

Norwegian Cruise Line Holdings Ltd.
Form 10-Q
May 10, 2016

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, 2016

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

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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 227,006,865 ordinary shares outstanding as of May 5, 2016.

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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)**

	Three Months Ended	
	March 31,	
	2016	2015
Revenue		
Passenger ticket	\$740,112	\$670,483
Onboard and other	337,520	267,699
Total revenue	1,077,632	938,182
Cruise operating expense		
Commissions, transportation and other	175,437	171,827
Onboard and other	63,965	58,645
Payroll and related	177,143	157,629
Fuel	81,672	87,374
Food	51,003	41,851
Other	115,261	106,374
Total cruise operating expense	664,481	623,700
Other operating expense		
Marketing, general and administrative	180,574	154,157
Depreciation and amortization	101,295	99,976
Total other operating expense	281,869	254,133
Operating income	131,282	60,349
Non-operating income (expense)		
Interest expense, net	(59,754)	(50,989)
Other income (expense)	2,805	(30,139)
Total non-operating income (expense)	(56,949)	(81,128)
Net income (loss) before income taxes	74,333	(20,779)
Income tax expense	(1,104)	(677)
Net income (loss)	\$73,229	\$(21,456)
Weighted-average shares outstanding		
Basic	227,239,533	224,301,117
Diluted	228,112,035	224,301,117
Earnings (loss) per share		
Basic	\$0.32	\$(0.10)
Diluted	\$0.32	\$(0.10)

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)**

	Three Months Ended March 31,	
	2016	2015
Net income (loss)	\$73,229	\$(21,456)
Other comprehensive income (loss):		
Shipboard Retirement Plan	108	119
Cash flow hedges:		
Net unrealized gain (loss)	70,450	(103,765)
Amount realized and reclassified into earnings	34,550	21,886
Total other comprehensive income (loss)	105,108	(81,760)
Total comprehensive income (loss)	\$178,337	\$(103,216)

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)**

	March 31, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 154,867	\$ 115,937
Accounts receivable, net	45,613	44,996
Inventories	62,383	58,173
Prepaid expenses and other assets	130,053	121,305
Total current assets	392,916	340,411
Property and equipment, net	9,489,153	9,458,805
Goodwill	1,388,931	1,388,931
Tradenames	817,525	817,525
Other long-term assets	317,214	259,085
Total assets	\$ 12,405,739	\$ 12,264,757
Liabilities and Shareholders' Equity		
Current liabilities:		
Current portion of long-term debt	\$ 629,953	\$ 629,840
Accounts payable	54,250	51,369
Accrued expenses and other liabilities	606,161	640,568
Due to Affiliate	20,976	20,769
Advance ticket sales	1,178,749	1,023,973
Total current liabilities	2,490,089	2,366,519
Long-term debt	5,670,144	5,767,697
Other long-term liabilities	317,895	349,661
Total liabilities	8,478,128	8,483,877
Commitments and contingencies (Note 7)		
Shareholders' equity:		
Ordinary shares, \$.001 par value; 490,000,000 shares authorized; 232,313,393 shares issued and 227,001,432 shares outstanding at March 31, 2016 and 232,179,786 shares issued and 227,815,301 shares outstanding at December 31, 2015	232	232
Additional paid-in capital	3,832,929	3,814,536
Accumulated other comprehensive income (loss)	(307,542)	(412,650)
Retained earnings	641,247	568,018
Treasury shares (5,311,961 and 4,364,485 ordinary shares at March 31, 2016 and December 31, 2015, respectively, at cost)	(239,255)	(189,256)
Total shareholders' equity	3,927,611	3,780,880
Total liabilities and shareholders' equity	\$ 12,405,739	\$ 12,264,757

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)**

	Three Months Ended March 31,	
	2016	2015
Cash flows from operating activities		
Net income (loss)	\$73,229	\$(21,456)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization expense	104,686	104,533
(Gain) loss on derivatives	(11,948)	29,027
Deferred income taxes, net	158	60
Gain on contingent consideration	—	(9,100)
Write-off of deferred financing fees	—	195
Provision for bad debts and inventory	575	—
Share-based compensation expense	15,245	12,005
Changes in operating assets and liabilities:		
Accounts receivable, net	(1,042)	1,474
Inventories	(4,360)	(80)
Prepaid expenses and other assets	(5,390)	(4,488)
Accounts payable	2,750	(17,455)
Accrued expenses and other liabilities	7,572	(35,481)
Advance ticket sales	148,621	255,556
Net cash provided by operating activities	330,096	314,790
Cash flows from investing activities		
Additions to property and equipment, net	(132,027)	(73,131)
Settlement of derivatives	(1,167)	—
Net cash used in investing activities	(133,194)	(73,131)
Cash flows from financing activities		
Repayments of long-term debt	(308,248)	(477,224)
Proceeds from long-term debt	204,000	224,033
Proceeds from the exercise of share options	2,044	51,790
Proceeds from employee share purchase plan	1,104	—
Purchases of treasury shares	(49,999)	—
Deferred financing fees and other	(6,873)	(3,660)
Net cash used in financing activities	(157,972)	(205,061)
Net increase in cash and cash equivalents	38,930	36,598
Cash and cash equivalents at beginning of period	115,937	84,824
Cash and cash equivalents at end of period	\$154,867	\$121,422

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

Table of Contents**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	Treasury Shares	Total Shareholders' Equity
Balance, December 31, 2014	\$ 230	\$3,702,344	\$ (242,642)	\$ 140,881	\$(82,000)	\$ 3,518,813
Share-based compensation	—	12,005	—	—	—	12,005
Proceeds from the exercise of share options	2	51,788	—	—	—	51,790
Other comprehensive loss, net	—	—	(81,760)	—	—	(81,760)
Net loss	—	—	—	(21,456)	—	(21,456)
Balance, March 31, 2015	\$ 232	\$3,766,137	\$ (324,402)	\$ 119,425	\$(82,000)	\$ 3,479,392
Balance, December 31, 2015	\$ 232	\$3,814,536	\$ (412,650)	\$ 568,018	\$(189,256)	\$ 3,780,880
Share-based compensation	—	15,245	—	—	—	15,245
Proceeds from the exercise of share options	—	2,044	—	—	—	2,044
Proceeds from employee share purchase plan	—	1,104	—	—	—	1,104
Treasury shares	—	—	—	—	(49,999)	(49,999)
Other comprehensive income, net	—	—	105,108	—	—	105,108
Net income	—	—	—	73,229	—	73,229
Balance, March 31, 2016	\$ 232	\$3,832,929	\$ (307,542)	\$ 641,247	\$(239,255)	\$ 3,927,611

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

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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” and “us” refer to NCLH (as defined below) and its subsidiaries (including Prestige (as defined below), except for periods prior to the consummation of the Acquisition of Prestige (as defined below)), (ii) “NCLC” refers to NCL Corporation Ltd., (iii) “NCLH” refers to Norwegian Cruise Line Holdings Ltd., (iv) “Norwegian” refers to the Norwegian Cruise Line brand and its predecessors, (v) “Prestige” refers to Prestige Cruises International, Inc., together with its consolidated subsidiaries, (vi) “PCH” refers to Prestige Cruise Holdings, Inc., Prestige’s direct wholly owned subsidiary, which in turn is the parent of Oceania Cruises, Inc. (“Oceania Cruises”) and Seven Seas Cruises S. DE R.L. (“Regent”) (Oceania Cruises also refers to the brand by the same name and Regent also refers to the brand Regent Seven Seas Cruises), (vii) “Apollo” refers to Apollo Global Management, LLC, its subsidiaries and the affiliated funds it manages and the “Apollo Holders” 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., Apollo Overseas Partners (Germany) VI, L.P., AAA Guarantor — Co-Invest VII, L.P., AIF VI Euro Holdings, L.P., AIF VII Euro Holdings, L.P., Apollo Alternative Assets, L.P., Apollo Management VI, L.P. and Apollo Management VII, L.P., (viii) “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, (ix) “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., its wholly-owned subsidiary (“Star NCLC”)), and (x) “Affiliate(s)” or “Sponsor(s)” refers to the Apollo Holders, Genting HK 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, the “U.K.” are to the United Kingdom and “euros” or “€” are to the official currency of the Eurozone.

1. Description of Business and Organization

NCLH is a leading global cruise company which operates the Norwegian Cruise Line, Oceania Cruises and Regent Seven Seas Cruises brands. We have 23 ships with approximately 45,800 Berths including Sirena, previously under a Bareboat Charter, which joined our Oceania Cruises’ fleet in April 2016. We will introduce five additional ships to our fleet through 2020. We have two Explorer Class Ships on order for delivery in the summer of 2016 and the winter of 2020. Norwegian Joy is on order for delivery in the spring of 2017 and two additional Breakaway Plus Class Ships are on order for deliveries to the Norwegian fleet in the spring of 2018 and fall of 2019. These additions to our fleet will increase our total Berths to approximately 59,300.

