Intelsat S.A.
Form 6-K
October 26, 2017
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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 October, 2017

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 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 nine months ended September 30, 2017

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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. 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 terms Intelsat Connect and ICF refer to Intelsat Connect Finance S.A., Intelsat Luxembourg s direct wholly-owned subsidiary, (6) the term Intelsat Jackson refers to Intelsat Jackson Holdings S.A., Intelsat Connect s direct wholly-owned subsidiary, (7) the term Intelsat Corp refers to Intelsat Corporation, Intelsat Jackson s direct wholly-owned subsidiary and (8) 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, anticipations, projections, estimations, predictions, outlook 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, 2016, as amended by Amendment No.1 on Form 20-F/A filed on October 11, 2017 (the Form 20-F) 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;

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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;

potential adverse reactions or changes to business or employee relationships resulting from the termination of the proposed OneWeb/SoftBank Transactions (See Note 1 General *Terminated Combination Agreement with OneWeb and Share Purchase Agreement with SoftBank*);

competitive responses to the terminated OneWeb/SoftBank Transactions;

diversion of management s attention from ongoing business operations and opportunities as a result of the terminated OneWeb/SoftBank Transactions;

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, anticipations, projections, estimations, predictions, outlook 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.

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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, 2016	As of September 30, 2017 (unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 666,024	$ 580,694
Restricted cash		17,541
Receivables, net of allowance of $54,744 in 2016 and $44,372 in 2017	203,036	194,953
Prepaid expenses and other current assets	55,908	59,125
Total current assets	924,968	852,313
Satellites and other property and equipment, net	6,185,842	6,028,395
Goodwill	2,620,627	2,620,627
Non-amortizable intangible assets	2,452,900	2,452,900
Amortizable intangible assets, net	391,838	360,147
Other assets	365,834	403,480
Total assets	$ 12,942,009	$ 12,717,862
LIABILITIES AND SHAREHOLDERS DEFICIT		
Current liabilities:		
Accounts payable and accrued liabilities	$ 215,987	$ 97,599
Taxes payable	16,733	8,343
Employee related liabilities	50,178	31,208
Accrued interest payable	204,840	295,030
Current portion of long-term debt		96,527
Deferred satellite performance incentives	23,455	23,855
Deferred revenue	157,684	169,040
Other current liabilities	64,786	45,642
Total current liabilities	733,663	767,244
Long-term debt, net of current portion	14,198,084	14,120,002
Deferred satellite performance incentives, net of current portion	210,706	220,477
Deferred revenue, net of current portion	906,744	824,393

Deferred income taxes	168,445	168,693
Accrued retirement benefits	186,284	175,739
Other long-term liabilities	148,081	126,391
Shareholders deficit:		
Common shares; nominal value $0.01 per share	1,180	1,190
Paid-in capital	2,156,911	2,171,011
Accumulated deficit	(5,715,931)	(5,804,708)
Accumulated other comprehensive loss	(76,305)	(73,040)
Total Intelsat S.A. shareholders deficit	(3,634,145)	(3,705,547)
Noncontrolling interest	24,147	20,470
Total liabilities and shareholders deficit	$ 12,942,009	$ 12,717,862

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 September 30, 2016	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2017
Revenue	$ 542,727	$ 538,759	$ 1,637,353	$ 1,610,472
Operating expenses:				
Direct costs of revenue (excluding depreciation and amortization)	88,460	78,111	254,334	242,003
Selling, general and administrative	58,948	47,873	175,244	152,343
Depreciation and amortization	174,909	178,742	520,869	535,384
Total operating expenses	322,317	304,726	950,447	929,730
Income from operations	220,410	234,033	686,906	680,742
Interest expense, net	243,039	261,834	694,937	756,180
Gain (loss) on early extinguishment of debt	219,560	(4,565)	350,962	(4,109)
Other income (expense), net	324	1,797	(1,084)	3,814
Income (loss) before income taxes	197,255	(30,569)	341,847	(75,733)
Provision for (benefit from) or income taxes	650	(1,153)	11,538	10,125
Net income (loss)	196,605	(29,416)	330,309	(85,858)
Net income attributable to noncontrolling interest	(983)	(996)	(2,932)	(2,919)
Net income (loss) attributable to Intelsat S.A.	$ 195,622	$ (30,412)	$ 327,377	$ (88,777)
Cumulative preferred dividends				
Net income (loss) attributable to common shareholders	$ 195,622	$ (30,412)	$ 327,377	$ (88,777)
Net income (loss) per common share attributable to Intelsat S.A.:				
Basic	$ 1.66	$ (0.26)	$ 2.89	$ (0.75)
Diluted	$ 1.65	$ (0.26)	$ 2.77	$ (0.75)

