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 June 30, 2017

OR

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

For the transition period from__________ to __________

Commission File Number: 001-35784

NORWEGIAN CRUISE LINE HOLDINGS LTD.
(Exact name of registrant as specified in its charter)

Bermuda **(State or other jurisdiction of incorporation or organization)**	**98-0691007** **(I.R.S. Employer Identification No.)**

7665 Corporate Center Drive, Miami, Florida 33126
(Address of principal executive offices) (zip code)

(305) 436-4000
(Registrant's telephone number, including area code)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth 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 ☐
Emerging growth company ☐	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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 228,162,188 ordinary shares outstanding as of July 31, 2017.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Norwegian Cruise Line Holdings Ltd.
Consolidated Statements of Operations
(Unaudited)
(in thousands, except share and per share data)

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Revenue				
Passenger ticket	$ 938,014	$ 818,478	$ 1,724,708	$ 1,558,590
Onboard and other	406,089	368,357	770,176	705,877
Total revenue	1,344,103	1,186,835	2,494,884	2,264,467
Cruise operating expense				
Commissions, transportation and other	223,315	193,536	417,455	368,973
Onboard and other	83,367	75,790	151,778	139,755
Payroll and related	194,724	184,476	387,360	361,619
Fuel	86,663	80,607	175,549	162,279
Food	47,340	49,769	93,518	100,772
Other	116,833	121,722	246,380	236,983
Total cruise operating expense	752,242	705,900	1,472,040	1,370,381
Other operating expense				
Marketing, general and administrative	193,649	149,307	385,693	329,881
Depreciation and amortization	123,141	104,610	242,346	205,905
Total other operating expense	316,790	253,917	628,039	535,786
Operating income	275,071	227,018	394,805	358,300
Non-operating income (expense)				
Interest expense, net	(64,196)	(68,420)	(117,156)	(128,174)
Other income (expense), net	(5,609)	(10,753)	(8,424)	(7,948)
Total non-operating income (expense)	(69,805)	(79,173)	(125,580)	(136,122)
Net income before income taxes	205,266	147,845	269,225	222,178
Income tax expense	(6,793)	(2,599)	(8,842)	(3,703)
Net income	$ 198,473	$ 145,246	$ 260,383	$ 218,475
Weighted-average shares outstanding				
Basic	227,931,135	226,972,076	227,701,109	227,105,804
Diluted	229,090,085	227,884,704	228,824,296	227,997,970
Earnings per share				
Basic	$ 0.87	$ 0.64	$ 1.14	$ 0.96
Diluted	$ 0.87	$ 0.64	$ 1.14	$ 0.96

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	**2016**	**2017**	**2016**
Net income	$ 198,473	$ 145,246	$ 260,383	$ 218,475
Other comprehensive income:				
Shipboard Retirement Plan	104	108	209	216
Cash flow hedges:				
Net unrealized income	131,519	5,007	124,236	75,457
Amount realized and reclassified into earnings	10,244	23,781	19,949	58,331
Total other comprehensive income	141,867	28,896	144,394	134,004
Total comprehensive income	$ 340,340	$ 174,142	$ 404,777	$ 352,479

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

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

	June 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$ 219,315	$ 128,347
Accounts receivable, net	50,359	63,215
Inventories	77,089	66,255
Prepaid expenses and other assets	167,153	153,276
Total current assets	513,916	411,093
Property and equipment, net	10,974,087	10,117,689
Goodwill	1,388,931	1,388,931
Tradenames	817,525	817,525
Other long-term assets	251,717	238,673
Total assets	$ 13,946,176	$ 12,973,911
Liabilities and shareholders' equity		
Current liabilities:		
Current portion of long-term debt	$ 600,500	$ 560,193
Accounts payable	47,242	38,002
Accrued expenses and other liabilities	462,516	541,753
Advance ticket sales	1,543,869	1,172,870
Total current liabilities	2,654,127	2,312,818
Long-term debt	6,083,226	5,838,494
Other long-term liabilities	217,074	284,873
Total liabilities	8,954,427	8,436,185
Commitments and contingencies (Note 8)		
Shareholders' equity:		
Ordinary shares, $.001 par value; 490,000,000 shares authorized; 233,380,598 shares issued and 228,068,637 shares outstanding at June 30, 2017 and 232,555,937 shares issued and 227,243,976 shares outstanding at December 31, 2016	233	232
Additional paid-in capital	3,937,211	3,890,119
Accumulated other comprehensive income (loss)	(170,079)	(314,473)
Retained earnings	1,463,639	1,201,103
Treasury shares (5,311,961 ordinary shares at June 30, 2017 and December 31, 2016, at cost)	(239,255)	(239,255)
Total shareholders' equity	4,991,749	4,537,726
Total liabilities and shareholders' equity	$ 13,946,176	$ 12,973,911

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

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

	Six Months Ended June 30,	
	2017	**2016**
Cash flows from operating activities		
Net income	$ 260,383	$ 218,475
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	248,618	212,268
Loss on derivatives	375	2,866
Deferred income taxes, net	5,165	388
Write-off of deferred financing fees	—	11,427
Provision for bad debts and inventory	535	1,115
Share-based compensation expense	42,220	31,449
Changes in operating assets and liabilities:		
Accounts receivable, net	12,301	(16,335)
Inventories	(10,814)	(9,674)
Prepaid expenses and other assets	(21,719)	(25,903)
Accounts payable	10,129	(10,865)
Accrued expenses and other liabilities	(28,382)	(25,798)
Advance ticket sales	400,920	358,625
Net cash provided by operating activities	919,731	748,038
Cash flows from investing activities		
Additions to property and equipment, net	(1,065,265)	(764,899)
Settlement of derivatives	(35,255)	(34,129)
Net cash used in investing activities	(1,100,520)	(799,028)
Cash flows from financing activities		
Repayments of long-term debt	(921,329)	(2,386,427)
Repayments to Affiliate	—	(18,522)
Proceeds from long-term debt	1,217,060	2,564,116
Proceeds from employee related plans	13,213	4,179
Net share settlement of restricted share units	(6,187)	—
Purchases of treasury shares	—	(49,999)
Deferred financing fees and other	(31,000)	(32,330)
Net cash provided by financing activities	271,757	81,017
Net increase in cash and cash equivalents	90,968	30,027
Cash and cash equivalents at beginning of period	128,347	115,937
Cash and cash equivalents at end of period	$ 219,315	$ 145,964

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

Norwegian Cruise Line Holdings Ltd.
Consolidated Statements of Changes in Shareholders' Equity
(Unaudited)
(in thousands)

	Ordinary Shares	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Shares	Total Shareholders' Equity
Balance, December 31, 2015	$ 232	$ 3,814,536	$ (412,650)	$ 568,018	$ (189,256)	$ 3,780,880
Share-based compensation	—	31,449	—	—	—	31,449
Proceeds from the exercise of share options	—	2,380	—	—	—	2,380
Proceeds from employee share purchase plan	—	1,172	—	—	—	1,172
Treasury shares	—	—	—	—	(49,999)	(49,999)
Other comprehensive income, net	—	—	134,004	—	—	134,004
Net income	—	—	—	218,475	—	218,475
Balance, June 30, 2016	$ 232	$ 3,849,537	$ (278,646)	$ 786,493	$ (239,255)	$ 4,118,361
Balance, December 31, 2016	$ 232	$ 3,890,119	$ (314,473)	$ 1,201,103	$ (239,255)	$ 4,537,726
Share-based compensation	—	42,220	—	—	—	42,220
Issuance of shares under employee related plans	1	13,212	—	—	—	13,213
Change in accounting policy (share-based forfeitures)	—	(2,153)	—	2,153	—	—
Net share settlement of restricted share units	—	(6,187)	—	—	—	(6,187)
Other comprehensive income, net	—	—	144,394	—	—	144,394
Net income	—	—	—	260,383	—	260,383
Balance, June 30, 2017	$ 233	$ 3,937,211	$ (170,079)	$ 1,463,639	$ (239,255)	$ 4,991,749

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

Norwegian Cruise Line Holdings Ltd.
Notes to Consolidated Financial Statements
(Unaudited)

Unless otherwise indicated or the context otherwise requires, references in this report to (i) the "Company," "we," "our" and "us" refer to NCLH (as defined below) and its subsidiaries (including Prestige (as defined below), except for periods prior to the consummation of the Acquisition of Prestige (as defined below)), (ii) "NCLC" refers to NCL Corporation Ltd., (iii) "NCLH" refers to Norwegian Cruise Line Holdings Ltd., (iv) "Norwegian Cruise Line" or "Norwegian" refers to the Norwegian Cruise Line brand and its predecessors, (v) "Prestige" refers to Prestige Cruises International, Inc., together with its consolidated subsidiaries, (vi) "PCH" refers to Prestige Cruise Holdings, Inc., Prestige's direct wholly-owned subsidiary, which in turn is the parent of Oceania Cruises, Inc. ("Oceania Cruises") and Seven Seas Cruises S. DE R.L. ("Regent") (Oceania Cruises also refers to the brand by the same name and Regent also refers to the brand Regent Seven Seas Cruises). References to the "U.S." are to the United States of America, "dollars" or "$" are to U.S. dollars, the "U.K." are to the United Kingdom and "euros" or "€" are to the official currency of the Eurozone.