2. 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, 2015, which are included in our most recently filed Annual Report on Form 10-K.

Reclassification

Certain amounts in prior periods have been reclassified to conform to the current period presentation.

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):

	Three Months Ended March 31,	
	2016	2015
Net income (loss)	\$ 73,229	\$ (21,456)
Basic weighted-average shares outstanding	227,239,533	224,301,117
Dilutive effect of awards	872,502	—
Diluted weighted-average shares outstanding	228,112,035	224,301,117
Basic earnings (loss) per share	\$ 0.32	\$ (0.10)
Diluted earnings (loss) per share	\$ 0.32	\$ (0.10)(1)

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(1) Due to a net loss, excludes 4,745,812 shares as including these would be antidilutive.

Revenue and Expense Recognition

Deposits received from guests for future voyages are recorded as advance ticket sales and are subsequently recognized as passenger ticket revenue along with onboard and other revenue, and all associated direct costs of a voyage are recognized as cruise operating expenses on a pro-rata basis over the period of the voyage. Guest cancellation penalties are recognized in passenger ticket revenue in the month of the cancellation.

Revenue and expenses include port fees and taxes. The amounts included on a gross basis are \$62.5 million and \$51.9 million for the three months ended March 31, 2016 and 2015, respectively.

Foreign Currency

The majority of our transactions are settled in U.S. dollars. We translate assets and liabilities of our foreign subsidiaries at exchange rates in effect at the balance sheet date. Gains or losses resulting from transactions denominated in other currencies are recognized in our consolidated statements of operations within other income (expense) and such losses were \$(4.2) million and gains were \$4.9 million for the three months ended March 31, 2016 and 2015, respectively.

Depreciation and Amortization Expense

The amortization of deferred financing fees are included in depreciation and amortization expense in the consolidated statements of cash flows but are included in interest expense, net and not included in the depreciation and amortization expense in the consolidated statements of operations.

Recently Issued Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-09 to improve multiple aspects of the accounting for share-based payment transactions, including income tax

consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. The guidance is effective for annual periods beginning after December 15, 2016 and interim periods within those annual periods with early adoption permitted. We are currently evaluating the impact of the adoption of this newly issued guidance to our consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The ASU requires lessees to recognize assets and liabilities on the balance sheet for the rights and obligations created by all leases with terms of more than 12 months. The ASU further modifies lessors' classification criteria for leases and the accounting for sales-type and direct financing leases. The ASU will also require qualitative and quantitative disclosures designed to give financial statement users additional information on the amount, timing, and uncertainty of cash flows arising from leases. The ASU is effective for annual reporting periods, and interim periods within those annual periods, beginning after December 15, 2018 with early adoption permitted. The ASU is to be applied using a modified retrospective approach. We are currently evaluating the impact of the adoption of this newly issued guidance to our consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11 to simplify the measurement of inventory for all entities. This applies to all inventory that is measured using either the first-in, first-out or average cost method. The guidance requires an entity to measure inventory at the lower of cost or net realizable value. The guidance must be applied prospectively and will be effective for our interim and annual reporting periods beginning after December 15, 2016. Early adoption is permitted as of the beginning of an interim or annual reporting period. We are currently evaluating the impact of the adoption of this newly issued guidance to our consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-05 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. We have adopted this guidance and there has not been an impact to our consolidated financial statements.

In May 2014, FASB issued ASU No. 2014-09 which requires entities to recognize revenue through the application of a five-step model, including identification of the contract, identification of the performance obligations, determination of the transaction price, allocation of the transaction price to the performance obligation and recognition of revenue as the entity satisfies the performance obligations. Entities have the option of using either a full retrospective or a modified approach to adopt the guidance. In August 2015, the FASB issued ASU No. 2015-14 deferring the effective date for one year. We can elect to adopt the provisions of ASU No. 2014-09 for annual periods beginning after December 15, 2017 including interim periods within that reporting period or we can elect to

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early adopt the guidance as of the original effective date. We are currently evaluating the impact of the adoption of this newly issued guidance to our consolidated financial statements.

3. Intangible Assets

The gross carrying amounts of intangible assets included within other long-term assets, the related accumulated amortization, the net carrying amounts and the weighted-average amortization periods of the Company's intangible assets are listed in the following table (in thousands, except amortization period):

	March 31, 2016			Weighted-
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Average Amortization Period (Years)
Customer relationships	\$ 120,000	\$ (20,793)	\$ 99,207	6.0
Licenses	3,368	(331)	3,037	5.6
Total intangible assets subject to amortization	\$ 123,368	\$ (21,124)	\$ 102,244	
License (Indefinite-lived)	\$ 4,427	\$ —	\$ —	

	December 31, 2015			Weighted-
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Average Amortization Period (Years)
Customer relationships	\$ 120,000	\$ (15,527)	\$ 104,473	6.0
Backlog	70,000	(70,000)	—	1.0
Licenses	3,368	(208)	3,160	5.6
Total intangible assets subject to amortization	\$ 193,368	\$ (85,735)	\$ 107,633	
License (Indefinite-lived)	\$ 4,427	\$ —	\$ —	

The aggregate amortization expense is as follows (in thousands):

	Three months ended	
	March 31, 2016	2015
Amortization expense	\$ 5,389	\$ 18,230

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The following table sets forth the Company's estimated aggregate amortization expense for each of the five years below (in thousands):

Year ended December 31,	Amortization Expense
2017	\$ 31,177
2018	26,058
2019	18,489
2020	9,906
2021	75

4. Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) for the three months ended March 31, 2016 was as follows (in thousands):

	Accumulated Other Comprehensive Income (Loss)	Change Related to Cash Flow Hedges	Change Related to Shipboard Retirement Plan
Accumulated other comprehensive income (loss) at beginning of period	\$ (412,650)	\$ (405,298)	\$ (7,352)
Current period other comprehensive income before reclassifications	70,450	70,450	—
Amounts reclassified into earnings	34,658	34,550 (1)	108 (2)
Accumulated other comprehensive income (loss) at end of period	\$ (307,542)	\$ (300,298)(3)	\$ (7,244)

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- (1) We refer you to Note 5— “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 \$119.2 million of loss expected to be reclassified into earnings in the next 12 months.

Accumulated other comprehensive income (loss) for the three months ended March 31, 2015 was as follows (in thousands):

	Accumulated Other Comprehensive Income (Loss)	Change Related to Cash Flow Hedges	Change Related to Shipboard Retirement Plan
Accumulated other comprehensive income (loss) at beginning of period	\$ (242,642)	\$ (234,188)	\$ (8,454)
Current period other comprehensive loss before reclassifications	(103,765)	(103,765)	—
Amounts reclassified into earnings	22,005	21,886 (1)	119 (2)
Accumulated other comprehensive income (loss) at end of period	\$ (324,402)	\$ (316,067)	\$ (8,335)

- (1) We refer you to Note 5— “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.

5. 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:

Quoted prices in active markets for identical assets or liabilities that are accessible at the measurement dates.

Level 1

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.

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 (expense) 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 Loan 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.

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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, 2016	December 31, 2015	March 31, 2016	December 31, 2015
Fuel swaps designated as hedging instruments				
Prepaid expenses and other assets	\$6,283	\$ —	\$256	\$ —
Other long-term assets	3,534	—	43	—
Accrued expenses and other liabilities	—	—	117,016	128,740
Other long-term liabilities	1,241	—	132,656	132,494
Fuel swaps not designated as hedging instruments				
Prepaid expenses and other assets	16	—	—	—
Accrued expenses and other liabilities	—	—	1,545	—
Foreign currency forward contracts designated as hedging instruments				
Prepaid expenses and other assets	671	—	—	—
Other long-term assets	59,812	3,446	2,953	1,370
Accrued expenses and other liabilities	—	—	138	8,737
Other long-term liabilities	1,397	551	5,390	24,181
Foreign currency collar not designated as a hedging instrument				
Accrued expenses and other liabilities	—	—	29,368	42,993
Interest rate swaps designated as hedging instruments				
Accrued expenses and other liabilities	—	—	3,882	4,079
Other long-term liabilities	—	—	4,490	3,395

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 when the rights of offset exists. We are not required to post cash collateral related to our derivative instruments.

