 217.26	\$ 208.71	\$ 188.72	\$ 186.66

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

	<b>Quarter Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Total cruise operating expenses	\$1,149,244	\$944,166	\$2,956,112	\$2,499,273
Marketing, selling and administrative expenses	199,169	163,745	578,547	518,681
<b>Gross Cruise Costs</b>	<b>1,348,413</b>	<b>1,107,911</b>	<b>3,534,659</b>	<b>3,017,954</b>
Less:				
Commissions, transportation and other	356,471	289,462	844,784	720,460
Onboard and other	148,218	123,167	316,792	267,945
<b>Net Cruise Costs</b>	<b>\$843,724</b>	<b>\$695,282</b>	<b>\$2,373,083</b>	<b>\$2,029,549</b>
APCD	6,668,881	5,865,782	18,526,888	16,543,430
Gross Cruise Costs per APCD	\$ 202.19	\$ 188.88	\$ 190.79	\$ 182.43
Net Cruise Costs per APCD	\$ 126.52	\$ 118.53	\$ 128.09	\$ 122.68

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

	<b>As of September 30,</b>	
	<b>2007</b>	<b>2006</b>
Long-term debt, net of current portion	\$ 5,350,523	\$ 4,181,502
Current portion of long-term debt	558,618	268,638
<b>Total debt</b>	<b>5,909,141</b>	<b>4,450,140</b>
Less: Cash and cash equivalents	411,906	220,538
<b>Net Debt</b>	<b>\$ 5,497,235</b>	<b>\$ 4,229,602</b>
Total shareholders' equity	\$ 6,655,457	\$ 6,043,134
Total debt	5,909,141	4,450,140

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Total debt and shareholder's equity	12,564,598	10,493,274
Debt-to-Capital	47.0%	42.4%
Net Debt	5,497,235	4,229,602
Net Debt and shareholder's equity	\$ 12,152,692	\$ 10,272,736
Net Debt-to-Capital	45.2%	41.2%

**Outlook**

*Fourth Quarter 2007*

We anticipate the following estimates for the fourth quarter of 2007. For purposes of comparison to the fourth quarter of 2006, comparable estimates exclude Pullmantur.

We expect Net Yields will increase approximately 9% compared to 2006, and on a comparable basis will increase approximately 2%.

We expect Net Cruise Costs per APCD to increase in the range of 8% to 9% compared to 2006, and on a comparable basis to increase approximately 2%. Excluding fuel, we expect Net Cruise Costs per APCD to increase approximately 10%, and on a comparable basis to increase approximately 2%.

If fuel prices for the fourth quarter of 2007 remain at the level of current at-the-pump prices including any hedge impacts, fuel expenses for the fourth quarter of 2007 will be \$137.0 million or \$440 per metric ton. We are currently 42% hedged for the fourth quarter of 2007 and estimate that a 10% change in the market price of fuel would result in an \$8.0 million change in fuel costs for the fourth quarter of 2007, after taking into account existing hedges.

We expect a 13.6% increase in capacity, driven by the acquisition of Pullmantur, and the April delivery of *Liberty of the Seas*. On a comparable basis we expect a 4.7% increase in capacity.

Depreciation and amortization is expected to be in the range of \$125.0 million to \$130.0 million and interest expense is expected to be in the range of \$83.0 million to \$88.0 million.

Based on the expectations contained in this Outlook section, and assuming that fuel prices remain at the level of current at-the-pump prices, we expect fourth quarter 2007 earnings per share to be in the range of \$0.32 to \$0.37.

*Full Year 2007*

We anticipate the following estimates for the full year 2007. For purposes of comparison to full year 2006, comparable estimates exclude Pullmantur.

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We expect Net Yields to increase approximately 3% compared to 2006, and on a comparable basis to be relatively flat.

We expect Net Cruise Costs per APCD to increase in the range of 5% to 6% compared to 2006, and on a comparable basis to be relatively flat. Excluding fuel, we expect Net Cruise Costs per APCD to increase in the range of 7% to 8% compared to 2006, and on a comparable basis to be flat to an increase of approximately 1%.

