Intelsat S.A.
Form 6-K
August 04, 2014
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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 August, 2014

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): ¨

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INTELSAT S.A.

Quarterly Report for the three and six months ended June 30, 2014

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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. (formerly Intelsat Global Holdings 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, 2013, 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 performance;

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- 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;
- 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.

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, except as required by law.

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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, 2013	As of June 30, 2014 (unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 247,790	$ 370,292
Receivables, net of allowance of $35,288 in 2013 and $31,315 in 2014	236,347	233,583
Deferred income taxes	44,475	67,642
Prepaid expenses and other current assets	33,224	34,939
Total current assets	561,836	706,456
Satellites and other property and equipment, net	5,805,540	5,810,400
Goodwill	6,780,827	6,780,827
Non-amortizable intangible assets	2,458,100	2,458,100
Amortizable intangible assets, net	568,775	534,659
Other assets	414,592	426,367
Total assets	$ 16,589,670	$ 16,716,809
LIABILITIES AND SHAREHOLDERS DEFICIT		
Current liabilities:		
Accounts payable and accrued liabilities	$ 154,712	$ 139,749
Employee related liabilities	28,227	34,487
Accrued interest payable	186,492	168,133
Current portion of long-term debt	24,418	12,209
Deferred satellite performance incentives	22,703	21,057
Deferred revenue	84,185	94,081
Other current liabilities	72,840	71,629
Total current liabilities	573,577	541,345
Long-term debt, net of current portion	15,262,996	15,261,356
Deferred satellite performance incentives, net of current portion	153,904	145,024

Deferred revenue, net of current portion	888,239	904,392
Deferred income taxes	202,638	241,135
Accrued retirement benefits	196,856	181,010
Other long-term liabilities	246,127	225,030
Commitments and contingencies (Note 13)		
Shareholders deficit:		
Common shares; nominal value $0.01 per share	1,060	1,065
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	2,099,218	2,101,474
Accumulated deficit	(3,015,273)	(2,866,559)
Accumulated other comprehensive loss	(60,393)	(57,033)
Total Intelsat S.A. shareholders deficit	(975,353)	(821,018)
Noncontrolling interest	40,686	38,535
Total liabilities and shareholders deficit	$ 16,589,670	$ 16,716,809

See accompanying notes to unaudited condensed consolidated financial statements.

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INTELSAT S.A.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2014	Six Months Ended June 30, 2013	Six Months Ended June 30, 2014
Revenue	$ 653,803	$ 615,749	$ 1,308,930	$ 1,244,639
Operating expenses:				
Direct costs of revenue (excluding depreciation and amortization)	100,278	87,061	197,924	170,820
Selling, general and administrative	125,217	44,690	183,373	91,535
Depreciation and amortization	186,745	168,938	374,157	338,522
Gain on satellite insurance recoveries	(9,618)		(9,618)	
Total operating expenses	402,622	300,689	745,836	600,877
Income from operations	251,181	315,060	563,094	643,762
Interest expense, net	297,228	239,234	617,446	480,036
Loss on early extinguishment of debt	(366,794)		(366,794)	
Other income (expense), net	(3,184)	1,512	(3,833)	1,906
Income (loss) before income taxes	(416,025)	77,338	(424,979)	165,632
Provision for (benefit from) income taxes	(8,759)	9,567	(10,797)	14,965
Net income (loss)	(407,266)	67,771	(414,182)	150,667
Net income attributable to noncontrolling interest	(1,039)	(1,003)	(1,927)	(1,953)
Net income (loss) attributable to Intelsat S.A.	$ (408,305)	$ 66,768	$ (416,109)	$ 148,714
Cumulative preferred dividends	(10,196)	(9,917)	(10,196)	(9,917)
Net income (loss) attributable to common shareholders	$ (418,501)	$ 56,851	$ (426,305)	$ 138,797
Net income (loss) per common share attributable to Intelsat S.A.:				
Basic	$ (4.19)	$ 0.53	$ (4.66)	$ 1.31
Diluted	$ (4.19)	$ 0.53	$ (4.66)	$ 1.28

See accompanying notes to unaudited condensed consolidated financial statements.

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INTELSAT S.A.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands)

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2014	Six Months Ended June 30, 2013	Six Months Ended June 30, 2014
Net income (loss)	$ (407,266)	$ 67,771	$ (414,182)	$ 150,667
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, net of tax	(27)	(27)	(55)	(54)
Reclassification adjustment for amortization of unrecognized actuarial loss included in net periodic pension costs, net of tax	3,080	1,628	6,160	3,256
Marketable securities:				
Unrealized gains on investments, net of tax	1	148	223	214
Reclassification adjustment for realized gain on investments, net of tax	(17)	(21)	(40)	(56)
Other comprehensive income	3,037	1,728	6,288	3,360
Comprehensive income (loss)	(404,229)	69,499	(407,894)	154,027
Comprehensive income attributable to noncontrolling interest	(1,039)	(1,003)	(1,927)	(1,953)
Comprehensive income (loss) attributable to Intelsat S.A.	$ (405,268)	$ 68,496	$ (409,821)	$ 152,074

See accompanying notes to unaudited condensed consolidated financial statements.

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INTELSAT S.A.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Six Months Ended June 30, 2013	Six Months Ended June 30, 2014
Cash flows from operating activities:		
Net income (loss)	$ (414,182)	$ 150,667
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	374,157	338,522
Provision for doubtful accounts	9,895	(3,647)
Foreign currency transaction loss	3,984	327
Loss on disposal of assets	244	32
Gain on satellite insurance recoveries	(9,618)	
Share-based compensation	18,281	8,844
Deferred income taxes	(6,945)	(778)
Amortization of discount, premium, issuance costs and related costs	34,263	11,286
Unrealized gains on derivative financial instruments	(16,274)	(9,567)
Amortization of actuarial loss and prior service credits for retirement benefits	9,807	5,073
Loss on early extinguishment of debt	366,794	
Other non-cash items	1,093	91
Changes in operating assets and liabilities:		
Receivables	(12,534)	410
Prepaid expenses and other assets	454	(4,203)
Accounts payable and accrued liabilities	(27,594)	7,473
Accrued interest payable	(169,101)	(18,359)
Deferred revenue	29,558	24,089
Accrued retirement benefits	(24,802)	(15,846)
Other long-term liabilities	(7,303)	2,909
Net cash provided by operating activities	160,177	497,323
Cash flows from investing activities:		
Payments for satellites and other property and equipment (including capitalized interest)	(336,208)	(352,487)
Proceeds from insurance settlements	487,930	
Payment on satellite performance incentives from insurance proceeds	(19,199)	
Other investing activities	(1,000)	79
Net cash provided by (used in) investing activities	131,523	(352,408)
Cash flows from financing activities:		

Repayments of long-term debt		(6,775,863)		(12,209)
Repayment of notes payable to former shareholders		(868)		
Payment of premium on early extinguishment of debt		(311,224)		
Proceeds from issuance of long-term debt		6,254,688		
Debt issuance costs		(84,948)		
Proceeds from initial public offering		572,500		
Stock issuance costs		(26,377)		
Dividends paid to preferred shareholders				(4,959)
Capital contribution from noncontrolling interest		6,105		6,105
Dividends paid to noncontrolling interest		(4,029)		(4,104)
Principal payments on deferred satellite performance incentives		(9,393)		(10,252)
Other financing activities				3,333
Net cash used in financing activities		(379,409)		(22,086)
Effect of exchange rate changes on cash and cash equivalents		(3,984)		(327)
Net change in cash and cash equivalents		(91,693)		122,502
Cash and cash equivalents, beginning of period		187,485		247,790
Cash and cash equivalents, end of period	$	95,792	$	370,292
Supplemental cash flow information:				
Interest paid, net of amounts capitalized	$	766,774	$	496,730
Income taxes paid, net of refunds		24,010		23,770
Supplemental disclosure of non-cash investing activities:				
Accrued capital expenditures	$	39,358	$	43,839

See accompanying notes to unaudited condensed consolidated financial statements.