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, except per share amounts)

	Three Months Ended September 30, 2016	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2017
Net income (loss)	$ 196,605	$ (29,416)	$ 330,309	$ (85,858)
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	(1)	27	(3)	23
Reclassification adjustment for amortization of unrecognized actuarial loss included in net periodic pension costs, net of tax	532	566	1,596	1,651
Marketable securities:				
Unrealized gains on investments, net of tax	137	147	254	429
Reclassification adjustment for realized gain on investments, net of tax	(17)	(32)	(28)	(61)
Derivatives:				
Unrealized gain on fair value of derivatives, net of tax		329		1,223
Other comprehensive income	651	1,037	1,819	3,265
Comprehensive income (loss)	197,256	(28,379)	332,128	(82,593)
Comprehensive income attributable to noncontrolling interest	(983)	(996)	(2,932)	(2,919)
Comprehensive income (loss) attributable to Intelsat S.A.	$ 196,273	$ (29,375)	$ 329,196	$ (85,512)

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)

	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2017
Cash flows from operating activities:		
Net income (loss)	$ 330,309	$ (85,858)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	520,869	535,384
Provision for doubtful accounts	26,153	(5,891)
Foreign currency transaction gain	(4,141)	(2,363)
Loss on disposal of assets		26
Share-based compensation	18,028	13,848
Deferred income taxes	(8,512)	(10,610)
Amortization of discount, premium, issuance costs and related costs	17,643	36,191
(Gain) loss on early extinguishment of debt	(350,962)	4,109
Unrealized gains on derivative financial instruments	(764)	
Amortization of actuarial loss and prior service credits for retirement benefits	2,521	2,537
Other non-cash items	1,166	(301)
Changes in operating assets and liabilities:		
Receivables	(4,565)	14,611
Prepaid expenses and other assets	(39,830)	(1,783)
Accounts payable and accrued liabilities	(3,381)	(43,447)
Accrued interest payable	143,058	90,190
Deferred revenue	(37,517)	(85,272)
Accrued retirement benefits	(7,148)	(10,545)
Other long-term liabilities	(6,932)	(8,734)
Net cash provided by operating activities	595,995	442,092
Cash flows from investing activities:		
Payments for satellites and other property and equipment (including capitalized interest)	(620,471)	(404,122)
Purchase of cost method investments	(4,000)	(16,000)
Capital contributions to unconsolidated affiliates	(6,678)	(23,355)
Proceeds from insurance settlements		28,351
Net cash used in investing activities	(631,149)	(415,126)
Cash flows from financing activities:		

Proceeds from issuance of long-term debt	1,250,000	1,500,000
Repayment of long-term debt	(328,569)	(1,500,000)
Debt issuance costs	(25,809)	(21,188)
Payments on tender, debt exchange and consent	(34,009)	(14)
Dividends paid to preferred shareholders	(4,959)	
Other payments for satellites	(18,333)	(35,396)
Principal payments on deferred satellite performance incentives	(12,734)	(33,976)
Dividends paid to noncontrolling interest	(6,765)	(6,596)
Restricted cash for collateral		(17,530)
Other financing activities	1,942	678
Net cash provided by (used in) financing activities	820,764	(114,022)
Effect of exchange rate changes on cash and cash equivalents	716	1,726
Net change in cash and cash equivalents	786,326	(85,330)
Cash and cash equivalents, beginning of period	171,541	666,024
Cash and cash equivalents, end of period	$ 957,867	$ 580,694
Supplemental cash flow information:		
Interest paid, net of amounts capitalized	$ 537,313	$ 631,676
Income taxes paid, net of refunds	17,980	30,394
Supplemental disclosure of non-cash investing activities:		
Accrued capital expenditures and payments for satellites	$ 64,335	$ 17,294
Capitalization of deferred satellite performance incentives	69,909	44,445
Supplemental disclosure of non-cash financing activities:		
Debt financing and restricted cash received	$ 480,200	$
Restricted cash used	(480,200)	
Restricted cash letters of credit collateral		17,530

See accompanying notes to unaudited condensed consolidated financial statements.

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INTELSAT S.A.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2017

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, 2016 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, 2016 on file with the U.S. 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.

