

Norwegian Cruise Line Holdings Ltd.

Form 10-Q

May 01, 2014

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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended March 31, 2014**

**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: 001-35784**

**NORWEGIAN CRUISE LINE HOLDINGS LTD.**

**(Exact name of registrant as specified in its charter)**

**Bermuda** **98-0691007**  
**(State or other jurisdiction of** **(I.R.S. Employer**  
**incorporation or organization)** **Identification No.)**  
**7665 Corporate Center Drive, Miami, Florida 33126**  
**(Address of principal executive offices) (zip code)**  
**(305) 436-4000**  
**(Registrant's telephone number, including area code)**  
**N/A**  
**(Former name, former address and former fiscal year, if changed since last report)**

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

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

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

There were 205,237,204 ordinary shares outstanding as of April 28, 2014.



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**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****Norwegian Cruise Line Holdings Ltd.****Consolidated Statements of Operations****(Unaudited)****(in thousands, except share and per share data)**

	<b>Three Months Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>Revenue</b>		
Passenger ticket	\$ 458,490	\$ 358,928
Onboard and other	205,538	168,703
Total revenue	664,028	527,631
<b>Cruise operating expense</b>		
Commissions, transportation and other	116,810	94,579
Onboard and other	47,924	42,371
Payroll and related	99,066	74,039
Fuel	79,040	72,498
Food	37,683	29,962
Other	65,387	49,240
Total cruise operating expense	445,910	362,689
<b>Other operating expense</b>		
Marketing, general and administrative	83,389	85,206
Depreciation and amortization	61,640	48,748
Total other operating expense	145,029	133,954
Operating income	73,089	30,988
<b>Non-operating income (expense)</b>		
Interest expense, net	(31,172)	(127,656)
Other income	388	1,364
Total non-operating income (expense)	(30,784)	(126,292)

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<b>Net income (loss) before income taxes</b>	42,305	(95,304)
<b>Income tax benefit (expense)</b>	9,387	(2,196)
<b>Net income (loss)</b>	51,692	(97,500)
<b>Net income (loss) attributable to non-controlling interest</b>	425	(1,105)
<b>Net income (loss) attributable to Norwegian Cruise Line Holdings Ltd.</b>	\$ 51,267	\$ (96,395)
<b>Weighted-average shares outstanding</b>		
Basic	205,163,256	198,350,433
Diluted	211,013,814	198,350,433
<b>Earnings (loss) per share</b>		
Basic	\$ 0.25	\$ (0.49)
Diluted	\$ 0.24	\$ (0.49)

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

**Table of Contents****Norwegian Cruise Line Holdings Ltd.****Consolidated Statements of Comprehensive Income (Loss)****(Unaudited)****(in thousands)**

	<b>Three Months Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
Net income (loss)	\$ 51,692	\$ (97,500)
Other comprehensive loss:		
Shipboard Retirement Plan	94	117
Cash flow hedges:		
Net unrealized loss	(15,356)	(19,696)
Amount realized and reclassified into earnings	153	(1,836)
Total other comprehensive loss	(15,109)	(21,415)
Total comprehensive income (loss)	36,583	(118,915)
Comprehensive income (loss) attributable to non-controlling interest	288	(1,595)
Total comprehensive income (loss) attributable to Norwegian Cruise Line Holdings Ltd.	\$ 36,295	\$ (117,320)

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

**Table of Contents****Norwegian Cruise Line Holdings Ltd.****Consolidated Balance Sheets****(Unaudited)****(in thousands, except share data)**

