Intelsat S.A.
Form 6-K
April 28, 2016
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

PURSUANT TO RULE 13a-16 or 15d-16

UNDER THE SECURITIES EXCHANGE ACT OF 1934

For the month of April, 2016

001-35878

(Commission File Number)

Intelsat S.A.

(Translation of registrant s name into English)

4 rue Albert Borschette

Luxembourg

Grand Duchy of Luxembourg

L-1246

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F x Form 40-F ¨

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): ¨

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): ¨

Table of Contents

INTELSAT S.A.

Quarterly Report for the three months ended March 31, 2016

Table of Contents

TABLE OF CONTENTS

Table of Contents

INTRODUCTION

In this Quarterly Report, unless otherwise indicated or the context otherwise requires, (1) the terms we, us, our , the Company and Intelsat S.A. refer to Intelsat S.A. and its subsidiaries on a consolidated basis, (2) the term Intelsat Holdings refers to Intelsat Holdings S.A., Intelsat S.A. s indirect wholly-owned subsidiary, (3) the term Intelsat Investments refers to Intelsat Investments S.A. (formerly Intelsat S.A.), Intelsat S.A. s indirect wholly-owned subsidiary, (4) the term Intelsat Luxembourg refers to Intelsat (Luxembourg) S.A., Intelsat Investments direct wholly-owned subsidiary, (5) the term Intelsat Jackson refers to Intelsat Jackson Holdings S.A., Intelsat Luxembourg s direct wholly-owned subsidiary, (6) the term Intelsat Corp refers to Intelsat Corporation, Intelsat Jackson s direct wholly-owned subsidiary and (7) the term Intelsat General refers to Intelsat General Corporation, our government business subsidiary.

In this Quarterly Report, unless the context otherwise requires, all references to transponder capacity or demand refer to transponder capacity or demand in the C-band and Ku-band frequencies only.

FINANCIAL AND OTHER INFORMATION

Unless otherwise indicated, all references to dollars and $ in this Quarterly Report are to, and all monetary amounts in this Quarterly Report are presented in, U.S. dollars. Unless otherwise indicated, the financial information contained in this Quarterly Report has been prepared in accordance with United States generally accepted accounting principles (U.S. GAAP).

Certain monetary amounts, percentages and other figures included in this Quarterly Report have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be the arithmetic aggregation of the figures that precede them, and figures expressed as percentages in the text may not total 100% or, as applicable, when aggregated may not be the arithmetic aggregation of the percentages that precede them.

In this Quarterly Report, we refer to and rely on publicly available information regarding our industry and our competitors. Although we believe the information is reliable, we cannot guarantee the accuracy and completeness of the information and have not independently verified it.

FORWARD-LOOKING STATEMENTS

Some of the statements in this Quarterly Report constitute forward-looking statements that do not directly or exclusively relate to historical facts.

When used in this Quarterly Report, the words may, will, might, should, expect, plan, anticipate, project, estimate, predict, intend, potential, outlook and continue, and the negative of these terms, and other similar expressions are intended to identify forward-looking statements and information.

The forward-looking statements made in this Quarterly Report reflect our intentions, plans, expectations, assumptions and beliefs about future events. These forward-looking statements speak only as of the date of this Quarterly Report and are not guarantees of future performance or results and are subject to risks, uncertainties and other factors, many of which are outside of our control. These factors could cause actual results or developments to differ materially from the expectations expressed or implied in the forward-looking statements and include known and unknown risks. Known risks include, among others, the risks discussed in Item 3D Risk Factors in our Annual Report on Form 20-F for the year ended December 31, 2015, the political, economic and legal conditions in the markets we are targeting for communications services or in which we operate, and other risks and uncertainties inherent in the telecommunications business in general and the satellite communications business in particular.

The following list represents some, but not necessarily all, of the factors that could cause actual results to differ from historical results or those anticipated or predicted by these forward-looking statements:

- risks associated with operating our in-orbit satellites;
- satellite launch failures, satellite launch and construction delays and in-orbit failures or reduced satellite performance;
- potential changes in the number of companies offering commercial satellite launch services and the number of commercial satellite launch opportunities available in any given time period that could impact our ability to timely schedule future launches and the prices we pay for such launches;

Table of Contents

- our ability to obtain new satellite insurance policies with financially viable insurance carriers on commercially reasonable terms or at all, as well as the ability of our insurance carriers to fulfill their obligations;
- possible future losses on satellites that are not adequately covered by insurance;
- U.S. and other government regulation;
- changes in our contracted backlog or expected contracted backlog for future services;
- pricing pressure and overcapacity in the markets in which we compete;
- our ability to access capital markets for debt or equity;
- the competitive environment in which we operate;
- customer defaults on their obligations to us;
- our international operations and other uncertainties associated with doing business internationally;
- litigation; and
- other risks discussed in our Annual Report or this Quarterly Report.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee our future results, level of activity, performance or achievements. Because actual results could differ materially from our intentions, plans, expectations, assumptions and beliefs about the future, you are urged not to rely on forward-looking statements in this Quarterly Report and to view all forward-looking statements made in this Quarterly Report with caution. We do not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