1. Description of Business and Organization

We are a leading global cruise company which operates the Norwegian Cruise Line, Oceania Cruises and Regent Seven Seas Cruises brands. As of June 30, 2017, we had 25 ships with approximately 50,400 Berths. We plan to introduce seven additional ships through 2025 and we have an option to introduce two additional ships for delivery in 2026 and 2027, subject to certain conditions. Norwegian Bliss and an additional Breakaway Plus Class Ship are on order for delivery in the spring of 2018 and fall of 2019. We have an Explorer Class Ship on order for delivery in the winter of 2020. Project Leonardo will introduce an additional four ships with expected delivery dates through 2025. These additions to our fleet (exclusive of the option for two additional ships) will increase our total Berths to approximately 72,300.

2. Summary of Significant Accounting Policies

Basis of Presentation

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

Our operations are seasonal and results for interim periods are not necessarily indicative of the results for the entire fiscal year. Historically, demand for cruises has been strongest during the Northern Hemisphere's summer months. The interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2016, which are included in our most recently filed Annual Report on Form 10-K.

Reclassification

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

Earnings Per Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income	$ 198,473	$ 145,246	$ 260,383	$ 218,475
Basic weighted-average shares outstanding	227,931,135	226,972,076	227,701,109	227,105,804
Dilutive effect of share awards	1,158,950	912,628	1,123,187	892,166
Diluted weighted-average shares outstanding	229,090,085	227,884,704	228,824,296	227,997,970
Basic earnings per share	$ 0.87	$ 0.64	$ 1.14	$ 0.96
Diluted earnings per share	$ 0.87	$ 0.64	$ 1.14	$ 0.96

For the three months ended June 30, 2017 and 2016, a total of 5.2 million and 6.3 million shares, respectively; and for the six months ended June 30, 2017 and 2016, a total of 6.4 million and 6.9 million shares, respectively, have been excluded from diluted weighted-average shares outstanding because the effect of including them would have been anti-dilutive.

Revenue and Expense Recognition

Revenue and expenses include port fees and taxes. The amounts included on a gross basis are $80.4 million and $71.5 million for the three months ended June 30, 2017 and 2016, respectively, and $152.1 million and $134.0 million for the six months ended June 30, 2017 and 2016, respectively.

Foreign Currency

The majority of our transactions are settled in U.S. dollars. We translate assets and liabilities of our foreign subsidiaries at exchange rates in effect at the balance sheet date. We recognized a loss of $8.1 million and a gain of $3.7 million for the three months ended June 30, 2017 and 2016, respectively, and losses of $10.8 million and $0.3 million for the six months ended June 30, 2017 and 2016, respectively.

Depreciation and Amortization Expense

The amortization of deferred financing fees is included in depreciation and amortization expense in the consolidated statements of cash flows; however, for purposes of the consolidated statements of operations they are included in interest expense, net.

Recently Issued Accounting Pronouncements

In January 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2017-04 which simplifies the test for goodwill impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. The guidance is effective for annual or any interim goodwill impairment tests in years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. We do not expect to early adopt this guidance. We are currently evaluating the impact of the adoption of this guidance to our consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15 which amends Topic 230 (Statement of Cash Flows) to eliminate discrepancies in reporting certain items in the statement of cash flows. The guidance is effective for annual periods beginning after December 15, 2017 and interim periods within those annual periods with early adoption permitted. The transition should be made using a retrospective approach. We do not believe that the adoption of this guidance will be material to our consolidated statements of cash flows.

In May 2016, the FASB issued ASU No. 2016-12 which addresses improvements to the guidance on revenue from contracts from customers regarding collectability, noncash consideration, and completed contracts at transition. Additionally, it provides a practical expedient for contract modifications at transition and an accounting policy election related to the presentation of sales taxes and other similar taxes collected from customers. The effective date of this guidance is upon adoption of ASU No. 2014-09 which is presented below. We are currently evaluating the impact of the adoption of this guidance to our consolidated financial statements.

In May 2016, the FASB issued ASU No. 2016-11 which is a rescission of Securities and Exchange Commission guidance related to the issuance of ASU No. 2014-09 which is presented below. The effective date of this guidance is upon adoption of ASU No. 2014-09. We are currently evaluating the impact of the adoption of this guidance to our consolidated financial statements.

In April 2016, the FASB issued ASU No. 2016-10 which does not change the core principle of the guidance in ASU No. 2014-09 but clarifies two aspects: identifying performance obligations and the licensing implementation guidance, while retaining the related principles for those areas. The effective date of this guidance is upon adoption of ASU No. 2014-09. We are currently evaluating the impact of the adoption of this guidance to our consolidated financial statements.

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

In May 2014, the FASB issued ASU No. 2014-09 which requires entities to recognize revenue through the application of a five-step model, including identification of the contract, identification of the performance obligations, determination of the transaction price, allocation of the transaction price to the performance obligation and recognition of revenue as the entity satisfies the performance obligations. Entities have the option of using either a full retrospective or a modified approach to adopt the guidance.

In August 2015, the FASB issued ASU No. 2015-14 deferring the effective date for one year. We can elect to adopt the provisions of ASU No. 2014-09 for annual periods beginning after December 15, 2017 including interim periods within that reporting period or we can elect to early adopt the guidance as of the original effective date. We expect to adopt a modified retrospective application for annual periods beginning after December 15, 2017. We have initiated an assessment of our systems, data and processes related to the implementation of this guidance. This assessment is expected to be completed during 2017. Additionally, we are currently evaluating our performance obligations and believe that our application of the guidance could result in changes in classification and additional disclosures. We also are evaluating other criteria such as the timing of contract terms, gross and net presentation and other items that the guidance addresses.

3. Intangible Assets

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

	June 30, 2017			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted-Average Amortization Period (Years)
Customer relationships	$ 120,000	$ (51,730)	$ 68,270	6.0
Licenses	3,368	(1,171)	2,197	5.6
Non-compete agreements	660	(660)	—	1.0
Total intangible assets subject to amortization	$ 124,028	$ (53,561)	$ 70,467	
License (Indefinite-lived)	$ 4,427			

	December 31, 2016			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted-Average Amortization Period (Years)
Customer relationships	$ 120,000	$ (36,593)	$ 83,407	6.0
Licenses	3,368	(807)	2,561	5.6
Non-compete agreements	660	(495)	165	1.0
Total intangible assets subject to amortization	$ 124,028	$ (37,895)	$ 86,133	
License (Indefinite-lived)	$ 4,427			

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Amortization expense	$ 7,750	$ 5,562	$ 15,665	$ 10,951

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

Year ended December 31,	Amortization Expense
2018	$ 26,163
2019	18,489
2020	9,906
2021	75
2022	75

4. Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) for the six months ended June 30, 2017 was as follows (in thousands):

	Accumulated Other Comprehensive Income (Loss)	Change Related to Cash Flow Hedges	Change Related to Shipboard Retirement Plan
Accumulated other comprehensive income (loss) at beginning of period	$ (314,473)	$ (307,618)	$ (6,855)
Current period other comprehensive income before reclassifications	124,236	124,236	—
Amounts reclassified into earnings	20,158	19,949(1)	209(2)
Accumulated other comprehensive income (loss) at end of period	$ (170,079)	$ (163,433)(3)	$ (6,646)

(1) We refer you to Note 6— "Fair Value Measurements and Derivatives" for the affected line items in the consolidated statements of operations.
(2) Amortization of prior-service cost and actuarial loss reclassified to payroll and related expense.
(3) Includes $44.4 million of loss expected to be reclassified into earnings in the next 12 months.

Accumulated other comprehensive income (loss) for the six months ended June 30, 2016 was as follows (in thousands):

	Accumulated Other Comprehensive Income (Loss)	Change Related to Cash Flow Hedges	Change Related to Shipboard Retirement Plan
Accumulated other comprehensive income (loss) at beginning of period	$ (412,650)	$ (405,298)	$ (7,352)
Current period other comprehensive income before reclassifications	75,457	75,457	—
Amounts reclassified into earnings	58,547	58,331(1)	216(2)
Accumulated other comprehensive income (loss) at end of period	$ (278,646)	$ (271,510)	$ (7,136)

(1) We refer you to Note 6— "Fair Value Measurements and Derivatives" for the affected line items in the consolidated statements of operations.
(2) Amortization of prior-service cost and actuarial loss reclassified to payroll and related expense.

5. Property and Equipment, net

Property and equipment, net increased $856.4 million for the six months ended June 30, 2017 primarily due to the delivery of Norwegian Joy, ships under construction and ship improvement projects.

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 classified in the same category as the cash flows from the underlying hedged transaction. The determination of ineffectiveness is based on the amount of dollar offset between the cumulative change in fair value of the derivative and the cumulative change in fair value of the hedged transaction at the end of the reporting period. If it is determined that a derivative is not highly effective as a hedge, or if the hedged forecasted transaction is no longer probable of occurring, then the amount recognized in accumulated other comprehensive income (loss) is released to earnings. In addition, the ineffective portion of our highly effective hedges is recognized in earnings immediately and reported in other income (expense), net 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 New Revolving Loan Facility, is not considered significant, as we primarily conduct business with large, well-established financial institutions that we have established relationships with and that have credit risks acceptable to us or the credit risk is spread out among a large number of creditors. We do not anticipate non-performance by any of our significant counterparties.

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

		Asset		Liability	
	Balance Sheet location	**June 30, 2017**	**December 31, 2016**	**June 30, 2017**	**December 31, 2016**
Fuel swaps designated as hedging instruments					
	Prepaid expenses and other assets	$ 5,955	$ 20,288	$ —	$ —
	Other long-term assets	897	—	—	—
	Accrued expenses and other liabilities	1,056	—	41,865	44,271
	Other long-term liabilities	6,255	13,237	34,529	38,608
Foreign currency forward contracts designated as hedging instruments					
	Prepaid expenses and other assets	13,509	—	144	—
	Other long-term assets	28,718	14	—	—
	Accrued expenses and other liabilities	2,141	—	4,665	61,788
	Other long-term liabilities	—	—	—	88,920
Interest rate swaps designated as hedging instruments					
	Accrued expenses and other liabilities	—	—	2,546	3,331
	Other long-term liabilities	—	—	—	1,151

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

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

June 30, 2017	**Gross Amounts**	**Gross Amounts Offset**	**Total Net Amounts**	**Gross Amounts Not Offset**	**Net Amounts**
Assets	$ 49,079	$ (144)	$ 48,935	$ (40,103)	$ 8,832
Liabilities	83,605	(9,452)	74,153	(3,609)	70,544

December 31, 2016	**Gross Amounts**	**Gross Amounts Offset**	**Total Net Amounts**	**Gross Amounts Not Offset**	**Net Amounts**
Assets	$ 20,302	$ —	$ 20,302	$ (14)	$ 20,288
Liabilities	238,069	(13,237)	224,832	(155,190)	69,642

Fuel Swaps

As of June 30, 2017, we had fuel swaps maturing through December 31, 2020 which are used to mitigate the financial impact of volatility in fuel prices pertaining to approximately 1.5 million metric tons of our projected fuel purchases.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Gain (loss) recognized in other comprehensive income – effective portion	$ (4,884)	$ 85,808	$ (31,087)	$ 76,302
Loss recognized in other income (expense), net – ineffective portion	(431)	(3,524)	(801)	(8,751)
Amount reclassified from accumulated other comprehensive income (loss) into fuel expense	8,584	20,440	16,587	51,577

We had fuel swaps that matured which were not designated as cash flow hedges. These fuel swaps were previously designated as cash flow hedges and were dedesignated due to a change in our expected future fuel purchases mix.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Loss recognized in other income (expense), net	$ —	$ (92)	$ —	$ (92)
Amount reclassified from accumulated other comprehensive income (loss) into other income (expense), net	—	1,465	—	2,994

Foreign Currency Options

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Amount reclassified from accumulated other comprehensive income (loss) into depreciation and amortization expense	$ 330	$ 330	$ 660	$ 660

Foreign Currency Forward Contracts

As of June 30, 2017, 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 was €1.8 billion, or $2.1 billion based on the euro/U.S. dollar exchange rate as of June 30, 2017.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Gain (loss) recognized in other comprehensive income – effective portion	$ 136,428	$ (79,900)	$ 155,064	$ 2,611
Gain (loss) recognized in other income (expense), net – ineffective portion	(16)	(2)	(66)	9
Amount reclassified from accumulated other comprehensive income (loss) into depreciation and amortization expense	656	656	1,274	1,301

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Loss recognized in other income (expense), net	$ —	$ (6,133)	$ —	$ (6,133)

Foreign Currency Collar

We had foreign currency collars that matured and were used to mitigate the volatility of foreign currency exchange rates related to our ship construction contracts denominated in euros.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Amount reclassified from accumulated other comprehensive income (loss) into depreciation and amortization expense	$ (91)	$ (91)	$ (182)	$ (182)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Gain (loss) recognized in other income (expense), net	$ —	$ (3,313)	$ —	$ 10,312

Interest Rate Swaps

As of June 30, 2017, we had interest rate swap agreements to hedge our exposure to interest rate movements and to manage our interest expense. The notional amount of outstanding debt associated with the interest rate swap agreements was $250.7 million as of June 30, 2017.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Gain (loss) recognized in other comprehensive income – effective portion	$ (25)	$ (901)	$ 259	$ (3,456)
Gain recognized in other income (expense), net – ineffective portion	—	—	—	3
Amount reclassified from accumulated other comprehensive income (loss) into interest expense, net	765	981	1,610	1,981

Long-Term Debt

As of June 30, 2017 and December 31, 2016, the fair value of our long-term debt, including the current portion, was $6,864.4 million and $6,525.7 million, respectively, which was $48.1 million and $11.6 million higher, respectively, than the carrying values. The difference between the fair value and carrying value of our long-term debt is due to our fixed and variable rate debt obligations carrying interest rates that are above or below market rates at the measurement dates. The fair value of our long-term debt was calculated based on estimated rates for the same or similar instruments with similar terms and remaining maturities resulting in Level 2 inputs in the fair value hierarchy. Market risk associated with our long-term variable rate debt is the potential increase in interest expense from an increase in interest rates. The calculation of the fair value of our long-term debt is considered a Level 2 input.

Other

The carrying amounts reported in the consolidated balance sheets of all other financial assets and liabilities approximate fair value.

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7. Employee Benefits and Compensation Plans

Share-Based Compensation

As a result of our adoption of ASU No. 2016-09, beginning in the first quarter of 2017, we began accounting for forfeitures as they occur, rather than estimating expected forfeitures. Pursuant to the modified-retrospective application, the net cumulative effect of this change was recognized as a $2.2 million increase to retained earnings as of January 1, 2017 (we refer you to our consolidated statements of changes in shareholders' equity).

Share Option Awards

The following is a summary of option activity under our Amended and Restated 2013 Performance Incentive Plan for the six months ended June 30, 2017 (excludes the impact of 208,335 previously awarded performance-based options as no grant date has been established):

	Number of Share Option Awards			Weighted-Average Exercise Price			Weighted-Average Contractual Term	Aggregate Intrinsic Value
	Time-Based Awards	Performance-Based Awards	Market-Based Awards	Time-Based Awards	Performance-Based Awards	Market-Based Awards	(years)	(in thousands)
Outstanding as of January 1, 2017	7,775,058	432,978	208,333	$ 48.04	$ 23.86	$ 59.43	7.81	$ 35,429
Granted	—	156,249	—	—	59.43	—	—	—
Exercised	(383,203)	(59,218)	—	28.33	19.00	—	—	—
Forfeited and cancelled	(325,030)	(93,749)	—	55.03	59.43	—	—	—
Outstanding as of June 30, 2017	7,066,825	436,260	208,333	$ 48.79	$ 29.62	$ 59.43	7.44	$ 61,204

Restricted Ordinary Share Awards

The following is a summary of restricted ordinary share activity for the six months ended June 30, 2017:

	Number of Time-Based Awards	Weighted-Average Grant Date Fair Value
Non-vested as of January 1, 2017	16,872	$ 7.63
Granted	—	—
Vested	(11,338)	5.53
Forfeited or expired	—	—
Non-vested and expected to vest as of June 30, 2017	5,534	$ 11.94

Restricted Share Unit Awards

On March 1, 2017, we granted 1.7 million time-based restricted share unit awards to our employees which vest equally over three years. Additionally, on March 1, 2017, we awarded 121,000 performance-based restricted share units to certain members of our management team which vest upon the achievement of certain pre-established performance targets.

