

Norwegian Cruise Line Holdings Ltd.

Form 10-Q

May 08, 2013

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended March 31, 2013

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)

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**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 203,997,492 ordinary shares outstanding as of May 8, 2013.

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

|   | <b>Three Months Ended<br/>March 31,</b> |             |
|---|---|-------------|
|   | <b>2013</b>                             | <b>2012</b> |
| <b>Revenue</b>  |   |             |
| Passenger ticket  | \$ 358,928                              | \$ 351,330  |
| Onboard and other   | 168,703                                 | 164,100     |
| Total revenue   | 527,631                                 | 515,430     |
| <b>Cruise operating expense</b>                                       |   |             |
| Commissions, transportation and other                                 | 94,579                                  | 90,615      |
| Onboard and other   | 42,371                                  | 39,201      |
| Payroll and related   | 74,039                                  | 73,348      |
| Fuel  | 72,498                                  | 65,526      |
| Food  | 29,962                                  | 31,380      |
| Other   | 49,240                                  | 51,957      |
| Total cruise operating expense  | 362,689                                 | 352,027     |
| <b>Other operating expense</b>  |   |             |
| Marketing, general and administrative                                 | 85,206                                  | 71,162      |
| Depreciation and amortization   | 48,748                                  | 45,797      |
| Total other operating expense   | 133,954                                 | 116,959     |
| Operating income  | 30,988                                  | 46,444      |
| <b>Non-operating income (expense)</b>                                 |   |             |
| Interest expense, net   | (127,656)                               | (46,170)    |
| Other income (expense)  | (832)                                   | 3,010       |
| Total non-operating income (expense)                                  | (128,488)                               | (43,160)    |
| Net income (loss)   | (97,500)                                | 3,284       |
| Net loss attributable to non-controlling interest                     | (1,105)                                 |             |
| Net income (loss) attributable to Norwegian Cruise Line Holdings Ltd. | \$ (96,395)                             | \$ 3,284    |

**Weighted-average shares outstanding**

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|                                  |             |             |
|----------------------------------|-------------|-------------|
| Basic                            | 198,350,433 | 178,140,455 |
| Diluted                          | 198,350,433 | 178,954,960 |
| <b>Earnings (loss) per share</b> |             |             |
| Basic                            | \$ (0.49)   | \$ 0.02     |
| Diluted                          | \$ (0.49)   | \$ 0.02     |

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

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**Norwegian Cruise Line Holdings Ltd.**

**Consolidated Statements of Comprehensive Income (Loss)**

**(unaudited, in thousands)**

|   | <b>Three Months Ended</b> |             |
|---|---------------------------|-------------|
|   | <b>March 31,</b>          |             |
|   | <b>2013</b>               | <b>2012</b> |
| Net income (loss)   | \$ (97,500)               | \$ 3,284    |
| Other comprehensive income (loss):  |                           |             |
| Shipboard Retirement Plan   | 117                       | 98          |
| Cash flow hedges:   |                           |             |
| Net unrealized gain (loss) related to cash flow hedges                                | (19,696)                  | 30,677      |
| Amount realized and reclassified into earnings  | (1,836)                   | (12,093)    |
| Total other comprehensive income (loss)   | (21,415)                  | 18,682      |
| Total comprehensive income (loss)   | (118,915)                 | 21,966      |
| Comprehensive loss attributable to non-controlling interest                           | (1,595)                   |             |
| Total comprehensive income (loss) attributable to Norwegian Cruise Line Holdings Ltd. | \$ (117,320)              | \$ 21,966   |

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,<br>2013   | December 31,<br>2012 |
|---|---------------------|----------------------|
| <b>Assets</b>   |                     |                      |
| Current assets:   |                     |                      |
| Cash and cash equivalents   | \$ 81,201           | \$ 45,500            |
| Accounts receivable, net  | 13,387              | 15,062               |
| Inventories   | 42,291              | 39,681               |
| Prepaid expenses and other assets   | 69,888              | 64,686               |
| <b>Total current assets</b>   | <b>206,767</b>      | <b>164,929</b>       |
| Property and equipment, net   | 4,997,543           | 4,960,142            |
| Goodwill and tradenames   | 611,330             | 611,330              |
| Other long-term assets  | 176,090             | 202,026              |
| <b>Total assets</b>   | <b>\$ 5,991,730</b> | <b>\$ 5,938,427</b>  |
| <b>Liabilities and shareholders' equity</b>   |                     |                      |
| Current liabilities:  |                     |                      |
| Current portion of long-term debt   | \$ 221,747          | \$ 221,233           |
| Accounts payable  | 67,699              | 79,126               |
| Accrued expenses and other liabilities  | 255,734             | 231,040              |
| Due to Affiliate  | 36,882              | 59,897               |
| Advance ticket sales  | 464,080             | 353,793              |
| <b>Total current liabilities</b>  | <b>1,046,142</b>    | <b>945,089</b>       |
| Long-term debt  | 2,416,580           | 2,764,120            |
| Due to Affiliate  | 91,585              | 147,364              |
| Other long-term liabilities   | 35,835              | 63,070               |
| <b>Total liabilities</b>  | <b>3,590,142</b>    | <b>3,919,643</b>     |
| Commitments and contingencies (Note 8)  |                     |                      |
| Shareholders' equity:   |                     |                      |
| Ordinary shares, \$.001 par value; 490,000,000 shares authorized; 203,997,492 shares issued and outstanding at March 31, 2013, and \$.0012 par value; 40,000,000 shares authorized; 21,000,000 shares issued and outstanding at December 31, 2012 | 204                 | 25                   |
| Additional paid-in capital  | 2,806,635           | 2,327,097            |
| Accumulated other comprehensive income (loss)   | (38,544)            | (17,619)             |
| Retained earnings (deficit)   | (395,580)           | (299,185)            |
| <b>Total shareholders' equity controlling interest</b>  | <b>2,372,715</b>    | <b>2,010,318</b>     |
| Non-controlling interest  | 28,873              | 8,466                |
| <b>Total shareholders' equity</b>   | <b>2,401,588</b>    | <b>2,018,784</b>     |
| <b>Total liabilities and shareholders' equity</b>   | <b>\$ 5,991,730</b> | <b>\$ 5,938,427</b>  |



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

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

|  | <b>Three Months Ended<br/>March 31,</b> |                  |
|--|---|------------------|
|  | <b>2013</b>                             | <b>2012</b>      |
| <b>Cash flows from operating activities</b>  |   |                  |
| Net income (loss)  | \$ (97,500)                             | \$ 3,284         |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: |   |                  |
| Depreciation and amortization expense  | 55,480                                  | 52,470           |
| Loss (gain) on derivatives   | 112                                     | (3,766)          |
| Deferred income taxes, net   | 2,043                                   |                  |
| Write-off of deferred financing fees   | 14,042                                  |                  |
| Share-based compensation expense   | 18,753                                  | 165              |
| Premium on debt issuance   |   | 6,000            |
| Changes in operating assets and liabilities:   |   |                  |
| Accounts receivable, net   | 1,675                                   | 172              |
| Inventories  | (2,610)                                 | (3,440)          |
| Prepaid expenses and other assets  | 488                                     | (3,630)          |
| Accounts payable   | (11,427)                                | (8,052)          |
| Accrued expenses and other liabilities   | (8,307)                                 | 32,156           |
| Advance ticket sales   | 109,346                                 | 83,075           |
| <b>Net cash provided by operating activities</b>   | <b>82,095</b>                           | <b>158,434</b>   |
| <b>Cash flows from investing activities</b>  |   |                  |
| Additions to property and equipment and other  | (85,152)                                | (24,333)         |
| <b>Net cash used in investing activities</b>   | <b>(85,152)</b>                         | <b>(24,333)</b>  |
| <b>Cash flows from financing activities</b>  |   |                  |
| Repayments of long-term debt   | (1,093,009)                             | (277,776)        |
| Repayment to Affiliate   | (79,651)                                |                  |
| Proceeds from long-term debt   | 744,525                                 | 151,005          |
| Proceeds from the issuance of ordinary shares, net                                       | 473,017                                 |                  |
| Other, primarily deferred financing fees   | (6,124)                                 | (2,283)          |
| <b>Net cash provided by (used in) financing activities</b>                               | <b>38,758</b>                           | <b>(129,054)</b> |
| <b>Net increase in cash and cash equivalents</b>   | <b>35,701</b>                           | <b>5,047</b>     |
| <b>Cash and cash equivalents at beginning of period</b>                                  | <b>45,500</b>                           | <b>58,926</b>    |
| <b>Cash and cash equivalents at end of period</b>  | <b>\$ 81,201</b>                        | <b>\$ 63,973</b> |