INTELSAT S.A.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except per share amounts)

	As of December 31, 2015	As of March 31, 2016 (unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 171,541	$ 1,515,323
Receivables, net of allowance of $37,178 in 2015 and $39,722 in 2016	232,775	222,514
Prepaid expenses and other current assets	35,784	43,042
Total current assets	440,100	1,780,879
Satellites and other property and equipment, net	5,988,317	6,107,241
Goodwill	2,620,627	2,620,627
Non-amortizable intangible assets	2,452,900	2,452,900
Amortizable intangible assets, net	440,330	428,206
Other assets	311,316	320,018
Total assets	$ 12,253,590	$ 13,709,871
LIABILITIES AND SHAREHOLDERS DEFICIT		
Current liabilities:		
Accounts payable and accrued liabilities	$ 164,381	$ 161,129
Taxes payable	11,742	7,469
Employee related liabilities	35,361	27,968
Accrued interest payable	161,493	311,587
Deferred satellite performance incentives	19,411	21,196
Deferred revenue	108,779	161,522
Other current liabilities	63,275	60,731
Total current liabilities	564,442	751,602
Long-term debt, net of current portion	14,611,379	15,846,582
Deferred satellite performance incentives, net of current portion	162,177	188,196
Deferred revenue, net of current portion	1,010,242	983,639
Deferred income taxes	160,802	162,658
Accrued retirement benefits	195,385	192,972

Other long-term liabilities	169,516	182,486
Commitments and contingencies (Note 13)		
Shareholders deficit:		
Common shares; nominal value $0.01 per share	1,076	1,080
5.75% Series A mandatory convertible junior non-voting preferred shares; nominal value $0.01 per share; aggregate liquidation preference of $172,500 ($50 per share)	35	35
Paid-in capital	2,133,891	2,141,423
Accumulated deficit	(6,706,128)	(6,690,802)
Accumulated other comprehensive loss	(78,439)	(77,868)
Total Intelsat S.A. shareholders deficit	(4,649,565)	(4,626,132)
Noncontrolling interest	29,212	27,868
Total liabilities and shareholders deficit	$ 12,253,590	$ 13,709,871

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

INTELSAT S.A.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share amounts)

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2016
Revenue	$ 602,306	$ 552,643
Operating expenses:		
Direct costs of revenue (excluding depreciation and amortization)	83,467	87,460
Selling, general and administrative	54,672	57,130
Depreciation and amortization	171,405	168,880
Total operating expenses	309,544	313,470
Income from operations	292,762	239,173
Interest expense, net	225,974	216,910
Other expense, net	(3,638)	(582)
Income before income taxes	63,150	21,681
Provision for income taxes	7,485	5,389
Net income	55,665	16,292
Net income attributable to noncontrolling interest	(948)	(966)
Net income attributable to Intelsat S.A.	$ 54,717	$ 15,326
Net income per common share attributable to Intelsat S.A.:		
Basic	$ 0.51	$ 0.14
Diluted	$ 0.47	$ 0.13

See accompanying notes to unaudited condensed consolidated financial statements.

6

Table of Contents

INTELSAT S.A.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2016
Net income	$ 55,665	$ 16,292
Other comprehensive income, net of tax:		
Defined benefit retirement plans:		
Reclassification adjustment for amortization of unrecognized prior service credits included in net periodic pension costs and other, net of tax	(382)	(1)
Reclassification adjustment for amortization of unrecognized actuarial loss included in net periodic pension costs, net of tax	2,934	532
Curtailment gain, net of tax of $3.8 million	6,510	
Marketable securities:		
Unrealized gains on investments, net of tax	90	42
Reclassification adjustment for realized gain on investments, net of tax	(30)	(2)
Other comprehensive income	9,122	571
Comprehensive income	64,787	16,863
Comprehensive income attributable to noncontrolling interest	(948)	(966)
Comprehensive income attributable to Intelsat S.A.	$ 63,839	$ 15,897

