ROYAL CARIBBEAN CRUISES LTD
Form 10-Q
April 23, 2015
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2015

OR

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

For the transition period from to

Commission File Number: 1-11884
ROYAL CARIBBEAN CRUISES LTD.
(Exact name of registrant as specified in its charter)

Republic of Liberia	98-0081645
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1050 Caribbean Way, Miami, Florida 33132
(Address of principal executive offices) (zip code)

(305) 539-6000
(Registrant’s telephone number, including area code)

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

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

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

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

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

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

There were 219,909,660 shares of common stock outstanding as of April 16, 2015.

ROYAL CARIBBEAN CRUISES LTD.

TABLE OF CONTENTS

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Quarter Ended March 31,	
	2015	2014
Passenger ticket revenues	$1,306,779	$1,348,203
Onboard and other revenues	508,820	539,021
Total revenues	1,815,599	1,887,224
Cruise operating expenses:		
Commissions, transportation and other	324,418	325,865
Onboard and other	116,239	123,032
Payroll and related	211,591	210,801
Food	119,786	118,080
Fuel	205,276	244,459
Other operating	245,307	281,743
Total cruise operating expenses	1,222,617	1,303,980
Marketing, selling and administrative expenses	286,832	290,307
Depreciation and amortization expenses	200,468	193,735
Restructuring charges	—	1,736
Operating Income	105,682	97,466
Other income (expense):		
Interest income	3,737	3,276
Interest expense, net of interest capitalized	(70,159)	(68,571)
Other income (expense)	5,970	(5,714)
	(60,452)	(71,009)
Net Income	$45,230	$26,457
Earnings per Share:		
Basic	$0.21	$0.12
Diluted	$0.20	$0.12
Weighted-Average Shares Outstanding:		
Basic	219,626	221,295
Diluted	220,842	222,671
Comprehensive Loss		
Net Income	$45,230	$26,457
Other comprehensive (loss) income:		
Foreign currency translation adjustments	(31,544)	2,470
Change in defined benefit plans	(1,493)	(2,031)
Loss on cash flow derivative hedges	(260,949)	(52,915)
Total other comprehensive loss	(293,986)	(52,476)
Comprehensive Loss	$(248,756)	$(26,019)

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

1

Table of Contents

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

	As of March 31, 2015 (unaudited)	December 31, 2014
Assets		
Current assets		
Cash and cash equivalents	$229,705	$189,241
Trade and other receivables, net	297,073	261,392
Inventories	125,063	123,490
Prepaid expenses and other assets	299,362	226,960
Total current assets	951,203	801,083
Property and equipment, net	18,232,115	18,193,627
Goodwill	405,422	420,542
Other assets	1,280,853	1,297,938
	$20,869,593	$20,713,190
Liabilities and Shareholders' Equity		
Current liabilities		
Current portion of long-term debt	$1,089,345	$799,630
Accounts payable	336,869	331,505
Accrued interest	77,848	49,074
Accrued expenses and other liabilities	521,408	635,138
Derivative financial instruments	318,252	266,986
Customer deposits	1,992,569	1,766,914
Total current liabilities	4,336,291	3,849,247
Long-term debt	7,470,260	7,644,318
Other long-term liabilities	1,089,132	935,266
Commitments and contingencies (Note 6)		
Shareholders' equity		
Preferred stock ($0.01 par value; 20,000,000 shares authorized; none outstanding)	—	—
Common stock ($0.01 par value; 500,000,000 shares authorized; 233,696,581 and 233,106,019 shares issued, March 31, 2015 and December 31, 2014, respectively)	2,337	2,331
Paid-in capital	3,257,809	3,253,552
Retained earnings	6,554,522	6,575,248
Accumulated other comprehensive loss	(1,190,980)	(896,994)
Treasury stock (13,808,683 common shares at cost, March 31, 2015 and December 31, 2014)	(649,778)	(649,778)
Total shareholders' equity	7,973,910	8,284,359
	$20,869,593	$20,713,190