Terminated Combination Agreement with OneWeb and Share Purchase Agreement with SoftBank

In February 2017, Intelsat entered into a combination agreement (as amended, the Combination Agreement) with WorldVu Satellites Limited (OneWeb), which provided for a combination of the businesses of Intelsat and OneWeb pursuant to a merger (the OneWeb Combination), and Intelsat entered into a share purchase agreement (as amended, the Share Purchase Agreement) with SoftBank Group Corp. (SoftBank), which provided for a cash investment by SoftBank in exchange for shares of Intelsat (the SoftBank Investment and, together with the OneWeb Combination, the OneWeb/SoftBank Transactions). The consummation of the OneWeb/SoftBank Transactions was conditioned on the successful completion of debt exchange offers for certain outstanding notes of Intelsat Jackson, Intelsat Luxembourg and ICF. In June 2017, Intelsat announced that the debt exchange offers had expired without sufficient tenders having been received, and Intelsat subsequently received termination notices from OneWeb and SoftBank terminating the Combination Agreement and Share Purchase Agreement, respectively.

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.

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In April 2016, the FASB issued ASU 2016-10*, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*. The standard amends the guidance in ASU 2014-09 about identifying performance obligations and accounting for licenses of intellectual property.

In May 2016, the FASB issued ASU 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*. The standard makes narrow-scope amendments to ASU 2014-09 and provides practical expedients to simplify the transition to the new standard and to clarify certain aspects of the standard.

In December 2016, the FASB issued ASU 2016-20, *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers*. The standard affects certain narrow aspects of the guidance issued in ASU 2014-09.

We are still in the process of evaluating the impact that these standards will have on our consolidated financial statements and associated disclosures, and have not yet selected a transition method. We are finalizing our accounting positions under ASU 2014-09, as amended, including the significant judgments and estimates required. We are evaluating and directing the implementation of the new revenue recognition standard and related amendments.

In preparation for adoption of the new guidance, we have assessed contracts entered into with key customers and other forms of agreements with customers globally and have evaluated the provisions under the five-step model specified by the new guidance. Based on our initial assessment, we anticipate that the adoption of the new standard will impact the amount of total consideration for prepayment contracts, accounting of incremental costs for obtaining a contract, allocation of the transaction price to all performance obligations in arrangements, accounting for contract modifications, and additional disclosures. We have identified all contracts with prepayment provisions and determined that certain contracts contain a significant financing component primarily due to the length of time between when payment is received and when the transfer of services to the customer occurs. Further, we currently expense sales commissions under our sales incentive program as incurred. Under the new standard, we believe we will be required to defer and amortize a portion of these commissions as contract costs over the life of the contract.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842),* 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 June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which changes how companies measure and recognize credit impairment for any financial assets. The standard will require companies to immediately recognize an estimate of credit losses expected to occur over the remaining life of the financial assets that are within the scope of the standard. ASU 2016-13 is effective for interim and annual periods beginning after December 15, 2019 for public business entities that are SEC filers, on a modified retrospective basis. Early adoption is permitted for interim and annual periods beginning after December 15, 2018. We are in the process of evaluating the impact that ASU 2016-13 will have on our consolidated financial statements and associated disclosures.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, which addresses specific issues relating to diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. Additionally, in November

2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)*, which requires that amounts described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU 2016-15 and ASU 2016-18 are effective for interim and annual periods beginning after December 15, 2017 for public business entities, on a retrospective basis. Early adoption is permitted for both standards in any interim or annual period, and for ASU 2016-15 with a condition that the entire ASU is adopted in the same period. We do not expect the adoption of ASU 2016-15 to have a material impact on our consolidated financial statements and associated disclosures. The amendments in ASU 2016-18 will change the presentation of cash flows from restricted cash from supplemental disclosure of non-cash financing activities to cash flows from financing activities in our consolidated statement of cash flows. During both the three months and nine months ended September 30, 2016, the amendments in ASU 2016-18 would have resulted in reclassification of $480.2 million, currently presented as debt financing and restricted cash received under supplemental disclosure of non-cash financing activities, to proceeds from issuance of long-term debt under cash flows from financing activities. During both the three months and nine months ended September 30, 2017, the amendments in ASU 2016-18 would have resulted in elimination of $17.5 million, currently presented as restricted cash letters of credit collateral under supplemental disclosure of non-cash financing activities, and elimination of $17.5 million outflow from restricted cash for collateral.

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In October 2016, the FASB issued ASU 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory*, which is intended to improve the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. The amendments in ASU 2016-16 eliminate the current requirement to defer the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to an outside party. ASU 2016-16 is effective for interim and annual periods beginning after December 15, 2017 for public business entities, on a modified retrospective basis. Early adoption is permitted as of the beginning of an annual reporting period for which interim or annual financial statements have not been issued. We plan to adopt the amendments in the first quarter of 2018 and expect the effect of ASU 2016-16 to be a cumulative benefit to retained earnings on January 1, 2018. Based on our existing intercompany structure, we expect the benefit to retained earnings to be between $4 million and $10 million. The benefit relates to certain deferred intercompany gains/losses, mostly in connection with a series of intercompany transactions in 2011 and related steps that reorganized the ownership of our assets among our subsidiaries.