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<br>Shares | Additional<br>Paid-in<br>Capital | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Retained<br>Earnings<br>(Deficit) | Non-controlling<br>Interest | Total        |
|---|--------------------|----------------------------------|---|-----------------------------------|-----------------------------|--------------|
| <b>Balance, December 31, 2011</b>                     | \$ 25              | \$ 2,324,167                     | \$ (19,794)   | \$ (467,741)                      | \$ 7,806                    | \$ 1,844,463 |
| Share-based compensation                              |                    |                                  |   |                                   | 660                         | 660          |
| Transactions with Affiliates, net                     |                    | 2,930                            |   |                                   |                             | 2,930        |
| Other comprehensive income                            |                    |                                  | 2,175   |                                   |                             | 2,175        |
| Net income  |                    |                                  |   | 168,556                           |                             | 168,556      |
| <b>Balance, December 31, 2012</b>                     | 25                 | 2,327,097                        | (17,619)  | (299,185)                         | 8,466                       | 2,018,784    |
| Share-based compensation                              |                    | 28,734                           |   |                                   | 19                          | 28,753       |
| Transactions with Affiliates, net                     |                    | (51)                             |   |                                   |                             | (51)         |
| Corporate Reorganization                              |                    | (18,994)                         |   |                                   | 18,994                      |              |
| Proceeds from the issuance of ordinary shares,<br>net | 179                | 472,838                          |   |                                   |                             | 473,017      |
| Other comprehensive loss                              |                    |                                  | (20,925)  |                                   | (490)                       | (21,415)     |
| Net loss  |                    |                                  |   | (96,395)                          | (1,105)                     | (97,500)     |
| Vesting of Management NCL Corporation<br>Units        |                    | (2,989)                          |   |                                   | 2,989                       |              |
| <b>Balance, March 31, 2013</b>                        | \$ 204             | \$ 2,806,635                     | \$ (38,544)   | \$ (395,580)                      | \$ 28,873                   | \$ 2,401,588 |

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, prior to the consummation of the initial public offering of Norwegian Cruise Line Holdings Ltd. s ordinary shares, the IPO, NCL Corporation Ltd. and its subsidiaries and after the IPO, Norwegian Cruise Line Holdings Ltd., or NCLH and its subsidiaries, (ii) NCLC refers to NCL Corporation Ltd. and its subsidiaries, (iii) Norwegian Cruise Line or Norwegian refers to the Norwegian Cruise Line brand and its predecessors, (iv) Apollo refers to Apollo Global Management, LLC and its subsidiaries and the Apollo Funds refers to one or more of AIF VI NCL (AIV), L.P., AIF VI NCL (AIV II), L.P., AIF VI NCL (AIV III), L.P. and AIF VI NCL (AIV IV), L.P., AAA Guarantor Co-Invest VI (B), L.P., Apollo Overseas Partners (Delaware) VI, L.P., Apollo Overseas Partners (Delaware 892) VI, L.P., Apollo Overseas Partners VI, L.P. and Apollo Overseas Partners (Germany) VI, L.P., (v) TPG Global refers to TPG Global, LLC, TPG refers to TPG Global and its affiliates and the TPG Viking Funds refers to one or more of TPG Viking, L.P., TPG Viking AIV I, L.P., TPG Viking AIV II, L.P., and TPG Viking AIV III, L.P. and/or certain other affiliated investment funds, each an affiliate of TPG, (vi) Genting HK refers to Genting Hong Kong Limited and/or its affiliates and (vii) Affiliate(s) refers to Genting HK, the Apollo Funds and/or the TPG Viking Funds. References to the U.S. are to the United States of America, dollars or \$ are to U.S. dollars and euros or are to the official currency of the Eurozone.

**1. Corporate Reorganization**

In January 2013, the Company completed the IPO of 27,058,824 ordinary shares, par value \$.001 per share. In connection with the consummation of the IPO, NCLC s ordinary shares were exchanged for the ordinary shares of NCLH, and NCLH became the owner of 100% of the ordinary shares (representing a 97.3% economic interest) and parent company of NCLC (the Corporate Reorganization ). Accordingly, NCLH contributed \$460.0 million to NCLC and the historical financial statements of NCLC became those of NCLH. As a result of the Corporate Reorganization, the Management NCL Corporation Units (as defined in Note 7 Share-Based Employee Compensation ) created a non-controlling interest within NCLH. The Corporate Reorganization was effected solely for the purpose of reorganizing our corporate structure. NCLH had not, prior to the completion of the Corporate Reorganization, conducted any activities other than those incidental to its formation and to preparations for the Corporate Reorganization and the IPO. We refer you to Note 5 Related Party Disclosures for more information on the Corporate Reorganization and Note 7 Share-Based Employee Compensation regarding the Management NCL Corporation Units.

**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, 2012, which are included in our most recently filed Annual Report on Form 10-K.

**Table of Contents****Earnings (Loss) Per Share**

Basic earnings (loss) per share is computed by dividing net income (loss) attributable to Norwegian Cruise Line Holdings Ltd. by the weighted-average shares outstanding during each period. Diluted earnings per share incorporates the incremental shares issuable upon conversion of potentially dilutive shares. A reconciliation between basic and diluted earnings (loss) per share was as follows (in thousands, except share and per share data):

|   | <b>Three Months Ended<br/>March 31,</b> |             |
|---|---|-------------|
|   | <b>2013</b>                             | <b>2012</b> |
| Net income (loss) attributable to Norwegian Cruise Line Holdings Ltd. | \$ (96,395)                             | \$ 3,284    |
| Basic weighted-average shares outstanding                             | 198,350,433                             | 178,140,455 |
| Dilutive effect of awards   |   | 814,505     |
| Diluted weighted-average shares outstanding                           | 198,350,433                             | 178,954,960 |
| Basic earnings (loss) per share                                       | \$ (0.49)                               | \$ 0.02     |
| Diluted earnings (loss) per share                                     | \$ (0.49)                               | \$ 0.02     |

Diluted loss per share for the three months ended March 31, 2013 did not include 5,794,079 shares because the effect of including them would have been antidilutive.

**Revenue and Expense Recognition**

Revenue and expense includes taxes assessed by governmental authorities that are directly imposed on a revenue-producing transaction between a seller and a customer. The amounts included in revenue on a gross basis were \$31.4 million and \$32.5 million for the three months ended March 31, 2013 and 2012, respectively.

**Recent Accounting Pronouncements**

In February 2013, the Financial Accounting Standards Board issued Accounting Standards Update No. 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. Significant amounts reclassified from each component of accumulated other comprehensive income and the income statement line items affected by the reclassification shall be disclosed in a note to the consolidated financial statements or presented parenthetically on the face of the financial statements. We refer you to Note 3 Accumulated Other Comprehensive Income (Loss).

We have adopted the disclosure requirements as presented in the amendment to subtopic 210-20 Disclosures about Offsetting Assets and Liabilities which requires that we disclose separately for assets and liabilities the gross recognition and the offsetting amounts which are permitted by our master netting arrangements for our derivative contracts (we refer you to Note 6 Fair Value Measurements and Derivatives).