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

2

Table of Contents

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

	Three Months Ended March 31,	
	2015	2014
Operating Activities		
Net income	$45,230	$26,457
Adjustments:		
Depreciation and amortization	200,468	193,735
Net deferred income tax (benefit) expense	(520)	2,633
Loss (gain) on derivative instruments not designated as hedges	28,083	(1,890)
Changes in operating assets and liabilities:		
Decrease (increase) in trade and other receivables, net	18,095	(36,332)
(Increase) decrease in inventories	(2,615)	6,104
Increase in prepaid expenses and other assets	(67,772)	(30,565)
Increase (decrease) in accounts payable	9,341	(13,323)
Increase (decrease) in accrued interest	28,774	(32,002)
(Decrease) increase in accrued expenses and other liabilities	(53,681)	7,579
Increase in customer deposits	208,423	188,367
Other, net	12,601	5,023
Net cash provided by operating activities	426,427	315,786
Investing Activities		
Purchases of property and equipment	(304,644)	(177,791)
Cash (paid) received on settlement of derivative financial instruments	(45,182)	4,236
Investments in and loans to unconsolidated affiliates	(54,250)	(34,260)
Cash received on loan to unconsolidated affiliate	8,280	11,610
Other, net	(3,780)	(1,165)
Net cash used in investing activities	(399,576)	(197,370)
Financing Activities		
Debt proceeds	749,800	1,560,000
Debt issuance costs	(16,493)	(22,641)
Repayments of debt	(587,111)	(1,638,146)
Dividends paid	(131,745)	(76,264)
Proceeds from exercise of common stock options	4,615	46,630
Cash received on settlement of derivative financial instruments	—	22,835
Other, net	587	81
Net cash provided (used) in financing activities	19,653	(107,505)
Effect of exchange rate changes on cash	(6,040)	910
Net increase in cash and cash equivalents	40,464	11,821
Cash and cash equivalents at beginning of period	189,241	204,687
Cash and cash equivalents at end of period	$229,705	$216,508
Supplemental Disclosure		
Cash paid during the period for:		
Interest, net of amount capitalized	$33,664	$94,205

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

Table of Contents

ROYAL CARIBBEAN CRUISES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

As used in this Quarterly Report on Form 10-Q, the terms “Royal Caribbean,” the “Company,” “we,” “our” and “us” refer to Royal Caribbean Cruises Ltd. and, depending on the context, Royal Caribbean Cruises Ltd.’s consolidated subsidiaries and/or affiliates. The terms “Royal Caribbean International,” “Celebrity Cruises,” “Pullmantur,” “Azamara Club Cruises,” “CDF Croisières de France” and “TUI Cruises” refer to our cruise brands. However, because TUI Cruises is an unconsolidated investment, our operating results and other disclosures herein do not include TUI Cruises unless otherwise specified. In accordance with cruise vacation industry practice, the term “berths” is determined based on double occupancy per cabin even though many cabins can accommodate three or more passengers. This report should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2014, including the audited consolidated financial statements and related notes included therein.

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

Note 1. General

Description of Business

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

Basis for Preparation of Consolidated Financial Statements

The unaudited consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). Estimates are required for the preparation of financial statements in accordance with these principles. Actual results could differ from these estimates. See Note 2. Summary of Significant Accounting Policies in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2014 for a discussion of our significant accounting policies.

All significant intercompany accounts and transactions are eliminated in consolidation. We consolidate entities over which we have control, usually evidenced by a direct ownership interest of greater than 50%, and variable interest entities where we are determined to be the primary beneficiary. See Note 5. Goodwill and Other Assets for further information regarding our variable interest entities. For affiliates we do not control but over which we have significant influence on financial and operating policies, usually evidenced by a direct ownership interest from 20% to 50%, the investment is accounted for using the equity method. We consolidate the operating results of Pullmantur and CDF Croisières de France on a two-month lag to allow for more timely preparation of our consolidated financial statements. No material events or other transactions affecting Pullmantur or CDF Croisières de France have occurred during the two-month lag period of February and March 2015 that would require further disclosure or adjustment to our consolidated financial statements as of and for the quarter ended March 31, 2015.