In January 2017, the FASB issued ASU 2017-04, *Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, which is intended to simplify the subsequent measurement of goodwill. The amendments in ASU 2017-04 modify the concept of impairment from the condition that exists when the carrying amount of goodwill exceeds its fair value to the condition that exists when the carrying amount of a reporting unit exceeds its fair value. An entity will no longer determine goodwill impairment by calculating the implied fair value of goodwill by assigning the fair value of a reporting unit to all of its assets and liabilities, as if that reporting unit had been acquired in a business combination. ASU 2017-04 will be effective for interim and annual goodwill impairment tests in fiscal years beginning after December 15, 2019 for public business entities, on a prospective basis. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. When adopted, we expect the amendments in ASU 2017-04 to simplify the process of testing for goodwill impairment, if required.

In March 2017, the FASB issued ASU 2017-07, *Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, which is intended to improve the presentation of net periodic pension cost and net periodic postretirement benefit cost in the financial statements. ASU 2017-07 requires that an employer disaggregate the service cost component from the other components of net benefit cost and report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. ASU 2017-07 is effective for interim and annual periods beginning after December 15, 2017 for public business entities. Early adoption is permitted as of the beginning of an annual period for which interim or annual financial statements have not been issued. We are in the process of evaluating the impact that ASU 2017-07 will have on our consolidated financial statements and associated disclosures.

In May 2017, the FASB issued ASU 2017-09, *Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting*, which is intended to clarify when to account for a change to the terms or conditions of a share-based payment award as a modification. Under ASU 2017-09 modification accounting is required only if the fair value (or calculated intrinsic value, if those amounts are being used to measure the award under ASC 718), the vesting conditions, or the classification of the award changes as a result of the change in terms or conditions. ASU 2017-09 is effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period for which financial statements have not yet been issued or made available for issuance. The amendment should be applied prospectively to an award modified on or after the adoption date. We do not anticipate this ASU will have a material impact on our consolidated financial statements and associated disclosures. We will continue to evaluate the impact of ASU 2017-09 as any modifications will occur.

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 September 30, 2017, there were 119.0 million common shares issued and outstanding.

On May 1, 2016, each of our 5.75% Series A Mandatorily convertible junior non-voting preferred shares (the Series A Preferred Shares) automatically converted 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 for a total of 9.6 million new common shares was recorded on May 2, 2016.

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.

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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 September 30, 2016	**Three Months Ended September 30, 2017**	**Nine Months Ended September 30, 2016**	**Nine Months Ended September 30, 2017**
Numerator:				
Net income (loss)	$ 196,605	$ (29,416)	$ 330,309	$ (85,858)
Net income attributable to noncontrolling interest	(983)	(996)	(2,932)	(2,919)
Net income (loss) attributable to Intelsat S.A.	195,622	(30,412)	327,377	(88,777)
Net income (loss) attributable to common shareholders	195,622	(30,412)	327,377	(88,777)
Numerator for Basic EPS income (loss) available to common shareholders	195,622	(30,412)	327,377	(88,777)
Numerator for Diluted EPS	195,622	(30,412)	327,377	(88,777)
Denominator:				
Basic weighted average shares outstanding (in millions)	117.8	119.0	113.4	118.7
Weighted average dilutive shares outstanding (in millions):				
Preferred shares (in millions)			4.2	
Employee compensation related shares including options and restricted stock units (in millions)	0.8		0.7	
Diluted weighted average shares outstanding (in millions)	118.6	119.0	118.3	118.7
Basic net income (loss) per common share attributable to Intelsat S.A.	$ 1.66	$ (0.26)	$ 2.89	$ (0.75)
Diluted net income (loss) per common share attributable to Intelsat S.A.	$ 1.65	$ (0.26)	$ 2.77	$ (0.75)

Due to a net loss for the three and nine months ended September 30, 2017, 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 6.0 million and 2.7 million (consisting of restricted share units and options to purchase common shares) for the three months ended September 30, 2016 and 2017, respectively, and 6.4 million and 5.4 million for the nine months ended September 30, 2016 and 2017, respectively.

Note 4 Share-Based and Other Compensation Plans

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). No new awards may be granted under the 2008 Equity Plan.