We expect a 12.4% increase in capacity in 2007, driven by the acquisition of Pullmantur, the April delivery of *Liberty of the Seas*, and a full year of operating *Freedom of the Seas*. On a comparable basis, we expect a 4.8% increase in capacity.

Depreciation and amortization is expected to be in the range of \$485.0 million to \$490.0 million, and interest expense is expected to be in the range of \$334.0 million to \$339.0 million.

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Based on the expectations contained in this Outlook section, and assuming that fuel prices remain at the level of current at-the-pump prices, we expect full year 2007 earnings per share to be in the range of \$2.80 to \$2.85.

### *First Quarter and Full Year 2008*

We anticipate the following estimates for the first quarter and the full year 2008. Pullmantur will be included in 2007 and 2008, thus, we will no longer exclude Pullmantur from our estimates.

We expect Net Yields to increase in the mid-single digits for the first quarter of 2008. While it is still too early to quantify projections for the full year 2008, management is optimistic that the current demand environment will result in positive yield performance for the full year.

If fuel prices for 2008 remain at the level of current at-the-pump prices including any hedge impacts, fuel expenses for the first quarter of 2008 and the full year 2008 will be \$132.0 million or \$436 per metric ton and \$560.0 million or \$452 per metric ton, respectively. We are currently 44% hedged for the first quarter of 2008 and 38% hedged for the full year 2008. We estimate that a 10% change in the market price of fuel would result in a \$7.0 million change in fuel costs for the first quarter of 2008 and a \$35.0 million change for the full year 2008, after taking into account existing hedges.

### **Quarter Ended September 30, 2007 Compared to Quarter Ended September 30, 2006**

#### *Revenues*

Net revenues increased 18.4% in 2007 compared to the same period in 2006 primarily due to a 13.7% increase in capacity and 4.1% increase in Net Yields. The increase in capacity was primarily due to the acquisition of Pullmantur and the addition of *Liberty of the Seas*, which entered service in May 2007. The increase in Net Yields was primarily due to the addition of Pullmantur's tour business which adds revenues without corresponding capacity and an increase in ticket prices. Occupancy in 2007 was 109.1% compared to 109.6% for the same period in 2006. Gross Yields increased 5.0% in 2007 compared to 2006 primarily due to the same reasons discussed above for Net Yields.

Concession revenues, included within onboard and other revenues, increased to \$69.4 million in 2007 compared to \$62.9 million for the same period in 2006 primarily due to the addition of *Liberty of the Seas* and the acquisition of Pullmantur, partially offset by changes in passenger spending as a result of changes in itineraries.

#### *Expenses*

Net Cruise Costs increased 21.4% in 2007 compared to the same period in 2006 primarily due to a 13.7% increase in capacity and a 6.7% increase in Net Cruise Costs per APCD. The increase in Net Cruise Costs per APCD was primarily due to increases in other operating expenses and marketing, selling and administrative expenses. Other operating expenses increased primarily due to the addition of Pullmantur's tour business which adds costs without corresponding capacity. The increase in marketing, selling and administrative expenses was primarily attributed to costs associated with the addition of Pullmantur and to a lesser extent timing of marketing expenses. Gross Cruise Costs increased 21.7% in 2007 compared to the same period in 2006 primarily due to the same reasons discussed above for Net Cruise Costs.

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Depreciation and amortization expenses increased 11.9% in 2007 compared to the same period in 2006. The increase was primarily due to the addition of *Liberty of the Seas*, the addition of the Pullmantur fleet, and depreciation associated with ship revitalizations.

### *Other Income (Expense)*

Gross interest expense increased to \$95.3 million in 2007 from \$77.8 million for the same period in 2006. The increase was primarily attributable to a higher average debt level offset by a slight decrease in interest rates. Interest capitalized during 2007 increased to \$10.0 million from \$6.0 million during the same period in 2006 primarily due to a higher average level of investment in ships under construction.