The following table discloses the gross and net amounts recognized within assets and liabilities (in thousands):

March 31, 2016	Gross Amounts	Gross Amounts Offset	Total Net Amounts	Gross Amounts Not Offset	Net Amounts
Assets	\$ 70,316	\$ (3,252)	\$ 67,064	\$ (49,147)	\$ 17,917
Liabilities	294,485	(2,638)	291,847	(39,761)	252,086

December 31, 2015	Gross Amounts	Gross Amounts Offset	Total Net Amounts	Gross Amounts Not Offset	Net Amounts
Assets	\$ 3,446	\$ (1,370)	\$ 2,076	\$ (2,043)	\$ 33
Liabilities	344,619	(551)	344,068	(336,645)	7,423

Fuel Swaps

As of March 31, 2016, we had fuel swaps maturing through December 31, 2019 which are used to mitigate the financial impact of volatility in fuel prices pertaining to approximately 2.0 million 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):

	Three Months Ended March 31,	
	2016	2015
Loss recognized in other comprehensive income (loss) – effective portion	\$(9,506)	\$(2,801)
Loss recognized in other income (expense) – ineffective portion	(5,227)	(6,051)
Amount reclassified from accumulated other comprehensive income (loss) into fuel expense	31,137	20,536

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As of March 31, 2016, we had fuel swaps pertaining to approximately 14,000 metric tons which were not designated as cash flow hedges. These fuel swaps were previously designated as cash flow hedges and were dedesignated due to a change in our expected future fuel purchases mix.

The effects on the consolidated financial statements of the fuel swaps which were dedesignated and recognized into earnings were as follows (in thousands):

	Three Months Ended March 31,	
	2016	2015
Amount reclassified from accumulated other comprehensive income (loss) into other income (expense)	\$ 1,529	\$ —

Fuel Collars

We had fuel collars that matured and were used to mitigate the financial impact of volatility in fuel prices of our 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):

	Three Months Ended March 31,	
	2016	2015
Amount reclassified from accumulated other comprehensive income (loss) into fuel expense	\$ —	\$ 238

Foreign Currency Options

We had foreign currency options that matured 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):

	Three Months Ended March 31,	
	2016	2015
Amount reclassified from accumulated other comprehensive income (loss) into depreciation and amortization expense	\$ 330	\$ 330

Foreign Currency Forward Contracts

As of March 31, 2016, we had foreign currency forward contracts which are used to mitigate the financial impact of volatility in foreign currency exchange rates related to our ship construction contracts and forecasted Dry-dock payments denominated in euros. The notional amount of our foreign currency forward contracts was €2.3 billion, or \$2.6 billion based on the euro/U.S. dollar exchange rate as of March 31, 2016.

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):

	Three Months Ended March 31,	
	2016	2015
Gain (loss) recognized in other comprehensive income (loss) – effective portion	\$ 82,511	\$ (97,375)
Gain (loss) recognized in other income (expense) – ineffective portion	11	(15)
Amount reclassified from accumulated other comprehensive income (loss) into depreciation and amortization expense	645	(64)

Foreign Currency Collar

We had a foreign currency collar that matured and 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):

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	Three Months Ended March 31,	
	2016	2015
Amount reclassified from accumulated other comprehensive income (loss) into depreciation and amortization expense	\$ (91)	\$ (91)

As of March 31, 2016, we had a foreign currency collar used to mitigate the volatility of foreign currency exchange rates related to our ship construction contracts denominated in euros. The notional amount of our foreign currency collar was €274.4 million, or \$312.3 million based on the euro/U.S. dollar exchange rate as of March 31, 2016.

The effect on the consolidated financial statements of the foreign currency collar which was not designated as a cash flow hedge was as follows (in thousands):

	Three Months Ended March 31,	
	2016	2015
Gain (loss) recognized in other income (expense)	\$ 13,625	\$ (28,953)

Interest Rate Swaps

As of March 31, 2016, we had interest rate swap agreements to hedge 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 \$411.7 million.

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

	Three Months Ended March 31,	
	2016	2015
Loss recognized in other comprehensive income (loss) – effective portion	\$ (2,555)	\$ (3,589)
Gain (loss) recognized in other income (expense) – ineffective portion	3	(7)
Amount reclassified from accumulated other comprehensive income (loss) into interest expense, net	1,000	937

We had an interest rate swap that matured in January 2015, which was used to mitigate our exposure to interest rate movements and to manage our interest expense.

The effect on the consolidated financial statements of the interest rate swap contract which was not designated as a hedging instrument was as follows (in thousands):

	Three Months Ended	
	March 31,	
	2016	2015
Loss recognized in other income (expense)	\$ —	\$ (2)

Long-Term Debt

As of March 31, 2016 and December 31, 2015, the fair value of our long-term debt, including the current portion, was \$6.4 billion and \$6.5 billion, respectively, which was \$6.0 million and \$6.6 million lower, 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 resulting in Level 2 inputs in the fair value hierarchy. Market risk associated with our long-term variable rate debt is the potential increase in interest expense from an increase in interest rates. 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 other financial assets and liabilities approximate fair value.

Table of Contents**6. Employee Benefits and Compensation Plans****Share Option Awards**

On March 1, 2016, we granted 1.0 million share option awards to our employees at an exercise price of \$50.31 with a contractual term of ten years. The share options vest equally over three years.

The following is a summary of option activity under our share option plan for the three months ended March 31, 2016 (excludes the impact of 364,584 previously awarded performance-based options as no grant date has been established):

	Number of Share Option Awards			Weighted-Average Exercise Price			Weighted-Average Contractual Term (years)	Aggregate Intrinsic Value (in thousands)
	Time-Based Awards	Performance-Based Awards	Market-Based Awards	Time-Based Awards	Performance-Based Awards	Market-Based Awards		
Outstanding as of December 31, 2015	7,702,071	432,752	208,333	\$47.35	\$ 19.00	\$ 59.43	8.59	\$ 104,864
Granted	1,035,000	52,083	—	50.15	59.43	—		
Exercised	(52,803)	(40,359)	—	25.92	19.00	—		
Forfeited and cancelled	(329,027)	—	—	48.24	—	—		
Outstanding as of March 31, 2016	8,355,241	444,476	208,333	\$47.80	\$ 23.74	\$ 59.43	8.54	\$ 85,185

Restricted Ordinary Share Awards

The following is a summary of restricted ordinary share activity for the three months ended March 31, 2016:

	Number of Time-Based Awards	Weighted-Average Grant Date Fair
--	-----------------------------	----------------------------------

		Value
Non-vested as of January 1, 2016	43,653	\$ 5.87
Granted	—	—
Vested	(10,462)	7.89
Forfeited or expired	(352)	2.50
Non-vested and expected to vest as of March 31, 2016	32,839	\$ 5.26

Restricted Share Unit Awards

On March 1, 2016, we granted 1.2 million restricted share unit awards to our employees which vest equally over three years.

The following is a summary of restricted share unit activity for the three months ended March 31, 2016 (excludes the impact of 87,500 previously awarded performance-based restricted share units as no grant date was established):

	Number of Time-Based Awards	Weighted- Average Grant Date Fair Value	Number of Performance- Based Awards	Weighted- Average Grant Date Fair Value	Number of Market- Based Awards	Weighted- Average Grant Date Fair Value
Non-vested as of January 1, 2016	150,000	\$ 59.43	—	\$ —	50,000	\$ 59.43
Granted	1,228,990	50.42	12,500	50.00	—	—
Vested	—	—	(12,500)	50.00	—	—
Forfeited or expired	(18,500)	50.31	—	—	—	—
Non-vested and expected to vest as of March 31, 2016	1,360,490	\$ 51.42	—	\$ —	50,000	\$ 59.43

The share-based compensation expense for the three months ended March 31, 2016 was \$15.2 million of which \$13.7 million was recorded in marketing, general and administrative expense and \$1.5 million was recorded in payroll and related expense.

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7. Commitments and Contingencies

Ship Construction Contracts

We have Norwegian Joy and two other Breakaway Plus Class Ships on order with Meyer Werft shipyard for delivery in the spring of 2017, spring of 2018 and fall of 2019, respectively. These ships will be the largest in our fleet, reaching approximately 164,600 Gross Tons. The combined contract price of these three ships is approximately €2.6 billion, or \$3.0 billion based on the euro/U.S. dollar exchange rate as of March 31, 2016. We have export credit financing in place that provides financing for 80% of their contract prices. We also have contracts with Fincantieri shipyard to build two Explorer Class Ships. The original contract price of the ships is approximately €765.0 million, or approximately \$870.6 million based on the euro/U.S. dollar exchange rate as of March 31, 2016. We have export credit financing in place that provides financing for 80% of these ships' contract price. The two Explorer Class Ships are expected to be delivered in the summer of 2016 and winter of 2020.

In connection with the second Explorer Class Ship, in March 2016 we entered into a financing agreement with a syndicate of banks that provides for up to \$498.2 million of borrowings. Under the terms of this agreement, we may elect either a fixed or variable interest rate and the loan is payable over twelve years.

In connection with the contracts to build these 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, subject to certain refund guarantees, and potential claims and impairment losses which may materially impact our business, financial condition and results of operations.