INTELSAT S.A.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2014

Note 1 General

Basis of Presentation

The accompanying condensed consolidated financial statements of Intelsat S.A. (formerly known as Intelsat Global Holdings S.A.) and its subsidiaries (Intelsat S.A., we, us, our or the Company) have not been audited, but are pr 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, 2013 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, 2013 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.

Reclassifications

Certain reclassifications have been made to the prior year s financial statements to conform to the current year presentation. The reclassifications had no effect on previously reported results of operations, cash flows or retained earnings.

Recently Adopted Accounting Pronouncements

In July 2013, the FASB issued ASU 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists.* Beginning in the first quarter of 2014, entities are required to present any unrecognized tax benefit (UTB), or portion of an unrecognized benefit, in their financial statements as a reduction to a deferred tax asset to the extent a net operating loss carryforward, a similar tax loss or a tax credit carryforward exists. Otherwise, the unrecognized tax benefit should be presented in the financial statements as a liability and not combined with deferred tax assets. As of June 30, 2014, our unaudited condensed consolidated balance sheet reflects the required presentation of our current UTBs as a reduction to our deferred tax asset. The impact of the new presentation was not material to our financial statements.

In May 2014, the FASB issued 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 the ASU 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. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2016. We are in the process of evaluating the impact the updated guidance will have on our consolidated financial statements and associated disclosures.

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 June 30, 2014, there were 106.5 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.

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Each Series A Preferred Share will automatically convert on May 1, 2016 into between 2.2676 and 2.7778 of our common shares, subject to anti-dilution adjustments. The number of our common shares issuable on conversion will be determined 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. At any time prior to May 1, 2016, holders may elect to convert each Series A Preferred Share into common shares at the minimum conversion rate of 2.2676 common shares per Series A Preferred Share, subject to anti-dilution adjustments.

Note 3 Net Income (Loss) per Share

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

On April 23, 2013, we completed our initial public offering, in which we issued 22,222,222 common shares, and a concurrent public offering, in which we issued 3,450,000 Series A Preferred Shares (the initial public offering together with the concurrent public offering, the IPO). Prior to the consummation of the IPO, each of our former Class A common shares (the Class A Shares) was reclassified into one of our common shares, and each of our former Class B common shares (the Class B Shares) was reclassified into 0.0735 of our common shares. In addition, immediately prior to the consummation of the IPO, an equivalent of a share split was effected by distributing common shares pro rata to existing holders of our common shares, so that each existing holder received an additional approximately 4.6 common shares for each common share owned at that time. The effect of these reclassifications on outstanding shares, potentially dilutive shares and EPS has been retroactively applied to the financial statements and notes to the condensed consolidated financial statements for all periods presented.

In April 2013, the shareholders of Intelsat S.A. declared a $10.2 million dividend, which was paid in four installments through June 2014 to the holders of our Series A Preferred Shares, in accordance with the terms of the Series A Preferred Shares. The final installment of $0.71875 per share was paid on May 1, 2014. In June 2014, 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 installments through June 2015. The first installment was paid on August 1, 2014 to holders of record as of July 15, 2014.

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

	(in thousands, except per share data or where otherwise noted)			
	Three Months Ended June 30, 2013	Three Months Ended June 30, 2014	Six Months Ended June 30, 2013	Six Months Ended June 30, 2014
Numerator:				
Net income/ (loss)	$ (407,266)	$ 67,771	$ (414,182)	$ 150,667
Net income attributable to noncontrolling interest	(1,039)	(1,003)	(1,927)	(1,953)
Net income/ (loss) attributable to Intelsat S.A.	(408,305)	66,768	(416,109)	148,714

Less: Preferred stock dividends declared		(10,196)		(9,917)		(10,196)		(9,917)
Net income/ (loss) attributable to common shareholders	$	(418,501)	$	56,851	$	(426,305)	$	138,797
Numerator for Basic EPS - income/ (loss) available to common shareholders	$	(418,501)	$	56,851	$	(426,305)	$	138,797
Dilutive effect of Preferred shares								9,917
Numerator for Diluted EPS	$	(418,501)	$	56,851	$	(426,305)	$	148,714
Denominator:								
Basic weighted average shares outstanding (in millions)		99.9		106.4		91.5		106.3
Weighted average dilutive shares outstanding (in millions):								
Preferred shares, Share Options and Restricted Share Units (in millions)				0.5				10.2
Diluted weighted average shares outstanding (in millions)		99.9		106.9		91.5		116.5
Basic net income/ (loss) per common share attributable to Intelsat S.A.	$	(4.19)	$	0.53	$	(4.66)	$	1.31
Diluted net income/ (loss) per common share attributable to Intelsat S.A.	$	(4.19)	$	0.53	$	(4.66)	$	1.28

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Due to a net loss in the three and six months ended June 30, 2013, there were no dilutive securities, and therefore, basic and diluted EPS were the same. The weighted average number of shares that could potentially dilute basic EPS in the future was 4.6 million and 1.7 million (consisting of unvested common shares, restricted share units and options to purchase common shares) for the three months ended June 30, 2013 and June 30, 2014, respectively, and 2.8 million and 1.4 million for the six months ended June 30, 2013 and June 30, 2014, respectively. Further, there were 7.3 million and 9.6 million weighted average common shares resulting from the potential conversion of Series A Preferred Shares for the three months ended June 30, 2013 and June 30, 2014, respectively, and 3.6 million for the six months ended June 30, 2013 that could dilute basic EPS in future periods.

Note 4 Share-Based and Other Compensation Plans

On March 30, 2012, our board of directors adopted the amended and restated Intelsat Global, Ltd. 2008 Share Incentive Plan (the 2008 Equity Plan); and in April 2013, our board of directors adopted the Intelsat S.A. 2013 Equity Incentive Plan (the 2013 Equity Plan). 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 six months ended June 30, 2013 and 2014, we recorded compensation expense of $18.3 million and of $8.8 million, respectively. Compensation costs recognized during the six months ended June 30, 2013 included costs recognized in relation to our IPO, which was completed in April 2013.

Time-based RSUs

We granted 0.7 million time-based RSUs during the six months ended June 30, 2014. 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 six months ended June 30, 2014 was $19.82 per RSU.

Performance-based RSUs

We granted 0.4 million performance-based RSUs during the six months ended June 30, 2014. 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). The weighted average grant date fair value of performance-based RSUs granted during the six months ended June 30, 2014 was $21.48 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.