### **Nine Months Ended September 30, 2007 Compared to Nine Months Ended September 30, 2006**

### *Revenues*

Net revenues increased 13.2% in 2007 compared to the same period in 2006 primarily due to a 12.0% increase in capacity and a 1.1% increase in Net Yields. The increase in capacity was primarily due to the acquisition of Pullmantur, the addition of *Freedom of the Seas*, which entered service in June 2006 and the addition of *Liberty of the Seas*, which entered service in May 2007. The increase in Net Yields was primarily due to the addition of Pullmantur's tour business which adds revenues without corresponding capacity partially offset by decreases in ticket prices and onboard spending. The decreases in ticket prices and onboard spending were primarily attributed to lower demand and general economic conditions affecting the discretionary spending of our customers experienced primarily during the first quarter of 2007. Occupancy in 2007 was 106.4% compared to 107.3% for the same period in 2006. Gross Yields increased 2.0% in 2007 compared to 2006 primarily due to the same reasons discussed above for Net Yields.

Concession revenues, included within onboard and other revenues, increased to \$185.9 million in 2007 compared to \$171.4 million for the same period in 2006 primarily due to the addition of *Freedom of the Seas*, the addition of *Liberty of the Seas*, and the acquisition of Pullmantur, partially offset by changes in passenger spending as a result of changes in itineraries.

### *Expenses*

Net Cruise Costs increased 16.9% in 2007 compared to the same period in 2006 primarily due to a 12.0% increase in capacity and a 4.4% increase in Net Cruise Costs per APCD. The increase in Net Cruise Costs per APCD was primarily attributed to increases in other operating expenses. Other operating expenses increased primarily due to the addition of Pullmantur's tour business which adds costs without corresponding capacity. The increase in Net Cruise Costs per APCD was partially offset by the decrease in fuel expenses compared to the same period in 2006. Total fuel expenses (net of the financial impact of fuel swap agreements) for 2007 decreased 1.6% per metric ton. As a percentage of total revenues, fuel expenses were 8.3% and 8.8% in 2007 and 2006, respectively. Gross Cruise Costs increased 17.1% in 2007 compared to 2006 primarily due to the same reasons discussed above for Net Cruise Costs.





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Depreciation and amortization expenses increased 14.8% in 2007 compared to the same period in 2006. The increase was primarily due the addition of the Pullmantur fleet, the addition of *Freedom of the Seas*, the addition of *Liberty of the Seas* and depreciation associated with ship revitalizations.

### *Other Income (Expense)*

Gross interest expense increased to \$280.4 million in 2007 from \$215.5 million for the same period in 2006. The increase was primarily attributable to a higher average debt level and, to a lesser extent, higher interest rates. Interest capitalized during 2007 increased to \$29.1 million from \$19.3 million during the same period in 2006 primarily due to a higher average level of investment in ships under construction.

Other income decreased to \$3.8 million from \$26.7 million for the same period in 2006 primarily due to the partial settlement in January 2006 of a pending lawsuit against Rolls Royce and Alstom Power Conversion, co-producers of the mermaid pod-propulsion system on Millennium-class ships, for the recurring Mermaid pod failures. Under the terms of the partial settlement, we received \$38.0 million from Alstom and released them from the suit, which remains pending against Rolls Royce. The \$38.0 million settlement resulted in a gain of \$36.0 million, net of reimbursements to insurance companies.

## **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 was \$1.2 billion for the first nine months of 2007 compared to \$908.0 million for the same period in 2006. This increase was primarily a result of an increase in customer deposits of approximately \$273.4 million and an increase in accrued expenses and other liabilities of approximately \$212.9 million. The increase was also due to approximately \$121.2 million in payments of accreted interest on the LYONs repurchase in the first nine months of 2006 that did not recur in the first nine months of 2007. This increase was partially offset by a decrease in net income of approximately \$54.7 million, an increase in trade and other receivables of approximately \$146.6 million and an increase in prepaid expenses and other assets of approximately \$60.0 million.

