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.

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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

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

$1,000 / 1 security**Tax considerations:**

Prospective investors should note that the discussion under the section called "United States Federal Taxation" in the accompanying product supplement does not apply to the securities issued under this document and is superseded by the following discussion.

The following is a general discussion of the material U.S. federal income tax consequences and certain estate tax consequences of the ownership and disposition of the securities. This discussion applies only to investors in the securities who:

· purchase the securities in the original offering; and

· hold the securities as capital assets within the meaning of Section 1221 of the Internal Revenue Code of 1986, as amended (the "Code").

This discussion does not describe all of the tax consequences that may be relevant to a holder in light of the holder's particular circumstances or to holders subject to special rules, such as:

· certain financial institutions;

· insurance companies;

· certain dealers and traders in securities or commodities;

· investors holding the securities as part of a "straddle," wash sale, conversion transaction, integrated transaction or constructive sale transaction;

· U.S. Holders (as defined below) whose functional currency is not the U.S. dollar;

· partnerships or other entities classified as partnerships for U.S. federal income tax purposes;

· regulated investment companies;

· real estate investment trusts; or

· tax-exempt entities, including “individual retirement accounts” or “Roth IRAs” as defined in Section 408 or 408A of the Code, respectively.

If an entity that is classified as a partnership for U.S. federal income tax purposes holds the securities, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. If you are a partnership holding the securities or a partner in such a partnership, you should consult your tax adviser as to the particular U.S. federal tax consequences of holding and disposing of the securities to you.

As the law applicable to the U.S. federal income taxation of instruments such as the securities is technical and complex, the discussion below necessarily represents only a general summary. The effect of any applicable state, local or non-U.S. tax laws is not discussed, nor are any alternative minimum tax consequences or consequences resulting from the Medicare tax on investment income. Moreover, the discussion below does not address the consequences to taxpayers subject to special tax accounting rules under Section 451(b) of the Code.

This discussion is based on the Code, administrative pronouncements, judicial decisions and final, temporary and proposed Treasury regulations, all as of the date hereof, changes to any of which subsequent to the date hereof may affect the tax consequences described herein. Persons considering the purchase of the securities should consult their tax advisers with regard to the application of the U.S. federal income tax laws to their particular situations as well as any tax consequences arising under the laws of any state, local or non-U.S. taxing jurisdiction.

General

Due to the absence of statutory, judicial or administrative authorities that directly address the treatment of the securities or instruments that are similar to the securities for U.S. federal income tax purposes, no assurance can be given that the IRS or a court will agree with the tax treatment described herein. We intend to treat a security for U.S. federal income tax purposes as a single financial contract that provides for a coupon that will be treated as gross income to you at the time received or accrued in accordance with your regular method of tax accounting. In the opinion of our counsel, Davis Polk & Wardwell LLP, this treatment of the securities is reasonable under current law; however, our counsel has advised us that it is unable to conclude affirmatively that this treatment is more likely than not to be upheld, and that alternative treatments are

Morgan Stanley Finance LLC

Contingent Income Buffered Auto-Callable Securities due February 2, 2021, With 6-month Initial Non-Call Period

All Payments on the Securities Based on the Worst Performing of the SPDR® S&P® Oil & Gas Exploration & Production ETF and the Market Vectors Gold Miners ETF

Principal at Risk Securities

possible.

You should consult your tax adviser regarding all aspects of the U.S. federal tax consequences of an investment in the securities (including possible alternative treatments of the securities). Unless otherwise stated, the following discussion is based on the treatment of each security as described in the previous paragraph.

Tax Consequences to U.S. Holders

This section applies to you only if you are a U.S. Holder. As used herein, the term "U.S. Holder" means a beneficial owner of a security that is, for U.S. federal income tax purposes:

· a citizen or individual resident of the United States;

· a corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States, any state thereof or the District of Columbia; or

· an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

Tax Treatment of the Securities

Assuming the treatment of the securities as set forth above is respected, the following U.S. federal income tax consequences should result.

Tax Basis. A U.S. Holder's tax basis in the securities should equal the amount paid by the U.S. Holder to acquire the securities.

Tax Treatment of Coupon Payments. