THE STAHL REPORT

October 1, 2013

Royal Caribbean Cruises Ltd.

(BUY)

Price:	$38.28	**Ticker:**	RCL
52-Week Range:	$29.96-$40.71	**Dividend:**	$0.48
Shares Outstanding:	220.6m	**Yield:**	1.3%
Market Capitalization:	$8,445m		

Data as of 9/30/13
Valuations within this text are based on a $39.77 share price

Exclusive Marketers of
The Stahl Report

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Investment Thesis

Royal Caribbean, the second largest cruise ship operator in the world, is suffering from many of the same problems as the industry's largest company, Carnival Corp[1]. Foremost is the inability of these companies to raise ticket prices commensurate with the increase in fuel costs over the last five years. In contrast to industries such as railroads or trucking, in which fuel surcharges are added to recover rising fuel expenses, cruise ship companies provide a highly discretionary product to consumers. The lack of a more vigorous global economic recovery, which would normally provide consumers with increasing amounts of discretionary income, has prevented these companies from increasing prices–and in many cases forced them to offer promotional discounts to maintain demand. Consequently, this dramatic margin contraction has placed pressure on the earnings of Royal Caribbean.

This can be shown in a number of ways. For instance, the company's operating margin at the prior peak in 2005 of 17.8% has been gradually eroded to the current level of 10.2%, representing a decline of 42.7%. Royal Caribbean utilizes a considerable amount of debt to finance the purchase of new vessels, as its fleet naturally ages and requires replenishment over time. This leverage magnifies any operating margin erosion, illustrated by the 61.5% decline in the company's net margin since 2005.

It is important to note that the cruise industry suffers from cyclicality in pricing, not in demand. Demand, measured by passengers carried, is actually remarkably stable, even during periods of recession. For example, Royal Caribbean carried 4.02 million passengers in 2008. The following year, during the depths of the Credit Crisis, the company's passenger volume declined by only 1%. In 2012, Royal Caribbean carried 4.8 million passengers, which was the highest number recorded in the company's history (similar statistics, demonstrating the durability of passenger demand, were presented in our Carnival Corp. report).

The periodic margin erosion is therefore caused by the fixed operating cost structure of the industry. In other words, regardless of passenger volume or the revenues generated from ticket sales and other onboard purchases, the base cost of operating a cruise ship–staffing, maintenance/repairs, fuel, etc.–is difficult to reduce. To demonstrate this, Royal Caribbean generated a 16.4% operating margin in 2006, resulting from $1,452 of revenue per passenger, and $1,214 of operating costs per passenger. Last year, the company recorded revenue per passenger of $1,585 and operating costs per passenger of $1,422, resulting in a 10.2% operating margin. Ergo, revenues per passenger have increased by only 9%, while operating expenses per passenger were 17% higher than in 2006.

[1] The Stahl Report recommended the purchase of Carnival Corp. in a report dated September 19, 2013. Readers are encouraged to read this report in conjunction with the present Royal Caribbean report, as the interpretation of industry statistics, both historic and present, will overlap. Copies are available upon request.

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The issue of salience to the investor is whether the business environment for the cruise industry has suffered permanent rather than transient, event-related change that will disallow these companies from ever regaining their pricing power. To first assess the downside risk, consider that Royal Caribbean trades at 13x its forward consensus earnings estimate of $3.01 per share. If its margins never were to improve, and it can merely produce the historical average U.S. corporate profit growth rate of about 6%, and one includes the current dividend yield of 1%, the 7% total annual return, relative to a 13x multiple, does not seem to expose the investor to an inordinate amount of risk, or at least not greatly in excess of the normal price risk associated with common stocks. Moreover, the company trades at only a 10% premium to its tangible book value, which has on a per share basis increased by 6.5% annually since 2000. Viewed in this manner, assuming Royal Caribbean continues to be valued at more or less the liquidation value of its assets, a price that implicitly suggests that these assets have very little, if any, future earnings power, the return in the absence of margin expansion would again be in the 7%-8% range. And this requires a fairly draconian opinion of the company's earnings potential.

However, Royal Caribbean has emerged from recession before, and realized relatively high margins in the process. Using only the consensus 2014 revenue estimate of $8.24 billion, which is probably depressed relative to its maximum revenue producing power, one could apply a historic operating margin of 16.5%. This would create $1.36 billion of operating income, and after subtracting $325 million of interest expense, leave net income of $1.035 billion, or $4.69 per share (Royal Caribbean, as a Liberian company, does not pay corporate income tax). If it trades at only 13x these normal earnings, the $61 share price would generate a cumulative return of 53%. More optimistically, at a 15x p/e, one's return would increase to 77%.

Within this text, a few other "normal earnings" scenarios are discussed. By utilizing modest increases in passenger volume and revenue per passenger, both of which would be likely during a cyclical expansion, one could arrive at a forward earnings outcome of roughly $5 per share, implying that Royal Caribbean perhaps trades at 8x future earnings. This seems too low for a company that, along with Carnival Corp., essentially operates as a duopoly in this industry, and is guided by its founding Wilhelmsen family, which continues to own 19% of the company's shares. Therefore, it is recommended for purchase.

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Company Description

Royal Caribbean was founded in 1968 by Arne Wilhelmsen, a Norwegian businessman who had involvement in a number of shipping companies at the time. His vision to create the first commercial vacation cruise ship actually predated the efforts of Ted Arison, widely considered the industry's pioneer through his formation of Carnival Corp. in 1972. Mr. Wilhelmsen guided the construction of Royal Caribbean's first ship, Song of Norway, which commenced its maiden voyage in 1970. Family ownership of the company remains substantial, as A. Alexander Wilhelmsen, who is on the Board of Directors, owns approximately 42 million shares, totaling 19% of the company's total outstanding.

Royal Caribbean was also one of the first cruise companies to undertake ship stretching. This is a process whereby the vessel is separated into two pieces, and a midsection piece is inserted to extend the length of the ship. This was viewed as a cheaper alternative than purchasing larger ships, but overall a strategy to accommodate more onboard activities– restaurants, additional cabin/passenger space, luxury spas, gym facilities, swimming pools, etc. That effort continues at present, as both Royal Caribbean and Carnival are in the process of replacing older, smaller vessels with larger, more luxurious ones that offer customers a variety of recreational features. This not only is designed to lure vacationers away from the traditional hotel/land resort type outing, but also expand onboard revenues associated with these premium pay services.

Following its merger with Celebrity Cruises, Royal Caribbean now operates the following segments, which are described below (the company's operating segments are not presented on a separate financial basis, but rather collectively as an entire entity). In total, the company's fleet consists of 41 ships.

The company's flagship brand, Royal Caribbean International ("RCI"), owns 22 ships that offer customer itineraries ranging from two to eighteen nights. RCI is positioned as a mid-level cruise operator, designed for the first time or slightly experienced cruise passenger. It offers destinations around the world, including those in Bermuda, Alaska, Australia and South America. It is the company's largest and broadest line in terms of geographic destinations.

Celebrity Cruises operates 13 ships, and is the company's premium line in North America. The Celebrity ships are designed for the experienced cruise passenger who requires premium service and amenities, and who generally is on board for up to eighteen nights. Celebrity serves a variety of destinations such as Australia, Asia, Hawaii, and New Zealand.

Azamara Club Cruises is more of a luxury line, with smaller vessels that can reach exotic locations that are only accessible with smaller ships. The standards of accommodation and

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services are higher, as are the prices for the various onboard services offered. Azamara is also structured to allow for longer land-based stays, allowing Royal Caribbean to offer exotic land-based travel packages along with the traditional cruise experience.

Royal Caribbean also operates a number of smaller, more regional-focused cruise lines, each designed for a specific portion of the population. Pullmantur is the company's brand in the Spanish and Latin American markets. It encompasses three ships that serve the Latin American population by offering vacation packages to Brazil and Europe. Similarly, TUI Cruises, a joint venture with the British travel agency, TUI Travel, owns two ships that serve the German tourism market. Lastly, CDF Croisieres de France, comprises one ship that is exclusively devoted to the French population.