**3. Accumulated Other Comprehensive Income (Loss)**

Accumulated other comprehensive income (loss) for the three months ended March 31, 2013 was as follows (in thousands):

| <b>Accumulated<br/>Other</b> | <b>Change<br/>Related to</b> | <b>Change<br/>Related to</b> |
|------------------------------|------------------------------|------------------------------|
|------------------------------|------------------------------|------------------------------|

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|   | <b>Comprehensive<br/>Income<br/>(Loss)</b> | <b>Cash Flow<br/>Hedges</b> | <b>Shipboard<br/>Retirement<br/>Plan</b> |
|---|--|-----------------------------|--|
| Accumulated other comprehensive income (loss) at beginning of period    | \$ (17,619)                                | \$ (7,872)                  | \$ (9,747)                               |
| Current period other comprehensive loss before reclassifications        | (19,245)                                   | (19,245)                    |  |
| Amounts reclassified from accumulated other comprehensive income (loss) | (1,680)                                    | (1,794) (1)                 | 114 (2)                                  |
| Accumulated other comprehensive income (loss) at end of period          | \$ (38,544)                                | \$ (28,911) (3)             | \$ (9,633)                               |

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- (1) Amount reclassified to fuel expense.
- (2) Amortization of prior-service cost and actuarial loss reclassified to payroll and related expense.
- (3) Of the existing amounts related to derivatives designated as cash flow hedges, \$6.3 million is expected to be reclassified into earnings in the next 12 months.

### **4. Long-Term Debt**

In February 2013, NCLC issued \$300.0 million aggregate principal amount of senior notes bearing interest at a rate of 5% per annum maturing on February 15, 2018 (the Notes Offering). Interest on the notes will be payable semiannually on February 15 and August 15 of each year, commencing on August 15, 2013. The notes were issued at 99.451%.

We used the net proceeds that we received from the IPO and the Notes Offering, aggregating approximately \$770.0 million, to pay down debt; including (i) a prepayment of an aggregate \$55.6 million that became payable upon the consummation of the IPO consisting of \$21.3 million on our \$24.0 million Norwegian Pearl and Norwegian Gem Revolving Credit Facility, \$14.7 million on our \$308.1 million Pride of Hawaii loan, \$8.0 million on our \$334.1 million Norwegian Jewel loan, \$10.1 million on our \$258.0 million Pride of America loan and \$1.5 million on our \$40.0 million Pride of America commercial loan, (ii) a payment to Genting HK of \$79.7 million in connection with the Norwegian Sky purchase agreement, (iii) a full redemption of our \$450.0 million 11.75% senior secured notes due 2016 and (iv) a partial redemption of \$122.5 million aggregate principal amount of our \$350.0 million 9.50% senior notes due 2018. Expenses related to debt prepayments were approximately \$90.5 million and were recognized in interest expense.

### **5. Related Party Disclosures**

Following the IPO, NCLH contributed \$460.0 million to NCLC. The relative ownership percentages of NCLH's ordinary shares following the IPO were as follows: Genting HK (43.4%), the Apollo Funds (32.5%), the TPG Viking Funds (10.8%) and public shareholders (13.3%). NCLH is treated as a corporation for U.S. federal income tax purposes. We also made a payment of \$79.7 million to Genting HK in connection with the Norwegian Sky purchase agreement.

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

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

#### **Fair Value Hierarchy**

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

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

#### **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

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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



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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 credit facility, is not considered significant, as we primarily conduct business with large, well-established financial institutions that we have established relationships with and that have credit risks acceptable to us or the credit risk is spread out among a large number of creditors. We do not anticipate non-performance by any of our significant counterparties.

The following table sets forth the fair value of our derivatives including the balance sheet location (in thousands):

| Balance Sheet location  | Asset          |                   | Liability      |                   |
|---|----------------|-------------------|----------------|-------------------|
|   | March 31, 2013 | December 31, 2012 | March 31, 2013 | December 31, 2012 |
| <b>Fuel swaps designated as hedging instruments</b>                             |                |                   |                |                   |
| Prepaid expenses and other assets   | \$ 8,128       | \$ 5,955          | \$ 301         | \$ 876            |
| Other long-term assets  | 3,832          | 3,969             | 281            | 388               |
| Accrued expenses and other liabilities  |                | 188               |                | 204               |
| Other long-term liabilities   |                | 391               |                | 42                |
| <b>Fuel collars designated as hedging instruments</b>                           |                |                   |                |                   |
| Prepaid expenses and other assets   | 1,117          | 1,615             | 134            | 530               |
| Other long-term assets  | 997            |                   | 545            |                   |
| Accrued expenses and other liabilities  |                | 51                |                | 69                |
| Other long-term liabilities   |                | 1,908             |                | 1,230             |
| <b>Fuel options not designated as hedging instruments</b>                       |                |                   |                |                   |
| Prepaid expenses and other assets   |                |                   | 134            | 304               |
| Other long-term assets  |                |                   | 545            |                   |
| Other long-term liabilities   |                |                   |                | 1,231             |
| <b>Foreign currency options designated as hedging instruments</b>               |                |                   |                |                   |
| Accrued expenses and other liabilities  |                |                   | 19,585         | 20,267            |
| Other long-term liabilities   |                |                   |                | 16,443            |
| <b>Foreign currency forward contracts designated as hedging instruments</b>     |                |                   |                |                   |
| Prepaid expenses and other assets   | 3,464          | 11,685            |                |                   |
| Accrued expenses and other liabilities  | 574            |                   | 30,353         |                   |
| <b>Foreign currency forward contracts not designated as hedging instruments</b> |                |                   |                |                   |
|   | 354            |                   | 334            |                   |

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|  |  |       |       |
|--|--|-------|-------|
|  | Accrued expenses and other liabilities |       |       |
| Foreign currency collar designated as a hedging instrument |  |       |       |
|  | Prepaid expenses and other assets      | 6,361 | 1,931 |
|  | Other long-term assets                 | 9,765 | 1,613 |

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

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

|                          |                      | <b>Gross<br/>Amounts</b> | <b>Total<br/>Net<br/>Amounts</b> | <b>Gross<br/>Amounts Not<br/>Offset</b> | <b>Net Amounts</b> |
|--------------------------|----------------------|--------------------------|----------------------------------|---|--------------------|
| <b>March 31, 2013</b>    | <b>Gross Amounts</b> |                          |                                  |   |                    |
| Assets                   | \$ 23,899            | \$ (3,871)               | \$ 20,028                        | \$ (3,464)                              | \$ 16,564          |
| Liabilities              | 50,272               | (928)                    | 49,344                           | (46,403)                                | 2,941              |
|                          |                      | <b>Gross<br/>Amounts</b> | <b>Total<br/>Net<br/>Amounts</b> | <b>Gross<br/>Amounts Not<br/>Offset</b> | <b>Net Amounts</b> |
| <b>December 31, 2012</b> | <b>Gross Amounts</b> |                          |                                  |   |                    |
| Assets                   | \$ 32,989            | \$ (3,711)               | \$ 29,278                        | \$ (11,685)                             | \$ 17,593          |
| Liabilities              | 39,486               | (2,538)                  | 36,948                           | (36,710)                                | 238                |

**Fuel Swaps**

As of March 31, 2013, we had fuel swaps maturing through December 31, 2015 which are used to mitigate the financial impact of volatility in fuel prices pertaining to approximately 484,000 metric tons of our projected fuel purchases. The effects of the fuel swaps on the consolidated financial statements which were designated as cash flow hedges were as follows (in thousands):

|  | <b>Three Months Ended<br/>March 31,</b> |             |
|--|---|-------------|
|  | <b>2013</b>                             | <b>2012</b> |
| Gain recognized in other comprehensive income (loss) effective portion                   | \$ 4,706                                | \$ 26,464   |
| Gain recognized in other income (expense) ineffective portion                            | 221                                     | 1,244       |
| Amount reclassified from accumulated other comprehensive income (loss) into fuel expense | (2,263)                                 | (9,239)     |