	<b>March 31, 2014</b>	<b>December 31, 2013</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 64,760	\$ 56,467
Accounts receivable, net	18,000	18,260
Inventories	48,106	43,715
Prepaid expenses and other assets	56,359	64,482
<b>Total current assets</b>	<b>187,225</b>	<b>182,924</b>
Property and equipment, net	6,327,263	5,647,670
Goodwill and tradenames	611,330	611,330
Other long-term assets	193,081	209,054
<b>Total assets</b>	<b>\$ 7,318,899</b>	<b>\$ 6,650,978</b>
<b>Liabilities and Shareholders Equity</b>		
Current liabilities:		
Current portion of long-term debt	\$ 363,697	\$ 286,575
Accounts payable	79,590	86,788
Accrued expenses and other liabilities	244,884	253,752
Due to Affiliate	36,783	36,544
Advance ticket sales	531,936	411,829
<b>Total current liabilities</b>	<b>1,256,890</b>	<b>1,075,488</b>
Long-term debt	3,290,493	2,841,214
Due to Affiliate	55,269	55,128
Other long-term liabilities	46,282	47,882
<b>Total liabilities</b>	<b>4,648,934</b>	<b>4,019,712</b>
Commitments and contingencies (Note 7)		
Shareholders equity:		
Ordinary shares, \$.001 par value; 490,000,000 shares authorized; 205,236,705 and 205,160,340 shares issued and outstanding at March 31, 2014 and December 31, 2013, respectively	205	205
Additional paid-in capital	2,812,641	2,822,864
Accumulated other comprehensive income (loss)	(31,662)	(16,690)



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Retained earnings (deficit)	(146,204)	(197,471)
Total shareholders' equity controlling interest	2,634,980	2,608,908
Non-controlling interest	34,985	22,358
Total shareholders' equity	2,669,965	2,631,266
Total liabilities and shareholders' equity	\$ 7,318,899	\$ 6,650,978

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

**Table of Contents****Norwegian Cruise Line Holdings Ltd.****Consolidated Statements of Cash Flows****(Unaudited)****(in thousands)**

	<b>Three Months Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>Cash flows from operating activities</b>		
Net income (loss)	\$ 51,692	\$ (97,500)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization expense	69,708	55,480
Loss (gain) on derivatives	(75)	112
Deferred income taxes, net	1,027	2,043
Write-off of deferred financing fees		14,042
Share-based compensation expense	1,835	18,753
Changes in operating assets and liabilities:		
Accounts receivable, net	260	1,675
Inventories	(4,391)	(2,610)
Prepaid expenses and other assets	(6,476)	488
Accounts payable	(7,198)	(11,427)
Accrued expenses and other liabilities	3,432	(8,307)
Advance ticket sales	118,320	109,346
Net cash provided by operating activities	228,134	82,095
<b>Cash flows from investing activities</b>		
Additions to property and equipment	(746,310)	(85,152)
Net cash used in investing activities	(746,310)	(85,152)
<b>Cash flows from financing activities</b>		
Repayments of long-term debt	(258,125)	(1,093,009)
Repayments to Affiliate		(79,651)
Proceeds from long-term debt	784,451	744,525
Proceeds from the issuance of ordinary shares, net		473,017
Proceeds from the exercise of share options	340	
Deferred financing fees and other	(197)	(6,124)
Net cash provided by financing activities	526,469	38,758
Net increase in cash and cash equivalents	8,293	35,701

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Cash and cash equivalents at beginning of period	56,467	45,500
Cash and cash equivalents at end of period	\$ 64,760	\$ 81,201

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

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## Norwegian Cruise Line Holdings Ltd.

## Consolidated Statements of Changes in Shareholders' Equity

(Unaudited)

(in thousands)

	Ordinary Shares	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Deficit)	Non-controlling Interest	Total Shareholders Equity
<b>Balance, December 31, 2012</b>	\$ 25	\$ 2,327,097	\$ (17,619)	\$ (299,185)	\$ 8,466	\$ 2,018,784
Share-based compensation		28,734			19	28,753
Transactions with Affiliates, net		(51)				(51)
Corporate Reorganization		(20,176)			20,176	
IPO proceeds, net	179	472,838				473,017
Other comprehensive loss			(20,925)		(490)	(21,415)
Net loss				(96,395)	(1,105)	(97,500)
Transfers to non-controlling interest		(1,807)			1,807	
<b>Balance, March 31, 2013</b>	\$ 204	\$ 2,806,635	\$ (38,544)	\$ (395,580)	\$ 28,873	\$ 2,401,588
<b>Balance, December 31, 2013</b>	\$ 205	\$ 2,822,864	\$ (16,690)	\$ (197,471)	\$ 22,358	\$ 2,631,266
Share-based compensation		1,835				1,835
Transactions with Affiliates, net		(59)				(59)
Proceeds from the exercise of share options		340				340
Other comprehensive loss			(14,972)		(137)	(15,109)
Net income				51,267	425	51,692
Transfers to non-controlling interest		(12,339)			12,339	
<b>Balance, March 31, 2014</b>	\$ 205	\$ 2,812,641	\$ (31,662)	\$ (146,204)	\$ 34,985	\$ 2,669,965