In 2012, the company carried 4.9 million passengers worldwide. Viewed relative to the global cruise industry, which transported 20.8 million passengers in 2012, Royal Caribbean has approximately 23.6% market share. The industry's largest, Carnival Corp., maintains roughly 45% market share, such that these two companies control about 70% of global cruise passenger volume. Together with Norwegian Cruise Lines, the three largest companies maintain over 80% of the industry's market share. Measured by this statistic, the industry is more or less an oligopoly.

In terms of vacation options available to the consumer, cruise lines are a relatively new form of entertainment, as the first notable ship was not placed into operation until the early 1970s, and more widespread acceptance did not occur until the late 1980s. As an illustrative example, over three times as many tourists visited Walt Disney World last year than purchased a ticket on a Royal Caribbean cruise–this is merely one vacation destination in the U.S. alone.

The industry's growth rate–in the low to mid single digits–has been stable over the last decade, owed largely to the growing acceptance of cruise-based vacations, and to the ability of the cruise operators to enhance the guest experience through expanded onboard activities. This has allowed Royal Caribbean and Carnival Corp. to capture share from the hotel operators, and largely why passenger volume has not been greatly disrupted during economic recession thus far. This might be compared, not merely anecdotally, to the experience of Disney. Attendance at its theme parks is generally impacted negatively during a recession, and the operating income of that business is highly variable. The two businesses share many features, notably their fixed cost structure, but have vastly different demand characteristics, as the Disney theme parks are known entities, having been visited by consumers for decades.

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Weathering the Current Downturn

The durability of demand can be expressed through the company's historical passenger volume, which is presented below.

Table 1: Royal Caribbean Passenger Growth

Year	Passengers (in mill)
2012	4.85
2011	4.85
2010	4.59
2009	3.97
2008	4.02
2007	3.91
2006	3.60
2005	3.48
2004	3.41
2003	2.99
2002	2.77

During the 2011-2012 period, the number of passengers carried remained constant, demonstrating the challenged state of the overall industry. The only instance of decline, which occurred during 2008-2009, was relatively immaterial, representing a reduction of 1.2%.

The issue for Royal Caribbean has been pricing pressure. Carnival Corp. has noted its widespread use of promotions and discounts to attract customers, and keep occupancy levels adequate. This seems to be occurring at Royal Caribbean as well. Since 2008, the company has suffered a 2.5% decline in the amount of revenue generated per passenger. This has been a sharp reversal of the company's experience preceding 2008, in which revenues per passenger steadily increased.

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Table 2: Royal Caribbean Revenue Generated per Passenger

Year	Revenue per Passenger
2012	$1,585
2011	1,554
2010	1,473
2009	1,484
2008	1,626
2007	1,575
2006	1,452
2005	1,411
2004	1,338
2003	1,265
2002	1,241

This has been quite problematic, because the company's operating costs per passenger have risen. Since 2006, Royal Caribbean's total expenses have increased from $1,214 per passenger to the current level of $1,422, or by 17.1%.

Table 3: Royal Caribbean Operating Expenses per Passenger

Year	Operating Expenses per Passenger
2012	$1,422
2011	1,362
2010	1,297
2009	1,360
2008	1,419
2007	1,344
2006	1,214
2005	1,160
2004	1,117
2003	1,089
2002	1,042

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However, during this same time, revenue per passenger has expanded by only 9.2%. The logical outcome is that, by this metric, the company's operating margin has lost several hundred basis points.

There is a natural inflationary feature of the company's expenses. For instance, the cost of food required to supply both staff and guests has obviously increased since 2006. In order to retain employees of the company, higher wages must be paid along with the associated health and benefits costs–which have increased greatly since 2006. Moreover, fuel costs have risen rapidly. In 2004, the cost of fuel consumed 5.5% of revenues. Last year, this expense totaled 11.8% of total sales.