The following is a summary of restricted share unit activity for the six months ended June 30, 2017 (excludes the impact of 171,000 previously awarded performance-based restricted share units as no grant date was established):

	Number of Time-Based Awards	Weighted-Average Grant Date Fair Value	Number of Performance-Based Awards	Weighted-Average Grant Date Fair Value	Number of Market-Based Awards	Weighted-Average Grant Date Fair Value
Non-vested as of January 1, 2017	1,305,335	$ 50.38	—	$ —	50,000	$ 59.43
Granted	1,750,612	50.96	37,500	49.76	—	—
Vested	(440,508)	50.67	(15,000)	49.76	—	—
Forfeited or expired	(36,507)	50.61	(22,500)	49.76	—	—
Non-vested and expected to vest as of June 30, 2017	2,578,932	50.72	—	—	50,000	59.43

The share-based compensation expense for the six months ended June 30, 2017 was $42.2 million of which $38.5 million was recorded in marketing, general and administrative expense and $3.7 million was recorded in payroll and related expense.

8. Commitments and Contingencies

Ship Construction Contracts

Project Leonardo will introduce an additional four ships with expected delivery dates through 2025 and we have an option to introduce two additional ships for delivery in 2026 and 2027, subject to certain conditions. These four ships are each approximately 140,000 Gross Tons with approximately 3,300 Berths. We have an Explorer Class Ship on order for delivery in the winter of 2020. This ship is approximately 55,000 Gross Tons and 750 Berths. We have two Breakaway Plus Class Ships on order for delivery in the spring of 2018 and fall of 2019, respectively. These ships are approximately 168,000 Gross Tons each with approximately 4,000 Berths each. The combined contract price of these seven ships was approximately €5.5 billion, or $6.3 billion based on the euro/U.S. dollar exchange rate as of June 30, 2017. We have export credit financing in place that provides financing for 80% of each ship's contract price. For ships expected to be delivered after 2023, the contract price is subject to adjustment under certain circumstances.

In connection with the contracts to build the ships, we do not anticipate any contractual breach 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 the normal course of our business, various claims and lawsuits have been filed or are pending against us. Most of these claims and lawsuits are covered by insurance and, accordingly, the maximum amount of our liability is typically limited to our deductible amount.

Nonetheless, the ultimate outcome of the 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. However, based on our current knowledge, we do not believe that the aggregate amount or range of reasonably possible losses with respect to these matters will be material to our consolidated results of operations, financial condition or cash flows. We intend to vigorously defend our legal position on all claims and, to the extent necessary, seek recovery.

9. Other Income (Expense), Net

For the three months ended June 30, 2017, other income (expense), net was a $5.6 million expense which included $8.1 million of losses due to foreign currency exchange partially offset by $2.5 million of gains primarily due to a gain from an insurance claim. For the three months ended June 30, 2016, the $10.8 million expense included $14.5 million of losses due to derivatives partially offset by $3.7 million of foreign currency exchange gains. For the six months ended June 30, 2017, the $8.4 million expense included $10.8 million of foreign currency exchange losses partially offset by $2.4 million of gains primarily due to a gain from an insurance claim. For the six months ended June 30, 2016, the $7.9 million expense included $11.8 million of losses on fuel derivatives partially offset by $3.9 million of gains which was primarily due to forward exchange derivative gains.

10. Supplemental Cash Flow Information

For the six months ended June 30, 2017 and 2016, we had non-cash investing activities in connection with property and equipment of $10.3 million and $32.0 million, respectively. For the six months ended June 30, 2017, we had non-cash investing activities in connection with capital leases of $5.4 million.

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

Cautionary Statement Concerning Forward-Looking Statements

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

- adverse general economic and related factors, such as fluctuating or increasing levels of unemployment, underemployment and the volatility of fuel prices, declines in the securities and real estate markets, and perceptions of these conditions that decrease the level of disposable income of consumers or consumer confidence;
- adverse events impacting the security of travel, such as terrorist acts, armed conflict and threats thereof, acts of piracy, and other international events;
- the risks and increased costs associated with operating internationally;
- our expansion into and investments in new markets;
- breaches in data security or other disturbances to our information technology and other networks;
- the spread of epidemics and viral outbreaks;
- adverse incidents involving cruise ships;
- changes in fuel prices and/or other cruise operating costs;
- any impairment of our tradenames or goodwill;
- our hedging strategies;
- our inability to obtain adequate insurance coverage;
- our substantial indebtedness, including the ability to raise additional capital to fund our operations, and to generate the necessary amount of cash to service our existing debt;
- restrictions in the agreements governing our indebtedness that limit our flexibility in operating our business;
- the significant portion of our assets pledged as collateral under our existing debt agreements and the ability of our creditors to accelerate the repayment of our indebtedness;
- volatility and disruptions in the global credit and financial markets, which may adversely affect our ability to borrow and could increase our counterparty credit risks, including those under our credit facilities, derivatives, contingent obligations, insurance contracts and new ship progress payment guarantees;
- fluctuations in foreign currency exchange rates;
- overcapacity in key markets or globally;
- our inability to recruit or retain qualified personnel or the loss of key personnel;
- future changes relating to how external distribution channels sell and market our cruises;
- our reliance on third parties to provide hotel management services to certain ships and certain other services;
- delays in our shipbuilding program and ship repairs, maintenance and refurbishments;
- future increases in the price of, or major changes or reduction in, commercial airline services;
- seasonal variations in passenger fare rates and occupancy levels at different times of the year;
- our ability to keep pace with developments in technology;
- amendments to our collective bargaining agreements for crew members and other employee relation issues;
- the continued availability of attractive port destinations;
- pending or threatened litigation, investigations and enforcement actions;
- changes involving the tax and environmental regulatory regimes in which we operate; and
- other factors set forth under "Risk Factors" in our most recently filed Annual Report on Form 10-K, as such risk factors may be amended, supplemented or superseded from time to time by other reports we file with the Securities and Exchange Commission (the "SEC").

The above examples are not exhaustive and new risks emerge from time to time. Such forward-looking statements are based on our current beliefs, assumptions, expectations, estimates and projections regarding our present and future business strategies and the environment in which we expect to operate in the future. These forward-looking statements speak only as of the date made. We expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement to reflect any change in our expectations with regard thereto or any change of events, conditions or circumstances on which any such statement was based, except as required by law.

Terminology

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

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

• *Acquisition of Prestige.* In November 2014, pursuant to the Merger Agreement, we acquired Prestige in a cash and stock transaction for total consideration of $3.025 billion, including the assumption of debt.

• *Adjusted EBITDA.* EBITDA adjusted for other income (expense), net and other supplemental adjustments.

• *Adjusted EPS.* Adjusted Net Income divided by the number of diluted weighted-average shares outstanding.

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

• *Adjusted Net Income.* Net income adjusted for supplemental adjustments.

• *Adjusted Net Revenue.* Net Revenue adjusted for supplemental adjustments.

• *Adjusted Net Yield.* Net Yield adjusted for supplemental adjustments.

• *Bareboat Charter.* The hire of a ship for a specified period of time whereby no crew or provisions are provided by the Company.

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

• *Breakaway Class Ships.* Norwegian Breakaway and Norwegian Getaway.

• *Breakaway Four Loan Facility.* €729.9 million Breakaway four loan due 2029.

• *Breakaway Plus Class Ships.* Norwegian Escape, Norwegian Joy, Norwegian Bliss and a fourth ship on order.

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

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

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

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

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

• *EPS.* Earnings per share.

• *Explorer Class Ships.* Regent’s Seven Seas Explorer and a second ship on order.

• *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.

• *Merger Agreement.* Agreement and Plan of Merger, dated as of September 2, 2014, by and among Prestige, NCLH, Portland Merger Sub, Inc. and Apollo Management, L.P., as amended, for the Acquisition of Prestige.

• *Net Cruise Cost.* Gross Cruise Cost less commissions, transportation and other expense and onboard and other expense.

• *Net Cruise Cost Excluding Fuel.* Net Cruise Cost less fuel expense.

• *Net Revenue.* Total revenue less commissions, transportation and other expense and onboard and other expense.

• *Net Yield.* Net Revenue per Capacity Day.

• *Occupancy Percentage.* The ratio of Passenger Cruise Days to Capacity Days. A percentage in excess of 100% indicates that three or more passengers occupied some cabins.

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

• *New Revolving Loan Facility.* $750.0 million senior secured revolving credit facility maturing on June 6, 2021, subject to an earlier springing maturity date.