Litigation

In the normal course of our business, various 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 potential 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.

8. Restructuring Costs

Due to the Acquisition of Prestige, a number of employee positions were consolidated. As of March 31, 2016, we had an accrual balance of \$2.5 million for restructuring costs for severance and other employee-related costs. The expense of \$1.7 million for the three months ended March 31, 2016 is included in marketing, general and administrative expense.

The following table summarizes changes in the accrual for restructuring costs (in thousands):

	Restructuring costs	
Accrued expense balance as of December 31, 2015	\$ (4,144)
Amounts paid	3,282	
Additional accrued expense	(1,660)
Accrued expense balance as of March 31, 2016	\$ (2,522)

9. Supplemental Cash Flow Information

For the three months ended March 31, 2016, we had non-cash investing activities in connection with property and equipment of \$7.5 million and for the three months ended March 31, 2015, we had non-cash investing activities in connection with capital leases of \$27.6 million.

10. Revision to the Consolidated Statement of Cash Flows

During the three months ended September 30, 2015, we determined that for the three months ended March 31, 2015 and six months ended June 30, 2015, cash payments related to property and equipment were reported as a decrease in cash flows from operating activities related to the change in accrued expenses and other liabilities and prepaid and other assets when it should have been reported as a decrease in cash flows from investing activities related to additions to property and equipment. The Consolidated Statements of Cash Flows for the three months ended March 31, 2015 has been revised, and we will revise the six months ended June 30, 2015 in the Form 10-Q filing for the period ended June 30, 2016, to increase cash from operating activities related to the change in accrued expenses and other liabilities and prepaid and other assets and increase investing cash outflows from additions to property and equipment by \$14.6 million and \$18.5 million, respectively. We have determined that the revision is not material to our consolidated financial statements individually and in the aggregate.

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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 within the meaning of the U.S. federal securities laws 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 contained, or incorporated by reference, 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,” “forecast,” “intend” and “future” and 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 impact of:

- adverse general economic and related factors, such as fluctuating or increasing levels of unemployment, underemployment and the volatility of fuel prices, 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;
 - the risks and increased costs associated with operating internationally;
 - our efforts to expand our business into new markets;
- adverse events impacting the security of travel, such as terrorist acts, acts of piracy, armed conflict and threats thereof and other international events;
 - breaches in data security or other disturbances to our information technology and other networks;
 - the spread of epidemics and viral outbreaks;
 - adverse incidents involving cruise ships;
 - changes in fuel prices and/or other cruise operating costs;
 - our hedging strategies;
 - our inability to obtain adequate insurance coverage;
- our substantial indebtedness, including the ability to raise additional capital to fund our operations, and to generate the necessary amount of cash to service our existing debt;
 - restrictions in the agreements governing our indebtedness that limit our flexibility in operating our business;
 - the significant portion of our assets pledged as collateral under our existing debt agreements and the ability of our creditors to accelerate the repayment of our indebtedness;
 - our ability to incur significantly more debt despite our substantial existing indebtedness;
- 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;
 - fluctuations in foreign currency exchange rates;
- our inability to recruit or retain qualified personnel or the loss of key personnel;

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- future changes relating to how external distribution channels sell and market our cruises;
- our reliance on third parties to provide hotel management services to certain ships and certain other services;
 - delays in our shipbuilding program and ship repairs, maintenance and refurbishments;
 - future increases in the price of, or major changes or reduction in, commercial airline services;
 - seasonal variations in passenger fare rates and occupancy levels at different times of the year;
 - our ability to keep pace with developments in technology;
- amendments to our collective bargaining agreements for crew members and other employee relation issues;
 - the continued availability of attractive port destinations;
 - pending or threatened litigation, investigations and enforcement actions;

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- changes involving the tax and environmental regulatory regimes in which we operate; and

other factors set forth under “Risk Factors” in our most recently filed Annual Report on Form 10-K and “Item 1A. Risk Factors” in this report.

The above examples are not exhaustive and new risks emerge from time to time. 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 made. We expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement 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, except as required by law.

Terminology

This report includes certain non-GAAP financial measures, such as Net Revenue, Net Yield, Net Cruise Cost, Adjusted Net Revenue, Adjusted Net Yield, Adjusted Net Cruise Cost Excluding Fuel, Adjusted EBITDA, Adjusted Net Income and Adjusted EPS. Definitions of these non-GAAP financial measures are included below. For further information about our non-GAAP financial measures including detailed adjustments made in calculating our non-GAAP financial measures and a reconciliation to the most directly comparable GAAP financial measure, we refer you to “Results of Operations” below.

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

- *Acquisition of Prestige*. In November 2014, pursuant to the Merger Agreement, we acquired Prestige in a cash and stock transaction for total consideration of \$3.025 billion, including the assumption of debt.
- *Adjusted EBITDA*. EBITDA adjusted for other income (expense) and other supplemental adjustments.
- *Adjusted EPS*. Adjusted Net Income divided by the number of diluted weighted-average shares outstanding.

- *Adjusted Net Cruise Cost Excluding Fuel*. Net Cruise Cost Excluding Fuel expense adjusted for supplemental adjustments.
- *Adjusted Net Income*. Net income adjusted for supplemental adjustments.
- *Adjusted Net Revenue*. Net Revenue adjusted for supplemental adjustments.
- *Adjusted Net Yield*. Net Yield adjusted for supplemental adjustments.
- *Berths*. Double occupancy capacity per cabin (single occupancy per studio cabin) even though many cabins can accommodate three or more passengers.
- *Breakaway Class Ships*. Norwegian Breakaway and Norwegian Getaway.
- *Breakaway Plus Class Ships*. The next generation of ships which are similar in design and innovation to Breakaway Class Ships.
- *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.
- *Bareboat Charter*. The hire of a ship for a specified period of time whereby no crew or provisions are provided by the Company.
- *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, and depreciation and amortization.
- *EPS*. Earnings per share.
- *Explorer Class Ships*. Regent's Seven Seas Explorer and a second ship on order.

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- *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.
- *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.
- *Management NCL Corporation Units*. NCLC's previously outstanding profits interests issued to management (or former management) of NCLC which were converted into units in NCLC. All Management NCL Corporation Units were exchanged for NCLH ordinary shares and restricted shares in the fourth quarter of 2014.
- *Merger Agreement*. Agreement and Plan of Merger, dated as of September 2, 2014, by and among Prestige, NCLH, Portland Merger Sub, Inc. and Apollo Management, L.P., as amended, for the Acquisition of Prestige.
- *Net Cruise Cost*. Gross Cruise Cost less commissions, transportation and other expense and onboard and other expense.
- *Net Cruise Cost Excluding Fuel*. Net Cruise Cost less fuel expense.
- *Net Revenue*. Total revenue less commissions, transportation and other expense and onboard and other expense.
- *Net Yield*. Net Revenue per Capacity Day.
- *Occupancy Percentage*. The ratio of Passenger Cruise Days to Capacity Days. A percentage in excess of 100% indicates that three or more passengers occupied some cabins.

- *Passenger Cruise Days.* The number of passengers carried for the period, multiplied by the number of days in their respective cruises.

- *Revolving Loan Facility.* \$625.0 million senior secured revolving credit facility maturing on May 24, 2018.

- *ROI Capital Expenditures.* Comprised of project-based capital expenditures which have a quantified return on investment.

- *Shipboard Retirement Plan.* An unfunded defined benefit pension plan for certain crew members which computes benefits based on years of service, subject to certain requirements.

Non-GAAP Financial Measures

We use certain non-GAAP financial measures, such as Net Revenue, Adjusted Net Revenue, Net Yield, Adjusted Net Yield, Net Cruise Cost, Adjusted Net Cruise Cost Excluding Fuel, Adjusted EBITDA, Adjusted Net Income and Adjusted EPS, to enable us to analyze our performance. See “Terminology” for the definitions of these non-GAAP financial measures. We utilize Net Revenue and Net Yield to manage our business on a day-to-day basis and believe that they are the most relevant measures of our revenue performance because they reflect the revenue earned by us net of significant variable costs. In measuring our ability to control costs in a manner that positively impacts net income, we believe changes in Net Cruise Cost and Adjusted Net Cruise Cost Excluding Fuel to be the most relevant indicators of our performance.

As our business includes the sourcing of passengers and deployment of vessels outside of the U.S., a portion of our revenue and expenses are denominated in foreign currencies, particularly British pound, Canadian dollar, euro and Australian dollar which are subject to fluctuations in currency exchange rates versus our reporting currency, the U.S. dollar. In order to monitor results excluding these fluctuations, we calculate certain non-GAAP measures on a Constant Currency basis whereby current period revenue and expenses denominated in foreign currencies are converted to U.S. dollars using currency exchange rates of the comparable period. We believe that presenting these non-GAAP measures on both a reported and Constant Currency basis is useful in providing a more comprehensive view of trends in our business.