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

INTELSAT S.A.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2016
Cash flows from operating activities:		
Net income	$ 55,665	$ 16,292
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	171,405	168,880
Provision for doubtful accounts	5,070	6,258
Foreign currency transaction (gain) loss	5,205	(1,710)
Share-based compensation	7,831	7,669
Deferred income taxes	900	(2,422)
Amortization of discount, premium, issuance costs and related costs	4,977	5,066
Unrealized gains on derivative financial instruments	(5,321)	(764)
Amortization of actuarial loss and prior service credits for retirement benefits	4,039	840
Other non-cash items	(27)	1,191
Changes in operating assets and liabilities:		
Receivables	(1,902)	5,476
Prepaid expenses and other assets	(4,299)	(11,840)
Accounts payable and accrued liabilities	(25,967)	(15,046)
Accrued interest payable	149,675	150,094
Deferred revenue	22,679	25,477
Accrued retirement benefits	(6,118)	(2,413)
Other long-term liabilities	2,541	90
Net cash provided by operating activities	386,353	353,138
Cash flows from investing activities:		
Payments for satellites and other property and equipment (including capitalized interest)	(186,992)	(227,176)
Purchase of cost method investment		(4,000)
Other investing activities	5	(456)
Net cash used in investing activities	(186,987)	(231,632)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt		1,250,000
Repayments of long-term debt	(49,000)	
Debt issuance costs		(19,200)

Dividends paid to preferred shareholders		(2,480)		(2,480)
Principal payments on deferred satellite performance incentives		(5,260)		(3,971)
Dividends paid to noncontrolling interest		(1,938)		(2,310)
Other financing activities		96		
Net cash provided by (used in) financing activities		(58,582)		1,222,039
Effect of exchange rate changes on cash and cash equivalents		(5,205)		237
Net change in cash and cash equivalents		135,579		1,343,782
Cash and cash equivalents, beginning of period		123,147		171,541
Cash and cash equivalents, end of period	$	258,726	$	1,515,323
Supplemental cash flow information:				
Interest paid, net of amounts capitalized	$	76,758	$	61,925
Income taxes paid, net of refunds		14,074		11,630
Supplemental disclosure of non-cash investing activities:				
Accrued capital expenditures	$	73,014	$	98,090
Capitalization of deferred satellite performance incentives				31,600

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

INTELSAT S.A.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2016

Note 1 General

Basis of Presentation

The accompanying condensed consolidated financial statements of Intelsat S.A. and its subsidiaries (Intelsat S.A., we, us, our or the Company) have not been audited, but are prepared in accordance with United States generally accepted accounting principles (U.S. GAAP) for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. References to U.S. GAAP issued by the Financial Accounting Standards Board (FASB) in these footnotes are to the FASB Accounting Standards Codification (ASC). The unaudited condensed consolidated financial statements include all adjustments (consisting only of normal and recurring adjustments) that are, in the opinion of management, necessary for a fair presentation of these financial statements. The results of operations for the periods presented are not necessarily indicative of operating results for the full year or for any future period. The condensed consolidated balance sheet as of December 31, 2015 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by U.S. GAAP for complete financial statements. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 20-F for the year ended December 31, 2015 on file with the Securities and Exchange Commission.

Use of Estimates

The preparation of these condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of these condensed consolidated financial statements, the reported amounts of revenues and expenses during the reporting periods, and the disclosures of contingent liabilities. Accordingly, ultimate results could differ from those estimates.

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued Accounting Standard Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede the revenue recognition requirements in FASB ASC Topic 605 *Revenue Recognition*. The guidance in ASU 2014-09 clarifies the principles for recognizing revenue and improves financial reporting by creating a common revenue standard for U.S. GAAP and International Financial Reporting Standards. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, to defer the effective date of ASU 2014-09 by one year. Public entities can now elect to defer implementation of ASU 2014-09 to interim and annual periods beginning after December 15, 2017. Additionally, ASU 2015-14 permits early adoption of the standard but not before the original effective date, i.e. annual periods beginning after December 15, 2016. The standard permits the use of either the retrospective or cumulative effect transition method. In February 2016, the FASB issued ASU 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net).* The standard amends the principal versus agent guidance in ASU 2014-09 and clarifies that the analysis must focus on whether the entity has control of the goods or services before they are transferred to the customer. We are in the process of evaluating the impact that ASU 2014-09 and ASU 2016-08 will have on our consolidated financial statements and associated disclosures, and have not yet selected a transition method.

In February 2016, the FASB issued ASU 2016-02, *Leases* to increase transparency and comparability by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. ASU 2016-02 is effective for interim and annual periods beginning after December 15, 2018, on a modified retrospective basis with early adoption allowed. We are in the process of evaluating the impact that ASU 2016-02 will have on our consolidated financial statements and associated disclosures.

In March 2016, the FASB issued ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting*, which is intended to improve accounting for share-based payment transactions as part of the FASB s simplification initiative. ASU 2016-09 changes several aspects of accounting for share-based payment award transactions, including changes to accounting for income taxes and forfeitures. The ASU is effective for fiscal years beginning after December 15, 2016, and interim periods within those years for public business entities. Early adoption is permitted in any interim or annual period provided that the entire ASU is adopted. We are in the process of evaluating the impact that ASU 2016-09 will have on our consolidated financial statements and associated disclosures.