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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 six months ended June 30, 2014.

Description	As of December 31, 2013	Fair Value Measurements at December 31, 2013 Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Assets			
Marketable securities[1]	$ 6,036	$ 6,036	$
Total assets	$ 6,036	$ 6,036	$
Liabilities			
Undesignated interest rate swaps[2]	$ 48,819	$	$ 48,819
Total liabilities	$ 48,819	$	$ 48,819

Description	As of June 30, 2014	Fair Value Measurements at June 30, 2014 Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Assets			
Marketable securities[1]	$ 6,143	$ 6,143	$
Total assets	$ 6,143	$ 6,143	$
Liabilities			
Undesignated interest rate swaps[2]	$ 39,183	$	$ 39,183
Total liabilities	$ 39,183	$	$ 39,183

(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, 2013 and $5.1

million at June 30, 2014. We sold marketable securities with a cost basis of $0.2 million during the six months ended June 30, 2014 and recorded a gain on the sale of $0.1 million, which was included within other income (expense), net in our condensed consolidated statement of operations.

(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 also considered the existence of offset provisions and other credit enhancements that serve to reduce the credit exposure associated with the asset or liability being valued. 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.

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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.

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 as of October 1, the plan s annual measurement date, is determined based upon market conditions in effect when we completed our annual valuation. During the six months ended June 30, 2014, we made cash contributions to the defined benefit retirement plan of $15.4 million. We anticipate that we will make additional contributions of approximately $12.2 million to the defined benefit retirement plan during the remainder of 2014. We fund the postretirement medical benefits throughout the year based on benefits paid. We anticipate that our contributions to fund postretirement medical benefits in 2014 will be approximately $4.4 million.

Included in accumulated other comprehensive income (loss) at June 30, 2014 is $94.3 million ($59.5 million, net of tax) that has not yet been recognized in net periodic pension cost, which includes the unrecognized prior service credits and unrecognized actuarial losses.

Prior service credits and actuarial losses are reclassified from accumulated other comprehensive income (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 operations for the six months ended June 30, 2014. 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 June 30, 2013	Three Months Ended June 30, 2014	Six Months Ended June 30, 2013	Six Months Ended June 30, 2014
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)	$ (17)	$ (17)	$ (33)	$ (33)
Selling, general and administrative	(10)	(10)	(22)	(21)
Total	$ (27)	$ (27)	$ (55)	$ (54)

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)	$	1,866	$	1,018	$	3,717	$	2,039
Selling, general and administrative		1,214		610		2,443		1,217
Total	$	3,080	$	1,628	$	6,160	$	3,256
Realized gain on investments included in:								
Other income (expense), net		(17)		(21)		(40)		(56)
Total	$	(17)	$	(21)	$	(40)	$	(56)

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

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2014	Six Months Ended June 30, 2013	Six Months Ended June 30, 2014
Service cost	$ 829	$ 714	$ 1,658	$ 1,427
Interest cost	4,561	4,976	9,122	9,952
Expected return on plan assets	(5,316)	(6,033)	(10,631)	(12,065)
Amortization of unrecognized prior service credit	(43)	(43)	(86)	(86)
Amortization of unrecognized net loss	4,856	2,580	9,712	5,159
Net periodic costs	$ 4,887	$ 2,194	$ 9,775	$ 4,387

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

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2014	Six Months Ended June 30, 2013	Six Months Ended June 30, 2014
Service cost	$ 73	$ 32	$ 146	$ 64
Interest cost	1,076	1,141	2,142	2,281
Amortization of unrecognized prior service credit	797		797	
Amortization of unrecognized net loss	91		181	
Total costs	$ 2,037	$ 1,173	$ 3,266	$ 2,345

(b) Other Retirement Plans

We maintain two defined contribution retirement plans, qualified under the provisions of Section 401(k) of the Internal Revenue Code, for our employees in the United States. We recognized compensation expense for these plans of $3.9 million and $3.4 million during the six months ended June 30, 2013 and 2014, respectively. We also maintain other defined contribution retirement plans in several non-U.S. jurisdictions, but such plans are not considered material to our financial position or results of operations.

Note 7 Satellites and Other Property and Equipment

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

	As of December 31,	As of June 30,

	2013	2014
Satellites and launch vehicles	$ 8,628,596	$ 8,865,946
Information systems and ground segment	559,250	582,596
Buildings and other	203,839	220,469
Total cost	9,391,685	9,669,011
Less: accumulated depreciation	(3,586,145)	(3,858,611)
Total	$ 5,805,540	$ 5,810,400

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, 2013 and June 30, 2014 included construction-in-progress of $0.8 billion and $1.1 billion, respectively. These amounts relate primarily to satellites under construction and related launch services. Interest costs of $21.4 million and $32.7 million were capitalized during the six months ended June 30, 2013 and 2014, 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.

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Note 8 Investments

We have ownership interests in two entities which met the criteria of a variable interest entity (VIE), Horizons Satellite Holdings, LLC (Horizons Holdings) and WP Com, S. de R.L. de C.V. (WP Com). Horizons Holdings, as well as WP Com, are discussed in further detail below, including our analyses of the primary beneficiary determination as required under FASB ASC Topic 810, *Consolidation* (FASB ASC 810).

(a) Horizons Holdings

We have a joint venture with JSAT International, Inc. (JSAT), a leading satellite operator in the Asia-Pacific region. The joint venture 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.

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 condensed consolidated financial statements. Total assets and liabilities of Horizons Holdings were $101.7 million and $24.6 million as of December 31, 2013, respectively, and $85.1 million and $12.4 million as of June 30, 2014, respectively.

We also have a revenue sharing agreement with JSAT related to services sold on the Horizons 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. Under the Horizons Holdings joint venture agreement, which was amended on September 30, 2011, we agreed to guarantee to JSAT certain minimum levels of annual gross revenues for a three-year period beginning in early 2012. This guarantee could require us to pay JSAT a maximum potential amount ranging from $7.8 million to $10.3 million per year over the three-year period, less applicable fees and commissions. In connection with the guarantee, we paid a total of $9.6 million through June 2014. The remaining amount we expect to pay over the period of the guarantee is $3.5 million, which is included within accounts payable and accrued liabilities on our condensed consolidated balance sheet at June 30, 2014. 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 $7.1 million and $6.6 million as of December 31, 2013 and June 30, 2014, respectively.

In connection with the Horizons Holdings investment in Horizons-2, we entered into a capital contribution and subscription agreement with JSAT in August 2005, which requires both us and JSAT to fund 50% of the amount due from Horizons Holdings under the Horizons 2 Loan Agreement. As of June 30, 2014, we had a receivable of $6.1 million from JSAT, representing the total remaining future payments to be received from JSAT to fund their portion of the amount due under the Horizons 2 Loan Agreement. This amount is included in receivables, net on our condensed consolidated balance sheet as of June 30, 2014.