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

**Table of Contents****Norwegian Cruise Line Holdings Ltd.****Notes to Consolidated Financial Statements****(Unaudited)**

Unless otherwise indicated or the context otherwise requires, references in this report to (i) the Company, we, our, us and NCLH refer to Norwegian Cruise Line Holdings Ltd., and/or its subsidiaries, (ii) NCLC refers to NCL Corporation Ltd. and/or its subsidiaries, (iii) Norwegian Cruise Line or Norwegian refers to the Norwegian Cruise Line brand and its predecessors, (iv) Apollo refers to Apollo Global Management, LLC and its subsidiaries and the Apollo Funds refers to one or more of AIF VI NCL (AIV), L.P., AIF VI NCL (AIV II), L.P., AIF VI NCL (AIV III), L.P., AIF VI NCL (AIV IV), L.P., AAA Guarantor-Co-Invest VI (B), L.P., Apollo Overseas Partners (Delaware) VI, L.P., Apollo Overseas Partners (Delaware 892) VI, L.P., Apollo Overseas Partners VI, L.P. and Apollo Overseas Partners (Germany) VI, L.P., (v) TPG Global refers to TPG Global, LLC, TPG refers to TPG Global and its affiliates and the TPG Viking Funds refers to one or more of TPG Viking, L.P., TPG Viking AIV I, L.P., TPG Viking AIV II, L.P., and TPG Viking AIV III, L.P. and/or certain other affiliated investment funds, each an affiliate of TPG, (vi) Genting HK refers to Genting Hong Kong Limited and/or its affiliates (formerly Star Cruises Limited and/or its affiliates) (Genting HK owns NCLH's ordinary shares indirectly through Star NCLC Holdings Ltd. (Star NCLC)), and (vii) Affiliate(s) or Sponsor(s) refers to Genting HK, the Apollo Funds and/or the TPG Viking Funds. References to the U.S. are to the United States of America, dollars or \$ are to U.S. dollars and euros or are to the official currency of the Eurozone.

**1. Summary of Significant Accounting Policies****Basis of Presentation**

The accompanying consolidated financial statements are unaudited and, in our opinion, contain all normal recurring adjustments necessary for a fair statement of the results for the periods presented.

Our operations are seasonal and results for interim periods are not necessarily indicative of the results for the entire fiscal year. Historically, demand for cruises has been strongest during the summer months. The interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2013, which are included in our most recently filed Annual Report on Form 10-K.

**Earnings (Loss) Per Share**

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

	<b>Three Months Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
Net income (loss) attributable to Norwegian Cruise Line Holdings Ltd.	\$ 51,267	\$ (96,395)
Net income (loss)	\$ 51,692	\$ (97,500)

Basic weighted-average shares outstanding	205,163,256	198,350,433
Dilutive effect of awards	5,850,558	
Diluted weighted-average shares outstanding	211,013,814	198,350,433
Basic earnings (loss) per share	\$ 0.25	\$ (0.49)
Diluted earnings (loss) per share	\$ 0.24	\$ (0.49)

Diluted loss per share for the three months ended March 31, 2013 did not include 6,174,132 shares because the effect of including them would have been antidilutive.

### Revenue and Expense Recognition

Revenue and expense includes taxes assessed by governmental authorities that are directly imposed on a revenue-producing transaction between a seller and a customer. The amounts included in revenue and expense on a gross basis were \$37.9 million and \$31.4 million for the three months ended March 31, 2014 and 2013, respectively.