Table of Contents

Note 2 Share Capital

Under our Articles of Incorporation, we have an authorized share capital of $10.0 million, represented by 1.0 billion shares of any class with a nominal value of $0.01 per share. At March 31, 2016, there were 108.1 million common shares issued and outstanding and 3.5 million 5.75% Series A mandatory convertible junior non-voting preferred shares (the Series A Preferred Shares) issued and outstanding. Our Series A Preferred Shares have a liquidation preference of $50 per share plus any accrued and unpaid dividends.

On May 1, 2016, each Series A Preferred Share will automatically convert into 2.7778 common shares, based on the average of the closing prices per common share over the 40 trading day period ending on the third trading day prior to the mandatory conversion date. The automatic conversion will be recorded on May 2, 2016.

Note 3 Net Income per Share

Basic earnings per share (EPS) is computed by dividing net income attributable to Intelsat S.A. s common shareholders by the weighted average number of common shares outstanding during the periods.

In June 2015, the shareholders of Intelsat S.A. declared a $9.9 million dividend to be paid to holders of our Series A Preferred Shares in four equal installments through May 2016 in accordance with the terms of the Series A Preferred Shares. In 2015, we made payments on the first and second installments of $0.71875 per share. In February 2016, we paid the third installment of $0.71875 per share. Further, in April 2016, we announced the fourth and final installment of $0.71875 per share, to be paid on May 2, 2016 to holders of record as of April 15, 2016.

The following table sets forth the computation of basic and diluted net income per share attributable to Intelsat S.A.:

	(in thousands, except per share data or where otherwise noted)	
	Three Months Ended March 31, 2015	Three Months Ended March 31, 2016
Numerator:		
Net income	$ 55,665	$ 16,292
Net income attributable to noncontrolling interest	(948)	(966)
Net income attributable to Intelsat S.A.	54,717	15,326
Net income attributable to common shareholders	54,717	15,326
Numerator for Basic EPS - income available to common shareholders	54,717	15,326
Numerator for Diluted EPS	54,717	15,326
Denominator:		

Basic weighted average shares outstanding (in millions)		106.9		107.8
Weighted average dilutive shares outstanding (in millions):				
Preferred shares (in millions)		9.6		9.6
Employee compensation related shares including options and restricted stock units (in millions)		0.8		0.5
Diluted weighted average shares outstanding (in millions)		117.3		117.9
Basic net income per common share attributable to Intelsat S.A.	$	0.51	$	0.14
Diluted net income per common share attributable to Intelsat S.A.	$	0.47	$	0.13

Table of Contents

The weighted average number of shares that could potentially dilute basic EPS in the future was 4.5 million and 6.8 million (consisting of restricted share units and options to purchase common shares) for the three months ended March 31, 2015 and 2016, respectively.

Note 4 Share-Based and Other Compensation Plans

In connection with our initial public offering (IPO) in April 2013, our board of directors adopted the amended and restated Intelsat Global, Ltd. 2008 Share Incentive Plan (as amended, the 2008 Equity Plan). Also in April 2013, our board of directors adopted the Intelsat S.A. 2013 Equity Incentive Plan (the 2013 Equity Plan). Following the IPO, no new awards may be granted under the 2008 Equity Plan.

The 2013 Equity Plan allows for grants of stock options, restricted shares, restricted share units (RSUs), other share-based awards and performance compensation awards, and a total issuance of up to 10.0 million common shares was authorized under the plan.

For all share-based awards, we recognize the compensation costs over the vesting period during which the employee provides service in exchange for the award. During the three months ended March 31, 2015 and 2016, we recorded compensation expense of $7.8 million and $7.7 million, respectively.

Stock options

We granted 1.5 million stock options during the three months ended March 31, 2016. These options vest over a service period of two or three years. The fair value was measured using the Black-Scholes option pricing model and the following assumptions were used: risk-free interest rates of 1.6% to 1.9%; dividend yield of 0.0%; expected volatility of 60%; and expected life of six to seven years.

The weighted average grant date fair value of options granted during the three months ended March 31, 2016 was $2.25 per option.

Option modifications

During the three months ended March 31, 2016, we amended 1.2 million stock options under the 2008 Equity Plan, including 0.7 million of anti-dilution options, to modify the exercise prices to $4.16 for the anti-dilution options and to $3.77 for the remainder. As a result of the change, we estimated the difference between fair value of the amended options and the fair value of the original awards before settlement. The fair value was measured using the Black-Scholes option pricing model and the following assumptions were used for the amended options and the original awards before amendment: risk-free interest rates of 0.8% to 1.5%; dividend yields of 0.0%; expected volatility of 50-60%; and expected life of one to four years.

All such options were fully vested and we recognized additional compensation expense associated with the modifications of $1.7 million for the three months ended March 31, 2016.

Time-based RSUs

We granted 1.4 million time-based RSUs during the three months ended March 31, 2016. These RSUs vest generally over three years from the date of grant in equal annual installments.

The fair value of time-based RSUs is the market price of our common shares on the date of grant. The weighted average grant date fair value of time-based RSUs granted during the three months ended March 31, 2016 was $1.51 per RSU.