It is therefore easy to understand why the company's margins have been under pressure since the Credit Crisis. The inability to raise ticket prices and generate additional onboard revenue against a backdrop of rising costs has logically led to the margin erosion that is presented below. As important clarification, one will note that the company's revenues have steadily increased in almost each and every year since 2000, which is normally not associated with margin erosion. Yet, as Royal Caribbean has maintained steady booking levels, the margin of profitability per passenger, for the reasons cited above, has declined markedly.

Table 4: Royal Caribbean Historical Operating Margin

Year	Revenues	Operating Income	Operating Margin
2012	$7,688	$788	10.2%
2011	7,537	932	12.4%
2010	6,753	803	11.9%
2009	5,890	489	8.3%
2008	6,533	832	12.7%
2007	6,149	901	14.7%
2006	5,230	858	16.4%
2005	4,903	872	17.8%
2004	4,555	754	16.6%
2003	3,784	526	13.9%
2002	3,434	551	16.0%
2001	3,145	456	16.0%
2000	2,866	570	16.0%

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This variability in financial performance leads to another set of risks presented by the large sums of capital required to run a vast cruise ship franchise–it is a very asset heavy business. Ships, of course, have a certain shelf live and require replacement over time. The current trend in the industry is to construct ever larger vessels with increasingly advanced features and more luxurious accommodations. These advanced ships are also very expensive, requiring Royal Caribbean to allocate a substantial amount of its cash flow to purchase new vessels. One way to measure this is by annual capital expenditures as a percent of revenues. This has been a variable number, reaching a low of 8.8% in 2005 to as high as 42% in 2009. It is easily demonstrated that Royal Caribbean was investing heavily in its fleet during the Credit Crisis. That continues, as the company currently has a number of new ships on order. Last year, the company reported capital expenditures of $1.3 billion, which was 16.8% of revenues. This was below, although not dramatically, the average since 2000 of 23.2%.

Capital expenditures can vary greatly. As the company's fleet grows, capital expenditures will logically expand over time. The amount spent every year is also determined by the underlying need to upgrade its fleet, or by the necessity to preserve capital during a downturn.

Table 5: Historical Royal Caribbean Capital Expenditures

Year	CAPEX	CAPEX as % of Revenues
2012	$1,291	16.8%
2011	1,174	15.6%
2010	2,187	32.4%
2009	2,478	42.1%
2008	2,224	34.0%
2007	1,317	21.4%
2006	1,181	22.6%
2005	430	8.8%
2004	631	13.9%
2003	1,030	27.2%
2002	690	20.1%

In the current year of depressed earnings, Royal Caribbean is anticipated to earn $514 million of profit. It will have between $750 million and $770 million of depreciation and amortization expense[2], suggesting about $1.3 billion of cash earnings. As seen in the

[2] The depreciation and amortization expense guidance was provided by the company in the 2Q13 SEC Form 10-Q

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above table, the company routinely records over $2 billion per annum of capital expenditures. As a result, additional capital in the form of debt is often required to maintain the growth of its fleet.

Currently, it has $8.3 billion of total debt, $205 million of cash, and $8.4 billion of shareholders' equity. Many would consider Royal Caribbean to be a fairly leveraged company. Its margin for error is somewhat narrow, measured by its ability to generate operating income in excess of interest expense. Since 2002, the coverage ratio has been tightly in the range of 1x-3x. Despite this, Royal Caribbean has never been unprofitable (at least during its public life). There are plenty of capital intensive businesses that are severely cyclical, and frequently post losses during a weakness in industry demand. If one were to stress test the cruise industry, using the Credit Crisis as a low point, that Royal Caribbean, despite its financial leverage, did not generate a loss is suggestive of the industry's relative durability during economic crisis.