The 2013 Equity Plan provides for a variety of equity based awards, including incentive stock options (within the meaning of Section 422 of the United States Internal Revenue Service Tax Code), restricted shares, restricted share units (RSUs), other share-based awards and performance compensation awards. Effective June 16, 2016, we increased the aggregate number of common shares authorized for issuance under the 2013 Equity Plan to 20.0 million common shares.

In March 2016, the FASB issued ASU 2016-09, *Compensation-Stock Compensation (Topic 718): 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. We adopted this ASU in the first quarter of 2017 and are recognizing forfeitures as they occur. The adoption did not have a material impact on our consolidated financial statements and associated disclosures.

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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 nine months ended September 30, 2016 and 2017, we recorded compensation expense of $18.0 million and $13.8 million, respectively.

Option modifications

During the nine months ended September 30, 2016, we amended 1.2 million stock options under the 2008 Equity Plan (including 0.7 million of anti-dilution options), and 0.4 million stock options under the 2013 Equity Plan in order 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 $2.0 million for the nine months ended September 30, 2016.

There were no option modifications during the nine months ended September 30, 2017.

Time-based RSUs

We granted 1.2 million time-based RSUs during the nine months ended September 30, 2017. These RSUs vest on average over three years from the date of grant in equal annual installments.

The fair value of time-based RSUs is deemed to be the market price of common shares on the date of grant. The weighted average grant date fair value of time-based RSUs granted during the nine months ended September 30, 2017 was $4.28 per RSU.

Performance-based RSUs

We granted 0.8 million performance-based RSUs during the nine months ended September 30, 2017. These RSUs vest after three years from the date of grant upon achievement of an adjusted EBITDA target and achievement of a relative shareholder return (RSR), which is based on our relative shareholder return percentile ranking versus the S&P 900 Index as defined in the grant agreement.

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 an RSR target).

The weighted average grant date fair value of performance-based RSUs granted during the nine months ended September 30, 2017 was $2.79 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.

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We have identified investments in marketable securities and put option embedded 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 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 any transfers between Level 1 and Level 2 fair value measurements during the nine months ended September 30, 2017.

	Fair Value Measurements at December 31, 2016			
	As of December 31, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Description				
Assets				
Marketable securities[(1)]	$ 5,381	$ 5,381	$	$
Total assets	$ 5,381	$ 5,381	$	$
Liabilities				
Put option embedded derivative[(2)]	$ 1,496	$	$	$ 1,496
Total liabilities	$ 1,496	$	$	$ 1,496

	Fair Value Measurements at September 30, 2017			
	As of September 30, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Description				
Assets				
Marketable securities[(1)]	$ 5,713	$ 5,713	$	$
Total assets	$ 5,713	$ 5,713	$	$
Liabilities				
Put option embedded derivative[(2)]	$ 167	$	$	$ 167
Total liabilities	$ 167	$	$	$ 167

(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 $5.0 million at December 31, 2016 and $4.6 million at September 30, 2017. We sold marketable securities with a cost basis of $0.5 million during the nine months ended September 30, 2017 and recorded a nominal gain on the sale, which was included within other income (expense), net in our consolidated statement of operations.

(2) We valued the contingent put option embedded within ICF s 12.50% Senior Notes due 2022 (the 2022 ICF Notes) using a valuation technique which reflects the estimated date and probability of a change of control, the fair value of the 2022 ICF Notes, and a credit valuation adjustment reflecting our credit spreads. We identified the inputs used to calculate the fair value as Level 3 inputs and concluded that the valuation in its entirety was classified as Level 3 within 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.

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. During the nine months ended September 30, 2017, we made cash contributions to the defined benefit retirement plan of $2.0 million. We anticipate that our remaining contributions to the defined benefit retirement plan in 2017 will be approximately $0.9 million. We fund the postretirement medical benefits throughout the year based on benefits paid. We anticipate that our contributions to fund postretirement medical benefits in 2017 will be approximately $4.1 million.

Included in accumulated other comprehensive loss at September 30, 2017, is $121.3 million ($76.5 million, net of tax) that has not yet been recognized in the net periodic pension cost, which includes unrecognized actuarial losses.

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 operations for the three and nine months ended September 30, 2017. 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 September 30, 2016	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2017
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)	$ (1)	$ 16	$ (2)	$ 14
Selling, general and administrative		11	(1)	9
Total	$ (1)	$ 27	$ (3)	$ 23
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)	$ 326	$ 345	$ 989	$ 1,009
Selling, general and administrative	206	221	607	642
Total	$ 532	$ 566	$ 1,596	$ 1,651
Realized gain on investments included in:				
Other expense, net	$ (17)	$ (32)	$ (28)	$ (61)
Total	$ (17)	$ (32)	$ (28)	$ (61)