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

4

Table of Contents

Note 2. Summary of Significant Accounting Policies

Revenues and Expenses

We recognize passenger ticket revenues, revenues from onboard and other goods and services and all associated cruise operating costs for all of our uncompleted voyages on a pro-rata basis. Prior to September 30, 2014, we recognized revenues and cruise operating costs for our shorter voyages (voyages of ten days or less) upon voyage completion while we recognized revenues and cruise operating costs for voyages in excess of ten days on a pro-rata basis.

The change to prorate all voyages as of September 30, 2014 forward was not retrospectively applied to prior periods, as the impact of prorating all voyages was immaterial to the respective periods presented.

Recent Accounting Pronouncements

In May 2014, amended GAAP guidance was issued to clarify the principles used to recognize revenue for all entities. The guidance is based on the principle that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard also requires more detailed disclosures and provides additional guidance for transactions that were not comprehensively addressed in the prior accounting guidance. This guidance must be applied using one of two retrospective application methods and will be effective for our interim and annual reporting periods beginning after December 15, 2016. Early adoption is not permitted. We are currently evaluating the impact, if any, of the adoption of this newly issued guidance to our consolidated financial statements.

In August 2014, GAAP guidance was issued requiring management to evaluate, at each annual and interim reporting period, whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date the financial statements are issued and provide related disclosures. This guidance will be effective for our annual reporting period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early adoption is permitted. The adoption of this newly issued guidance is not expected to have an impact to our consolidated financial statements.

In January 2015, amended GAAP guidance was issued changing the requirements for reporting extraordinary and unusual items in the income statement. The update eliminates the concept of extraordinary items. The presentation and disclosure guidance for items that are unusual in nature or occur infrequently will be retained and will be expanded to include items that are both unusual in nature and infrequently occurring. A reporting entity may apply the amendments prospectively or retrospectively to all periods presented in the financial statements. The guidance will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The adoption of this newly issued guidance is not expected to have an impact to our consolidated financial statements.

In February 2015, amended GAAP guidance was issued affecting current consolidation guidance. The guidance changes the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. This guidance must be applied using one of two retrospective application methods and will be effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted, including adoption in any interim period. We are currently evaluating the impact, if any, of the adoption of this newly issued guidance to our consolidated financial statements.

In April 2015, amended GAAP guidance was issued simplifying the presentation of debt issuance costs. The guidance requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by these amendments. This guidance should be applied on a retrospective basis, wherein the balance sheet of each individual period presented should be adjusted to reflect the period-specific effects of applying the new guidance. The guidance will be effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted for financial statements that have not been previously issued. We are currently evaluating the impact, if any, of the adoption of this newly issued guidance to our consolidated financial statements.

In April 2015, amended GAAP guidance was issued to provide a practical expedient for the measurement date of an employer's defined benefit obligation and plan assets. The guidance provides a practical expedient for entities with a fiscal year-end that does not coincide with a month-end and for contributions or significant events that occur between the month-end date and an entity's fiscal year end. The guidance will be effective for financial statements issued for fiscal years beginning after December 15, 2015,

Table of Contents

and interim periods within those fiscal years. Earlier application is permitted. The adoption of this newly issued guidance is not expected to have an impact to our consolidated financial statements.
In April 2015, amended GAAP guidance was issued to clarify a customer’s accounting for fees paid in a cloud computing arrangement. The amendments provide guidance to customers about whether a cloud computing arrangement includes a software license or if the arrangement should be accounted for as a service contract. This guidance will impact the accounting of software licenses but will not change a customer’s accounting for service contracts. The guidance will be effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2015. Early adoption is permitted. An entity can elect to adopt the amendments either prospectively or retrospectively. We are currently evaluating the impact, if any, of the adoption of this newly issued guidance to our consolidated financial statements.