Table 6: Royal Caribbean Interest Coverage Ratio

Year	Interest Coverage
2012	2.21x
2011	2.44x
2010	2.16x
2009	1.63x
2008	2.54x
2007	2.70x
2006	3.20x
2005	3.23x
2004	2.43x
2003	1.96x
2002	2.06x

At this point, the reader will no doubt understand that the company's annual earnings are anything but stable. The operating variability, coupled with balance sheet leverage, produces highly volatile earnings. While the magnitude of the peak-to-trough operating margin erosion was 53.4% (2005: 17.8%; 2009: 8.3%), the net profit margin reached a low of 2.8% in 2009, a 79.3% decline from the high in 2005.

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Table 7: Royal Caribbean Historical Net Profit Margin

Year	Net Income	Net Margin
2012	$403	5.2%
2011	607	8.1%
2010	516	7.6%
2009	162	2.8%
2008	574	8.8%
2007	603	9.8%
2006	634	12.1%
2005	663	13.5%
2004	475	10.4%
2003	281	7.4%
2002	351	10.2%
2001	254	8.1%
2000	445	15.5%

Valuation

The historical valuation of Royal Caribbean, measured through the p/e ratio, is not inconsistent with what one might expect for a cyclical company. During normal profit years, the company typically trades at 12x-15x those earnings. During depressed profit years, the market typically discounts a recovery, and the p/e ratio is artificially high. The table below compares the valuation experience with that of Carnival Corp. The distinction between the two is that Carnival, during ordinary years of earnings, has traded at a noticeable premium to Royal Caribbean. The reasons are self evident. Carnival Corp, on average, produces higher margins, benefiting from the economy of scale advantages of a fleet nearly 2x the size of that of Royal Caribbean. Carnival Corp. also has used less debt to finance its ship purchases, resulting in a more conservatively capitalized balance sheet.

Nevertheless, the objective is to identify a normal earnings multiple for Royal Caribbean, which will be applicable later in this section. It appears that 13x would be considered reasonable, though the company has traded at higher normalized multiples than this.

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Table 8: P/E Comparison: Royal Caribbean vs. Carnival Corp.

Year	CCL	RCL
2013E	22.9x	17.1x
2012	22.0x	18.4x
2011	13.5x	8.8x
2010	18.7x	19.6x
2009	14.1x	35.6x
2008	8.4x	5.1x
2007	15.1x	14.9x
2006	17.7x	13.7x
2005	19.8x	13.0x
2004	26.4x	22.8x
2003	24.5x	24.5x
2002	14.4x	9.5x
2001	17.8x	12.4x
2000	19.3x	11.5x

More interestingly, Royal Caribbean has $37.86 per share of shareholders' equity. There is $431 million, or $1.95 per share of goodwill on the balance sheet, resulting in tangible book value of $35.97 per share. The company therefore trades at a 10.6% premium to tangible book value. At this valuation, investors are suggesting, for all intents and purposes, that the company's assets have little, to no, profit generating ability. This is obviously false.

This viewpoint seems to stem from the company's current return on equity. Last year, Royal Caribbean produced only a 4.9% return on its equity. If that were the best the company could ever achieve, a very low price-to-book ratio would be well justified. If all of the company's annual earnings were retained, and only a 4.9% return on this capital could be earned, the after tax equivalent, or the return available to the taxable owner of the shares, would be 3%-3.5%. Even in today's ultra low bond yield environment, one could purchase a money-good corporate credit providing this type of return, and avoid the proportionately higher equity-related risk of Royal Caribbean.

However, the normal return on equity for this company is 8%-12%. It stands to reason that a wider premium to book value is clearly justified, should the company's earnings mean revert over time. The table below highlights that Royal Caribbean has traded well below its stated book value during past recessions, only to have its earnings recover, and then be priced at significant premiums to book value. This is a normal course of securities pricing.

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The initial overreaction, heightened in this case by Royal Caribbean's debt load and the perceived default risk, allows one to purchase assets below their future realizable value. While the company does not currently trade at such a steep discount as it has in the past, the modest valuation still leaves room for a substantial future return, considering it traded, at one point, at 2.7x book value at the beginning of a five year upward earnings cycle.