We believe that Adjusted EBITDA is appropriate as a supplemental financial measure as it is used by management to assess operating performance. We believe that Adjusted EBITDA is a useful measure in determining our performance as it reflects certain operating drivers of our business, such as sales growth, operating costs, marketing, general and administrative expense and other operating income and expense. Adjusted EBITDA is not a defined term under

GAAP. Adjusted EBITDA is not intended to be a measure of liquidity or cash flows from operations or a measure comparable to net income as it does not take into account certain requirements such as capital expenditures and related depreciation, principal and interest payments and tax payments and it includes other supplemental adjustments.

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In addition, Adjusted Net Revenue and Adjusted Net Yield, which excludes certain business combination accounting entries, are non-GAAP financial measures that we believe are useful as supplemental measures in evaluating the performance of our operating business and provide greater transparency into our results of operations. Adjusted Net Income and Adjusted EPS are non-GAAP financial measures that exclude certain amounts and are used to supplement GAAP net income and EPS. We use Adjusted Net Income and Adjusted EPS as key performance measures of our earnings performance. We believe that both management and investors benefit from referring to these non-GAAP financial measures in assessing our performance and when planning, forecasting and analyzing future periods. These non-GAAP financial measures also facilitate management's internal comparison to our historical performance. The amounts excluded in the presentation of these non-GAAP financial measures may vary from period to period; accordingly, our presentation of Adjusted Net Revenue, Adjusted Net Yield, Adjusted Net Income and Adjusted EPS may not be indicative of future adjustments or results.

You are encouraged to evaluate each adjustment used in calculating our non-GAAP financial measures and the reasons we consider our non-GAAP financial measures appropriate for supplemental analysis. In evaluating our non-GAAP financial measures, you should be aware that in the future we may incur expenses similar to the adjustments in our presentation. Our non-GAAP financial measures have limitations as analytical tools, and you should not consider these measures in isolation or as a substitute for analysis of our results as reported under GAAP. Our presentation of our non-GAAP financial measures should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items. Our non-GAAP financial measures may not be comparable to other companies. Please see a historical reconciliation of these measures to the most comparable GAAP measure presented in our consolidated financial statements below in the "Results of Operations" section.

Financial Presentation

Revenue from our cruise and cruise-related activities are categorized by us as "passenger ticket revenue" and "onboard and other revenue." Passenger ticket revenue and onboard and other revenue vary according to product offering, the size of the ship in operation, the length of cruises operated and the markets in which the ship operates. Our revenue is seasonal based on demand for cruises, which has historically been strongest during the Northern Hemisphere's summer months.

Passenger ticket revenue primarily consists of revenue for accommodations, meals in certain restaurants on the ship, certain onboard entertainment, and includes revenue for service charges and air and land transportation to and from the ship to the extent guests purchase these items from us. Onboard and other revenue primarily consists of revenue from gaming, beverage sales, shore excursions, specialty dining, retail sales, spa services, photo services as well as certain Bareboat Charter revenue. We record onboard revenue from onboard activities we perform directly or that are performed by independent concessionaires, from which we receive a share of their revenue.

Our cruise operating expense is classified as follows:

Commissions, transportation and other primarily consists of direct costs associated with passenger ticket revenue. These costs include travel agent commissions, air and land transportation expenses, related credit card fees, costs associated with service charges, certain port expenses and the costs associated with shore excursions and hotel accommodations included as part of the overall cruise purchase price.

Onboard and other primarily consists of direct costs that are incurred in connection with onboard and other revenue. These include costs incurred in connection with gaming, beverage sales and shore excursions.

Payroll and related consists of the cost of wages and benefits for shipboard employees and costs of certain inventory items, including food, for a third party that provides crew and other hotel services for certain ships.

Fuel includes fuel costs, the impact of certain fuel hedges and fuel delivery costs.

Food consists of food costs for passengers and crew on certain ships.

Other consists of repairs and maintenance (including Dry-dock costs), ship insurance and other ship expenses.

Critical Accounting Policies

For a discussion of our critical accounting policies and estimates, see “Critical Accounting Policies” included in our Annual Report on Form 10-K for the year ended December 31, 2015 under the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” We have made no significant changes to our critical accounting policies and estimates from those described in our Annual Report on Form 10-K for the year ended December 31, 2015.

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Quarterly Overview

Sirena, previously under a Bareboat Charter, joined our Oceania Cruises' fleet in April 2016. This ship is approximately 30,000 Gross Tons with approximately 684 Berths.

We placed an order with Fincantieri shipyards to build a second Explorer Class Ship for delivery in the winter of 2020.

We repurchased approximately \$50 million of NCLH's outstanding ordinary shares under our previously authorized three-year, \$500 million share repurchase program.

Three months ended March 31, 2016 ("2016") compared to the three months ended March 31, 2015 ("2015")

Total revenue increased 14.9% to \$1.1 billion in 2016 compared to \$938.2 million in 2015. Net Revenue in 2016 increased 18.4% to \$838.2 million from \$707.7 million in 2015 due to an increase in Capacity Days of 12.2% and an increase in Net Yield of 5.5%. The increase in Capacity Days was primarily due to the delivery of Norwegian Escape in October 2015.

We had net income and diluted EPS of \$73.2 million and \$0.32, respectively, in 2016. Operating income was \$131.3 million in 2016 compared to \$60.3 million in 2015. We had Adjusted Net Income and Adjusted EPS of \$86.7 million and \$0.38, respectively, in 2016, which includes \$13.4 million of adjustments primarily consisting of expenses related to non-cash compensation and certain other adjustments. Adjusted EBITDA improved 28.2% in 2016 compared to 2015. We refer you to our "Results of Operations" below for a calculation of Net Revenue, Net Yield, Adjusted Net Income, Adjusted EPS and Adjusted EBITDA.

Results of Operations

The following table sets forth operating data as a percentage of total revenue:

Three Months Ended	
March 31,	
2016	2015

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Revenue				
Passenger ticket	68.7	%	71.5	%
Onboard and other	31.3	%	28.5	%
Total revenue	100.0	%	100.0	%
Cruise operating expense				
Commissions, transportation and other	16.3	%	18.3	%
Onboard and other	6.0	%	6.3	%
Payroll and related	16.4	%	16.8	%
Fuel	7.6	%	9.3	%
Food	4.7	%	4.5	%
Other	10.7	%	11.3	%
Total cruise operating expense	61.7	%	66.5	%
Other operating expense				
Marketing, general and administrative	16.8	%	16.4	%
Depreciation and amortization	9.4	%	10.7	%
Total other operating expense	26.2	%	27.1	%
Operating income	12.1	%	6.4	%
Non-operating income (expense)				
Interest expense, net	(5.5))%	(5.4))%
Other income (expense)	0.3	%	(3.2))%
Total non-operating income (expense)	(5.2))%	(8.6))%
Net income (loss) before income taxes	6.9	%	(2.2))%
Income tax expense	(0.1))%	(0.1))%
Net income (loss)	6.8	%	(2.3))%

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The following table sets forth selected statistical information:

	Three Months Ended	
	March 31,	
	2016	2015
Passengers carried	551,475	513,526
Passenger Cruise Days	4,285,294	3,768,115
Capacity Days	3,990,942	3,556,468
Occupancy Percentage	107.4 %	106.0 %

Net Revenue, Adjusted Net Revenue, Gross Yield, Net Yield and Adjusted Net Yield were calculated as follows (in thousands, except Capacity Days and Yield data):

	Three Months Ended		
	March 31,		
	2016	2016 Constant Currency	2015
Passenger ticket revenue	\$740,112	\$752,632	\$670,483
Onboard and other revenue	337,520	337,519	267,699
Total revenue	1,077,632	1,090,151	938,182
Less:			
Commissions, transportation and other expense	175,437	178,905	171,827
Onboard and other expense	63,965	63,965	58,645
Net Revenue	838,230	847,281	707,710
Non-GAAP Adjustment:			
Deferred revenue (1)	460	460	21,194
Adjusted Net Revenue	\$838,690	\$847,741	\$728,904
Capacity Days	3,990,942	3,990,942	3,556,468
Gross Yield	\$270.02	\$273.16	\$263.80
Net Yield	\$210.03	\$212.30	\$198.99
Adjusted Net Yield	\$210.15	\$212.42	\$204.95

(1) Reflects deferred revenue fair value adjustments related to the Acquisition of Prestige that were made pursuant to business combination accounting rules.