(b) WP Com

We have formed a joint venture with Corporativo W. Com S. de R.L. de C.V. (Corporativo) named WP Com. We own 49% of the voting equity shares and 88% of the economic interest in WP Com and Corporativo owns the remaining 51% of the voting equity shares. PanAmSat de Mexico, S. de R.L. de C.V. (PAS de Mexico) is a subsidiary of WP Com, 99.9% of which is owned by WP Com, with the remainder of the equity interest split between us and Corporativo. We formed WP Com to enable us to operate in Mexico, and PAS de Mexico acts as a reseller of our satellite services to customers in Mexico and Ecuador. Profits and losses of WP Com are allocated to the joint venture partners based upon the voting equity shares.

We have determined that this joint venture meets the criteria of a VIE under FASB ASC 810. In accordance with FASB ASC 810, we evaluated this joint venture to determine the primary beneficiary. We have concluded that we are the primary beneficiary because we influence the underlying business drivers of PAS de Mexico, including by acting as the sole provider for satellite services that PAS de Mexico resells. Furthermore, we have modified our pricing for these services to ensure that PAS de Mexico continues to operate in the Mexican market. Corporativo does not fund any of the operating expenses of PAS de Mexico. We therefore consolidate WP Com within our condensed consolidated financial statements and we account for the percentage interest in the voting equity of WP Com owned by Corporativo as a noncontrolling interest, which is included in the equity section of our condensed consolidated balance sheet in accordance with FASB ASC 810.

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(c) Equity Attributable to Intelsat S.A. and Noncontrolling Interests

The following tables present changes in equity attributable to the Company and equity attributable to our noncontrolling interests, 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, 2013	$ (1,357,760)	$ 45,670	$ (1,312,090)
Net income (loss)	(255,680)	3,687	(251,993)
Dividends paid to noncontrolling interests		(8,671)	(8,671)
Initial public offering, net of costs	542,796		542,796
Change in classification of certain equity awards	18,899		18,899
Share-based compensation	28,553		28,553
Declaration of preferred stock dividend	(10,196)		(10,196)
Postretirement/pension liability adjustment	57,283		57,283
Other comprehensive income	752		752
Balance at December 31, 2013	$ (975,353)	$ 40,686	$ (934,667)

	Intelsat S.A. Shareholders Deficit	Noncontrolling Interest	Total Shareholders Deficit
Balance at January 1, 2014	$ (975,353)	$ 40,686	$ (934,667)
Net income	148,714	1,953	150,667
Dividends paid to noncontrolling interests		(4,104)	(4,104)
Share-based compensation	12,178		12,178
Declaration of preferred stock dividend	(9,917)		(9,917)
Postretirement/pension liability adjustment	3,202		3,202
Other comprehensive income	158		158
Balance at June 30, 2014	$ (821,018)	$ 38,535	$ (782,483)

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, 2013	As of June 30, 2014
Goodwill	$ 6,780,827	$ 6,780,827
Orbital locations	2,387,700	2,387,700
Trade name	70,400	70,400

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.

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

	As of December 31, 2013			As of June 30, 2014		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Backlog and other	$ 743,760	$ (575,045)	$ 168,715	$ 743,760	$ (595,165)	$ 148,595
Customer relationships	534,030	(133,970)	400,060	534,030	(147,966)	386,064
Technology	2,700	(2,700)				
Total	$ 1,280,490	$ (711,715)	$ 568,775	$ 1,277,790	$ (743,131)	$ 534,659

Intangible assets are amortized based on the expected pattern of consumption. We recorded amortization expense of $41.2 million and $34.1 million for the six months ended June 30, 2013 and 2014, 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, 2013		As of June 30, 2014	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Intelsat Luxembourg:				
6.75% Senior Notes due June 2018	$ 500,000	$ 530,000	$ 500,000	$ 530,000
7.75% Senior Notes due June 2021	2,000,000	2,145,000	2,000,000	2,135,000
8.125% Senior Notes due June 2023	1,000,000	1,071,300	1,000,000	1,082,500
Total Intelsat Luxembourg obligations	3,500,000	3,746,300	3,500,000	3,747,500
Intelsat Jackson:				
8.5% Senior Notes due November 2019	500,000	545,650	500,000	531,560
Unamortized discount on 8.5% Senior Notes	(2,864)		(2,675)	
7.25% Senior Notes due October 2020	2,200,000	2,409,000	2,200,000	2,378,860
Unamortized premium on 7.25% Senior Notes	17,799		16,769	
7.25% Senior Notes due April 2019	1,500,000	1,612,500	1,500,000	1,599,450
7.5% Senior Notes due April 2021	1,150,000	1,267,875	1,150,000	1,265,000
6.625% Senior Notes due December 2022	1,275,000	1,310,063	1,275,000	1,329,188
Unamortized premium on 6.625% Senior Notes	37,918		36,319	

5.5% Senior Notes due August 2023	2,000,000	1,890,000	2,000,000	1,982,500
Senior Secured Credit Facilities due June 2019	3,095,000	3,103,666	3,095,000	3,102,738
Unamortized discount on Senior Credit Facilities	(9,857)		(9,057)	
Total Intelsat Jackson obligations	11,762,996	12,138,754	11,761,356	12,189,296
Horizons Holdings:				
Loan Payable to JSAT	24,418	24,418	12,209	12,209
Total Horizons Holdings obligation	24,418	24,418	12,209	12,209
Total Intelsat S.A. long-term debt	15,287,414	$ 15,909,472	15,273,565	$ 15,949,005
Less:				
Current portion of long-term debt	24,418		12,209	
Total long-term debt, excluding current portion	$ 15,262,996		$ 15,261,356	

The fair value for publicly traded instruments is determined using quoted market prices, and for non-publicly traded instruments, fair value is based upon composite pricing from a variety of sources, including market leading data providers, market makers, and leading brokerage firms. Substantially all of the inputs used to determine the fair value of our debt are classified as Level 1 inputs within the fair value hierarchy from FASB ASC 820, except our senior secured credit facilities, the inputs for which are classified as Level 2. The fair value of the Horizons Holdings obligation approximates its book value.

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Senior Secured Credit Facilities

On January 12, 2011, Intelsat Jackson entered into a secured credit agreement (the Intelsat Jackson Secured Credit Agreement), which includes a $3.25 billion term loan facility and a $500.0 million revolving credit facility, and borrowed the full $3.25 billion under the term loan facility. The term loan facility requires regularly scheduled quarterly payments of principal equal to 0.25% of the original principal amount of the term loan beginning six months after January 12, 2011, with the remaining unpaid amount due and payable at maturity. Up to $350.0 million of the revolving credit facility is available for issuance of letters of credit. Additionally, up to $70.0 million of the revolving credit facility is available for swingline loans. Both the face amount of any outstanding letters of credit and any swingline loans reduce availability under the revolving credit facility on a dollar for dollar basis. Intelsat Jackson is required to pay a commitment fee for the unused commitments under the revolving credit facility, if any, at a rate per annum of 0.375%. As of June 30, 2014, Intelsat Jackson had $486.7 million (net of standby letters of credit) of availability remaining thereunder.