**Fuel Collars and Options**

As of March 31, 2013, we had fuel collars and fuel options maturing through December 31, 2014 which are used to mitigate the financial impact of volatility in fuel prices pertaining to approximately 61,000 metric tons of our projected fuel purchases. The effects of the fuel collars on the consolidated financial statements which were designated as cash flow hedges were as follows (in thousands):

|  | <b>Three Months Ended<br/>March 31,</b> |             |
|--|---|-------------|
|  | <b>2013</b>                             | <b>2012</b> |
| Gain (loss) recognized in other comprehensive income (loss) effective portion            | \$ (35)                                 | \$ 9,055    |
| Gain recognized in other income (expense) ineffective portion                            | 8                                       | 682         |
| Amount reclassified from accumulated other comprehensive income (loss) into fuel expense | 427                                     | (2,854)     |



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

|   | <b>Three Months Ended<br/>March 31,</b> |             |
|---|---|-------------|
|   | <b>2013</b>                             | <b>2012</b> |
| Gain recognized in other income (expense) | \$ 856                                  | \$ 2,081    |

**Foreign Currency Options**

As of March 31, 2013, we had foreign currency derivatives consisting of call options with deferred premiums which are 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 are delivered is less than the strike price under these option contracts, we would pay the deferred premium and not exercise the foreign currency options. The notional amount of our foreign currency options was 175.0 million, or \$224.3 million based on the euro/U.S. dollar exchange rate as of March 31, 2013. The effects of the foreign currency options on the consolidated financial statements which were designated as cash flow hedges were as follows (in thousands):

|  | <b>Three Months Ended<br/>March 31,</b> |             |
|--|---|-------------|
|  | <b>2013</b>                             | <b>2012</b> |
| Loss recognized in other comprehensive income (loss) effective portion | \$ (4,012)                              | \$ (4,842)  |
| Loss recognized in other income (expense) ineffective portion          | (298)                                   | (269)       |

**Table of Contents****Foreign Currency Forward Contracts**

As of March 31, 2013, 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 denominated in euros. The notional amount of our foreign currency forward contracts designated as cash flow hedges was 467.0 million, or \$598.6 million based on the euro/U.S. dollar exchange rate as of March 31, 2013. The effects of the foreign currency forward contracts on the consolidated financial statements which were designated as cash flow hedges were as follows (in thousands):

|  | Three Months Ended<br>March 31, |      |
|--|---------------------------------|------|
|  | 2013                            | 2012 |
| Loss recognized in other comprehensive income (loss) effective portion | \$ (16,633)                     | \$   |
| Gain recognized in other income (expense) ineffective portion          | 68                              |      |

As of March 31, 2013, the effects of the foreign currency forward contracts on the consolidated financial statements which were not designated as hedging instruments were as follows (in thousands):

|   | Three Months Ended<br>March 31, |      |
|---|---------------------------------|------|
|   | 2013                            | 2012 |
| Gain recognized in other income (expense) | \$ 20                           | \$   |

**Foreign Currency Collar**

As of March 31, 2013, 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 100.0 million, or \$128.2 million based on the euro/U.S. dollar exchange rate as of March 31, 2013. The effects of the foreign currency collar on the consolidated financial statements which was designated as a cash flow hedge was as follows (in thousands):

|  | Three Months Ended<br>March 31, |      |
|--|---------------------------------|------|
|  | 2013                            | 2012 |
| Loss recognized in other comprehensive income (loss) effective portion | \$ (3,722)                      | \$   |

**Long-Term Debt**

As of March 31, 2013 and December 31, 2012, the fair value of our long-term debt, including the current portion, was \$2,747.8 million and \$3,106.9 million, which was \$109.5 million and \$121.5 million higher, respectively, than the carrying values. The difference between the fair value and carrying value of our long-term debt is due to our fixed and variable rate debt obligations carrying interest rates that are above or below market rates at the measurement dates. The fair value of our long-term debt was calculated based on estimated rates for the same or similar instruments with similar terms and remaining maturities. The calculation of the fair value of our long-term debt is considered a Level 2 input.

**Other**

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



**Table of Contents****7. Share-Based Employee Compensation**

In 2009, we adopted a profits sharing agreement which authorized us to grant profits interests in the Company to certain key employees. These interests generally vested with the holders based on a combination of performance-based and time-based vesting metrics, each as specified in the Profits Sharing Agreement and each holder's award agreement. Genting HK, the Apollo Funds and the TPG Viking Funds were entitled to initially receive any distributions made by the Company, pro rata based on their shareholdings in the Company. Once Genting HK, the Apollo Funds and the TPG Viking Funds received distributions in excess of certain hurdle amounts specified in the Profits Sharing Agreement and each holder's award agreement, each vested profits interest award generally entitled the holder of such award to a portion of such excess distribution amount.

In connection with the Corporate Reorganization, NCLC's outstanding profits interests granted under the Profits Sharing Agreement to management (or former management) of NCLC, including the Ordinary Profits Units, were exchanged for an economically equivalent number of NCL Corporation Units (the Management NCL Corporation Units). The Management NCL Corporation Units received upon the exchange of outstanding profits interests are subject to the same time-based and performance-based vesting requirements applicable to the profits interests for which they were exchanged. To the extent that they are vested, and subject to certain conditions, these Management NCL Corporation Units can be exchanged for NCLH ordinary shares. These units are not transferrable without NCLH's prior consent and do not entitle the holders to any voting, pre-emptive or sinking fund rights. The Management NCL Corporation Units represents ownership in NCLC that is not attributed to NCLH which results in a non-controlling interest in NCLH.

**Management NCL Corporation Units**

The Management NCL Corporation Units generally consist of fifty percent of Time-Based Units (TBUs) and fifty percent of Performance-Based Units (PBUs). The TBUs generally vest over five years and upon a distribution event, the vesting amount of the PBUs is based on the amount of proceeds that are realized above certain hurdles. The termination of employment results in forfeiture of any non-vested TBUs and all PBUs. TBUs that are vested can be either continued by the Company or cancelled and paid to the employee. Cancellation can take place any time after termination but not before two years after the grant date. The following is a summary of the Management NCL Corporation Units activity for the three months ended March 31, 2013:

|                                     | Number of<br>Management NCL<br>Corporation Units |           |
|-------------------------------------|--|-----------|
|                                     | TBUs   | PBUs      |
| Outstanding as of December 31, 2012 | 2,265,554  | 3,495,737 |
| Granted                             |  |           |
| Forfeited                           |  |           |
| Outstanding as of March 31, 2013    | 2,265,554  | 3,495,737 |
| Vested as of March 31, 2013         | 1,641,326  | 875,364   |
| Non-vested as of March 31, 2013     | 624,228  | 2,620,373 |

As of March 31, 2013, the weighted-average fair value of all outstanding Management NCL Corporation Units was \$3.53 per unit.

**Share Options**

In January 2013, the Company adopted the 2013 Performance Incentive Plan which provides for the issuance of up to 15,035,106 of our ordinary shares, with no more than 5,000,000 shares being granted to one individual in any calendar year. During the three months ended March 31, 2013, there were 3,251,052 non-qualified share options granted as described below. The share options granted have a contractual term of seven years.

As part of the Corporate Reorganization, holders of Management NCL Corporation Units were granted 2,818,552 options with vesting conditions consistent with those of their original award. The fair value of the 2,818,552 share options at date of grant were estimated using a binomial lattice valuation model. The assumptions used within the valuation were as follows:



|                                 | <b>Three Months<br/>Ended<br/>March 31, 2013</b> |
|---------------------------------|--|
| Dividend yield                  | 0%   |
| Expected share price volatility | 50.0%  |
| Risk-free interest rate         | 1.0%   |
| Expected term                   | 6 years  |

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An additional 432,500 options were granted to other employees and generally vest in equal installments over a five year period. The fair value of the 432,500 share options at the date of grant were estimated using a Black-Scholes-Merton option-pricing valuation model. The assumptions used within the valuation were as follows:

|                                 | Three Months<br>Ended<br>March 31, 2013 |
|---------------------------------|---|
| Dividend yield                  | 0%                                      |
| Expected share price volatility | 54.8%                                   |
| Risk-free interest rate         | 0.8%                                    |
| Expected term                   | 5 years                                 |

The following is a summary of option activity under our share option plan for the three months ended March 31, 2013:

|                                     | Number of<br>Share Option Awards |                   | Weighted-Average<br>Exercise Price |                   |
|-------------------------------------|----------------------------------|-------------------|------------------------------------|-------------------|
|                                     | Time-Based                       | Performance-Based | Time-Based                         | Performance-Based |
| Outstanding as of December 31, 2012 |                                  |                   |                                    |                   |
| Granted                             | 1,671,113                        | 1,579,939         | \$ 19.00                           | \$ 19.00          |
| Forfeited                           |                                  |                   |                                    |                   |
| Exercised                           |                                  |                   |                                    |                   |
| Outstanding as of March 31, 2013    | 1,671,113                        | 1,579,939         | \$ 19.00                           | \$ 19.00          |
| Vested as of March 31, 2013         | 734,226                          |                   | \$ 19.00                           |                   |
| Non-vested as of March 31, 2013     | 936,887                          | 1,579,939         | \$ 19.00                           | \$ 19.00          |

The weighted-average fair value for all share options granted during the three months ended March 31, 2013 was \$6.18 per share.