Performance-based RSUs

We granted 1.2 million performance-based RSUs during the three months ended March 31, 2016. These RSUs vest after three years from the date of grant upon achievement of certain performance conditions expressed as a combination of an adjusted EBITDA target and a relative shareholder return (RSR), which is based on our relative shareholder return percentile ranking versus the S&P 900 Index, measured at the end of a three year period.

We measure the fair value of performance-based RSUs at the date of grant using the market price of our common shares (to measure the portion of the award based on the adjusted EBITDA target) and a Monte Carlo simulation model (to measure the portion of the award based on the RSR target).

Table of Contents

The weighted average grant date fair value of performance-based RSUs granted during the three months ended March 31, 2016 was $0.94 per RSU.

Note 5 Fair Value Measurements

FASB ASC Topic 820, *Fair Value Measurements and Disclosure* (FASB ASC 820) defines fair value, establishes a market-based framework or hierarchy for measuring fair value and provides for certain required disclosures about fair value measurements. The guidance is applicable whenever another accounting pronouncement requires or permits assets and liabilities to be measured at fair value but does not require any new fair value measurements.

The fair value hierarchy prioritizes the inputs used in valuation techniques into three levels as follows:

Level 1 unadjusted quoted prices for identical assets or liabilities in active markets;

Level 2 quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs other than quoted market prices that are observable or that can be corroborated by observable market data by correlation; and

Level 3 unobservable inputs based upon the reporting entity s internally developed assumptions which market participants would use in pricing the asset or liability.

We have identified investments in marketable securities and interest rate financial derivative instruments as those items that meet the criteria of the disclosure requirements and fair value framework of FASB ASC 820.

The following tables present assets and liabilities measured and recorded at fair value in our condensed consolidated balance sheets on a recurring basis and their level within the fair value hierarchy (in thousands), excluding long-term debt (see Note 10 Long-Term Debt). We did not have transfers between Level 1 and Level 2 fair value measurements during the three months ended March 31, 2016.

		Fair Value Measurements at December 31, 2015	
Description	**As of December 31, 2015**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**
Assets			
Marketable securities[(1)]	$ 5,486	$ 5,486	$
Total assets	$ 5,486	$ 5,486	$
Liabilities			

Undesignated interest rate swaps[2]	$ 2,013	$	$ 2,013
Total liabilities	$ 2,013	$	$ 2,013

		Fair Value Measurements at March 31, 2016	
Description	As of March 31, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
<u>Assets</u>			
Marketable securities[1]	$ 5,489	$ 5,489	$
Total assets	$ 5,489	$ 5,489	$

(1) The valuation measurement inputs of these marketable securities represent unadjusted quoted prices in active markets and, accordingly, we have classified such investments within Level 1 of the fair value hierarchy. The cost basis of our available-for-sale marketable securities was $5.3 million at December 31, 2015 and $5.2 million at March 31, 2016. We sold marketable securities with a cost basis of $0.2 million during the three months ended March 31, 2016 and recorded a nominal loss on the sale, which was included within other expense, net in our condensed consolidated statements of income.

(2) The fair value of our interest rate financial derivative instruments reflects the estimated amounts that we would pay or receive to terminate the agreement at the reporting date, taking into account current interest rates, the market expectation for future interest rates and current creditworthiness of both the counterparties and ourselves. Observable inputs utilized in the income approach

valuation technique incorporate identical contractual notional amounts, fixed coupon rates, periodic terms for interest payments and contract maturity. Although we have determined that the majority of the inputs used to value our derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments, if any, associated with our derivatives utilize Level 3 inputs, such as the estimates of the current credit spread, to evaluate the likelihood of default by us or our counterparties. We have assessed the significance of the inputs of the credit valuation adjustments to the overall valuation of our derivative positions and have determined that the credit valuation adjustments are not significant to the valuation of our derivatives. As a result, we have determined that our derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

Note 6 Retirement Plans and Other Retiree Benefits

(a) Pension and Other Postretirement Benefits

We maintain a noncontributory defined benefit retirement plan covering substantially all of our employees hired prior to July 19, 2001. The cost of providing benefits to eligible participants under the defined benefit retirement plan is calculated using the plan s benefit formulas, which take into account the participants remuneration, dates of hire, years of eligible service, and certain actuarial assumptions. In addition, as part of the overall medical plan, we provide postretirement medical benefits to certain current retirees who meet the criteria under the medical plan for postretirement benefit eligibility.

In the first quarter of 2015, we amended the defined benefit retirement plan to cease the accrual of additional benefits for the remaining active participants effective March 31, 2015, resulting in a curtailment of $10.3 million that decreased both the pension liability and the actuarial loss recorded in accumulated other comprehensive loss. As a result of the curtailment, all of the plan s participants are now considered inactive. Accordingly, all amounts recorded in accumulated other comprehensive loss are being recognized as an increase to net periodic benefit cost over the average remaining life expectancy of plan participants, which is approximately 20 years, beginning in the second quarter of 2015.