Other

Revenues and expenses include port costs that vary with guest head counts. The amounts of such port costs included in Passenger ticket revenues on a gross basis were $127.1 million and $124.1 million for the first quarters of 2015 and 2014, respectively.

Reclassifications

On January 1, 2015, we adopted ASC 853, Service Concession Arrangements ("ASC 853"), using the modified retrospective approach. Due to the adoption of ASC 853, $41.9 million has been reclassified in the consolidated balance sheet, as of December 31, 2014, from Property and equipment to Other assets in order to conform to the current year presentation. The adoption of this guidance did not have a material impact to our consolidated financial statements as of and for the quarter ended March 31, 2015.

For the three months ended March 31, 2014, $2.6 million has been reclassified in the consolidated statements of cash flows from Other, net to Net deferred income tax (benefit) expense within Net cash provided by operating activities in order to conform to the current year presentation.

Note 3. Earnings Per Share

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

	Quarter Ended March 31,	
	2015	2014
Net income for basic and diluted earnings per share	$45,230	$26,457
Weighted-average common shares outstanding	219,626	221,295
Dilutive effect of stock options, performance share awards and restricted stock awards	1,216	1,376
Diluted weighted-average shares outstanding	220,842	222,671
Basic earnings per share	$0.21	$0.12
Diluted earnings per share	$0.20	$0.12

Diluted earnings per share does not reflect options to purchase an aggregate of 6,000 shares for the quarter ended March 31, 2014 because the effect of including them would have been antidilutive. There were no antidilutive shares for the quarter ended March 31, 2015.

Note 4. Long-Term Debt

In April 2015, we took delivery of Anthem of the Seas. To finance the purchase, we borrowed $742.1 million under a previously committed unsecured term loan which is 95% guaranteed by Euler Hermes Deutschland AG ("Hermes"), the official export credit agency of Germany. The loan amortizes semi-annually over 12 years and bears interest at LIBOR plus a margin of 1.30%, currently totaling 1.71%. In addition, during 2012, we entered into forward-starting interest rate swap agreements which effectively converted the floating rate available to us per the credit agreement to a fixed rate, including the applicable margin, of 3.86% effective April 2015 through the remaining term of the loan. See Note 9. Fair Value Measurements and Derivative Instruments for further information regarding these agreements.

Table of Contents

Note 5. Goodwill and Other Assets

As of March 31, 2015, the carrying amounts of goodwill and trademarks and trade names attributable to our Pullmantur reporting unit were $118.6 million and $166.9 million, respectively. Pullmantur is a brand targeted primarily at the Spanish, Portuguese and Latin American markets, with an increasing focus on Latin America. The persistent economic instability in these markets has created significant uncertainties in forecasting operating results and future cash flows used in our impairment analyses. We continue to monitor economic events in these markets for their potential impact on Pullmantur's business and valuation. However, based on our most recent projections, we do not believe an interim impairment evaluation of Pullmantur's goodwill or trademarks and trade names is warranted as of March 31, 2015.

If there are changes to the projected future cash flows used in the impairment analyses, especially in Net Yields, or if an anticipated transfer of a vessel from one of our other cruise brands to the Pullmantur fleet does not take place, it is reasonably possible that an impairment charge of Pullmantur's reporting unit's goodwill and trademarks and trade names may be required. Of these factors, the planned transfer of a vessel to the Pullmantur fleet is most significant to the projected future cash flows. If the transfer does not occur, we will likely fail step one of the the goodwill impairment test and record an impairment loss related to our trademarks and tradenames. We will continue to monitor these intangible assets for potential impairment and perform interim testing of our goodwill, trademark or trade names if deemed necessary.