**Table of Contents****2. Accumulated Other Comprehensive Income (Loss)**

Accumulated other comprehensive income (loss) for the three months ended March 31, 2014 was as follows (in thousands):

	<b>Accumulated Other Comprehensive Income (Loss)</b>	<b>Change Related to Cash Flow Hedges</b>	<b>Change Related to Shipboard Retirement Plan</b>
Accumulated other comprehensive income (loss) at beginning of period	\$ (16,690)	\$ (10,532)	\$ (6,158)
Current period other comprehensive loss before reclassifications	(15,217)	(15,217)	
Amounts reclassified	245	152(1)	93(2)
Accumulated other comprehensive income (loss) at end of period	\$ (31,662)	\$ (25,597)(3)	\$ (6,065)

- (1) We refer you to Note 6 – Fair Value Measurements and Derivatives for the affected line items in the Consolidated Statements of Operations.
- (2) Amortization of prior-service cost and actuarial loss reclassified to payroll and related expense.
- (3) Includes \$3.0 million of income expected to be reclassified into earnings in the next 12 months.

**3. Property and Equipment, Net**

Norwegian Getaway was delivered in January 2014.

**4. Related Party Disclosures**

In March 2014, the Selling Shareholders sold 15,000,000 ordinary shares of NCLH in the Secondary Offering. We did not receive any proceeds from this offering. As of March 31, 2014, the relative ownership percentages of NCLH's ordinary shares were as follows: Genting HK (27.7%), the Apollo Funds (19.9%), the TPG Viking Funds (7.8%), and public shareholders (44.6%). As of March 31, 2014, NCLH had a 97.8% economic interest in NCLC.

**5. Income Tax Benefit (Expense)**

NCLH is treated as a corporation for U.S. federal income tax purposes. The income tax benefit in 2014 primarily related to a change in our corporate entity structure which was completed in 2013. For the year ended December 31, 2013, the tax provision reflected an interest expense deduction based on a method supported by the information available at such time. During the three months ended March 31, 2014, we received additional information which allowed us to elect another acceptable tax method, resulting in a tax benefit of \$11.1 million.

## **6. Fair Value Measurements and Derivatives**

Fair value is defined as the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date under current market conditions (that is, an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability).

### **Fair Value Hierarchy**

The following hierarchy for inputs used in measuring fair value should maximize the use of observable inputs and minimize the use of unobservable inputs by requiring that the most observable inputs be used when available:

- Level 1 Quoted prices in active markets for identical assets or liabilities that are accessible at the measurement dates.
- Level 2 Significant other observable inputs that are used by market participants in pricing the asset or liability based on market data obtained from independent sources.
- Level 3 Significant unobservable inputs we believe market participants would use in pricing the asset or liability based on the best information available.



**Table of Contents****Derivatives**

We are exposed to market risk attributable to changes in interest rates, foreign currency exchange rates and fuel prices. We attempt to minimize these risks through a combination of our normal operating and financing activities and through the use of derivatives. We assess whether derivatives used in hedging transactions are highly effective in offsetting changes in the cash flow of our hedged forecasted transactions. We use regression analysis for this hedge relationship and high effectiveness is achieved when a statistically valid relationship reflects a high degree of offset and correlation between the fair values of the derivative and the hedged forecasted transaction. Cash flows from the derivatives are classified in the same category as the cash flows from the underlying hedged transaction. The determination of ineffectiveness is based on the amount of dollar offset between the cumulative change in fair value of the derivative and the cumulative change in fair value of the hedged transaction at the end of the reporting period. If it is determined that a derivative is not highly effective as a hedge, or if the hedged forecasted transaction is no longer probable of occurring, then the amount recognized in accumulated other comprehensive income (loss) is released to earnings. In addition, the ineffective portion of our highly effective hedges is recognized in earnings immediately and reported in other income in our consolidated statements of operations. There are no amounts excluded from the assessment of hedge effectiveness and there are no credit-risk-related contingent features in our derivative agreements.

We monitor concentrations of credit risk associated with financial and other institutions with which we conduct significant business. Credit risk, including but not limited to counterparty non-performance under derivatives and our revolving credit facility, is not considered significant, as we primarily conduct business with large, well-established financial institutions that we have established relationships with and that have credit risks acceptable to us or the credit risk is spread out among a large number of creditors. We do not anticipate non-performance by any of our significant counterparties.