**Restricted Shares**

During the three months ended March 31, 2013, there were 10,526 restricted shares granted to a member of our Audit Committee. The restricted shares vest in substantially equal quarterly installments over the period June 30, 2013 through March 31, 2015. The weighted-average fair value per restricted share granted during the three months ended March 31, 2013 was \$19.00.

Total share-based compensation expense for the three months ended March 31, 2013 and 2012 was \$18.8 million, which includes \$18.5 million of non-recurring charges associated with the Corporate Reorganization, and \$0.2 million, respectively, and was recorded in marketing, general and administrative expense. Total unrecognized pre-tax compensation expense related to all share-based compensation arrangements as of March 31, 2013 was \$5.1 million. As of March 31, 2013, the fair value of all share-based compensation awards granted was \$32.7 million.

**8. Commitments and Contingencies****Ship Construction Contracts**

In September 2010, we reached an agreement with Meyer Werft GmbH to build two new next generation Freestyle Cruising ships, Norwegian Breakaway and Norwegian Getaway, with financing commitments in place from a syndicate of banks for export credit financing. In April 2013, we took delivery of Norwegian Breakaway (we refer you to Note 9 – Subsequent Events ). Norwegian Getaway, at approximately 144,000 Gross Tons and 4,000 Berths, is scheduled for delivery in the first quarter of 2014. The aggregate cost of this ship is approximately 625.8 million, or

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\$802.2 million based on the euro/U.S. dollar exchange rate as of March 31, 2013.

In October 2012, we reached an agreement with Meyer Werft GmbH to build a new cruise ship for delivery in the fourth quarter of 2015 with an option to build a second ship with an expected delivery date in spring 2017. Currently referred to as Breakaway Plus, this new ship will be the largest in our fleet at approximately 163,000 Gross Tons and 4,200 Berths and will be similar in design and innovation to our current Breakaway class ships. The contract cost of this ship is approximately 698.4 million, or \$895.3 million based on the euro/U.S. dollar exchange rate as of March 31, 2013. We

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entered into an export credit facility that provides financing for 80% of the contract price of the ship. In addition, we have an option in place for export credit financing for the second ship on similar terms. In connection with the contracts to build the ships, we do not anticipate any contractual breaches or cancellation to occur. However, if any would occur, it could result in, among other things, the forfeiture of prior deposits or payments made by us and potential claims and impairment losses which may materially impact our business, financial condition and results of operations.

### **Litigation**

In July 2009, a class action complaint was filed against NCL (Bahamas) Ltd. in the United States District Court, Southern District of Florida, on behalf of a purported class of crew members alleging inappropriate deductions of their wages pursuant to the Seaman's Wage Act and wrongful termination resulting in a loss of retirement benefits. In December 2010, the Court denied the plaintiffs' Motion for Class Certification. In February 2011, the plaintiffs filed a Motion for Reconsideration as to the Court's Order on Class Certification which was denied. The Court tried six individual plaintiffs' claims, and in September 2012 awarded wages aggregating approximately \$100,000 to such plaintiffs. The plaintiffs have filed an appeal of the Court's decision in the individual actions as well as the denial of the Class Certification. We intend to vigorously defend this appeal and are not able at this time to estimate the impact of these proceedings.

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

In the normal course of our business, various other claims and lawsuits have been filed or are pending against us. Most of these claims and lawsuits are covered by insurance and, accordingly, the maximum amount of our liability is typically limited to our deductible amount. Nonetheless, the ultimate outcome of these claims and lawsuits that are not covered by insurance cannot be determined at this time. We have evaluated our overall exposure with respect to all of our threatened and pending litigation and, to the extent required, we have accrued amounts for all estimable probable losses associated with our deemed exposure. We are currently unable to estimate any other 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.

### **9. Subsequent Events**

In April 2013, we took delivery of Norwegian Breakaway. To finance the purchase, we drew \$528.0 million of our \$529.8 million Breakaway One Loan which is due April 2025. Also, we drew \$57.7 million of our \$126 million Norwegian Jewel Term Loan and \$126.1 million Norwegian Jade Term Loan which will come due April 2016. The loans bear interest at LIBOR plus 1.6%.

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

Cautionary Statement Concerning Forward-Looking Statements

Certain statements in this report constitute forward-looking statements intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical facts in this report, including, without limitation, those regarding our business strategy, financial position, results of operations, plans, prospects and objectives of management for future operations (including development plans and objectives relating to our activities), are forward-looking statements. Many, but not all of these statements can be found by looking for words like expect, anticipate, goal, project, plan, believe, seek, will, may, forecast, and future and for similar words. Forward-looking statements do not guarantee future performance and may involve risks, uncertainties and other factors which could cause our actual results, performance or achievements to differ materially from the future results, performance or achievements expressed or implied in those forward-looking statements. Examples of these risks, uncertainties and other factors include, but are not limited to:

the adverse impact of the worldwide economic downturn and related factors such as high levels of unemployment and underemployment, declines in the securities and real estate markets, and perceptions of these conditions that decrease the level of disposable income of consumers or consumer confidence;

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

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

our substantial leverage, including the inability to generate the necessary amount of cash to service our existing debt, repay our credit facilities if payment is accelerated and incur substantial indebtedness in the future;

changes in fuel prices or other cruise operating costs;

the risks associated with operating internationally;

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

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

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

adverse events impacting the security of travel that may affect consumer demand for cruises such as terrorist acts, acts of conspiracy, armed conflict and other international events;

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the impact of any future changes relating to how travel agents sell and market our cruises;

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

the impact of the spread of contagious diseases;

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

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

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

the continued availability of attractive port destinations;

the control of our Company by certain of our shareholders whose interests may not continue to be aligned with ours;

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

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

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

the lack of acceptance of new itineraries, products or services by our targeted guests;

our ability to implement brand strategies and our shipbuilding programs, and to continue to expand our brands and business worldwide;

the costs of new initiatives and our ability to achieve expected cost savings from our new initiatives;

changes in interest rates and/or foreign currency rates;

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

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

the impact of pending or threatened litigation and investigations;

the impact of changes in our credit ratings;

the possibility of environmental liabilities and other damage that is not covered by insurance or that exceeds our insurance coverage;

our ability to attain and maintain any price increases for our products;

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

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

the impact of weather and natural disasters; and

other factors set forth under Risk Factors.

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

The interim consolidated financial statements should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2012, which are included in our most recently filed Annual Report on Form 10-K.

### **Terminology**

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

*Adjusted EBITDA.* EBITDA adjusted for other income (expense) and other supplemental adjustments (we refer you to Results of Operations for a calculation of Adjusted EBITDA).

*Adjusted EPS.* Diluted earnings (loss) per share adjusted for supplemental adjustments (we refer you to Results of Operations for a calculation of Adjusted EPS).



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*Adjusted Net Cruise Cost Excluding Fuel.* Net Cruise Cost less fuel expense adjusted for supplemental adjustments (we refer you to Results of Operations for a calculation of Adjusted Net Cruise Cost Excluding Fuel).

*Adjusted Net Income.* Net income adjusted for supplemental adjustments (we refer you to Results of Operations for a calculation of Adjusted Net Income).