Other Assets

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

We have determined that TUI Cruises GmbH, our 50%-owned joint venture, which operates the brand TUI Cruises, is a VIE. As of March 31, 2015 and December 31, 2014, our investment in TUI Cruises, including equity and loans, was approximately $363.7 million and $370.1 million, respectively. The majority of this amount was included within Other assets in our consolidated balance sheets. In addition, we and TUI AG, our joint venture partner, have each guaranteed the repayment of 50% of a €180.0 million bank loan provided to TUI Cruises due in May 2016. Our investment amount and the potential obligations under this guarantee are substantially our maximum exposure to loss. We have determined that we are not the primary beneficiary of TUI Cruises. We believe that the power to direct the activities that most significantly impact TUI Cruises' economic performance are shared between ourselves and TUI AG. All the significant operating and financial decisions of TUI Cruises require the consent of both parties, which we believe creates shared power over TUI Cruises. Accordingly, we do not consolidate this entity and account for this investment under the equity method of accounting. As of March 31, 2015, TUI Cruises' bank loan that is guaranteed by the shareholders had a remaining balance of €112.5 million, or approximately $120.8 million based on the exchange rate at March 31, 2015. This bank loan amortizes quarterly and is secured by first mortgages on both Mein Schiff 1 and Mein Schiff 2. Based on current facts and circumstances, we do not believe potential obligations under our guarantee of this bank loan are probable.

In connection with our sale of Celebrity Mercury to TUI Cruises in 2011, we provided a debt facility to TUI Cruises in the amount of up to €90.0 million and maturing in June 2018. During 2014, we made several amendments to the facility, including increasing the maximum amount of the facility to €125.0 million and providing TUI Cruises with the ability to draw upon the available capacity through December 31, 2015 to fund installment payments for its newbuild ships. Any amounts drawn under the facility to fund newbuild installments mature in March 2016. Interest under the loan accrues at the rate of 5.0% per annum. This facility is 50% guaranteed by TUI AG and is secured by second and third mortgages on Mein Schiff 1 and Mein Schiff 2. The outstanding principal amount of the facility as of March 31, 2015 was €95.0 million, or $102.0 million based on the exchange rate at March 31, 2015.

TUI Cruises currently has three newbuild ships on order with STX Finland: Mein Schiff 4, scheduled for delivery in the second quarter of 2015, Mein Schiff 5, scheduled for delivery in the second quarter of 2016 and Mein Schiff 6, scheduled for delivery in the second quarter of 2017. TUI Cruises has in place commitments for the financing of up to 80% of the contract price of each ship on order. The remaining portion of the contract price of the ships will be funded through TUI Cruises' cash flows from operations and/or shareholder loans (via the debt facility described above or otherwise) and/or equity contributions from us and TUI AG. The various ship construction and credit agreements include certain restrictions on each of our and TUI AG's ability to reduce our current ownership interest in TUI Cruises below 37.5% through 2019.

In March 2015, we announced the pending sale of Splendour of the Seas to TUI Cruises. The sale will be completed for €188.0 million in April 2016 in order to retain the future revenues to be generated for sailings through that date. After the sale, TUI Cruises will lease the ship to Thomson Cruises, which will operate the ship. The purchase price will be financed by us under a secured credit agreement to be repaid over 10 years. The resulting term loan will be 50% guaranteed by TUI AG and will be secured by a first mortgage on the ship. Interest will accrue at the rate of 6.25% per annum. We executed certain forward contracts to lock in the sales price of the ship at approximately $213.0 million. We expect to recognize a gain on the sale, which we do not expect will have a material effect to our consolidated financial statements.

We have determined that Grand Bahama Shipyard Ltd. (“Grand Bahama”), a ship repair and maintenance facility in which we have a 40% noncontrolling interest, is a VIE. The facility serves cruise and cargo ships, oil and gas tankers and offshore units. We utilize this facility, among other ship repair facilities, for our regularly scheduled drydocks and certain emergency repairs as may be required. We have determined that we are not the primary beneficiary of this facility as we do not have the power to direct the activities that most significantly impact the facility’s economic performance. Accordingly, we do not consolidate this entity and we account for this investment under the equity method of accounting. As of March 31, 2015, the net book value of our investment in Grand Bahama was approximately $53.9 million, consisting of $7.8 million in equity and $46.1 million in loans. As of December 31, 2014, the net book value of our investment in Grand Bahama was approximately $53.8 million, consisting of $7.7 million in equity and $46.1 million in loans. These amounts represent our maximum exposure to loss. The majority of our loans to Grand Bahama are in non-accrual status and the majority of this amount is included within Other assets in our consolidated balance sheets. For the quarter ended March 31, 2015 and March 31, 2014, we received approximately $0.1 million and $0.8 million, respectively, in principal and interest payments related to a loan that is in accrual status from Grand Bahama. We monitor credit risk associated with these loans through our participation on Grand Bahama’s board of directors along with our review of Grand Bahama’s financial statements and projected cash flows. Based on this review, we believe the risk of loss associated with these loans was not probable as of March 31, 2015.