On October 3, 2012, Intelsat Jackson entered into an Amendment and Joinder Agreement (the Jackson Credit Agreement Amendment), which amended the Intelsat Jackson Secured Credit Agreement. As a result of the Jackson Credit Agreement Amendment, interest rates for borrowings under the term loan facility and the revolving credit facility were reduced. In April 2013, our corporate family rating was upgraded by Moody s, and as a result, the interest rate for the borrowing under the term loan facility and revolving credit facility were further reduced to the London Inter-Bank Offered Rate (LIBOR) plus 3.00% or the Above Bank Rate (ABR) plus 2.00%.

On November 27, 2013, Intelsat Jackson entered into a Second Amendment and Joinder Agreement (the Second Jackson Credit Agreement Amendment), which further amended the Intelsat Jackson Secured Credit Agreement. The Second Jackson Credit Agreement Amendment reduced interest rates for borrowings under the term loan facility and extended the maturity of the term loan facility. In addition, it reduced the interest rates applicable to $450 million of the $500 million total revolving credit facility and extended the maturity of such portion. As a result of the Second Jackson Credit Agreement Amendment, interest rates for borrowings under the term loan facility and the new tranche of the revolving credit facility are (i) LIBOR plus 2.75%, or (ii) the ABR plus 1.75%. The LIBOR and the ABR, plus applicable margins, related to the term loan facility and the new tranche of the revolving credit facility are determined as specified in the Intelsat Jackson Secured Credit Agreement, as amended by the Second Jackson Credit Agreement Amendment, and the LIBOR will not be less than 1.00% per annum. The maturity date of the term loan facility was extended from April 2, 2018 to June 30, 2019 and the maturity of the new $450 million tranche of the revolving credit facility was extended from January 12, 2016 to July 12, 2017. The interest rates and maturity date applicable to the $50 million tranche of the revolving credit facility that was not amended remained unchanged.

The Intelsat Jackson Secured Credit Agreement includes two financial covenants. Intelsat Jackson must maintain a consolidated secured debt to consolidated EBITDA ratio of less than or equal to 3.50 to 1.00 at the end of each fiscal quarter as well as a consolidated EBITDA to consolidated interest expense ratio of greater than or equal to 1.75 to 1.00 at the end of each fiscal quarter, in each case as such financial measures are defined in the Intelsat Jackson Secured Credit Agreement. Intelsat Jackson was in compliance with these financial maintenance covenant ratios with a consolidated secured debt to consolidated EBITDA ratio of 1.36 to 1.00 and a consolidated EBITDA to consolidated interest expense ratio of 2.75 to 1.00 as of June 30, 2014. In the event Intelsat Jackson were to fail to comply with these financial maintenance covenant ratios and were unable to obtain waivers, Intelsat Jackson would default under the Intelsat Jackson Secured Credit Agreement, and the lenders under the Intelsat Jackson Secured Credit Agreement could accelerate our obligations thereunder, which would result in an event of default under our existing notes.

2013 Debt Transactions

2013 Intelsat Jackson Senior Secured Credit Facilities Prepayment

In October 2013, Intelsat Jackson prepaid $100.0 million of indebtedness outstanding under the term loan facility. In connection with this prepayment, we recognized a loss on early extinguishment of debt of $1.3 million consisting of a write-off of unamortized debt issuance costs in the fourth quarter of 2013.

2013 Intelsat Luxembourg Notes Offerings and Redemptions

On April 5, 2013, Intelsat Luxembourg completed an offering of $3.5 billion aggregate principal amount of Senior Notes, consisting of $500.0 million aggregate principal amount of 6 3⁄4% Senior Notes due 2018 (the 2018 Luxembourg Notes), $2.0 billion aggregate principal amount of 7 3⁄4% Senior Notes due 2021 (the 2021 Luxembourg Notes) and $1.0 billion aggregate principal amount of 8 1⁄8% Senior Notes due 2023 (the 2023 Luxembourg Notes and collectively with the 2018 Luxembourg Notes and the 2021 Luxembourg Notes, the New Luxembourg Notes). The net proceeds from this offering were used by Intelsat Luxembourg in April 2013 to redeem all $2.5 billion aggregate principal amount of Intelsat Luxembourg s outstanding 11 1⁄2 / 12 1⁄2 % Senior PIK Election Notes and $754.8 million aggregate principal amount of the 11 1⁄4% Senior Notes due 2017 (the 2017 Senior Notes).

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On May 23, 2013, Intelsat Luxembourg redeemed $366.4 million aggregate principal amount of the 2017 Senior Notes. The redemption of the 2017 Senior Notes was funded by insurance proceeds received from our total loss claim for the IS-27 satellite launch failure.

In connection with these redemptions of the Intelsat Luxembourg notes, we recognized a loss on early extinguishment of debt of $232.1 million in the second quarter of 2013, consisting of the difference between the carrying value of the aggregate debt redeemed and the total cash amount paid (including related fees), and a write-off of unamortized debt issuance costs.

2013 Intelsat Investments Notes Redemption

On May 23, 2013, Intelsat Investments redeemed all of the outstanding $353.6 million aggregate principal amount of the Intelsat Investments 6 ½% Senior Notes due 2013 (the Intelsat Investments Notes) using proceeds of the IPO. In connection with the redemption of the Intelsat Investments Notes, we recognized a loss on early extinguishment of debt of $24.2 million in the second quarter of 2013, consisting of the difference between the carrying value of the debt redeemed and the total cash paid (including related fees), and a write-off of unamortized debt discount and debt issuance costs. Additionally, in conjunction with the redemption of the Intelsat Investments Notes, the agreements to provide unsecured term loan commitments were terminated. We recorded a charge of $7.6 million related to this termination in the second quarter of 2013.

2013 Intelsat Jackson New Senior Unsecured Credit Facility Prepayment

On April 23, 2013, upon completion of the IPO, Intelsat Jackson prepaid $138.2 million of indebtedness outstanding under Intelsat Jackson s Senior Unsecured Credit Agreement, dated July 1, 2008, consisting of senior unsecured term loan facility due February 2014 (the New Senior Unsecured Credit Facility). The partial prepayment of the New Senior Unsecured Credit Facility was funded by the proceeds of the IPO. In connection with the partial prepayment, we recognized a loss on early extinguishment of debt of $0.2 million in the second quarter of 2013 consisting of a write-off of unamortized debt issuance costs.

2013 Intelsat Jackson Notes Offerings, Credit Facility Prepayments and Redemptions

On June 5, 2013 Intelsat Jackson completed an offering of $2.6 billion aggregate principal amount of Senior Notes, consisting of $2.0 billion aggregate principal amount of 5 ½% Senior Notes due 2023 (the 2023 Jackson Notes) and $635.0 million aggregate principal amount of 6 ⅝% Senior Notes due 2022 (the 2022 Jackson Notes and collectively with the 2023 Jackson notes, the New Jackson Notes). The net proceeds from this offering were used by Intelsat Jackson in June 2013 to prepay all $672.7 million of indebtedness outstanding under its New Senior Unsecured Credit Facility, and all $195.2 million of indebtedness outstanding under its Senior Unsecured Credit Agreement, consisting of a senior unsecured term loan facility due February 2014 (the Senior Unsecured Credit Facility). The remaining net proceeds were used to redeem all of the remaining $1.7 billion aggregate principal amount outstanding of the 2017 Senior Notes.