• *Project Leonardo.* The next generation of ships for our Norwegian brand.

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

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

Non-GAAP Financial Measures

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

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

We believe that Adjusted EBITDA is appropriate as a supplemental financial measure as it is used by management to assess operating performance. We believe that Adjusted EBITDA is a useful measure in determining our performance as it reflects certain operating drivers of our business, such as sales growth, operating costs, marketing, general and administrative expense and other operating income and expense. Adjusted EBITDA is not a defined term under GAAP. Adjusted EBITDA is not intended to be a measure of liquidity or cash flows from operations or a measure comparable to net income as it does not take into account certain requirements such as capital expenditures and related depreciation, principal and interest payments and tax payments and it includes other supplemental adjustments.

In addition, Adjusted Net Revenue and Adjusted Net Yield, which exclude certain business combination accounting entries, are non-GAAP financial measures that we believe are useful as supplemental measures in evaluating the performance of our operating business and provide greater transparency into our results of operations. Adjusted Net Income and Adjusted EPS are non-GAAP financial measures that exclude certain amounts and are used to supplement GAAP net income and EPS. We use Adjusted Net Income and Adjusted EPS as key performance measures of our earnings performance. We believe that both management and investors benefit from referring to these non-GAAP financial measures in assessing our performance and when planning, forecasting and analyzing future periods. These non-GAAP financial measures also facilitate management’s internal comparison to our historical performance. In addition, management uses Adjusted EPS as a performance measure for our incentive compensation. The amounts excluded in the presentation of these non-GAAP financial measures may vary from period to period; accordingly, our presentation of Adjusted Net Revenue, Adjusted Net Yield, Adjusted Net Income and Adjusted EPS may not be indicative of future adjustments or results. For example, for the year ended December 31, 2016, we incurred $28.0 million related to the extinguishment of debt due to the refinancing of certain credit facilities. We included this as an adjustment in the reconciliation of Adjusted Net Income since the extinguishment of debt is not representative of our day-to-day operations and we have included similar adjustments in prior periods; however, this adjustment did not occur and is not included in the periods presented within this Form 10-Q.

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

Financial Presentation

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

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

Our cruise operating expense is classified as follows:

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

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

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

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

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

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

Critical Accounting Policies

For a discussion of our critical accounting policies and estimates, see "Critical Accounting Policies" included in our Annual Report on Form 10-K for the year ended December 31, 2016 under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations." We have made no significant changes to our critical accounting policies and estimates from those described in our Annual Report on Form 10-K for the year ended December 31, 2016.

However, in accordance with Item 303(a)(3)(ii) of Regulation S-K and Section V of SEC Release No. 33-8350, we are including additional disclosure which is presented below:

Asset Impairment

We review our long-lived assets, principally ships, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Assets are grouped and evaluated at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. We consider historical performance and future estimated results in our evaluation of potential impairment and then compare the carrying amount of the asset to the estimated future cash flows expected to result from the use of the asset. If the carrying amount of the asset exceeds the estimated expected undiscounted future cash flows, we measure the amount of the impairment by comparing the carrying amount of the asset to its fair value. We estimate fair value based on the best information available making whatever estimates, judgments and projections we considered necessary. The estimation of fair value is generally measured by discounting expected future cash flows at discount rates commensurate with the risk involved.

We evaluate goodwill for impairment annually or more frequently when an event occurs or circumstances change that indicates the carrying value of a reporting unit may not be recoverable. For our evaluation of goodwill and tradenames we use the Step 0 Test which allows us to first assess qualitative factors to determine whether it is more likely than not (i.e., more than 50%) that the fair value of a reporting unit is less than its carrying value. In order to make this evaluation, we consider the following circumstances:

- General macroeconomic conditions such as a deterioration in general economic conditions; limitations on accessing capital; fluctuations in foreign exchange rates; or other developments in equity and credit markets;
- Industry and market conditions such as a deterioration in the environment in which an entity operates; an increased competitive environment; a decline in market-dependent multiples or metrics (in both absolute terms and relative to peers); a change in the market for an entity's products or services; or a regulatory or political development;
- Changes in cost factors that have a negative effect on earnings and cash flows;
- Overall financial performance (for both actual and expected performance);
- Entity and reporting unit specific events such as changes in management, key personnel, strategy, or customers; litigation; or a change in the composition or carrying amount of net assets; and
- Share price (in both absolute terms and relative to peers).

We believe our estimates and judgments with respect to our long-lived assets, principally ships, and goodwill and other indefinite-lived intangible assets are reasonable. Nonetheless, if there was a material change in assumptions used in the determination of such fair values or if there is a material change in the conditions or circumstances that influence such assets, we could be required to record an impairment charge. If a material change occurred, we may conduct a quantitative assessment comparing the fair value of each reporting unit to its carrying value, including goodwill. This is called the Step I Test which consists of a combined approach using the expected future cash flows and market multiples to determine the fair value of the reporting units.

In the third quarter of 2016, based on the performance of the Oceania Cruises reporting unit, we performed an interim goodwill impairment evaluation consisting of a Step I Test. Based on that evaluation, we determined that there was no impairment of goodwill because its fair value exceeded its carrying value. For our annual impairment evaluation, we performed a Step 0 Test for the Norwegian reporting unit and Step I Tests for the Regent Seven Seas and the Oceania Cruises reporting units. As a result of the Step 0 Test for the Norwegian reporting unit, we determined there were no factors indicating it was more likely than not (i.e., more than 50%) that the fair value of the reporting unit was less than its carrying value. Based on the results of the Step 1 Tests, we determined there was no impairment of goodwill because the fair value of the Oceania Cruises and Regent Seven Seas reporting units exceeded their carrying values by 24% and 81%, respectively. However, if the fair value of any reporting unit declines in future periods, its goodwill may become impaired at that time. As of December 31, 2016 and June 30, 2017, there was $523.0 million, $462.1 million and $403.8 million of goodwill for the Oceania Cruises, Regent Seven Seas and Norwegian reporting units, respectively. As of December 31, 2016, our annual review consisting of the Step 0 and Step I Tests supported the carrying values of these assets. Subsequent to December 31, 2016, the Company has continued to monitor the results of each of these reporting units and will perform the necessary tests should events occur or circumstances change that indicate the carrying value of a reporting unit may not be recoverable.

Quarterly Overview

Norwegian Joy was delivered in April 2017. The ship is approximately 168,000 Gross Tons with approximately 3,880 Berths.

Three months ended June 30, 2017 ("2017") compared to three months ended June 30, 2016 ("2016")

- Total revenue increased 13.3% to $1.3 billion compared to $1.2 billion.

- Net Revenue increased 13.1% to $1.0 billion compared to $0.9 billion.

- Net income and diluted EPS was $198.5 million and $0.87, respectively, compared to $145.2 million and $0.64, respectively.

- Operating income was $275.1 million compared to $227.0 million.

- Adjusted Net Income and Adjusted EPS were $232.7 million and $1.02, respectively, in 2017, which included $34.3 million of adjustments primarily consisting of expenses related to non-cash compensation and certain other adjustments. Adjusted Net Income and Adjusted EPS were $192.6 million and $0.85, in 2016, which included $47.3 million of adjustments primarily consisting of expenses related to deferred financing fees, derivatives, non-cash compensation and certain other adjustments.

- Adjusted EBITDA improved 21.0% to $424.9 compared to $351.1 million.

We refer you to our "Results of Operations" below for a calculation of Net Revenue, Adjusted Net Income, Adjusted EPS and Adjusted EBITDA.