The following table sets forth our derivatives measured at fair value and discloses the balance sheet location (in thousands):

Balance Sheet location	Asset		Liability	
	March 31, 2014	December 31, 2013	March 31, 2014	December 31, 2013
<b>Fuel swaps designated as hedging instruments</b>				
Prepaid expenses and other assets	\$ 1,695	\$ 5,024	\$ 27	\$ 666
Other long-term assets	252	6,869	98	9
Accrued expenses and other liabilities	1,110		1,646	
Other long-term liabilities	809		1,353	
<b>Fuel collars designated as hedging instruments</b>				
Prepaid expenses and other assets		452		195
Accrued expenses and other liabilities	152		110	

Fuel options not designated as hedging instruments			
	Prepaid expenses and other assets		195
	Accrued expenses and other liabilities	110	
Foreign currency options designated as hedging instruments			
	Accrued expenses and other liabilities		9,815
Foreign currency forward contracts designated as hedging instruments			
	Prepaid expenses and other assets	2,624	
	Accrued expenses and other liabilities		6,582
Foreign currency collar designated as a hedging instrument			
	Prepaid expenses and other assets	12,502	
Interest rate swaps designated as hedging instruments			
	Accrued expenses and other liabilities	2,590	1,707
	Other long-term liabilities	1,724	1,374

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The fair values of swap and forward contracts are determined based on inputs that are readily available in public markets or can be derived from information available in publicly quoted markets. The Company determines the value of options and collars utilizing an option pricing model based on inputs that are either readily available in public markets or can be derived from information available in publicly quoted markets. The option pricing model used by the Company is an industry standard model for valuing options and is used by the broker/dealer community. The inputs to this option pricing model are the option strike price, underlying price, risk free rate of interest, time to expiration, and volatility. The fair value of option contracts considers both the intrinsic value and any remaining time value associated with those derivatives that have not yet settled. The Company also considers counterparty credit risk and its own credit risk in its determination of all estimated fair values. Our derivatives and financial instruments were categorized as Level 2 in the fair value hierarchy, and we had no derivatives or financial instruments categorized as Level 1 or Level 3.

Our derivative contracts include rights of offset with our counterparties. We have elected to net certain assets and liabilities within counterparties. We are not required to post cash collateral related to our derivative instruments. The following table discloses the amounts recognized within assets and liabilities (in thousands):

		<b>Gross Amounts Offset</b>	<b>Total Net Amounts</b>	<b>Gross Amounts Not Offset</b>	<b>Net Amounts</b>
<b>March 31, 2014</b>	<b>Gross Amounts</b>				
Assets	\$ 1,947	\$ (125)	\$ 1,822	\$	\$ 1,822
Liabilities	7,533	(2,071)	5,462	(4,314)	1,148
		<b>Gross Amounts Offset</b>	<b>Total Net Amounts</b>	<b>Gross Amounts Not Offset</b>	<b>Net Amounts</b>
<b>December 31, 2013</b>	<b>Gross Amounts</b>				
Assets	\$ 27,471	\$ (1,065)	\$ 26,406	\$ (15,126)	\$ 11,280
Liabilities	19,478		19,478	(19,478)	

**Fuel Swaps**

As of March 31, 2014, we had fuel swaps maturing through December 31, 2016 which are used to mitigate the financial impact of volatility in fuel prices pertaining to approximately 624,000 metric tons of our projected fuel purchases. The effects on the consolidated financial statements of the fuel swaps which were designated as cash flow hedges were as follows (in thousands):

	<b>Three Months Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
Gain (loss) recognized in other comprehensive loss effective portion	\$ (9,771)	\$ 4,706
Gain (loss) recognized in other income ineffective portion	(416)	221
Amount reclassified from accumulated other comprehensive income (loss) into fuel expense	(705)	(2,263)

**Fuel Collars and Options**

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As of March 31, 2014, we had fuel collars and options maturing through December 31, 2014 which are used to mitigate the financial impact of volatility in fuel prices pertaining to approximately 26,000 metric tons of our projected fuel purchases. The effects on the consolidated financial statements of the fuel collars which were designated as cash flow hedges were as follows (in thousands):

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2014</b>	<b>2013</b>
Loss recognized in other comprehensive loss - effective portion	\$ (324)	\$ (35)
Gain recognized in other income - ineffective portion	108	8
Amount reclassified from accumulated other comprehensive income (loss) into fuel expense	370	427

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The effects on the consolidated financial statements of the fuel options which were not designated as hedging instruments were as follows (in thousands):