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

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

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

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

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

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

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

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

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

*Gross Yield.* Total revenue per Capacity Day.

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

*IPO.* The initial public offering of 27,058,824 ordinary shares, par value \$.001 per share, of NCLH, which was consummated on January 24, 2013.

*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.

*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.

*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.

#### **Non-GAAP Financial Measures**

We use certain non-GAAP financial measures, such as Net Revenue, Net Yield, Net Cruise Cost, Net Cruise Cost Excluding Fuel, Adjusted Net Cruise Cost Excluding Fuel, Adjusted EBITDA and Adjusted Net Income to enable us to analyze our performance. 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 and are commonly used in the cruise industry to measure revenue performance. In measuring our ability to control costs in a manner that positively impacts net income, we believe changes in Net Cruise Cost and Net Cruise Cost Excluding Fuel to be the most relevant indicators of our performance and are commonly used in the cruise industry as a measurement of costs.

As our business includes the sourcing of passengers and deployment of vessels outside of North America, a portion of our revenue and expenses are denominated in foreign currencies, particularly euro and British Pound sterling, 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, is a factor in the evaluation of the performance of management and is the primary metric used in determining the

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Company's performance incentive bonus paid to its employees. We believe that Adjusted EBITDA is a useful measure in determining the Company's performance as it reflects certain operating drivers of the Company's business, such as sales growth, operating costs, marketing, general and administrative expense and other operating income and expense. You are encouraged to evaluate each adjustment and the reasons we consider them appropriate for supplemental analysis. In evaluating Adjusted EBITDA, you should be aware that in the future we may incur expenses similar to the adjustments in this presentation. Our use of Adjusted EBITDA has limitations as an analytical tool, and you should not consider this measure in isolation or as a substitute for analysis of our results as reported under GAAP. Our presentation of Adjusted EBITDA should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items.

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 measures 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. Our non-GAAP financial measures may not be comparable to other companies. Please see a historical reconciliation of these measures to items in our consolidated financial statements below in the Results of Operations section.

In addition, we utilize Adjusted Net Income as a supplemental financial measure to demonstrate GAAP net income excluding non-recurring, infrequent or unusual charges. These charges vary from period to period; thus, our presentation of Adjusted Net Income may not be indicative of future adjustments or results.

## **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 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 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 passengers purchase these items from us.

Onboard and other revenue primarily consists of revenue from gaming, beverage sales, specialty dining, shore excursions, retail sales and spa services. 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 and certain port expenses.

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 shore excursions, beverage sales and gaming.

Payroll and related consists of the cost of wages and benefits for shipboard employees.

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

Food consists of food costs for passengers and crew.

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

**Table of Contents****Executive Quarterly Overview**

In January 2013, the IPO was completed at a price of \$19.00 per share and in February 2013 NCLC issued \$300.0 million aggregate principal amount of senior notes bearing interest at a rate of 5% per annum maturing on February 15, 2018 (the Notes Offering).

For the first quarter of 2013, the Company reported Adjusted Net Income of \$12.9 million and Adjusted EPS of \$0.06, which excludes \$110.4 million in expenses related to debt prepayments funded by the aggregate net proceeds from the IPO and the Notes Offering as well as non-cash share-based compensation and other expenses related to the IPO. On a GAAP basis, net loss attributable to Norwegian Cruise Line Holdings Ltd. and diluted loss per share were \$(96.4) million and \$(0.49), respectively.

**Three months ended March 31, 2013 ( 2013 ) compared to the three months ended March 31, 2012 ( 2012 )**

Total revenue increased 2.4% to \$527.6 million in 2013 compared to \$515.4 million in 2012. Net Revenue in 2013 increased 1.3% to \$390.7 million from \$385.6 million in 2012 due to an increase in Net Yield of 3.3% partially offset by lower Capacity Days primarily due to a planned Dry-dock.

Operating income in 2013, which includes \$18.5 million of share-based compensation expense related to the IPO, was \$31.0 million compared to \$46.4 million in 2012 and Adjusted EBITDA (we refer you to our Results of Operations below for a calculation of Adjusted EBITDA) improved 6.6% for the same period.

**Results of Operations**

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

|                                       | <b>Three Months Ended<br/>March 31,</b> |             |
|---------------------------------------|---|-------------|
|                                       | <b>2013</b>                             | <b>2012</b> |
| <b>Revenue</b>                        |   |             |
| Passenger ticket                      | 68.0%                                   | 68.2%       |
| Onboard and other                     | 32.0%                                   | 31.8%       |
| Total revenue                         | 100.0%                                  | 100.0%      |
| <b>Cruise operating expense</b>       |   |             |
| Commissions, transportation and other | 17.9%                                   | 17.6%       |
| Onboard and other                     | 8.0%                                    | 7.6%        |
| Payroll and related                   | 14.0%                                   | 14.2%       |
| Fuel                                  | 13.7%                                   | 12.7%       |
| Food                                  | 5.7%                                    | 6.1%        |
| Other                                 | 9.4%                                    | 10.1%       |
| Total cruise operating expense        | 68.7%                                   | 68.3%       |
| <b>Other operating expense</b>        |   |             |
| Marketing, general and administrative | 16.2%                                   | 13.8%       |
| Depreciation and amortization         | 9.2%                                    | 8.9%        |
| Total other operating expense         | 25.4%                                   | 22.7%       |
| Operating income                      | 5.9%                                    | 9.0%        |
| <b>Non-operating income (expense)</b> |   |             |

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|   |                |               |
|---|----------------|---------------|
| Interest expense, net   | (24.2)%        | (9.0)%        |
| Other income (expense)  | (0.2)%         | 0.6%          |
| <b>Total non-operating income (expense)</b>                           | <b>(24.4)%</b> | <b>(8.4)%</b> |
| Net income (loss)   | (18.5)%        | 0.6%          |
| Net loss attributable to non-controlling interest                     | (0.2)%         | %             |
| Net income (loss) attributable to Norwegian Cruise Line Holdings Ltd. | (18.3)%        | 0.6%          |

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The following table sets forth selected statistical information:

|                       | <b>Three Months Ended<br/>March 31,</b> |             |
|-----------------------|---|-------------|
|                       | <b>2013</b>                             | <b>2012</b> |
| Passengers carried    | 368,010                                 | 384,877     |
| Passenger Cruise Days | 2,528,192                               | 2,581,687   |
| Capacity Days         | 2,351,299                               | 2,398,374   |
| Occupancy Percentage  | 107.5%                                  | 107.6%      |

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

|   | <b>Three Months Ended<br/>March 31,<br/>2013</b> |                              |                   |
|---|--|------------------------------|-------------------|
|   | <b>2013</b>                                      | <b>Constant<br/>Currency</b> | <b>2012</b>       |
| Passenger ticket revenue                      | \$ 358,928                                       | \$ 358,760                   | \$ 351,330        |
| Onboard and other revenue                     | 168,703  | 168,703                      | 164,100           |
| <b>Total revenue</b>                          | <b>527,631</b>                                   | <b>527,463</b>               | <b>515,430</b>    |
| Less:   |  |                              |                   |
| Commissions, transportation and other expense | 94,579   | 94,532                       | 90,615            |
| Onboard and other expense                     | 42,371   | 42,371                       | 39,201            |
| <b>Net Revenue</b>                            | <b>\$ 390,681</b>                                | <b>\$ 390,560</b>            | <b>\$ 385,614</b> |
| Capacity Days                                 | 2,351,299  | 2,351,299                    | 2,398,374         |
| Gross Yield                                   | \$ 224.40  | \$ 224.33                    | \$ 214.91         |
| Net Yield                                     | \$ 166.16  | \$ 166.10                    | \$ 160.78         |