Results of Operations

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenue				
Passenger ticket	69.8%	69.0%	69.1%	68.8%
Onboard and other	30.2%	31.0%	30.9%	31.2%
Total revenue	100.0%	100.0%	100.0%	100.0%
Cruise operating expense				
Commissions, transportation and other	16.6%	16.3%	16.7%	16.3%
Onboard and other	6.2%	6.4%	6.1%	6.2%
Payroll and related	14.5%	15.5%	15.5%	16.0%
Fuel	6.4%	6.8%	7.0%	7.2%
Food	3.5%	4.2%	3.8%	4.4%
Other	8.7%	10.3%	9.9%	10.4%
Total cruise operating expense	55.9%	59.5%	59.0%	60.5%
Other operating expense				
Marketing, general and administrative	14.4%	12.6%	15.5%	14.6%
Depreciation and amortization	9.2%	8.8%	9.7%	9.1%
Total other operating expense	23.6%	21.4%	25.2%	23.7%
Operating income	20.5%	19.1%	15.8%	15.8%
Non-operating income (expense)				
Interest expense, net	(4.8)%	(5.8)%	(4.7)%	(5.7)%
Other income (expense), net	(0.4)%	(0.9)%	(0.3)%	(0.3)%
Total non-operating income (expense)	(5.2)%	(6.7)%	(5.0)%	(6.0)%
Net income before income taxes	15.3%	12.4%	10.8%	9.8%
Income tax expense	(0.5)%	(0.2)%	(0.4)%	(0.2)%
Net income	14.8%	12.2%	10.4%	9.6%

The following table sets forth selected statistical information:

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Passengers carried	569,857	574,838	1,098,211	1,126,313
Passenger Cruise Days	4,517,788	4,237,020	8,748,306	8,522,314
Capacity Days	4,189,750	3,974,508	8,220,366	7,965,450
Occupancy Percentage	107.8%	106.6%	106.4%	107.0%

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

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2017 Constant Currency	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2017 Constant Currency	Six Months Ended June 30, 2016
Passenger ticket revenue	$ 938,014	$ 948,291	$ 818,478	$ 1,724,708	$ 1,742,798	$ 1,558,590
Onboard and other revenue	406,089	406,089	368,357	770,176	770,176	705,877
Total revenue	1,344,103	1,354,380	1,186,835	2,494,884	2,512,974	2,264,467
Less:						
Commissions, transportation and other expense	223,315	225,429	193,536	417,455	421,947	368,973
Onboard and other expense	83,367	83,367	75,790	151,778	151,778	139,755
Net Revenue	1,037,421	1,045,584	917,509	1,925,651	1,939,249	1,755,739
Non-GAAP Adjustment:						
Deferred revenue (1)	—	—	297	—	—	757
Adjusted Net Revenue	$ 1,037,421	$ 1,045,584	$ 917,806	$ 1,925,651	$ 1,939,249	$ 1,756,496
Capacity Days	4,189,750	4,189,750	3,974,508	8,220,366	8,220,366	7,965,450
Gross Yield	$ 320.81	$ 323.26	$ 298.61	$ 303.50	$ 305.70	$ 284.29
Net Yield	$ 247.61	$ 249.56	$ 230.85	$ 234.25	$ 235.91	$ 220.42
Adjusted Net Yield	$ 247.61	$ 249.56	$ 230.92	$ 234.25	$ 235.91	$ 220.51

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

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

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2017 Constant Currency	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2017 Constant Currency	Six Months Ended June 30, 2016
Total cruise operating expense	$ 752,242	$ 754,209	$ 705,900	$ 1,472,040	$ 1,476,176	$ 1,370,381
Marketing, general and administrative expense	193,649	194,219	149,307	385,693	386,581	329,881
Gross Cruise Cost	945,891	948,428	855,207	1,857,733	1,862,757	1,700,262
Less:						
Commissions, transportation and other expense	223,315	225,429	193,536	417,455	421,947	368,973
Onboard and other expense	83,367	83,367	75,790	151,778	151,778	139,755
Net Cruise Cost	639,209	639,632	585,881	1,288,500	1,289,032	1,191,534
Less: Fuel expense	86,663	86,663	80,607	175,549	175,549	162,279
Net Cruise Cost Excluding Fuel	552,546	552,969	505,274	1,112,951	1,113,483	1,029,255
Less Non-GAAP Adjustments:						
Non-cash deferred compensation (1)	823	823	792	1,646	1,646	1,583
Non-cash share-based compensation (2)	24,017	24,017	16,204	42,220	42,220	31,449
Severance payments and other fees (3)	—	—	869	2,399	2,399	2,899
Acquisition of Prestige expenses (4)	250	250	1,273	500	500	3,014
Other (5)	1,606	1,606	—	1,606	1,606	—
Adjusted Net Cruise Cost Excluding Fuel	$ 525,850	$ 526,273	$ 486,136	$ 1,064,580	$ 1,065,112	$ 990,310
Capacity Days	4,189,750	4,189,750	3,974,508	8,220,366	8,220,366	7,965,450
Gross Cruise Cost per Capacity Day	$ 225.76	$ 226.37	$ 215.17	$ 225.99	$ 226.60	$ 213.45
Net Cruise Cost per Capacity Day	$ 152.56	$ 152.67	$ 147.41	$ 156.74	$ 156.81	$ 149.59
Net Cruise Cost Excluding Fuel per Capacity Day	$ 131.88	$ 131.98	$ 127.13	$ 135.39	$ 135.45	$ 129.21
Adjusted Net Cruise Cost Excluding Fuel per Capacity Day	$ 125.51	$ 125.61	$ 122.31	$ 129.51	$ 129.57	$ 124.33

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income	198,473	145,246	260,383	218,475
Non-GAAP Adjustments:				
Non-cash deferred compensation (1)	823	792	1,646	1,583
Non-cash share-based compensation (2)	24,017	16,204	42,220	31,449
Severance payments and other fees (3)	—	869	2,399	2,899
Acquisition of Prestige expenses (4)	250	1,273	500	3,014
Deferred revenue (5)	—	297	—	757
Amortization of intangible assets (6)	7,568	5,267	15,136	10,535
Derivative adjustment (7)	—	10,911	—	(1,185)
Deferred financing fees and other (8)	—	11,714	—	11,714
Other (9)	1,606	—	1,606	—
Adjusted Net Income	$ 232,737	$ 192,573	$ 323,890	$ 279,241
Diluted weighted–average shares outstanding	229,090,085	227,884,704	228,824,296	227,997,970
Diluted earnings per share	$ 0.87	$ 0.64	$ 1.14	$ 0.96
Adjusted EPS	$ 1.02	$ 0.85	$ 1.42	$ 1.22

(1) Non-cash deferred compensation expenses related to the crew pension plan and other crew expenses, which are included in payroll and related expense.
(2) Non-cash share-based compensation expenses related to equity awards, which are included in marketing, general and administrative expense and payroll and related expense.
(3) Severance payments and other expenses related to restructuring costs and other severance arrangements, which are included in marketing, general and administrative expense.
(4) Expenses related to the Acquisition of Prestige, which are included in marketing, general and administrative expense.
(5) Deferred revenue fair value adjustments related to the Acquisition of Prestige that were made pursuant to business combination accounting rules, which are primarily included in passenger ticket revenue.
(6) Amortization of intangible assets related to the Acquisition of Prestige, which are included in depreciation and amortization expense.
(7) Losses and net gains for the fair value adjustment of a foreign exchange collar which does not receive hedge accounting and losses due to the dedesignation of certain fuel swaps. These adjustments are included in other income (expense), net.
(8) Expenses primarily related to the write-off of deferred financing fees related to the refinancing of certain credit facilities, which are included in interest expense, net.
(9) Expenses primarily related to a legal settlement, which are included in marketing, general and administrative expense.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income	$ 198,473	$ 145,246	$ 260,383	$ 218,475
Interest expense, net	64,196	68,420	117,156	128,174
Income tax expense	6,793	2,599	8,842	3,703
Depreciation and amortization expense	123,141	104,610	242,346	205,905
EBITDA	392,603	320,875	628,727	556,257
Other expense (1)	5,609	10,753	8,424	7,948
Non-GAAP Adjustments:				
Non-cash deferred compensation (2)	823	792	1,646	1,583
Non-cash share-based compensation (3)	24,017	16,204	42,220	31,449
Severance payments and other fees (4)	—	869	2,399	2,899
Acquisition of Prestige expenses (5)	250	1,273	500	3,014
Deferred revenue (6)	—	297	—	757
Other (7)	1,606	—	1,606	—
Adjusted EBITDA	$ 424,908	$ 351,063	$ 685,522	$ 603,907

(1) Primarily consists of gains and losses, net for derivative contracts and foreign currency exchanges.
(2) Non-cash deferred compensation expenses related to the crew pension plan and other crew expenses, which are included in payroll and related expense.
(3) Non-cash share-based compensation expenses related to equity awards, which are included in marketing, general and administrative expense and payroll and related expense.
(4) Severance payments and other expenses related to restructuring costs and other severance arrangements, which are included in marketing, general and administrative expense.
(5) Expenses related to the Acquisition of Prestige, which are included in marketing, general and administrative expense.
(6) Deferred revenue fair value adjustments related to the Acquisition of Prestige that were made pursuant to business combination accounting rules, which are primarily included in passenger ticket revenue.
(7) Expenses primarily related to a legal settlement, which are included in marketing, general and administrative expense.