Also, as a result of the plan amendment, we recognized $0.6 million of prior service credits in our consolidated statements of income in 2015 that were previously recorded in accumulated other comprehensive loss.

In the first quarter of 2016, we changed the method we use to estimate the interest cost component of net periodic benefit cost for our defined benefit pension and other postretirement benefit plans. Historically, we estimated the interest cost component using a single weighted-average discount rate derived from the yield curve used to measure the benefit obligation at the beginning of the period. We have elected to use a full yield curve approach in the estimation of this component of benefit cost by applying the specific spot rates along the yield curve used in the determination of the benefit obligation to the relevant projected cash flows. We have made this change to improve the correlation between projected benefit cash flows and the corresponding yield curve spot rates, and to provide a more precise measurement of interest costs. This change does not affect the measurement of our total benefit obligations, as the change in the interest cost is completely offset in the actuarial (gain) loss reported. We have accounted for this change as a change in estimate and, accordingly, have accounted for it prospectively starting in the first quarter of 2016. The discount rate that we used to measure interest cost during 2016 was approximately 3.8%. The discount rate that we measured at December 31, 2015 and would have used for interest cost under our prior estimation technique was approximately 4.5%. The reduction in interest cost for the first quarter of 2016 associated with this change in estimate was approximately $0.9 million.

The defined benefit retirement plan is subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended. We expect that our future contributions to the defined benefit retirement plan will be based on the minimum funding requirements of the Internal Revenue Code and on the plan s funded status. Any significant decline in the fair value of our defined benefit retirement plan assets or other adverse changes to the significant assumptions used to determine the plan s funded status would negatively impact its funded status and could result in increased funding in future periods. The impact on the funded status is determined based upon market conditions in effect when we completed our annual valuation. We do not anticipate additional contributions to the defined benefit retirement plan in 2016. We fund the postretirement medical benefits throughout the year based on benefits paid. We anticipate that our contributions to fund postretirement medical benefits in 2016 will be approximately $4.3 million.

Included in accumulated other comprehensive loss at March 31, 2016 is $126.1 million ($79.7 million, net of tax) that has not yet been recognized in the net periodic pension cost, which includes unrecognized actuarial losses.

Table of Contents

Prior service credits and actuarial losses are reclassified from accumulated other comprehensive loss to net periodic pension benefit costs, which are included in both direct costs of revenue and selling, general and administrative on our condensed consolidated statements of income for the three months ended March 31, 2016. The following table presents these reclassifications, net of tax, as well as the reclassification of the realized gain on investments, and the statement of operations line items that are impacted (in thousands):

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2016
Amortization of prior service credits reclassified from other comprehensive loss to net periodic pension benefit costs included in:		
Direct costs of revenue (excluding depreciation and amortization)	$ (233)	$ (1)
Selling, general and administrative	(149)	
Total	$ (382)	$ (1)
Amortization of actuarial loss reclassified from other comprehensive loss to net periodic pension benefit costs included in:		
Direct costs of revenue (excluding depreciation and amortization)	$ 1,823	$ 332
Selling, general and administrative	1,111	200
Total	$ 2,934	$ 532
Realized gain on investments included in:		
Other expense, net	$ (30)	$ (2)
Total	$ (30)	$ (2)

Net periodic pension benefit costs included the following components (in thousands):

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2016
Service cost	$ 780	$
Interest cost	4,752	4,046
Expected return on plan assets	(6,482)	(6,384)
Amortization of unrecognized prior service credits	(607)	
Amortization of unrecognized net loss	4,497	842

Total benefit	$	2,940	$	(1,496)

Net periodic other postretirement benefit costs included the following components (in thousands):

	Three Months Ended March 31, 2015		Three Months Ended March 31, 2016	
Service cost	$	17	$	
Interest cost		1,149		841
Amortization of unrecognized prior service credits				(2)
Amortization of unrecognized net loss		149		
Total costs	$	1,315	$	839

(b) Other Retirement Plans

In connection with the amendment of the defined benefit retirement plan in the first quarter of 2015, the two defined contribution retirement plans we previously maintained for the benefit of our employees in the United States, were merged into a single plan, which is qualified under the provisions of Section 401(k) of the Internal Revenue Code. We recognized compensation expense for these plans of $1.6 million and $2.5 million during the three months ended March 31, 2015 and 2016, respectively. We also maintain other defined contribution retirement plans in several non-U.S. jurisdictions, but such plans are not material to our financial position or results of operations.