We have determined that Skysea Holding, in which we have a 35% noncontrolling interest, is a VIE for which we are not the primary beneficiary, as we do not have the power to direct the activities that most significantly impact the entity's economic performance. Accordingly, we do not consolidate this entity and we account for this investment under the equity method of accounting. In addition, we and Ctrip.com International Ltd, which also owns 35% of Skysea Holding, each provided a debt facility to a wholly owned subsidiary of Skysea Holding in the amount of $80.0 million. Interest under these facilities, which mature in January 2030, initially accrues at a rate of 3.0% per annum with an increase of at least 0.5% every two years. The facilities, which are pari passu to each other, are each 100% guaranteed by Skysea Holding and are secured by a first priority mortgage on the ship, Celebrity Century, which we sold to a wholly owned subsidiary of Skysea Holding in September 2014. As of March 31, 2015 and December 31, 2014, our investment in Skysea Holding and its subsidiaries, including equity and loans, was approximately $106.1 million and $106.3 million, respectively. The majority of this amount was included within Other assets in our consolidated balance sheets. Our investment amount is substantially our maximum exposure to loss. As of March 31, 2015, Skysea Holding and its subsidiaries have not commenced operations.

We have determined that both Nautalia Viajes, S.L. ("Nautalia"), a small travel agency network, and Global Tour Operación, S.L. ("Global Tour"), a small tour operations business, in which we have a 19% noncontrolling interest, are VIEs. We have determined that we are not the primary beneficiary of these entities as we do not have the power to direct the activities that most significantly impact the entities' economic performance. Accordingly, we do not consolidate these entities and we account for these investments under the equity method of accounting. As of March 31, 2015 and December 31, 2014, the impact of these entities was not material to our consolidated financial statements.

Our share of income from investments accounted for under the equity method of accounting, including the entities discussed above, was $9.2 million and $5.0 million for the quarters ended March 31, 2015 and March 31, 2014, respectively, and was recorded within Other income (expense).

As of March 31, 2015 and December 31, 2014, our notes receivable balance reported within Trade and other receivables, net was $75.4 million and $38.0 million, respectively.

Note 6. Commitments and Contingencies

In January 2015, we entered into a financing arrangement for the US dollar financing of the fourth Oasis-class ship. Through the financing arrangement, we have the right, but not the obligation, to satisfy the obligations to be incurred upon delivery and acceptance of the vessel under the shipbuilding contract by assuming, at delivery and acceptance, the debt indirectly incurred by the shipbuilder during the construction of the ship. The amount assumed under this arrangement is not to exceed the US Dollar equivalent of €931.2 million, or approximately $1.0 billion, based on the exchange rate at March 31, 2015. The loan, upon assumption at the date of actual delivery, will amortize semi-annually and will mature 12 years following delivery of the ship. At our election, interest on the loan will accrue either (1) at a fixed rate 3.82% (inclusive of the applicable margin) or (2) at a floating rate equal to LIBOR plus 1.10%.

Table of Contents

In February 2015, we reached conditional agreements with STX France to build two ships of a new generation of Celebrity Cruises ships, known as "Project Edge." The agreement is subject to certain conditions to effectiveness expected to occur later this year. The ships will each have a capacity of approximately 2,900 berths and are expected to enter service in the fourth quarter of 2018 and the first half of 2020.

As of