Three months ended June 30, 2017 (“2017”) compared to three months ended June 30, 2016 (“2016”)

Revenue

Total revenue increased 13.3% to $1.3 billion in 2017 compared to $1.2 billion in 2016 primarily due to an increase in Capacity Days. Gross Yield increased 7.4%. Net Revenue increased 13.1% in 2017 to $1.0 billion from $0.9 billion in 2016 due to an increase in Capacity Days of 5.4%, an increase in Net Yield of 7.3% and an increase in Occupancy Percentage. The increase in Capacity Days was primarily due to a reduction in the amount of Dry-docks in 2017 compared to 2016 and the delivery of Seven Seas Explorer in June 2016. The increase in Gross Yield and Net Yield was primarily due to an increase in passenger ticket pricing and higher onboard and other revenue. Adjusted Net Revenue, in 2016, includes a deferred revenue fair value adjustment of $0.3 million related to the Acquisition of Prestige. On a Constant Currency basis, Net Yield and Adjusted Net Yield increased 8.1% in 2017 compared to 2016.

Expense

Gross Cruise Cost increased 10.6% in 2017 compared to 2016 due to an increase in total cruise operating expense and marketing, general and administrative expenses. Total cruise operating expense increased 6.6% in 2017 compared to 2016 primarily due to the increase in Capacity Days as discussed above and crew payroll and related costs which was partially offset by a decrease in repairs and maintenance including Dry-dock expenses. Total other operating expense increased 24.8% in 2017 compared to 2016 due to an increase in marketing, general and administrative expenses and an increase in depreciation and amortization expense. Marketing, general and administrative expenses increased primarily due to an increase in advertising and marketing expenses as well as an increase in share-based compensation. Depreciation and amortization expense increased primarily due to ship improvement projects and the ship additions. On a Capacity Day basis, Net Cruise Cost increased 3.5% (3.6% on a Constant Currency basis) primarily due to an increase in marketing, general and administrative expenses partially offset by a reduction in maintenance and repairs including Dry-dock expenses. Adjusted Net Cruise Cost Excluding Fuel per Capacity Day increased 2.6% (2.7% on a Constant Currency basis) primarily due to the increase in expenses discussed above.

Interest expense, net was $64.2 million in 2017 compared to $68.4 million in 2016. Interest expense for 2017 reflects an increase in average debt balances outstanding primarily associated with the delivery of new ships and newbuild installments, as well as higher interest rates due to an increase in LIBOR. Interest expense for 2016 included a write-off of $11.4 million of deferred financing fees related to the refinancing of certain of our credit facilities in 2016.

Other income (expense), net was an expense of $5.6 million in 2017 compared to an expense of $10.8 million in 2016. In 2017, the expense was primarily related to losses on foreign currency exchange and unrealized and realized losses on derivatives partially offset by income from an insurance settlement. In 2016, the expense was primarily related to unrealized and realized losses on fuel derivative hedge contracts and foreign exchange derivative contracts partially offset by gains on foreign currency exchange.

In 2017, we had an income tax expense of $6.8 million compared to $2.6 million in 2016.

Six months ended June 30, 2017 ("2017") compared to six months ended June 30, 2016 ("2016")

Revenue

Total revenue increased 10.2% to $2.5 billion in 2017 compared to $2.3 billion in 2016 primarily due to an increase in Capacity Days. Gross Yield increased 6.8%. Net Revenue increased 9.7% in 2017 to $1.9 billion from $1.8 billion in 2016 due to an increase in Capacity Days of 3.2% and an increase in Net Yield of 6.3%. The increase in Capacity Days was primarily due to the delivery of Seven Seas Explorer in June 2016, Sirena joining our fleet in April 2016 and a reduction in the amount of Dry-docks in 2017 compared to 2016. The increase in Gross Yield and Net Yield was primarily due to an increase in passenger ticket pricing and higher onboard and other revenue. Adjusted Net Revenue, in 2016, includes a deferred revenue fair value adjustment of $0.8 million related to the Acquisition of Prestige. On a Constant Currency basis, Net Yield and Adjusted Net Yield increased 7.0% in 2017 compared to 2016.

Expense

Gross Cruise Cost increased 9.3% in 2017 compared to 2016 due to an increase in total cruise operating expense and marketing, general and administrative expenses. Total cruise operating expense increased 7.4% in 2017 compared to 2016 primarily due to the increase in Capacity Days as discussed above and crew payroll and related costs. Total other operating expense increased 17.2% in 2017 compared to 2016 due to an increase in marketing, general and administrative expenses and depreciation and amortization expense. Marketing, general and administrative expenses increased primarily due to an increase in advertising and marketing expenses as well as an increase in share-based compensation expense. Depreciation and amortization expense increased primarily due to the ship improvement projects and the ship additions. On a Capacity Day basis, Net Cruise Cost increased 4.8% (on an actual and a Constant Currency basis) due to an increase in marketing, general and administrative expenses and crew payroll and related costs. Adjusted Net Cruise Cost Excluding Fuel per Capacity Day increased 4.2% (on an actual and a Constant Currency basis) primarily due to the increase in expenses discussed above.

Interest expense, net was $117.2 million in 2017 compared to $128.2 million in 2016. Interest expense for 2017 reflects higher interest rates driven by an increase in LIBOR, as well as an increase in average debt balances outstanding primarily associated with the delivery of new ships and newbuild installments. Interest expense for 2016 included a write-off of $11.4 million of deferred financing fees related to the refinancing of certain of our credit facilities in 2016.

Other income (expense), net was an expense of $8.4 million in 2017 compared to an expense of $7.9 million in 2016. In 2017, the expense was primarily related to losses on foreign currency exchange and unrealized and realized losses on derivatives partially offset by income from an insurance settlement. In 2016, the expense was primarily related to unrealized and realized losses on fuel swap derivative hedge contracts and losses on foreign exchange partially offset by gains on foreign exchange derivative hedge contracts.

In 2017, we had an income tax expense of $8.8 million compared to $3.7 million in 2016.

Liquidity and Capital Resources

General

As of June 30, 2017, our liquidity was $969.3 million consisting of $219.3 million in cash and cash equivalents and $750.0 million under our New Revolving Loan Facility. Our primary ongoing liquidity requirements are to finance working capital, capital expenditures and debt service.

As of June 30, 2017, we had a working capital deficit of $2.1 billion. This deficit included $1.5 billion of advance ticket sales, which represents the revenue we collect in advance of sailing dates, and accordingly, are substantially more like deferred revenue balances rather than actual current cash liabilities. Our business model, along with our New Revolving Loan Facility, allows us to operate with a working capital deficit and still meet our operating, investing and financing needs.

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

Sources and Uses of Cash

In this section, references to "2017" refer to the six months ended June 30, 2017 and references to "2016" refer to the six months ended June 30, 2016.

Net cash provided by operating activities was $919.7 million in 2017 as compared to $748.0 million in 2016. The net cash provided by operating activities included timing differences in cash receipts and payments relating to operating assets and liabilities. Net income increased to $260.4 million in 2017 from $218.5 million in 2016. Advance ticket sales was $400.9 million in 2017 compared to $358.6 million in 2016.

Net cash used in investing activities was $1.1 billion in 2017 primarily related to payments for the delivery of Norwegian Joy, ship improvements and shoreside projects. Net cash used in investing activities was $0.8 billion in 2016 primarily related to payments for the delivery of Seven Seas Explorer, ship improvements, ships under construction and shoreside projects.

Net cash provided by financing activities was $271.8 million in 2017 primarily due to the proceeds from our Breakaway Four Loan Facility partially offset by the repayments of other loan facilities, our net repayment of our New Revolving Loan Facility and deferred financing fees and other. Net cash provided by financing activities was $81.0 million in 2016 primarily due to net proceeds of our New Revolving Loan Facility and other loan facilities partially offset by the repurchase of our ordinary shares and deferred financing fees and other.

Future Capital Commitments

Future capital commitments consist of contracted commitments, including ship construction contracts, and future expected capital expenditures necessary for operations. As of June 30, 2017, our anticipated capital expenditures were $0.3 billion for the remainder of 2017, $1.4 billion for the year ending December 31, 2018 and $1.2 billion for the year ending December 31, 2019, of which we have export credit financing in place for the expenditures related to ship construction contracts of $48.2 million for the remainder of 2017, $0.8 billion for 2018 and $0.6 billion for 2019.

Project Leonardo will introduce an additional four ships with expected delivery dates through 2025 and we have an option to introduce two additional ships for delivery in 2026 and 2027, subject to certain conditions. These four ships are each approximately 140,000 Gross Tons with approximately 3,300 Berths. We have an Explorer Class Ship on order for delivery in the winter of 2020. This ship is approximately 55,000 Gross Tons and 750 Berths. We have two Breakaway Plus Class Ships on order for delivery in the spring of 2018 and fall of 2019, respectively. These ships are approximately 168,000 Gross Tons each with approximately 4,000 Berths each. The combined contract price of these seven ships was approximately €5.5 billion, or $6.3 billion based on the euro/U.S. dollar exchange rate as of June 30, 2017. We have export credit financing in place that provides financing for 80% of each ship's contract price. For ships expected to be delivered after 2023, the contract price is subject to adjustment under certain circumstances.