	<b>Three Months Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
Gain recognized in other income	\$ 85	\$ 856

**Foreign Currency Forward Contracts**

We had foreign currency forward contracts that matured through January 2014 which were used to mitigate the financial impact of volatility in foreign currency exchange rates related to our ship construction contracts denominated in euros. The effects on the consolidated financial statements of the foreign currency forward contracts which were designated as cash flow hedges were as follows (in thousands):

	<b>Three Months Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
Loss recognized in other comprehensive loss effective portion	\$ (1,076)	\$ (16,633)
Gain (loss) recognized in other income ineffective portion	(1)	68
Amount reclassified from accumulated other comprehensive income (loss) into depreciation and amortization expense	(53)	

The effects on the consolidated financial statements of the foreign currency forward contracts which were not designated as hedging instruments were as follows (in thousands):

	<b>Three Months Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
Gain recognized in other income	\$	\$ 20

**Foreign Currency Options**

We had foreign currency options that matured through January 2014, which consisted of call options with deferred premiums. These options were used to mitigate the financial impact of volatility in foreign currency exchange rates related to our ship construction contracts denominated in euros. If the spot rate at the date the ships were delivered was less than the strike price under these option contracts, we would have paid the deferred premium and would not exercise the foreign currency options.

The effects on the consolidated financial statements of the foreign currency options which were designated as cash flow hedges were as follows (in thousands):

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2014</b>	<b>2013</b>
Loss recognized in other comprehensive loss effective portion	\$ (1,157)	\$ (4,012)
Loss recognized in other income ineffective portion	(241)	(298)
Amount reclassified from accumulated other comprehensive income (loss) into depreciation and amortization expense	279	

**Table of Contents*****Foreign Currency Collar***

We had a foreign currency collar that matured in January 2014. The collar was used to mitigate the volatility of foreign currency exchange rates related to our ship construction contracts denominated in euros.

The effects on the consolidated financial statements of the foreign currency collar which was designated as a cash flow hedge was as follows (in thousands):

	<b>Three Months Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
Loss recognized in other comprehensive income effective portion	\$ (1,588)	\$ (3,722)
Amount reclassified from accumulated other comprehensive income (loss) into depreciation and amortization expense	(60)	

***Interest Rate Swaps***

As of March 31, 2014, we had interest rate swap agreements to modify our exposure to interest rate movements and to manage our interest expense. The notional amount of outstanding debt associated with the interest rate swap agreements was \$699.4 million.

The effects on the consolidated financial statements of the interest rates swaps which were designated as cash flow hedges were as follows (in thousands):

	<b>Three Months Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
Loss recognized in other comprehensive loss effective portion	\$ (1,440)	\$
Amount reclassified from accumulated other comprehensive income (loss) into interest expense, net	322	

***Long-Term Debt***

As of March 31, 2014 and December 31, 2013, the fair value of our long-term debt, including the current portion, was \$3,776.7 million and \$3,146.4 million, which was \$122.5 million and \$18.6 million higher, respectively, than the carrying values. The difference between the fair value and carrying value of our long-term debt is due to our fixed and variable rate debt obligations carrying interest rates that are above or below market rates at the measurement dates. The fair value of our long-term debt was calculated based on estimated rates for the same or similar instruments with similar terms and remaining maturities. The calculation of the fair value of our long-term debt is considered a Level 2 input.

***Other***

The carrying amounts reported in the consolidated balance sheets of all financial assets and liabilities other than our long-term debt approximate fair value.

## **7. Commitments and Contingencies**

### **Ship Construction Contracts**

We have two ships on order with Meyer Werft for delivery in the fourth quarter of 2015 and the first quarter of 2017. These ships, Norwegian Escape and Norwegian Bliss, will be the largest in our fleet at approximately 163,000 Gross Tons with 4,200 Berths each and will be similar in design and innovation to our Breakaway Class Ships. The combined contract cost of these two ships is approximately 1.4 billion, or \$1.9 billion based on the euro/U.S. dollar exchange rate as of March 31, 2014. We have export credit financing in place that provides financing for 80% of their contract prices.

In connection with the contracts to build the ships, we do not anticipate any contractual breaches or cancellation to occur. However, if any would occur, it could result in, among other things, the forfeiture of prior deposits or payments made by us and potential claims and impairment losses which may materially impact our business, financial condition and results of operations.