In connection with these prepayments and redemptions, we recognized a loss on early extinguishment of debt of $110.3 million in the second quarter of 2013, consisting of the difference between the carrying value of the aggregate debt redeemed and the total cash amount paid (including related fees), and a write-off of unamortized debt issuance costs.

Note 11 Derivative Instruments and Hedging Activities

Interest Rate Swaps

We are subject to interest rate risk primarily associated with our variable-rate borrowings. Interest rate risk is the risk that changes in interest rates could adversely affect earnings and cash flows. Specific interest rate risk includes: the risk of increasing interest rates on short-term debt; the risk of increasing interest rates for planned new fixed long-term financings; and the risk of increasing interest rates for planned refinancing using long-term fixed-rate debt. We have entered into interest rate swap agreements to reduce the impact of interest rate movements on future interest expense by converting substantially all of our floating-rate debt to a fixed rate.

As of June 30, 2014, we held interest rate swaps with an aggregate notional amount of $1.6 billion that mature in January 2016. These swaps were entered into, as further described below, to economically hedge the variability in cash flow on a portion of the floating-rate term loans under our senior secured credit facilities, but have not been designated as hedges for accounting purposes. On a quarterly basis, we receive a floating rate of interest equal to the three-month LIBOR and pay a fixed rate of interest. On the interest rate reset date of June 14, 2014, the interest rate which the counterparties utilized to compute interest due to us was determined to be 0.23%. From March 15, 2014 to June 14, 2014, the rate we paid averaged 1.97% and the rate we received averaged 0.23%.

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The counterparties to our interest rate swap agreements are highly rated financial institutions. In the unlikely event that the counterparties fail to meet the terms of the interest rate swaps, our exposure is limited to the interest rate differential on the notional amount at each quarterly settlement period over the life of the agreement. We do not anticipate non-performance by the counterparties.

All of our interest rate swaps were undesignated as of June 30, 2014. The swaps are marked-to-market quarterly with any change in fair value recorded within interest expense, net in our condensed consolidated statements of operations. We incorporate credit valuation adjustments to appropriately reflect both our own nonperformance risk and the respective counterparty s nonperformance risk in the fair value measurements of our derivatives. The fair value measurement of derivatives could result in either a net asset or a net liability position for us. In adjusting the fair value of our derivative contracts for the effect of nonperformance risk, we have considered the impact of netting arrangements as applicable and necessary. When the swaps are in a net liability position for us, the credit valuation adjustments are calculated by determining the total expected exposure of the derivatives, incorporating the current and potential future exposures and then applying an applicable credit spread to the exposure. The total expected exposure of a derivative is derived using market-observable inputs, such as yield curves and volatilities. The inputs utilized for our own credit spread are based on implied spreads from traded levels of our debt. Accordingly, as of June 30, 2014, we recorded a non-cash credit valuation adjustment of approximately $1.0 million as a reduction to our liability.

The following table sets forth the fair value of our derivatives by category (in thousands):

		Liability Derivatives	
Derivatives not designated as hedging instruments	Balance Sheet Location	December 31, 2013	June 30, 2014
Undesignated interest rate swaps	Other current liabilities	$ 1,241	$ 1,172
Undesignated interest rate swaps	Other long-term liabilities	47,578	38,011
Total derivatives		$ 48,819	$ 39,183

Undesignated interest rate swaps resulted in a $2.6 million gain and a $4.5 million loss for the six months ended June 30, 2013 and 2014, respectively, which are included in interest expense, net in our condensed consolidated statements of operations.

Note 12 Income Taxes

The majority of our operations are located in taxable jurisdictions, including Luxembourg, the United States and the United Kingdom. Our Luxembourg companies that file tax returns as a consolidated group generated a taxable loss for the six months ended June 30, 2014. Due to our cumulative losses in recent years, and the inherent uncertainty associated with the realization of future taxable income in the foreseeable future, we recorded a full valuation allowance against the net operating losses generated in Luxembourg. The difference between tax expense (benefit) reported in the condensed consolidated statements of operations and tax computed at statutory rates is attributable to the valuation allowance on losses generated in Luxembourg, the provision for foreign taxes, which were principally in the United States and the United Kingdom, as well as withholding taxes on revenue earned in many of the foreign markets in which we operate.

As of December 31, 2013 and June 30, 2014, our gross unrecognized tax benefits were $65.1 million and $66.4 million, respectively (including interest and penalties), of which $44.4 million and $44.9 million, respectively, if recognized, would affect our effective tax rate. As of December 31, 2013 and June 30, 2014, we had recorded reserves for interest and penalties in the amount of $14.7 million and $16.4 million, respectively. We continue to recognize interest and, to the extent applicable, penalties with respect to the unrecognized tax benefits as income tax expense. Since December 31, 2013, the change in the balance of unrecognized tax benefits consisted of an increase of $1.6 million related to prior period tax positions, an increase of $1.2 million related to current tax positions, and a decrease of $1.5 million due to the expiration of statute of limitations for the assessment of taxes.

We operate in various taxable jurisdictions throughout the world, and our tax returns are subject to audit and review from time to time. We consider Luxembourg, the United States, the United Kingdom and Brazil to be our significant tax jurisdictions. Our Luxembourg, U.S., U.K. and Brazilian subsidiaries are subject to income tax examination for periods after December 31, 2003. Within the next twelve months, we believe that there are no jurisdictions in which the outcome of unresolved tax issues or claims is likely to be material to our results of operations, financial position or cash flows.

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On March 7, 2013, Intelsat USA Sales Corporation (since January 2011, Intelsat USA Sales LLC, a disregarded subsidiary of Intelsat Corporation (Intelsat Corp)) was notified by the U.S. Internal Revenue Service of its intent to initiate an audit for the tax year ending on December 31, 2010. Intelsat USA Sales LLC wholly owns Intelsat General Corporation, which provides services to U.S. government and other select military organizations and their contractors, as well as other commercial customers. On March 5, 2014, Intelsat USA Sales LLC received a letter from the Internal Revenue Service effectively closing the audit of this federal income tax return for 2010 with no adjustment. Certain previously unrecognized tax benefits were recognized as a result of the conclusion of this audit.

On March 3, 2014, Intelsat Corp, Intelsat Global Service LLC, Intelsat General Corporation, Intelsat USA License LLC and Intelsat USA Sales LLC were notified by the District of Columbia Office of the Tax Revenue of its intent to initiate an audit for the tax years ending 2010 and 2011. At this point in time, it is too early to assess the probability of any adjustments resulting from these audits.