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

|   | <b>Three Months Ended<br/>March 31,<br/>2013</b> |                              |                |
|---|--|------------------------------|----------------|
|   | <b>2013</b>                                      | <b>Constant<br/>Currency</b> | <b>2012</b>    |
| Total cruise operating expense                | \$ 362,689                                       | \$ 362,738                   | \$ 352,027     |
| Marketing, general and administrative expense | 85,206   | 85,168                       | 71,162         |
| <b>Gross Cruise Cost</b>                      | <b>447,895</b>                                   | <b>447,906</b>               | <b>423,189</b> |
| Less:   |  |                              |                |
| Commissions, transportation and other expense | 94,579   | 94,532                       | 90,615         |
| Onboard and other expense                     | 42,371   | 42,371                       | 39,201         |
| <b>Net Cruise Cost</b>                        | <b>310,945</b>                                   | <b>311,003</b>               | <b>293,373</b> |
| Less:   |  |                              |                |
| Fuel expense                                  | 72,498   | 72,498                       | 65,526         |
| <b>Net Cruise Cost Excluding Fuel</b>         | <b>238,447</b>                                   | <b>238,505</b>               | <b>227,847</b> |

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|  |            |            |            |
|--|------------|------------|------------|
| Less:  |            |            |            |
| Non-cash share-based compensation related to IPO         | 18,527     | 18,527     |            |
| Adjusted Net Cruise Cost Excluding Fuel                  | \$ 219,920 | \$ 219,978 | \$ 227,847 |
| Capacity Days  | 2,351,299  | 2,351,299  | 2,398,374  |
| Gross Cruise Cost per Capacity Day                       | \$ 190.49  | \$ 190.49  | \$ 176.45  |
| Net Cruise Cost per Capacity Day                         | \$ 132.24  | \$ 132.27  | \$ 122.32  |
| Net Cruise Cost Excluding Fuel per Capacity Day          | \$ 101.41  | \$ 101.44  | \$ 95.00   |
| Adjusted Net Cruise Cost Excluding Fuel per Capacity Day | \$ 93.53   | \$ 93.56   | \$ 95.00   |



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

|   | Three Months Ended<br>March 31, |             |
|---|---------------------------------|-------------|
|   | 2013                            | 2012        |
| Net income (loss) attributable to Norwegian Cruise Line Holdings Ltd. | \$ (96,395)                     | \$ 3,284    |
| Net loss attributable to non-controlling interest                     | (1,105)                         |             |
| Net income (loss)   | (97,500)                        | 3,284       |
| Non-cash share-based compensation related to IPO                      | 18,527                          |             |
| Tax expense related to IPO and debt prepayments                       | 1,376                           |             |
| Expenses related to debt prepayments (1)                              | 90,505                          |             |
| Adjusted Net Income   | \$ 12,908                       | \$ 3,284    |
| Diluted weighted average shares outstanding                           |                                 |             |
| Net income (loss)   | 198,350,433(2)                  | 178,954,960 |
| Adjusted Net Income   | 204,144,512                     | 178,954,960 |
| Diluted earnings (loss) per share                                     | \$ (0.49)                       | \$ 0.02     |
| Adjusted EPS  | \$ 0.06                         | \$ 0.02     |

(1) Consists of premiums, write-offs of deferred fees and other expenses related to prepayments of debt.

(2) Excludes 5,794,079 shares, as including these would be antidilutive.

Adjusted EBITDA was calculated as follows (in thousands):

|   | Three Months Ended<br>March 31, |           |
|---|---------------------------------|-----------|
|   | 2013                            | 2012      |
| Net income (loss) attributable to Norwegian Cruise Line Holdings Ltd. | \$ (96,395)                     | \$ 3,284  |
| Interest expense, net   | 127,656                         | 46,170    |
| Depreciation and amortization expense                                 | 48,748                          | 45,797    |
| EBITDA  | 80,009                          | 95,251    |
| Non-controlling interest  | (1,105)                         |           |
| Other (income) expense  | 832                             | (3,010)   |
| Non-cash compensation and other                                       | 1,497                           | 1,300     |
| Non-cash share-based compensation related to IPO                      | 18,527                          |           |
| Adjusted EBITDA   | \$ 99,760                       | \$ 93,541 |

**Three months ended March 31, 2013 ( 2013 ) compared to three months ended March 31, 2012 ( 2012 )**

**Revenue**

Total revenue increased 2.4% to \$527.6 million in 2013 compared to \$515.4 million in 2012. Net Revenue increased 1.3% in 2013, due to an increase in Net Yield of 3.3% partially offset by a decrease in Capacity Days primarily due to a planned Dry-dock. The increase in Net Yield was due to an increase in net passenger ticket revenue and onboard and other revenue primarily due to an increase in beverage sales and shore excursions. On a Constant Currency basis, Net Yield increased 3.3% in 2013 compared to 2012.

*Expense*

Total cruise operating expense increased 3.0% in 2013 compared to 2012 primarily due to an increase in fuel expense, partially offset by the timing of certain expenses. The increase in fuel expense was primarily the result of a 12.5% increase in the average fuel price to \$673 per metric ton in 2013 from \$598 per metric ton in 2012. Total other operating expense increased 14.5% in 2013 compared to 2012 primarily due to non-cash expenses related to share-based compensation recognized upon the realization of the IPO. On a Capacity Day basis, Net Cruise Cost increased 8.1% on both an as reported and Constant Currency basis due to the expenses discussed above. Adjusted Net Cruise Cost Excluding Fuel per Capacity Day decreased 1.5% on an as reported and Constant Currency basis mainly due to the timing of certain expenses.

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Interest expense, net increased to \$127.7 million in 2013 from \$46.2 million in 2012 primarily due to \$90.5 million of expenses associated with debt prepayments.

## **Liquidity and Capital Resources**

### ***General***

As of March 31, 2013, our liquidity was \$550.8 million consisting of \$81.2 million in cash and cash equivalents and \$469.6 million available under our revolving credit facility. Our primary ongoing liquidity requirements are to finance working capital, capital expenditures and debt service.

As of March 31, 2013, we had a working capital deficit of \$839.4 million. This deficit included \$464.1 million of advance ticket sales, which represents the passenger revenues 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 credit facilities, allows us to operate with a working capital deficit and still meet our operating, investing and financing needs. We believe we will continue to have working capital deficits for the foreseeable future.

### ***Sources and Uses of Cash***

*In this section, references to 2013 refer to the three months ended March 31, 2013 and references to 2012 refer to the three months ended March 31, 2012.*

Net cash provided by operating activities was \$82.1 million in 2013 as compared to \$158.4 million in 2012. The change in net cash provided by operating activities reflects the loss in 2013 of \$97.5 million which includes fees related to prepayment of debt of \$76.5 million compared to income of \$3.3 million in 2012, as well as timing differences in cash receipts and payments relating to operating assets and liabilities. In 2012, \$6.0 million was related to the premium received from the issuance of \$100.0 million of senior unsecured notes.

Net cash used in investing activities was \$85.2 million in 2013 and \$24.3 million in 2012, primarily related to payments for construction of Norwegian Breakaway and Norwegian Getaway, and other ship improvements and shoreside projects.

Net cash provided by financing activities was \$38.8 million in 2013, primarily due to proceeds from the issuance of our \$300.0 million 5% senior notes due 2018 as well as borrowings under other credit facilities and the proceeds from the issuance of ordinary shares partially offset by repayments of our \$450.0 million 11.75% senior secured notes due 2016 and revolving credit facilities and a payment related to Norwegian Sky purchase agreement. Net cash used in financing activities was \$129.1 million in 2012, primarily due to repayments of our revolving credit facilities and other borrowings which were partially offset by the issuance of \$100.0 million of senior unsecured notes.

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

Future capital commitments consist of contracted commitments, including ship construction contracts and future expected capital expenditures for business enhancements. As of March 31, 2013, anticipated capital expenditures for business enhancements were \$57.2 million for the remainder of 2013, and \$77.0 million for each of the years 2014 and 2015. As of March 31, 2013, anticipated capital expenditures for ship construction were \$681.1 million for the remainder of 2013, \$755.6 million for 2014 and \$788.5 million for 2015, of which export credit financing is in place of \$572.8 million for 2013, \$657.1 million for 2014 and \$621.1 million for 2015, based on the euro/U.S. dollar exchange rate as of March 31, 2013.