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.

Capitalized interest for the three and six months ended June 30, 2017 was $7.1 million and $15.6 million, respectively, and for the three and six months ended June 30, 2016 was $8.9 million and $16.0 million, respectively, primarily associated with the construction of our newbuild ships.

Off-Balance Sheet Transactions

None.

Contractual Obligations

As of June 30, 2017, our contractual obligations with initial or remaining terms in excess of one year, including interest payments on long-term debt obligations, were as follows (in thousands):

	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt (1)	$ 6,816,695	$ 600,500	$ 1,239,407	$ 3,265,429	$ 1,711,359
Operating leases (2)	144,595	15,893	30,692	28,449	69,561
Ship construction contracts (3)	6,070,769	1,103,593	1,366,011	1,078,537	2,522,628
Port facilities (4)	252,159	42,996	61,018	49,043	99,102
Interest (5)	1,054,239	235,590	404,680	243,136	170,833
Other (6)	174,101	52,545	70,832	31,534	19,190
Total	$ 14,512,558	$ 2,051,117	$ 3,172,640	$ 4,696,128	$ 4,592,673

(1) Includes premiums aggregating $0.5 million. Also includes capital leases. The amount excludes deferred financing fees which are included in the consolidated balance sheets as an offset to long-term debt.
(2) Primarily for offices, motor vehicles and office equipment.
(3) For our newbuild ships based on the euro/U.S. dollar exchange rate as of June 30, 2017. Export credit financing is in place from syndicates of banks.
(4) Primarily for our usage of certain port facilities.
(5) Includes fixed and variable rates with LIBOR held constant as of June 30, 2017.
(6) Future commitments for service, maintenance and other Business Enhancement Capital Expenditure contracts.

The table above does not include $11.1 million of unrecognized tax benefits.

Other

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

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

Funding Sources

Certain of 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. Substantially all of our ships and other property and equipment are pledged as collateral for certain of our debt. We believe we were in compliance with these covenants as of June 30, 2017.

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

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

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 notional, term and conditions of the derivatives with the underlying risk being hedged. We do not hold or issue derivatives for trading or other speculative purposes. Derivative positions are monitored using techniques including market valuations and sensitivity analyses.

Interest Rate Risk

As of June 30, 2017, we had interest rate swap agreements to hedge our exposure to interest rate movements and to manage our interest expense. As of June 30, 2017, 61% of our debt was fixed and 39% was variable, which includes the effects of the interest rate swaps. The notional amount of outstanding debt associated with the interest rate swap agreements as of June 30, 2017 was $250.7 million. Based on our June 30, 2017 outstanding variable rate debt balance, a one percentage point increase in annual LIBOR interest rates would increase our annual interest expense by approximately $26.3 million excluding the effects of capitalization of interest.

Foreign Currency Exchange Rate Risk

As of June 30, 2017, we had foreign currency derivatives to hedge the exposure to volatility in foreign currency exchange rates related to our ship construction contracts denominated in euros. These derivatives hedge the foreign currency exchange rate risk on a portion of the payments on our ship construction contracts. The payments not hedged aggregate €3.5 billion, or $4.0 billion based on the euro/U.S. dollar exchange rate as of June 30, 2017. We estimate that a 10% change in the euro as of June 30, 2017 would result in a $0.4 billion 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 11.5% and 11.4% for the three months ended June 30, 2017 and 2016, respectively, and 11.9% and 11.8% for the six months ended June 30, 2017 and 2016, respectively. We use fuel derivative agreements to mitigate the financial impact of fluctuations in fuel prices and as of June 30, 2017, we had hedged approximately 76%, 65%, 48% and 26% of our remaining 2017, 2018, 2019 and 2020, respectively, projected metric tons of fuel purchases. We estimate that a 10% increase in our weighted-average fuel price would increase our anticipated 2017 fuel expense by $15.5 million. This increase would be partially offset by an increase in the fair value of our fuel swap agreements of $9.0 million. Fair value of our derivative contracts is derived using valuation models that utilize the income valuation approach. These valuation models take into account the contract terms such as maturity, as well as other inputs such as fuel types, fuel curves, creditworthiness of the counterparty and the Company, as well as other data points.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management has evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures, as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended, as of June 30, 2017. 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 management’s evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2017 to provide reasonable assurance that the information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, 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 June 30, 2017 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.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

In the normal course of our business, various claims and lawsuits have been filed or are pending against us. Most of these claims and lawsuits are covered by insurance and, accordingly, the maximum amount of our liability is typically limited to our deductible amount.

Nonetheless, the ultimate outcome of these claims and lawsuits that are not covered by insurance cannot be determined at this time. We have evaluated our overall exposure with respect to all of our threatened and pending litigation and, to the extent required, we have accrued amounts for all estimable probable losses associated with our deemed exposure. We are currently unable to estimate any other potential contingent losses beyond those accrued, as discovery is not complete nor is adequate information available to estimate such range of loss or potential recovery. However, based on our current knowledge, we do not believe that the aggregate amount or range of reasonably possible losses with respect to these matters will be material to our consolidated results of operations, financial condition or cash flows. 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 2016 Annual Report on Form 10-K for a discussion of the risk factors that affect our business and financial results. We wish to caution the reader that the risk factors discussed in "Item 1A. Risk Factors" in our 2016 Annual Report on Form 10-K, elsewhere in this report or other SEC filings, could cause future results to differ materially from those stated in any forward-looking statements.

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

Purchases of Equity Securities by the Issuer

On April 29, 2014, NCLH's Board of Directors authorized, and NCLH announced, a three-year share repurchase program for up to $500.0 million. The share repurchase program was scheduled to expire on April 29, 2017, but was extended through April 29, 2020. Under this program, NCLH may make repurchases in the open market, in privately negotiated transactions, in accelerated repurchase programs or in structured share repurchase programs, and any repurchases may be made pursuant to Rule 10b5-1 plans. There was no share repurchase activity during the three months ended June 30, 2017, and as of June 30, 2017, $263.5 million remained available for repurchases of our outstanding ordinary shares under the share repurchase program.

Item 5. Other Information

None.

Item 6. Exhibits

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

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

31.1* Certification of the President and Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934

31.2* Certification of the Executive Vice President and Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934

32.1** Certifications of the President and Chief Executive Officer and the Executive Vice President and Chief Financial Officer pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934 and Section 1350 of Chapter 63 of Title 18 of the United States Code

101* The following unaudited consolidated financial statements are from Norwegian Cruise Line Holdings Ltd.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2017, formatted in Extensible Business Reporting Language (XBRL), as follows:

(i) the Consolidated Statements of Operations for the three and six months ended June 30, 2017 and 2016;

(ii) the Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2017 and 2016;

(iii) the Consolidated Balance Sheets as of June 30, 2017 and December 31, 2016;

(iv) the Consolidated Statements of Cash Flows for the six months ended June 30, 2017 and 2016;

(v) the Consolidated Statements of Changes in Shareholders' Equity for the six months ended June 30, 2017 and 2016; and

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

* Filed herewith.
** Furnished herewith.

SIGNATURES

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

NORWEGIAN CRUISE LINE HOLDINGS LTD.
(Registrant)

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

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

Dated: August 9, 2017

Exhibit 31.1

CERTIFICATION

I, Frank J. Del Rio, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Norwegian Cruise Line Holdings Ltd.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;

   d. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Dated: August 9, 2017

/s/ Frank J. Del Rio

Name: Frank J. Del Rio

Title: President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Wendy A. Beck, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Norwegian Cruise Line Holdings Ltd.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: August 9, 2017

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

Exhibit 32.1

CERTIFICATIONS OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of Frank J. Del Rio, the President and Chief Executive Officer, and Wendy A. Beck, the Executive Vice President and Chief Financial Officer, of Norwegian Cruise Line Holdings Ltd. (the "Company"), does hereby certify, that, to such officer's knowledge:

The Quarterly Report on Form 10-Q of the Company, for the quarter ended June 30, 2017 (the "Form 10-Q"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 9, 2017

By:	/s/ Frank J. Del Rio
Name:	Frank J. Del Rio
Title:	President and Chief Executive Officer
By:	/s/ Wendy A. Beck
Name:	Wendy A. Beck
Title:	Executive Vice President and Chief Financial Officer