Prior to August 20, 2004, Intelsat Corp, joined with The DIRECTV Group and General Motors Corporation in filing a consolidated U.S. federal income tax return. In April 2004, Intelsat Corp entered into a tax separation agreement with The DIRECTV Group that superseded four earlier tax-related agreements among Intelsat Corp and its subsidiaries, The DIRECTV Group and certain of its affiliates. Pursuant to the tax separation agreement, The DIRECTV Group agreed to indemnify Intelsat Corp for all federal and consolidated state and local income taxes a taxing authority may attempt to collect from Intelsat Corp regarding any liability for the federal or consolidated state or local income taxes of General Motors Corporation and The DIRECTV Group, except those income taxes Intelsat Corp is required to pay under the tax separation agreement. In addition, The DIRECTV Group agreed to indemnify Intelsat Corp for any taxes (other than those taxes described in the preceding sentence) related to any periods or portions of such periods ending on, or prior to, the day of the closing of the PanAmSat Corporation recapitalization, which occurred on August 20, 2004, in amounts equal to 80% of the first $75.0 million of such other taxes and 100% of any other taxes in excess of the first $75.0 million. As a result, Intelsat Corp s tax exposure after indemnification related to these periods is capped at $15.0 million, of which $4.0 million has been paid to date. The tax separation agreement with The DIRECTV Group is effective from August 20, 2004 until the expiration of the statute of limitations with respect to all taxes to which the tax separation agreement relates. As of both December 31, 2013 and June 30, 2014, we had a tax indemnification receivable of $1.5 million.

Note 13 Commitments and Contingencies

We are subject to litigation in the ordinary course of business. Management does not believe that the resolution of any pending proceedings would have a material adverse effect on our financial position or results of operations.

Note 14 Business and Geographic Segment Information

We operate in a single industry segment in which we provide satellite services to our communications customers around the world. Revenue by region is based on the locations of customers to which services are billed. Our satellites are in geosynchronous orbit, and consequently are not attributable to any geographic location. Of our remaining assets, substantially all are located in the United States.

We earn revenue primarily by providing services to our customers using our satellite transponder capacity. Our customers generally obtain satellite capacity from us by placing an order pursuant to one of several master customer service agreements. Our customer agreements also cover services that we procure from third parties and resell, which we refer to as off-network services. These services can include transponder services and other satellite-based transmission services in frequencies not available on our network. Under the category off-network and other revenues, we also include revenues from consulting and other services.

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The geographic distribution of our revenue based upon billing region of the customer was as follows:

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2014	Six Months Ended June 30, 2013	Six Months Ended June 30, 2014
North America	45%	44%	45%	45%
Europe	17%	17%	17%	17%
Latin America and Caribbean	16%	16%	16%	16%
Africa and Middle East	15%	14%	15%	14%
Asia Pacific	7%	9%	7%	8%

Approximately 4% of our revenue was derived from our largest customer during each of the three and six month periods ended June 30, 2013 and 2014. Our ten largest customers accounted for approximately 25% and 26% of our revenue for the three month periods ended June 30, 2013 and 2014, respectively and approximately 25% of our revenue during each of the six month periods ended June 30, 2013 and 2014.

Our revenues were derived from the following services, with Off-Network and Other Revenues shown separately from On-Network Revenues (in thousands, except percentages):

	Three Months Ended June 30, 2013		Three Months Ended June 30, 2014		Six Months Ended June 30, 2013		Six Months Ended June 30, 2014	
On-Network Revenues								
Transponder services	$ 497,872	76%	$ 468,552	76%	$ 999,679	76%	$ 952,177	77%
Managed services	75,303	12%	76,450	12%	147,674	11%	151,283	12%
Channel	18,654	3%	15,142	2%	37,819	3%	31,001	2%
Total on-network revenues	591,829	91%	560,144	91%	1,185,172	91%	1,134,461	91%
Off-Network and Other Revenues								
Transponder, MSS and other off-network services	51,311	8%	43,554	7%	100,288	8%	86,720	7%
Satellite-related services	10,663	2%	12,051	2%	23,470	2%	23,458	2%
Total off-network and other revenues	61,974	9%	55,605	9%	123,758	9%	110,178	9%
Total	$ 653,803	100%	$ 615,749	100%	$ 1,308,930	100%	$ 1,244,639	100%

Note 15 Related Party Transactions

(a) Shareholders Agreements

Certain shareholders of Intelsat Global S.A. entered into shareholders agreements on February 4, 2008. The shareholders agreements were assigned to Intelsat S.A. by amendments effective as of March 30, 2012. The shareholders agreements and the articles of incorporation of Intelsat S.A. provided, among other things, for the governance of Intelsat S.A. and its subsidiaries and provided specific rights to and limitations upon the holders of Intelsat S.A. s share capital with respect to shares held by such holders. In connection with the IPO in April 2013, these articles of incorporation and shareholders agreements were amended.

(b) Monitoring Fee Agreement

Intelsat Luxembourg had a monitoring fee agreement dated February 4, 2008 (the 2008 MFA) with BC Partners Limited and Silver Lake Management Company III, L.L.C. (together, the 2008 MFA Parties), pursuant to which the 2008 MFA Parties provided certain monitoring, advisory and consulting services to Intelsat Luxembourg.

In connection with the IPO in April 2013, the 2008 MFA was terminated and we paid a fee of $39.1 million to the 2008 MFA Parties in connection with the termination. The $39.1 million payment, together with a write-off of $17.2 million of prepaid fees relating to the balance of 2013, were expensed upon consummation of the IPO, and are included within selling, general and administrative expenses in our condensed consolidated statement of operations. We recorded expense for services associated with, and including the termination of, the 2008 MFA of $64.2 million for the six months ended June 30, 2013.

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(c) Governance Agreement

Prior to the consummation of the IPO, we entered into a governance agreement (the Governance Agreement) with our shareholder affiliated with BC Partners (the BC Shareholder), our shareholder affiliated with Silver Lake (the Silver Lake Shareholder) and David McGlade, our Chairman and Chief Executive Officer (collectively with the BC Shareholder and the Silver Lake Shareholder, the Governance Shareholders). The Governance Agreement contains provisions relating to the composition of our board of directors and certain other matters.

(d) Indemnification Agreements

We have entered into agreements with our executive officers and directors to provide contractual indemnification in addition to the indemnification provided for in our articles of incorporation.

(e) Horizons Holdings

We have a 50% ownership interest in Horizons Holdings as a result of a joint venture with JSAT (see Note 8(a) Investments Horizons Holdings).

(f) WP Com

We have a 49% ownership interest in WP Com as a result of a joint venture with Corporativo (see Note 8(b) Investments WP Com).

Note 16 Supplemental Consolidating Financial Information

On April 5, 2011, Intelsat Jackson completed an offering of $2.65 billion aggregate principal amount of senior notes, consisting of $1.5 billion aggregate principal amount of the 7 $^{1}/_{4}$% Senior Notes due 2019 and $1.15 billion aggregate principal amount of the 7 $^{1}/_{2}$% Senior Notes due 2021 (collectively the 2011 Jackson Notes). The 2011 Jackson Notes are fully and unconditionally guaranteed, jointly and severally, by Intelsat S.A., Intelsat Holdings, Intelsat Investment Holdings S.à r.l. and Intelsat Investments (collectively, the Parent Guarantors), by Intelsat Luxembourg and by certain wholly-owned subsidiaries of Intelsat Jackson (the Subsidiary Guarantors).

On April 26, 2012, Intelsat Jackson completed an offering of $1.2 billion aggregate principal amount of its 7 $\frac{1}{4}$% Senior Notes due 2020, which are fully and unconditionally guaranteed, jointly and severally, by the Parent Guarantors, Intelsat Luxembourg and the Subsidiary Guarantors.