Gross Cruise Cost, Net Cruise Cost, Net Cruise Cost Excluding Fuel and Adjusted Net Cruise Cost Excluding Fuel were calculated as follows (in thousands, except Capacity Days and per Capacity Day data):

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	Three Months Ended		
	March 31,		
	2016	2016 Constant Currency	2015
Total cruise operating expense	\$664,481	\$669,159	\$623,700
Marketing, general and administrative expense	180,574	181,315	154,157
Gross Cruise Cost	845,055	850,474	777,857
Less:			
Commissions, transportation and other expense	175,437	178,905	171,827
Onboard and other expense	63,965	63,965	58,645
Net Cruise Cost	605,653	607,604	547,385
Less: Fuel expense	81,672	81,672	87,374
Net Cruise Cost Excluding Fuel	523,981	525,932	460,011
Less Non-GAAP Adjustments:			
Non-cash deferred compensation (1)	791	791	1,453
Non-cash share-based compensation (2)	15,245	15,245	12,005
Severance payments and other fees (3)	2,030	2,030	10,387
Management NCL Corporation Units exchange expenses (4)	—	—	624
Acquisition of Prestige expenses (5)	1,741	1,741	400
Contingent consideration adjustment (6)	—	—	(9,100)
Adjusted Net Cruise Cost Excluding Fuel	\$504,174	\$506,125	\$444,242
Capacity Days	3,990,942	3,990,942	3,556,468
Gross Cruise Cost per Capacity Day	\$211.74	\$213.10	\$218.72
Net Cruise Cost per Capacity Day	\$151.76	\$152.25	\$153.91
Net Cruise Cost Excluding Fuel per Capacity Day	\$131.29	\$131.78	\$129.34
Adjusted Net Cruise Cost Excluding Fuel per Capacity Day	\$126.33	\$126.82	\$124.91

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- (1) Non-cash deferred compensation expenses related to the crew pension plan and other crew expenses, which are included in payroll and related expense.
- (2) Non-cash share-based compensation expenses related to equity awards, which are included in marketing, general and administrative expense and payroll and related expense.
- (3) Severance payments and other expenses related to restructuring costs and other severance arrangements, which are included in marketing, general and administrative expense.
- (4) Expenses related to the exchange of Management NCL Corporation Units for ordinary shares, which are included in marketing, general and administrative expense.
- (5) Expenses related to the Acquisition of Prestige, which are included in marketing, general and administrative expense.
- (6) Contingent consideration fair value adjustment related to the Acquisition of Prestige, which is included in marketing, general and administrative expense.

Adjusted Net Income and Adjusted EPS were calculated as follows (in thousands, except share and per share data):

	Three Months Ended	
	March 31,	
	2016	2015
Net income (loss)	73,229	(21,456)
Non-GAAP Adjustments:		
Non-cash deferred compensation (1)	791	1,453
Non-cash share-based compensation (2)	15,245	12,005
Severance payments and other fees (3)	2,030	10,387
Management NCL Corporation Units exchange expenses (4)	—	624
Acquisition of Prestige expenses (5)	1,741	400
Deferred revenue (6)	460	21,194
Amortization of intangible assets (7)	5,268	18,146
Contingent consideration adjustment (8)	—	(9,100)
Derivative adjustment (9)	(12,096)	28,953
Adjusted Net Income	\$86,668	\$62,606
Diluted weighted-average shares outstanding – Net income (loss)	228,112,035	224,301,117(10)
Diluted weighted-average shares outstanding – Adjusted Net Income	228,112,035	229,046,929
Diluted earnings (loss) per share	\$0.32	\$(0.10)
Adjusted EPS	\$0.38	\$0.27

- (1) Non-cash deferred compensation expenses related to the crew pension plan and other crew expenses, which are included in payroll and related expense.
- (2) Non-cash share-based compensation expenses related to equity awards, which are included in marketing, general and administrative expense and payroll and related expense.
- (3) Severance payments and other expenses related to restructuring costs and other severance arrangements, which are included in marketing, general and administrative expense.
- (4)

Expenses related to the exchange of Management NCL Corporation Units for ordinary shares, which are included in marketing, general and administrative expense.

- (5) Expenses related to the Acquisition of Prestige, which are included in marketing, general and administrative expense.
- (6) Deferred revenue fair value adjustments related to the Acquisition of Prestige that were made pursuant to business combination accounting rules, which are primarily included in Net Revenue.
- (7) Amortization of intangible assets related to the Acquisition of Prestige, which are included in depreciation and amortization expense.
- (8) Contingent consideration fair value adjustment related to the Acquisition of Prestige, which is included in marketing, general and administrative expense.
In 2016, a gain of approximately \$13.6 million for the fair value adjustment of a foreign exchange collar which does not receive hedge accounting and losses of approximately \$(1.5) million for the dedesignation of certain fuel swaps. In 2015, a loss for the fair value adjustment for a foreign exchange collar which does not receive hedge accounting treatment. These adjustments are included in other income (expense).
- (9)
- (10) Due to a net loss, excludes 4,745,812 shares, as including these would be antidilutive.

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EBITDA and Adjusted EBITDA were calculated as follows (in thousands):

	Three Months Ended	
	March 31,	
	2016	2015
Net income (loss)	\$ 73,229	\$ (21,456)
Interest expense, net	59,754	50,989
Income tax expense	1,104	677
Depreciation and amortization expense	101,295	99,976
EBITDA	235,382	130,186
Other (income) expense	(2,805)	30,139
Non-GAAP Adjustments:		
Non-cash deferred compensation (1)	791	1,453
Non-cash share-based compensation (2)	15,245	12,005
Severance payments and other fees (3)	2,030	10,387
Management NCL Corporation Units exchange expenses (4)	—	624
Acquisition of Prestige expenses (5)	1,741	400
Deferred revenue (6)	460	21,194
Contingent consideration adjustment (7)	—	(9,100)
Adjusted EBITDA	\$ 252,844	\$ 197,288

- (1) Non-cash deferred compensation expenses related to the crew pension plan and other crew expenses, which are included in payroll and related expense.
- (2) Non-cash share-based compensation expenses related to equity awards, which are included in marketing, general and administrative expense and payroll and related expense.
- (3) Severance payments and other expenses related to restructuring costs and other severance arrangements, which are included in marketing, general and administrative expense.
- (4) Expenses related to the exchange of Management NCL Corporation Units for ordinary shares, which are included in marketing, general and administrative expense.
- (5) Expenses related to the Acquisition of Prestige, which are included in marketing, general and administrative expense.
- (6) Deferred revenue fair value adjustments related to the Acquisition of Prestige that were made pursuant to business combination accounting rules, which are primarily included in Net Revenue.
- (7) Contingent consideration fair value adjustment related to the Acquisition of Prestige, which is included in marketing, general and administrative expense.

Three months ended March 31, 2016 (“2016”) compared to three months ended March 31, 2015 (“2015”)

Revenue

Total revenue increased 14.9% to \$1.1 billion in 2016 compared to \$938.2 million in 2015. Net Revenue in 2016 increased 18.4% to \$838.2 million from \$707.7 million in 2015 due to an increase in Capacity Days of 12.2% and an increase in Net Yield of 5.5%. The increase in Capacity Days was primarily due to the delivery of Norwegian Escape in October 2015. The increase in Net Yield was primarily due to an increase in passenger ticket pricing and higher onboard and other revenue. Adjusted Net Revenue includes a deferred revenue fair value adjustment of \$0.5 million and \$21.2 million in 2016 and 2015, respectively, related to the Acquisition of Prestige. On a Constant Currency basis, Net Yield and Adjusted Net Yield increased 6.7% and 3.6%, respectively, in 2016 compared to 2015.

Expense

Total cruise operating expense increased 6.5% in 2016 compared to 2015 primarily due to the increase in Capacity Days as discussed above and an increase in Dry-dock expenses. Total other operating expense increased 10.9% in 2016 compared to 2015 primarily due to an increase in marketing, general and administrative expenses with an increase in advertising expenses and in 2015 we had \$9.1 million of an incremental contingent consideration adjustment related to the Acquisition of Prestige. Depreciation and amortization expense increased primarily due to the depreciation of Norwegian Escape in 2016 and in 2015 we had \$13.0 million of incremental amortization of intangible assets due to the Acquisition of Prestige. On a Capacity Day basis, Net Cruise Cost decreased 1.4% (1.1% on a Constant Currency basis) due to a decrease in fuel expense which was primarily resulting from a 16.7% decrease in the average fuel price to \$438 per metric ton in 2016 from \$526 per metric ton in 2015 primarily offset by an increase in marketing, general and administrative expenses. Adjusted Net Cruise Cost Excluding Fuel per Capacity Day increased 1.1% (1.5% on a Constant Currency basis) primarily due to the increase in expenses discussed above.

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Interest expense, net increased to \$59.8 million in 2016 from \$51.0 million in 2015 primarily due to higher interest rates due to an increase in LIBOR rates as well as an increase in average debt balances outstanding primarily associated with the delivery of Norwegian Escape in October 2015.