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**Litigation**

In July 2009, a class action complaint was filed against NCL (Bahamas) Ltd. in the United States District Court, Southern District of Florida, on behalf of a purported class of crew members alleging inappropriate deductions of their wages pursuant to the Seaman's Wage Act and wrongful termination resulting in a loss of retirement benefits. In December 2010, the Court denied the plaintiffs' Motion for Class Certification. In February 2011, the plaintiffs filed a Motion for Reconsideration as to the Court's Order on Class Certification which was denied. The Court tried six individual plaintiffs' claims, and in September 2012 awarded wages aggregating approximately \$100,000 to such plaintiffs. In October 2013, the United States Court of Appeals for the Eleventh Circuit affirmed the Court's rulings as to the denial of Class Certification and the trial verdict. The Plaintiffs filed a petition for a writ of certiorari in the United States Supreme Court seeking review of the appellate court's decision which was denied in March 2014. We are vigorously defending this action and are not able at this time to estimate the impact of these proceedings.

In May 2011, a class action complaint was filed against NCL (Bahamas) Ltd. in the United States District Court, Southern District of Florida, on behalf of a purported class of crew members alleging inappropriate deductions of their wages pursuant to the Seaman's Wage Act and breach of contract. In July 2012, this action was stayed by the Court pending the outcome of the litigation commenced with the class action complaint filed in July 2009. We are vigorously defending this action and are not able at this time to estimate the impact of these proceedings.

In the normal course of our business, various other claims and lawsuits have been filed or are pending against us. Most of these claims and lawsuits are covered by insurance and, accordingly, the maximum amount of our liability is typically limited to our deductible amount. Nonetheless, the ultimate outcome of these claims and lawsuits that are not covered by insurance cannot be determined at this time. We have evaluated our overall exposure with respect to all of our threatened and pending litigation and, to the extent required, we have accrued amounts for all estimable probable losses associated with our deemed exposure. We are currently unable to estimate any other reasonably possible contingent losses beyond those accrued, as discovery is not complete nor is adequate information available to estimate such range of loss or potential recovery. We intend to vigorously defend our legal position on all claims and, to the extent necessary, seek recovery.

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

**Cautionary Statement Concerning Forward-Looking Statements**

Certain statements in this report constitute forward-looking statements intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical facts in this report, including, without limitation, those regarding our business strategy, financial position, results of operations, plans, prospects and objectives of management for future operations (including development plans and objectives relating to our activities), are forward-looking statements. Many, but not all of these statements can be found by looking for words like expect, anticipate, goal, project, plan, believe, seek, will, may, estimate, intend and future and for similar words. 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 adverse impact of general economic conditions and related factors such as high levels of unemployment and underemployment, fuel price increases, declines in the securities and real estate markets, and perceptions of these conditions that decrease the level of disposable income of consumers or consumer confidence;

changes in cruise capacity, as well as capacity changes in the overall vacation industry;

intense competition from other cruise companies as well as non-cruise vacation alternatives which could affect our ability to compete effectively;

negative publicity surrounding the cruise industry;

changes in fuel prices and/or other cruise operating costs;

the risks associated with operating internationally, including changes in interest rates and/or foreign currency rates;

the continued borrowing availability under our credit facilities and compliance with our financial covenants;

our substantial indebtedness, including the inability to generate the necessary amount of cash to service our existing debt, and to repay our credit facilities;

our ability to incur significantly more debt despite our substantial existing indebtedness;

the impact of volatility and disruptions in the global credit and financial markets which may adversely affect our ability to borrow and could increase our counterparty credit risks, including those under our credit facilities, derivatives, contingent obligations, insurance contracts and new ship progress payment guarantees;

adverse events impacting the security of travel such as terrorist acts, acts of piracy, armed conflict and other international events;

the impact of any future changes relating to how external distribution channels sell and market our cruises;

the impact of any future increases in the price of, or major changes or reduction in, commercial airline services;

the impact of delays, costs and other factors resulting from emergency ship repairs as well as scheduled repairs, maintenance and refurbishment of our ships;

the delivery schedules and estimated costs of new ships on terms that are favorable or consistent with our expectations;