Net cash used in investing activities was \$1.2 billion for the first nine months of 2007 compared to \$1.1 billion for the same period in 2006. The increase was primarily due to an increase in capital expenditures of approximately \$205.6 million partially offset by the purchase of \$100.0 million of notes from First Choice Holidays PLC during the first nine months of 2006 that did not recur in the first nine months of 2007. Our capital expenditures increased to approximately \$1.2 billion for the first nine months of 2007 from \$1.0 billion for the same period in 2006, primarily due to the purchase of *Pacific Star* and the increase in number of ships under construction.

Net cash provided by financing activities was \$328.5 million in the first nine months of 2007 compared to \$319.8 million for the same period in 2006. The change was primarily due to an increase in repayments of debt of approximately \$238.4 million partially offset by an increase in proceeds from debt issuances of approximately \$98.8 million during the first nine months in 2007 compared to the same period in 2006. The change was also partially offset by \$164.6 million of treasury stock purchased in the first nine months of 2006 that did not recur in the first nine

months of 2007. During the first nine months of 2007, we received net proceeds of €990.9 million, or approximately \$1.3 billion, from a bond

offering consisting of approximately €1.0 billion, or approximately \$1.3 billion, of 5.625% senior unsecured notes due 2014. In addition, we received \$589.0 million through an unsecured term loan due through 2014 to purchase *Liberty of the Seas* and drew \$20.0 million on our unsecured revolving credit facility. During the first nine months of 2007, we made debt repayments on various loan facilities and capital leases, including a payment of approximately \$906.5 million to retire the €701.0 million outstanding balance on our unsecured bridge loan facility. In addition, we made approximately \$465.0 million in payments towards our unsecured revolving credit facility and a payment of approximately \$61.2 million to repay term loans secured by two Celebrity ships. Approximately \$28.9 million of the \$61.2 million payment represents a payment made in advance of scheduled maturity. During the first nine months of 2007, we received \$16.9 million in connection with the exercise of common stock options and paid cash dividends on our common stock of \$66.3 million. Net Debt-to-Capital increased to 45.2% as of September 30, 2007 compared to 41.2% for the same period in 2006.

Interest capitalized during the first nine months of 2007 increased to \$29.1 million from \$19.3 million for the same period in 2006 due to a higher average level of investment in ships under construction.

#### ***Future Capital Commitments***

As of September 30, 2007, we had on order one Freedom-class ship and two Genesis-class ships for Royal Caribbean International, and four Solstice-class ships designated for Celebrity Cruises, for an aggregate additional capacity of approximately 25,800 berths. The anticipated aggregate cost of the seven ships on order is approximately \$7.0 billion, of which we have deposited \$499.6 million as of September 30, 2007. Approximately 16.2% of the aggregate cost of the ships was exposed to fluctuations in the euro exchange rate at September 30, 2007.

As of September 30, 2007, we anticipated overall capital expenditures, including the seven ships on order, will be approximately \$1.3 billion for 2007, \$1.8 billion for 2008, \$2.0 billion for 2009, \$2.2 billion for 2010 and \$1.0 billion for 2011.

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

As of September 30, 2007, our contractual obligations were as follows (in thousands):

	<b>Payments due by period</b>				
	<b>Total</b>	<b>Less than 1 year</b>	<b>1-3 years</b>	<b>3-5 years</b>	<b>More than 5 years</b>
Long-term debt obligations(1)	\$5,860,509	\$556,618	\$944,538	\$1,000,010	\$3,359,343
Capital lease obligations(1)	48,632	2,000	4,038	3,323	39,271
Operating lease obligations(2)(3)	576,933	67,053	119,939	352,376	37,565
Ship purchase obligations(4)	5,539,666	779,088	4,093,064	667,514	-
Other(5)	403,787	83,123	127,054	58,170	135,440
<b>Total</b>	<b>\$12,429,527</b>	<b>\$1,487,882</b>	<b>\$5,288,633</b>	<b>\$2,081,393</b>	<b>\$3,571,619</b>

(1) Amounts exclude interest.