Table of Contents

Note 7 Satellites and Other Property and Equipment

(a) Satellites and Other Property and Equipment, net

Satellites and other property and equipment, net were comprised of the following (in thousands):

	As of December 31, 2015	As of March 31, 2016
Satellites and launch vehicles	$ 9,810,941	$ 10,005,348
Information systems and ground segment	641,741	662,588
Buildings and other	241,273	241,500
Total cost	10,693,955	10,909,436
Less: accumulated depreciation	(4,705,638)	(4,802,195)
Total	$ 5,988,317	$ 6,107,241

Satellites and other property and equipment are stated at historical cost, with the exception of satellites that have been impaired. Satellites and other property and equipment acquired as part of an acquisition are based on their fair value at the date of acquisition.

Satellites and other property and equipment, net as of December 31, 2015 and March 31, 2016 included construction-in-progress of $1.5 billion and $1.3 billion, respectively. These amounts relate primarily to satellites under construction and related launch services. Interest costs of $18.7 million and $27.1 million were capitalized during the three months ended March 31, 2015 and 2016, respectively.

We have entered into launch contracts for the launch of both specified and unspecified future satellites. Each of these launch contracts may be terminated at our option, subject to payment of a termination fee that increases as the applicable launch date approaches. In addition, in the event of a failure of any launch, we may exercise our right to obtain a replacement launch within a specified period following our request for re-launch.

(b) Recent Satellite Launches

On January 27, 2016, we successfully launched our Intelsat 29e satellite into orbit, the first of seven high throughput satellites (HTS) that will comprise our Intelsat EpicNG platform. Intelsat 29e is a C- and Ku-band satellite featuring high-performance spot beams and an advanced digital payload that will enable next generation broadband services for commercial and government customers. The satellite, which is located at the 310ºE orbital location, will support broadband services for enterprise, fixed and mobile network operators, aeronautical and maritime mobility service providers, and for government customers operating throughout the Americas and the North Atlantic region. The satellite entered into service in March 2016.

Note 8 Investments

We have an ownership interest in two entities that met the criteria of a variable interest entity (VIE), Horizons Satellite Holdings, LLC (Horizons Holdings) and Horizons-3 Satellite LLC. Horizons Holdings is discussed in further detail below, including our analyses of the primary beneficiary determination as required under FASB ASC Topic 810, *Consolidation* (FASB ASC 810). Horizons-3 Satellite LLC is also discussed in further detail below. Further, we have cost method investments where we have a minority investment, discussed further below.

(a) Horizons Holdings

Our first joint venture with JSAT International, Inc. (JSAT) is named Horizons Satellite Holdings, LLC, and consists of two investments: Horizons-1 Satellite LLC (Horizons-1) and Horizons-2 Satellite LLC (Horizons-2). Horizons Holdings borrowed from JSAT a portion of the funds necessary to finance the construction of the Horizons 2 satellite pursuant to a loan agreement (the Horizons 2 Loan Agreement). We provide certain services to the joint venture and utilize capacity from the joint venture.

15

We have determined that this joint venture meets the criteria of a VIE under FASB ASC 810, and we have concluded that we are the primary beneficiary because decisions relating to any future relocation of the Horizons-2 satellite, the most significant asset of the joint venture, are effectively controlled by us. In accordance with FASB ASC 810, as the primary beneficiary, we consolidate Horizons Holdings within our consolidated financial statements. Total assets and liabilities of Horizons Holdings were $58.7 million and $0.3 million as of December 31, 2015, respectively, and $55.8 million and $0.1 million as of March 31, 2016, respectively.

We have a revenue sharing agreement with JSAT related to services sold on the Horizons 1 and Horizons 2 satellites. We are responsible for billing and collection for such services, and we remit 50% of the revenue, less applicable fees and commissions, to JSAT. Amounts payable to JSAT related to the revenue sharing agreement, net of applicable fees and commissions, from the Horizons-1 and Horizons-2 satellites were $6.6 million and $5.7 million as of December 31, 2015 and March 31, 2016, respectively.

(b) Horizons-3 Satellite LLC

On November 4, 2015, we entered into a new joint venture agreement with JSAT. The joint venture, named Horizons 3 Satellite LLC (Horizons 3), was formed for the purpose of developing, launching, managing, operating and owning a high performance satellite to be located at the 169ºE orbital location.

Horizons 3, which is 50% owned by each of Intelsat and JSAT, was set up with a joint share of management authority and equal rights to profits and revenues from the joint venture. Similar to Horizons Holdings, we have a revenue sharing agreement with JSAT related to services sold on the Horizons 3 satellite. In addition, we are responsible for billing and collection for such services, and we remit 50% of the revenue, less applicable fees and commissions, to JSAT.

We have determined that this joint venture meets the criteria of a VIE under FASB ASC 810, and we have concluded that we are not the primary beneficiary, and therefore, do not consolidate Horizons 3. The assessment considered both quantitative and qualitative factors, including an analysis of voting power and other means of control of the joint venture as well as each owner s exposure to risk of loss or gain. Because we and JSAT equally share control over the operations of the joint venture and also equally share exposure to risk of losses or gains, we concluded that we are not the primary beneficiary of Horizons 3. Our investment, included within other assets in our condensed consolidated balance sheets, is accounted for using the equity method of accounting and the investment balance was $19.1 million and $19.6 million as of December 31, 2015 and March 31, 2016, respectively.