Table 9: Royal Caribbean Price/Book and ROE

Year	P/BV	ROE
2013E	1.05x	6.1%
2012	0.90x	4.9%
2011	0.65x	7.2%
2010	1.30x	6.5%
2009	0.73x	2.2%
2008	0.43x	8.4%
2007	1.34x	8.9%
2006	1.50x	10.4%
2005	1.91x	11.9%
2004	2.66x	9.9%
2003	1.72x	6.6%
2002	0.87x	8.7%
2001	0.87x	6.8%
2000	1.41x	12.3%

The analyst community believes that the company's earnings prospects will be materially better in 2014. While the company is expected to earn $2.33 per share of profit this year, analysts expect a 29% improvement in 2014, as the consensus estimate is $3.01 per share. This suggests an 8.1% net margin, but still well below prior levels.

Implicit in the possible return outcomes presented below is a mean reversion in Royal Caribbean's margins. Virtually all of the margin erosion of the last several years has been caused by an increase in fuel costs and the company's inability to offset this with additional revenues. Since 2004, fuel expenses as a percent of sales have expanded by 630 basis points. The magnitude of the overall operating margin contraction, from 16.6% to 10.2%, has been a nearly identical 640 basis points during this time.

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Table 10: Royal Caribbean's Fuel Costs as a Percent of Sales

Year	Operating Margin	Fuel Costs as % of Revenues
2012	10.2%	11.8%
2011	12.4%	10.1%
2010	11.9%	9.6%
2009	8.3%	10.2%
2008	12.7%	11.1%
2007	14.7%	8.9%
2006	16.4%	9.2%
2005	17.8%	7.5%
2004	16.6%	5.5%

In years past, the cruise companies implemented the equivalent of a fuel surcharge to ticket prices, in an effort to combat rapidly rising fuel costs. This more or less ended with the onset of the Credit Crisis and subsequent demand pressures placed on the industry. During 2013, Royal Caribbean has hedged about 60% of its anticipated fuel consumption for this year, and 55% is hedged for expected 2014 consumption. The need to mitigate volatility in fuel prices is therefore paramount to the company's longer term operating strategy.

Were fuel costs to remain at these levels, absent the normal price inflation that would allow Royal Caribbean to generate even modest revenue expansion through an increase in ticket prices, the margins of the company are likely to remain low. However, the advancement and growth of the business over time, assuming the return to a normal pricing environment, should naturally allow the company to improve its margins against its large fixed costs. In addition, the earnings optionality that would result from an unexpected decline in ship fuel costs seems to be a scenario to which no consideration is being given by the broad investor community.

Let us begin with the 2014 expected level of revenues, or $8.24 billion. Recall that the company's peak operating margin was 17.8%, achieved in 2005. The following scenarios will use lower margin levels, if nothing more than to be conservative. At a 16.5% operating margin, Royal Caribbean would produce $1.36 billion of operating income. Management expects that net interest expense in 2013 will be $325 million, which when subtracted from the operating income, leaves a net profit of $1.035 billion. The company has 220.6 million shares outstanding, resulting in earnings per share of $4.69. At a 13x multiple, the shares would be worth $60.97, producing a return of 53%. At a 15x multiple, one's return would rise to 77%.

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Of course, Royal Caribbean could fall short of reaching prior margin levels, even amid a recovery in the overall operating environment. By utilizing a 15% operating margin, the subsequent earnings per share would be $4.13. The returns, under both a 13x and 15x p/e outcome, would be 35% and 56%.

Another way to view normal earnings would be to allow for an increase in passenger volume, which almost assuredly would occur during a recovery in the industry. If pricing were to improve as well, perhaps the company could again achieve its prior high in revenues earned per passenger–$1,626 in 2008. By assuming a 10% expansion in passengers carried to 5.34 million, the company would generate $8.678 billion of sales. Applying the same 16.5% operating margin, the profit per share figure would be $5.02. At 13x this number, the shares would be worth $65.26, a 64% premium over the current price. At 15x earnings, one's investment would nearly double, or appreciate by 89%.