(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 \$258.1 million based on the exchange rate at September 30, 2007, 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.

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 and capital allowance deductions. These indemnifications could result in an increase in our lease payments. We are unable to estimate the maximum potential increase in such lease payments due to the various circumstances, timing or combination of events that could trigger such indemnifications. Under current circumstances we do not believe an indemnification in any material amount is probable.

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

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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. 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.

*Funding Sources*

As of September 30, 2007, our liquidity was \$1.6 billion consisting of approximately \$0.4 billion in cash and cash equivalents and \$1.2 billion available under our unsecured revolving credit facility. We have contractual obligations of approximately \$1.5 billion due during the twelve-month period ending September 30, 2008. We anticipate these contractual obligations could be funded through a combination of cash flows from operations, drawdowns under our available unsecured revolving credit facility, the incurrence of additional indebtedness and the sales of equity or debt securities in private or public securities markets. Although we believe our existing unsecured revolving credit facility, cash flows from operations, our ability to obtain new borrowings and/or raise new capital or a combination of these sources will be sufficient to fund operations, debt payment requirements, capital expenditures and other commitments over the next twelve-month period, there can be no assurances that these sources of cash will be available in accordance with our expectations.

In June 2007, we amended and restated our unsecured revolving credit facility to increase the amount available from \$1.0 billion to \$1.2 billion, reduce the effective interest rate to LIBOR plus 0.485%, change the 0.175% commitment fee to a 0.140% facility fee and extend the maturity date from March 27, 2010 to June 29, 2012. Other structural enhancements provided for in the amended and restated revolving credit facility include, among others; an extension option that provides for, subject to lender approval, one year extensions at the first two anniversary dates of the facility, and an accordion feature that allows us to increase the facility size to \$1.5 billion during the life of the facility.

Our financing agreements contain covenants that require us, among other things, to maintain minimum net worth, fixed charge coverage ratio and limit our net debt-to-capital ratio. We were in compliance with all covenants as of September 30, 2007.

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.

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

In February 2007, we entered into interest rate swap agreements that effectively change €1.0 billion of fixed rate debt with a weighted-average fixed rate of 5.625% to EURIBOR-based floating rate debt. We also entered into cross currency swap agreements that effectively changes €300.0 million of floating EURIBOR-based debt to \$389.1 million floating LIBOR-based debt. Other than this change there have been no significant developments or material changes with respect to our exposure to the market risks previously reported in our annual report on Form 10-K for the year ended December 31, 2006.

For a further 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, 2006.

### **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 September 30, 2007 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.





**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

As reported in our annual report on Form 10-K for the year ended December 31, 2006, a purported class action lawsuit was filed in April 2005 in the United States District Court of the Southern District of Florida alleging that Celebrity Cruises improperly requires its cabin stewards to share guest gratuities with assistant cabin stewards. The suit sought payment of damages, including penalty wages under the U.S. Seaman's Wage Act. In March 2006, the Southern District of Florida dismissed the suit and held that the case should be arbitrated pursuant to the arbitration provision in Celebrity's collective bargaining agreement. In June 2007, following an appeal by the plaintiff to the United States 11th Circuit Court of Appeals, the Court of Appeals affirmed the district court's order dismissing the suit. In August 2007, the Court of Appeals denied the plaintiff's petition for re-hearing and petition for re-hearing en banc.

**Item 6. Exhibits**

- 10.1 Amended and Restated Trust Agreement dated September 21, 2007 between Royal Caribbean Cruises Ltd. and Northern Trust, N.A.
- 10.2 Cruise Policy effective as of October 3, 2007 for Members of the Board of Directors of Royal Caribbean Cruises Ltd.
- 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.

**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: October 22, 2007