In connection with our investment in Horizons 3, we entered into a capital contribution and subscription agreement, which requires us to fund our 50% share of the amounts due in order to maintain our respective 50% interest in the joint venture. In addition, our indirect subsidiary, which holds our investment in Horizons 3, has entered into a security and pledge agreement with Horizons 3, pursuant to which it has granted a security interest in its membership interests in Horizons 3. Further, our indirect subsidiary has granted a security interest in its customer capacity service contracts and its ownership interest in its wholly-owned subsidiary that will hold the U.S. Federal Communications Commission license required for the joint venture s operations.

(c) Cost Method Investments

Our cost method investments recorded in other assets in our condensed consolidated balance sheets had a total carrying value of $25.0 million as of December 31, 2015 and $29.0 million as of March 31, 2016. The balance as of March 31, 2016 consists of two minority investments.

Table of Contents

(d) Equity Attributable to Intelsat S.A. and Noncontrolling Interest

The following tables present changes in equity attributable to the Company and equity attributable to our noncontrolling interest, which is included in the equity section of our condensed consolidated balance sheet (in thousands):

	Intelsat S.A. Shareholders Deficit	Noncontrolling Interest	Total Shareholders Deficit
Balance at January 1, 2015	$ (776,268)	$ 33,701	$ (742,567)
Net income	(3,923,387)	3,934	(3,919,453)
Dividends paid to noncontrolling interest		(8,423)	(8,423)
Share-based compensation	25,921		25,921
Declaration of preferred stock dividend	(9,919)		(9,919)
Postretirement/pension liability adjustment	34,449		34,449
Other comprehensive income	(361)		(361)
Balance at December 31, 2015	$ (4,649,565)	$ 29,212	$ (4,620,353)

	Intelsat S.A. Shareholders Deficit	Noncontrolling Interest	Total Shareholders Deficit
Balance at January 1, 2016	$ (4,649,565)	$ 29,212	(4,620,353)
Net income	15,326	966	16,292
Dividends paid to noncontrolling interest		(2,310)	(2,310)
Share-based compensation	7,536		7,536
Postretirement/pension liability adjustment	531		531
Other comprehensive income	40		40
Balance at March 31, 2016	$ (4,626,132)	$ 27,868	$ (4,598,264)

Note 9 Goodwill and Other Intangible Assets

The carrying amounts of goodwill and acquired intangible assets not subject to amortization consist of the following (in thousands):

	As of December 31, 2015	**As of March 31, 2016**
Goodwill[1]	$ 2,620,627	$ 2,620,627
Orbital locations	2,387,700	2,387,700
Trade name	65,200	65,200

(1) Net of accumulated impairment losses of $4,160,200.

We account for goodwill and other non-amortizable intangible assets in accordance with FASB ASC Topic 350, *Intangibles Goodwill and Other*, and have deemed these assets to have indefinite lives. Therefore, these assets are not amortized but are tested on an annual basis for impairment during the fourth quarter, or whenever events or changes in circumstances indicate that the carrying amount may not be fully recoverable.

Table of Contents

The carrying amount and accumulated amortization of acquired intangible assets subject to amortization consist of the following (in thousands):

	As of December 31, 2015			As of March 31, 2016		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Backlog and other	$ 743,760	$ (647,534)	$ 96,226	$ 743,760	$ (652,913)	$ 90,847
Customer relationships	534,030	(189,926)	344,104	534,030	(196,671)	337,359
Total	$ 1,277,790	$ (837,460)	$ 440,330	$ 1,277,790	$ (849,584)	$ 428,206

Intangible assets are amortized based on the expected pattern of consumption. We recorded amortization expense of $15.1 million and $12.1 million for the three months ended March 31, 2015 and 2016, respectively.

Note 10 Long-Term Debt

The carrying values and fair values of our notes payable and long-term debt were as follows (in thousands):

	As of December 31, 2015		As of March 31, 2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Intelsat Luxembourg:				
6.75% Senior Notes due June 2018	$ 475,000	$ 355,063	$ 475,000	$ 362,188
Unamortized prepaid debt issuance costs on 6.75% Senior Notes	(2,066)		(1,868)	
7.75% Senior Notes due June 2021	2,000,000	930,000	2,000,000	595,000
Unamortized prepaid debt issuance costs on 7.75% Senior Notes	(19,602)		(18,870)	
8.125% Senior Notes due June 2023	1,000,000	450,000	1,000,000	297,500
Unamortized prepaid debt issuance costs on 8.125% Senior Notes	(10,870)		(10,602)	

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