Investment Summary

Royal Caribbean is suffering from a prolonged downturn in the cruise ship industry. Its historical pricing power has all but been eliminated amid ticket price discounting intended to keep passenger volume at steady or even growing levels. Cruise ship operators have experienced a rapid increase in fuel prices over the last several years, which has served to compress their margins substantially. Royal Caribbean's larger competitor, Carnival Corp., is experiencing these same issues, and the earnings of both companies are well below those in normalized years. If these problems are merely transitory, and natural growth in passenger volume and ticket prices resumes, as has occurred following past recessions, the investor community has yet to price in such a recovery. Royal Caribbean seems to offer an opportunity to earn 50% or more on one's investment, and thus the shares are considered for purchase.

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ROYAL CARIBBEAN CRUISES LTD.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(unaudited; in thousands, except per share data)

	Six Months Ended June 30,	
	2013	2012
Passenger ticket revenues	$ 2,760,491	$ 2,684,445
Onboard and other revenues	1,033,496	971,039
Total revenues	3,793,987	3,655,484
Cruise operating expenses:		
Commissions, transportation and other	639,443	628,435
Onboard and other	262,197	238,576
Payroll and related	418,898	416,633
Food	232,013	222,925
Fuel	474,123	466,955
Other operating	579,135	577,602
Total cruise operating expenses	2,605,809	2,551,126
Marketing, selling and administrative expenses	533,660	512,172
Depreciation and amortization expenses	375,548	359,906
Operating Income	278,970	232,280
Other income (expense):		
Interest income	7,152	11,318
Interest expense, net of interest capitalized	(177,059)	(181,772)
Other expense	(8,090)	(18,515)
	(177,997)	(188,969)
Net Income	$ 100,973	$ 43,311
Earnings per Share:		
Basic	$ 0.46	$ 0.20
Diluted	$ 0.46	$ 0.20
Weighted-Average Shares Outstanding:		
Basic	219,301	217,725
Diluted	220,596	219,217
Comprehensive Income (Loss)		
Net Income	$ 100,973	$ 43,311
Other comprehensive income (loss):		
Foreign currency translation adjustments	(5,795)	(9,021)
Change in defined benefit plans	5,293	—
Loss on cash flow derivative hedges	(5,058)	(140,782)
Total other comprehensive loss	(5,560)	(149,803)
Comprehensive Income (Loss)	$ 95,413	$ (106,492)

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

	As of	
	June 30, 2013 (unaudited)	December 31, 2012
Assets		
Current assets		
Cash and cash equivalents	$ 205,174	$ 194,855
Trade and other receivables, net	310,051	281,421
Inventories	141,440	146,295
Prepaid expenses and other assets	270,392	207,662
Derivative financial instruments	26,037	57,827
Total current assets	953,094	888,060
Property and equipment, net	17,511,913	17,451,034
Goodwill	430,666	432,975
Other assets	1,055,121	1,055,861
	$ 19,950,794	$ 19,827,930
Liabilities and Shareholders' Equity		
Current liabilities		
Current portion of long-term debt	$ 1,906,468	$ 1,519,483
Accounts payable	314,197	351,587
Accrued interest	75,107	106,366
Accrued expenses and other liabilities	541,699	541,722
Customer deposits	1,874,704	1,546,993
Total current liabilities	4,712,175	4,066,151
Long-term debt	6,347,640	6,970,464
Other long-term liabilities	524,720	482,566
Commitments and contingencies (Note 7)		
Shareholders' equity		
Preferred stock ($0.01 par value; 20,000,000 shares authorized; none outstanding)	—	—
Common stock ($0.01 par value; 500,000,000 shares authorized; 229,919,883 and 229,080,109 shares issued, June 30, 2013 and December 31, 2012, respectively)	2,299	2,291
Paid-in capital	3,125,172	3,109,887
Retained earnings	5,792,568	5,744,791
Accumulated other comprehensive loss	(140,076)	(134,516)
Treasury stock (10,308,683 common shares at cost, June 30, 2013 and December 31, 2012)	(413,704)	(413,704)
Total shareholders' equity	8,366,259	8,308,749
	$ 19,950,794	$ 19,827,930

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