Separate financial statements of the Parent Guarantors, Intelsat Luxembourg, Intelsat Jackson and the Subsidiary Guarantors are not presented because management believes that such financial statements would not be material to investors. Investments in Intelsat Jackson s subsidiaries in the following condensed consolidating financial information are accounted for under the equity method of accounting. Consolidating adjustments include the following:

- elimination of investment in subsidiaries;

- elimination of intercompany accounts;

- elimination of intercompany sales between guarantor and non-guarantor subsidiaries; and

- elimination of equity in earnings (losses) of subsidiaries.

Other comprehensive income for the three months ended June 30, 2013 was $3.0 million compared to other comprehensive income of $1.7 million for the three months ended June 30, 2014. Other comprehensive income for the six months ended June 30, 2013 was $6.3 million compared to other comprehensive income of $3.4 million for the six months ended June 30, 2014. Other comprehensive income is fully attributable to the Subsidiary Guarantors, which are also consolidated within Intelsat Jackson.

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INTELSAT S.A. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATING BALANCE SHEET

AS OF JUNE 30, 2014

(in thousands)

	Intelsat S.A. and Other Parent Guarantors	Intelsat Luxembourg	Intelsat Jackson	Jackson Subsidiary Guarantors	Non-Guarantor Subsidiaries	Consolidation and Eliminations	Consolidated
ASSETS							
Current assets:							
Cash and cash equivalents	$ 5,719	$ 82	$ 307,647	$ 223,984	$ 56,844	$ (223,984)	$ 370,292
Receivables, net of allowance			158,816	158,814	74,767	(158,814)	233,583
Deferred income taxes			75,294	75,294	226	(83,172)	67,642
Prepaid expenses and other current assets	159		29,723	29,429	7,893	(32,265)	34,939
Intercompany receivables		270,099	156,191		8,594	(434,884)	
Total current assets	5,878	270,181	727,671	487,521	148,324	(933,119)	706,456
Satellites and other property and equipment, net			5,716,140	5,716,140	132,845	(5,754,725)	5,810,400
Goodwill			6,780,827	6,780,827		(6,780,827)	6,780,827
Non-amortizable intangible assets			2,458,100	2,458,100		(2,458,100)	2,458,100
Amortizable intangible assets, net			534,659	534,659		(534,659)	534,659
Investment in affiliates	(280,406)	2,934,607	214,673	214,673		(3,083,547)	
Other assets	88	39,413	376,830	245,755	10,036	(245,755)	426,367
Total assets	$ (274,440)	$ 3,244,201	$ 16,808,900	$ 16,437,675	$ 291,205	$ (19,790,732)	$ 16,716,809
LIABILITIES AND SHAREHOLDERS EQUITY							
Current liabilities:							

Accounts payable and accrued liabilities	$ 34,622	$	$ 116,420	$ 116,197	$ 28,010	$ (121,013)	$ 174,236
Accrued interest payable		22,500	145,562	1,633	71	(1,633)	168,133
Current portion of long-term debt					12,209		12,209
Deferred satellite performance incentives			19,643	19,643	1,414	(19,643)	21,057
Other current liabilities			161,901	160,729	3,809	(160,729)	165,710
Intercompany payables	434,884			529,942		(964,826)	
Total current liabilities	469,506	22,500	443,526	828,144	45,513	(1,267,844)	541,345
Long-term debt, net of current portion		3,500,000	11,761,356				15,261,356
Deferred satellite performance incentives, net of current portion			144,725	144,725	299	(144,725)	145,024
Deferred revenue, net of current portion			903,781	903,781	611	(903,781)	904,392
Deferred income taxes			226,858	226,858	14,325	(226,906)	241,135
Accrued retirement benefits			180,819	180,819	191	(180,819)	181,010
Other long-term liabilities			213,228	175,217	17,700	(181,115)	225,030
Shareholders equity (deficit):							
Common shares	1,065	7,202	3,466,429	9,023,860	24	(12,497,515)	1,065
Preferred shares	35						35
Other shareholders equity (deficit)	(745,046)	(285,501)	(531,822)	4,954,271	212,542	(4,388,027)	(783,583)
Total liabilities and shareholders equity	$ (274,440)	$ 3,244,201	$ 16,808,900	$ 16,437,675	$ 291,205	$ (19,790,732)	$ 16,716,809

(Certain totals may not add due to the effects of rounding)

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INTELSAT S.A. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATING BALANCE SHEET

AS OF DECEMBER 31, 2013

(in thousands)

	Intelsat S.A. and Other Parent Guarantors	Intelsat Luxembourg	Intelsat Jackson	Jackson Subsidiary Guarantors	Non-Guarantor Subsidiaries	Consolidation and Eliminations	Consolidated
ASSETS							
Current assets:							
Cash and cash equivalents	$ 3,792	$ 139	$ 193,090	$ 167,800	$ 50,769	$ (167,800)	$ 247,790
Receivables, net of allowance			160,023	159,656	76,324	(159,656)	236,347
Deferred income taxes			46,228	46,228	(1,753)	(46,228)	44,475
Prepaid expenses and other current assets	1,272		25,846	25,794	6,738	(26,426)	33,224
Intercompany receivables			421,504	386,820	20,609	(828,933)	
Total current assets	5,064	139	846,691	786,298	152,687	(1,229,043)	561,836
Satellites and other property and equipment, net			5,698,952	5,698,952	147,106	(5,739,470)	5,805,540
Goodwill			6,780,827	6,780,827		(6,780,827)	6,780,827
Non-amortizable intangible assets			2,458,100	2,458,100		(2,458,100)	2,458,100
Amortizable intangible assets, net			568,775	568,775		(568,775)	568,775
Investment in affiliates	(428,647)	3,053,901	227,320	227,320		(3,079,894)	
Other assets	88	41,497	362,636	222,679	10,371	(222,679)	414,592
Total assets	$ (423,495)	$ 3,095,537	$ 16,943,301	$ 16,742,951	$ 310,164	$ (20,078,788)	$ 16,589,670
LIABILITIES AND SHAREHOLDERS EQUITY							
Current liabilities:							

Accounts payable and accrued liabilities	$ 28,795	$ 32	$ 132,454	$ 130,178	$ 22,290	$ (130,810)	$ 182,939
Accrued interest payable		22,500	163,820	2,458	172	(2,458)	186,492
Current portion of long-term debt					24,418		24,418
Deferred satellite performance incentives			21,089	21,089	1,614	(21,089)	22,703
Other current liabilities			154,014	152,772	3,011	(152,772)	157,025
Intercompany payables	441,907	206				(442,113)	
Total current liabilities	470,702	22,738	471,377	306,497	51,505	(749,242)	573,577
Long-term debt, net of current portion		3,500,000	11,762,996				15,262,996
Deferred satellite performance incentives, net of current portion			153,023	153,023	881	(153,023)	153,904
Deferred revenue, net of current portion			887,446	887,446	793	(887,446)	888,239
Deferred income taxes			191,298	191,298	11,388	(191,346)	202,638
Accrued retirement benefits			196,657	196,657	199	(196,657)	196,856
Other long-term liabilities			226,603	179,025	19,524	(179,025)	246,127
Shareholders equity (deficit):							
Common shares	1,060	7,202	3,466,429	9,023,860	24	(12,497,515)	