Other income (expense) was income of \$2.8 million in 2016 compared to an expense of \$(30.1) million in 2015. In 2016, the income was primarily related to unrealized gains on derivatives partially offset by realized losses on derivatives and losses on foreign currency exchange. In 2015, the expense was primarily related to the derivative fair value adjustment for a foreign exchange collar which does not receive hedge accounting treatment.

In 2016, we had an income tax expense of \$1.1 million compared to \$0.7 million in 2015.

Liquidity and Capital Resources

General

As of March 31, 2016, our liquidity was \$691.9 million consisting of \$154.9 million in cash and cash equivalents and \$537.0 million under our Revolving Loan Facility. Our primary ongoing liquidity requirements are to finance working capital, capital expenditures and debt service.

As of March 31, 2016, we had a working capital deficit of \$2.1 billion. This deficit included \$1.2 billion of advance ticket sales, which represents the revenue we collect in advance of sailing dates, and accordingly, are substantially more like deferred revenue balances rather than actual current cash liabilities. Our business model, along with our Revolving Loan Facility, allows us to operate with a working capital deficit and still meet our operating, investing and financing needs.

We evaluate potential sources of additional liquidity, including the capital markets, in the ordinary course of business. We believe that prevailing market conditions, particularly in the debt capital markets, are generally favorable. We will continue to evaluate opportunities to increase our liquidity in the near term, taking into consideration our current and expected requirements, our assessment of prevailing market conditions and expectations regarding future conditions, and the contractual and other restrictions to which we are subject.

Sources and Uses of Cash

In this section, references to “2016” refer to the three months ended March 31, 2016 and references to “2015” refer to the three months ended March 31, 2015.

Net cash provided by operating activities was \$330.1 million in 2016 as compared to \$314.8 million in 2015. The change in net cash provided by operating activities reflects net income in 2016 of \$73.2 compared to a net loss in 2015 of \$(21.5) million. The net cash provided by operating activities included timing differences in cash receipts and payments relating to operating assets and liabilities.

Net cash used in investing activities was \$133.2 million in 2016, primarily related to payments for ship improvements, ships under construction and shoreside projects. Net cash used in investing activities was \$73.1 million in 2015, primarily related to payments for delivery of Norwegian Getaway and ship improvements and shoreside projects.

Net cash used in financing activities was \$158.0 million in 2016 and \$205.1 million in 2015 primarily due to net repayments of our Revolving Loan Facility and other loan facilities and the repurchase of our ordinary shares in 2016.

Future Capital Commitments

Future capital commitments consist of contracted commitments, including ship construction contracts, and future expected capital expenditures necessary for operations. As of March 31, 2016, anticipated capital expenditures were \$0.9 billion for the remainder of 2016 and \$1.3 billion for each of the years ending December 31, 2017 and 2018, of which we have export credit financing in place for the expenditures related to ship construction contracts of \$0.5 billion for the remainder of 2016, \$0.6 billion for 2017 and \$0.7 billion for 2018.

We have Norwegian Joy and two other Breakaway Plus Class Ships on order with Meyer Werft shipyard for delivery in the spring of 2017, spring of 2018 and fall of 2019, respectively. These ships will be the largest in our fleet, reaching approximately 164,600 Gross Tons. The combined contract price of these three ships is approximately €2.6 billion, or \$3.0 billion based on the euro/U.S. dollar exchange rate as of March 31, 2016. We have export credit financing in place that provides financing for 80% of their contract prices. We also have contracts with Fincantieri shipyard to build two Explorer Class Ships. The original contract price of the ships is approximately €765.0 million, or approximately \$870.6 million based on the euro/U.S. dollar exchange rate as of March 31, 2016. We have export credit financing in place that provides financing for 80% of these ships' contract price. The Explorer Class Ships are expected to be delivered in the summer of 2016 and winter of 2020.

In connection with the contracts to build these 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, subject to certain

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refund guarantees, and potential claims and impairment losses which may materially impact our business, financial condition and results of operations.

Capitalized interest for the three months ended March 31, 2016 and 2015 was \$7.1 million and \$7.7 million, respectively, primarily associated with the construction of our Breakaway Plus Class Ships.

Off-Balance Sheet Transactions

None.

Contractual Obligations

As of March 31, 2016, our contractual obligations with initial or remaining terms in excess of one year, including interest payments on long-term debt obligations, were as follows (in thousands):

	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt (1)	\$6,399,065	\$629,953	\$1,923,757	\$2,015,666	\$1,829,689
Due to Affiliate (2)	20,976	20,976	—	—	—
Operating leases (3)	157,762	13,230	29,072	29,390	86,070
Ship construction contracts (4)	3,687,018	559,999	1,985,881	1,141,138	—
Port facilities (5)	251,144	38,875	59,536	52,078	100,655
Interest (6)	895,915	177,517	345,324	227,627	145,447
Other (7)	166,533	55,522	53,686	32,793	24,532
Total	\$11,578,413	\$1,496,072	\$4,397,256	\$3,498,692	\$2,186,393

(1) Includes premiums aggregating \$0.7 million. Also includes capital leases.

(2) Primarily related to the purchase of Norwegian Sky.

(3) Primarily for offices, motor vehicles and office equipment.

(4) For our newbuild ships based on the euro/U.S. dollar exchange rate as of March 31, 2016. Export credit financing is in place from syndicates of banks.

(5) Primarily for our usage of certain port facilities.

(6) Includes fixed and variable rates with LIBOR held constant as of March 31, 2016.

(7) Future commitments for service and maintenance contracts and other Business Enhancement Capital Expenditures.

The table above does not include \$11.2 million of unrecognized tax benefits.

Other

Certain service providers may require collateral in the normal course of our business. The amount of collateral may change based on certain terms and conditions.

As a routine part of our business, depending on market conditions, exchange rates, pricing and our strategy for growth, we regularly consider opportunities to enter into contracts for the building of additional ships. We may also consider the sale of ships, potential acquisitions and strategic alliances. If any of these were to occur, they may be financed through the incurrence of additional permitted indebtedness, through cash flows from operations, or through the issuance of debt, equity or equity-related securities.

Funding Sources

Our debt agreements contain covenants that, among other things, require us to maintain a minimum level of liquidity, as well as limit our net funded debt-to-capital ratio, maintain certain other ratios and restrict our ability to pay dividends. Our ships and substantially all other property and equipment are pledged as collateral for our debt. We believe we were in compliance with these covenants as of March 31, 2016.

The impact of changes in world economies and especially the global credit markets has created a challenging environment and may reduce future consumer demand for cruises and adversely affect our counterparty credit risks. In the event this environment deteriorates, our business, financial condition and results of operations could be adversely impacted.

We believe our cash on hand, expected future operating cash inflows, additional available borrowings under our Revolving Loan Facility and our ability to issue debt securities or raise additional equity, will be sufficient to fund operations, debt payment requirements, capital expenditures and maintain compliance with covenants under our debt agreements over the next twelve-month period. There is no assurance that cash flows from operations and additional financings will be available in the future to fund our future obligations.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

General

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. The financial impacts of these derivative instruments are primarily offset by corresponding changes in the underlying exposures being hedged. We achieve this by closely matching the amount, term and conditions of the derivatives with the underlying risk being hedged. We do not hold or issue derivatives for trading or other speculative purposes. Derivative positions are monitored using techniques including market valuations and sensitivity analyses.

Interest Rate Risk

As of March 31, 2016, we had interest rate swap agreements to hedge our exposure to interest rate movements and to manage our interest expense. As of March 31, 2016, 52% of our debt was fixed and 48% was variable, which includes the effects of the interest rate swaps. The notional amount of outstanding debt associated with the interest rate swap agreements as of March 31, 2016 was \$411.7 million. Based on our March 31, 2016 outstanding variable rate debt balance, a one percentage point increase in annual LIBOR interest rates would increase our annual interest expense by approximately \$30.6 million excluding the effects of capitalization of interest.

Foreign Currency Exchange Rate Risk

As of March 31, 2016, we had foreign currency derivatives to hedge the exposure to volatility in foreign currency exchange rates related to our ship construction contracts denominated in euros. These derivatives hedge the foreign currency exchange rate risk on a portion of the payments on our ship construction contracts. The payments not hedged aggregate €620.1 million, or \$705.7 million based on the euro/U.S. dollar exchange rate as of March 31, 2016. We estimate that a 10% change in the euro as of March 31, 2016 would result in a \$70.6 million change in the U.S. dollar value of the foreign currency denominated remaining payments.