the impact of problems encountered at shipyards, as well as, any potential claim, impairment loss, cancellation or breach of contract in connection with our contracts with shipyards;

the impact of the spread of epidemics and viral outbreaks;

the uncertain political environment in countries where we operate;

the impact of weather and natural disasters;

accidents and other incidents affecting the health, safety, security and vacation satisfaction of guests or causing damage to ships, which could cause the modification of itineraries or cancellation of a cruise or series of cruises;

the impact of pending or threatened litigation and investigations;

our ability to obtain insurance coverage on terms that are favorable or consistent with our expectations;

the impact of any breaches in data security or other disturbances to our information technology and other networks;

the impact of amendments to our collective bargaining agreements for crew members and other employee relation issues;

the continued availability of attractive port destinations;

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our ability to attract and retain key personnel and qualified shipboard crew, maintain good relations with employee unions, maintain or renegotiate our collective bargaining agreements on favorable terms and prevent any disruptions in work;

changes involving the tax, environmental, health, safety, security and other regulatory regimes in which we operate;

increases in our future fuel costs related to implementing IMO regulations, which require the use of higher priced low sulfur fuels in certain cruising areas;

the implementation of regulations in the U.S. requiring U.S. citizens to obtain passports for travel to additional foreign destinations; and

other factors set forth under **Risk Factors** in our most recently filed Annual Report on Form 10-K. The above examples are not exhaustive and new risks emerge from time to time. Except as required by law, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Such forward-looking statements are based on our current beliefs, assumptions, expectations, estimates and projections regarding our present and future business strategies and the environment in which we will operate in the future. These forward-looking statements speak only as of the date of this report. We expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in our expectations with regard thereto or any change of events, conditions or circumstances on which any such statement was based.

The interim consolidated financial statements should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2013, which are included in our most recently filed Annual Report on Form 10-K.

## **Terminology**

For further information about our non-GAAP financial measures including a reconciliation to the most directly comparable GAAP financial measure, we refer you to **Results of Operations**.

Unless otherwise indicated in this report, the following terms have the meanings set forth below:

*Adjusted EBITDA*. EBITDA adjusted for other income and other supplemental adjustments.

*Adjusted EPS*. Adjusted Net Income divided by the number of dilutive weighted-average shares.

*Adjusted Net Cruise Cost Excluding Fuel*. Net Cruise Cost less fuel expense adjusted for supplemental adjustments.

*Adjusted Net Income.* Net income (loss) adjusted for supplemental adjustments.

*Berths.* Double occupancy capacity per stateroom (single occupancy per studio stateroom) even though many staterooms can accommodate three or more passengers.

*Breakaway Class Ships.* Norwegian Breakaway delivered in April 2013 and Norwegian Getaway delivered in January 2014.

*Breakaway Two Credit Facility.* 529.8 million Breakaway Two Credit Agreement, dated as of November 18, 2010, by and among Breakaway Two, Ltd. and a syndicate of international banks and related Guarantee by NCL Corporation Ltd., as amended.

*Business Enhancement Capital Expenditures.* Capital expenditures other than those related to new ship construction and ROI Capital Expenditures.

*Capacity Days.* Available Berths multiplied by the number of cruise days for the period.

*Charter.* The hire of a ship for a specified period of time.

*Constant Currency.* A calculation whereby foreign currency-denominated revenue and expenses in a period are converted at the U.S. dollar exchange rate of a comparable period in order to eliminate the effects of the foreign exchange fluctuations.

*Dry-dock.* A process whereby a ship is positioned in a large basin where all of the fresh/sea water is pumped out in order to carry out cleaning and repairs of those parts of a ship which are below the water line.

*EBITDA.* Earnings before interest, taxes, depreciation and amortization.

*GAAP.* Generally accepted accounting principles in the U.S.

*Gross Cruise Cost.* The sum of total cruise operating expense and marketing, general and administrative expense.

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*Gross Tons.* A unit of enclosed passenger space on a cruise ship, such that one gross ton = 100 cubic feet or 2.831 cubic meters.

*Gross Yield.* Total revenue per Capacity Day.

*IMO.* International Maritime Organization, a United Nations agency that sets international standards for shipping.

*Initial Public Offering ( or IP*