In October 2012, we reached an agreement with Meyer Werft GmbH to build a new cruise ship for delivery in the fourth quarter of 2015 with an option to build a second ship with an expected delivery date in spring 2017. Currently referred to as Breakaway Plus, this new ship will be the largest in our fleet at approximately 163,000 Gross Tons and 4,200 Berths and will be similar in design and innovation to our Norwegian Breakaway and Norwegian Getaway. The contract cost of this ship is approximately 698.4 million, or \$895.3 million based on the euro/U.S. dollar exchange rate as of March 31, 2013, of which we have export credit financing in place for 80% of the contract price of the ship. This facility is repayable in twenty-four equal semi-annual installments beginning on the six month anniversary of the delivery date and bears interest at a rate of 2.98% per annum. Other material terms and conditions contained in this facility are consistent with those in our credit facilities for each of Norwegian Breakaway and Norwegian Getaway.

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Norwegian Getaway, at approximately 144,000 Gross Tons and 4,000 Berths, is scheduled for delivery in the first quarter of 2014. The aggregate cost of this ship is approximately 625.8 million, or \$802.2 million based on the euro/U.S. dollar exchange rate as of March 31, 2013.

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.

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Capitalized interest for the three months ended March 31, 2013 and 2012 was \$7.5 million and \$4.7 million, respectively, associated with the construction of Norwegian Breakaway and Norwegian Getaway.

**Off-Balance Sheet Transactions**

None.

**Contractual Obligations**

As of March 31, 2013, 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<br>1 year | 1-3 years    | 3-5 years    | More than<br>5 years |
|---------------------------------|--------------|---------------------|--------------|--------------|----------------------|
| Long-term debt (1)              | \$ 2,638,327 | \$ 221,747          | \$ 554,466   | \$ 794,519   | \$ 1,067,595         |
| Due to Affiliate (2)            | 127,562      | 35,977              | 73,063       | 18,522       |                      |
| Operating leases (3)            | 36,423       | 6,444               | 11,224       | 9,654        | 9,101                |
| Ship construction contracts (4) | 2,168,807    | 1,345,186           | 823,621      |              |                      |
| Port facilities (5)             | 193,149      | 24,791              | 51,860       | 51,142       | 65,356               |
| Interest (6)                    | 522,750      | 102,240             | 182,536      | 147,598      | 90,376               |
| Other (7)                       | 56,622       | 35,437              | 17,375       | 3,139        | 671                  |
| Total                           | \$ 5,743,640 | \$ 1,771,822        | \$ 1,714,145 | \$ 1,024,574 | \$ 1,233,099         |

- (1) Net of unamortized original issue discount of \$1.6 million and unamortized premium of \$3.4 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 Norwegian Breakaway, Norwegian Getaway and Breakaway Plus based on the euro/U.S. dollar exchange rate as of March 31, 2013. Financing commitments are in place from a syndicate of banks for export credit financing.
- (5) Primarily for our usage of certain port facilities.
- (6) Includes fixed and variable rates with LIBOR held constant as of March 31, 2013.
- (7) Future commitments for service and maintenance contracts.

**Other**

Certain of our service providers have required collateral in the normal course of our business including liens on certain of our ships. 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, 2013.

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.

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We believe our cash on hand, expected future operating cash inflows, additional available borrowings under our existing credit facilities and our ability to issue debt securities or raise additional equity will be

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sufficient to fund operations, debt payment requirements, capital expenditures and maintain compliance with covenants under our debt agreements over the next twelve-month period. As a result of the equity infusion from the IPO and the related use of proceeds, our leverage was improved and our balance sheet was strengthened. There is no assurance that cash flows from operations and additional financings will be available in the future to fund our future obligations.

### **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***

From time to time, we consider entering into interest rate swap agreements to modify our exposure to interest rate movements and to manage our interest expense. As of March 31, 2013, 34% of our debt was fixed and 66% was variable. Based on our March 31, 2013 outstanding variable rate debt balance, a one percentage point increase in annual LIBOR interest rates would increase our annual interest expense by approximately \$17.5 million excluding the effects of capitalization of interest.

#### ***Foreign Currency Exchange Rate Risk***

As of March 31, 2013, we had foreign currency options, including call options with deferred premiums and a collar, and foreign currency forward contracts 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 final payments on our ship construction contracts. For the call option contracts, if the spot rate at the date the ships are delivered is less than the strike price we would pay the deferred premiums and not exercise the options. For the collar, if the spot rate at the date the ships are delivered is more than the put option strike price and less than the call option strike price, neither the put or call option will be exercised. As of March 31, 2013, the remaining payments not hedged aggregate 949.9 million, or \$1,217.7 million based on the euro/U.S. dollar exchange rate as of March 31, 2013. We estimate that a 10% change in the euro as of March 31, 2013 would result in a \$121.8 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 20.0% and 18.6% for the three months ended March 31, 2013 and 2012, respectively. From time to time, we use fuel derivative agreements to mitigate the financial impact of fluctuations in fuel prices. As of March 31, 2013, we had hedged approximately 61%, 49% and 16% of our 2013, 2014 and 2015 projected metric tons of fuel purchases, respectively. We estimate that a 10% increase in our weighted-average fuel price would increase our anticipated 2013 fuel expense by \$21.9 million. This increase would be partially offset by an increase in the fair value of our fuel swap agreements and fuel collars and options of \$11.1 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 of March 31, 2013. 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 evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective 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





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within the time periods specified in the applicable rules and forms, 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, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

***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 July 2009, a class action complaint was filed against NCL (Bahamas) Ltd. in the United States District Court, Southern District of Florida, on behalf of a purported class of crew members alleging inappropriate deductions of their wages pursuant to the Seaman's Wage Act and wrongful termination resulting in a loss of retirement benefits. In December 2010, the Court denied the plaintiffs' Motion for Class Certification. In February 2011, the plaintiffs filed a Motion for Reconsideration as to the Court's Order on Class Certification which was denied. The Court tried six individual plaintiffs' claims, and in September 2012 awarded wages aggregating approximately \$100,000 to such plaintiffs. The plaintiffs have filed an appeal of the Court's decision in the individual actions as well as the denial of the Class Certification. We intend to vigorously defend this appeal and are not able at this time to estimate the impact of these proceedings.

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

In the normal course of our business, various other claims and lawsuits have been filed or are pending against us. Most of these claims and lawsuits are covered by insurance and, accordingly, the maximum amount of our liability is typically limited to our deductible amount. Nonetheless, the ultimate outcome of these claims and lawsuits that are not covered by insurance cannot be determined at this time. We have evaluated our overall exposure with respect to all of our threatened and pending litigation and, to the extent required, we have accrued amounts for all estimable probable losses associated with our deemed exposure. We are currently unable to estimate any other 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 Annual Report on Form 10-K for a discussion of the risk factors that affect our business and financial results. There has been no material change to these risk factors.

**Item 6. Exhibits**

- 10.1 Form of Notice of Grant of Option and Terms and Conditions of Option\*+
- 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\*\*

\* Filed herewith

\*\* Furnished herewith

+ Management contract or compensatory plan

Interactive Data File

101 The following unaudited financial statements are from Norwegian Cruise Line Holdings Ltd. Quarterly Report on Form 10-Q for the quarter ended March 31, 2013, as filed with the SEC on May 8, 2013, formatted in XBRL, as follows:

- (i) the Consolidated Statements of Operations for the three months ended March 31, 2013 and 2012;



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- (ii) the Consolidated Statements of Comprehensive Income (Loss) for the three months ended March 31, 2013 and 2012;
- (iii) the Consolidated Balance Sheets as of March 31, 2013 and December 31, 2012;
- (iv) the Consolidated Statements of Cash Flows for the three months ended March 31, 2013 and 2012;
- (v) the Consolidated Statements of Changes in Shareholder's Equity; and
- (vi) the Notes to the Consolidated Financial Statements, tagged in summary and detail.

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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/ KEVIN M. SHEEHAN  
Name: Kevin M. Sheehan  
Title: President and Chief Executive Officer

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

Date: May 8, 2013