Fuel Price Risk

Our exposure to market risk for changes in fuel prices relates to the forecasted purchases of fuel on our ships. Fuel expense, as a percentage of our total cruise operating expense, was 12.3% and 14.0% for the three months ended March 31, 2016 and 2015, respectively. We use fuel derivative agreements to mitigate the financial impact of fluctuations in fuel prices and as of March 31, 2016, we had hedged approximately 92%, 82%, 55% and 50% of our 2016, 2017, 2018 and 2019 projected metric tons of fuel purchases, respectively. We estimate that a 10% increase in our weighted-average fuel price would increase our anticipated 2016 fuel expense by \$16 million. This increase would be partially offset by an increase in the fair value of our fuel swap agreements of \$10 million. Fair value of our derivative contracts is derived using valuation models that utilize the income valuation approach. These valuation models take into account the contract terms such as maturity, as well as other inputs such as fuel types, fuel curves, creditworthiness of the counterparty and the Company, as well as other data points.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management has evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures, as such term is defined in Exchange Act Rule 13a-15(e), as of March 31, 2016. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our management's evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 31, 2016 to provide reasonable assurance that the information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and that it is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting during the quarter ended March 31, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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Limitations on the Effectiveness of Controls

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

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

In the normal course of our business, various 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 potential 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.

Item 1A. Risk Factors

We refer you to our 2015 Annual Report on Form 10-K for a discussion of the risk factors that affect our business and financial results. We wish to caution the reader that the risk factors discussed in “Item 1A. Risk Factors” in our 2015 Annual Report on Form 10-K, elsewhere in this report or other Securities and Exchange Commission filings, could cause future results to differ materially from those stated in any forward-looking statements.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Purchases of Equity Securities by the Issuer

On April 29, 2014, NCLH’s Board of Directors authorized, and NCLH announced, a three-year share repurchase program for up to \$500.0 million. NCLH may make repurchases in the open market, in privately negotiated transactions, or pursuant to accelerated share repurchase programs or structured share repurchase programs, and any repurchases may be made pursuant to Rule 10b5-1 plans.

Share repurchase activity during the three months ended March 31, 2016 was as follows:

Period	Total Number of Shares Purchased as Part of a Publicly Announced Program	Average Price Paid per Share	Approximate Dollar Value of Shares that May Yet be Purchased Under the Program (in thousands)
January 1, 2016 – January 31, 2016	538,363	\$ 55.72	\$ 283,505
February 1, 2016 – February 29, 2016	—	\$ —	\$ 283,505
March 1, 2016 – March 31, 2016	409,113	\$ 48.89	\$ 263,505
Total for the three months ended March 31, 2016	947,476	\$ 52.77	\$ 263,505

Item 5. Other Information

Explorer Class Newbuild Loan Agreement

On March 30, 2016, Explorer II New Build, LLC, a wholly-owned subsidiary of Regent, entered into a loan facility with Crédit Agricole Corporate and Investment Bank, Société Générale, HSBC Bank plc and KfW IPEX-Bank GmbH, as Joint Mandated Lead Arrangers, and Crédit Agricole Corporate and Investment Bank, as Agent and Security Trustee, and the banks and financial institutions lenders party thereto, providing for borrowings of up to approximately \$498 million with a syndicate of financial institutions to finance 80% of the construction contract for an Explorer Class Ship and payment of the export credit insurance premium (the “Explorer Class Newbuild Loan Agreement”). The twelve-year fully amortizing loan requires semi-annual principal and interest payments commencing six months following the draw-down date or, if three-month interest periods are elected, quarterly principal and interest payments commencing three months following the draw-down date. Borrowings under the Explorer Class Newbuild Loan Agreement will bear interest, at the election of Explorer II New Build, LLC, at either (i) a fixed rate of 3.01% per year, or (ii) three month or six month LIBOR plus a margin of 1.75% per year. Explorer II New Build, LLC is required to pay various fees to the lenders under the Explorer Class Newbuild Loan Agreement, including a commitment fee on the maximum undrawn loan amount payable semi-annually beginning September 2016. Obligations under the Explorer Class Newbuild Loan Agreement are guaranteed by NCLC, and they are also 95% guaranteed to the lenders by the export credit agency. The Explorer Class Newbuild Loan Agreement contains financial covenants, including a requirement for NCLC to maintain a minimum liquidity balance at all times, a maximum total net funded debt to total capitalization ratio at all times, and certain other ratios. The Explorer Class Newbuild Loan Agreement also contains negative covenants that are customary for credit facilities of this type. Events of default include, among others, the failure to pay principal and interest when due, a material breach of representation or warranty, covenant defaults, events of bankruptcy and change of control. The equity interests of Explorer II New Build, LLC are, and the ship together with certain interests relating to the ship, when delivered, will be, pledged as collateral for the aforementioned debt.

Item 6. Exhibits

2.1 Agreement and Plan of Merger, dated as of September 2, 2014, by and among Prestige Cruises International, Inc., Norwegian Cruise Line Holdings Ltd., Portland Merger Sub, Inc. and Apollo Management, L.P. (incorporated herein by reference to Exhibit 2.1 to Norwegian Cruise Line Holdings Ltd.'s Form 8-K filed on September 4, 2014 (File No. 001-35784))

2.2 Amendment No. 1 to the Agreement and Plan of Merger, dated as of October 6, 2014, by and among Prestige Cruises International, Inc., Norwegian Cruise Line Holdings Ltd., Portland Merger Sub, Inc. and Apollo Management, L.P. (incorporated herein by reference to Exhibit 2.1 to Norwegian Cruise Line Holdings Ltd.'s Form 8-K filed on October 8, 2014 (File No. 001-35784))

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- 10.1* Employment Agreement by and between Prestige Cruise Services, LLC and Robert Binder, entered into on October 26, 2015 #
- 10.2* Addendum No. 5, dated March 16, 2016, to Shipbuilding Contract for Hull identified therein, as amended, by and among Meyer Werft GmbH & Co. KG, Breakaway Four, Ltd. and NCL Corporation Ltd. +
- 10.3* Addendum No. 4, dated March 16, 2016, to Shipbuilding Contract for Hull identified therein, as amended, by and among Meyer Werft GmbH & Co. KG, Seahawk One, Ltd. and NCL Corporation Ltd. +
- 10.4* Addendum No. 4, dated March 16, 2016, to Shipbuilding Contract for Hull identified therein, as amended, by and among Meyer Werft GmbH & Co. KG, Seahawk Two, Ltd. and NCL Corporation Ltd. +
- 10.5* Amendment No. 10, dated March 31, 2016, to Office Lease Agreement, dated December 1, 2006, as amended, by and between SPUS7 Miami ACC, LP and NCL (Bahamas) Ltd. +
- 10.6* Explorer Class Newbuild Loan Agreement, dated March 30, 2016, among Explorer II New Build, LLC, as borrower, the banks and financial institutions listed in Schedule 1 as lenders, Crédit Agricole Corporate and Investment Bank, Société Générale, HSBC Bank plc, KfW IPEX-Bank GmbH, as joint mandated lead arrangers and Crédit Agricole Corporate and Investment Bank as agent and security trustee +
- 10.7* Guarantee relating to the Explorer Class Newbuild Loan Agreement, dated March 30, 2016, among NCL Corporation Ltd., as guarantor, and Crédit Agricole Corporate and Investment Bank as Security Trustee +
- 31.1* Certification of the President and Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934
- 31.2* Certification of the Executive Vice President and Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934
- 32.1** Certifications of the President and Chief Executive Officer and the Executive Vice President and Chief Financial Officer pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934 and Section 1350 of Chapter 63 of Title 18 of the United States Code
- 101* The following unaudited financial statements are from Norwegian Cruise Line Holdings Ltd.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2016, formatted in Extensible Business Reporting Language (XBRL), as follows:
- (i) the Consolidated Statements of Operations for the three months ended March 31, 2016 and 2015;
 - (ii) the Consolidated Statements of Comprehensive Income (Loss) for the three months ended March 31, 2016 and 2015;
 - (iii) the Consolidated Balance Sheets as of March 31, 2016 and December 31, 2015;
 - (iv) the Consolidated Statements of Cash Flows for the three months ended March 31, 2016 and 2015;

(v) the Consolidated Statements of Changes in Shareholders' Equity for the three months ended March 31, 2016 and 2015; and

(vi) the Notes to the Consolidated Financial Statements, tagged in summary and detail.

* Filed herewith.

**Furnished herewith.

+ Confidential treatment has been requested with respect to certain portions of this exhibit. Omitted portions have been filed separately with the Securities and Exchange Commission.

Management contract or compensatory plan.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NORWEGIAN CRUISE LINE HOLDINGS LTD.

(Registrant)

By: /s/ FRANK J. DEL RIO
Name: Frank J. Del Rio
Title: President and Chief Executive Officer
(Principal Executive Officer)

By: /s/ WENDY A. BECK
Name: Wendy A. Beck
Title: Executive Vice President and Chief Financial
Officer
(Principal Financial Officer)

Dated: May 10, 2016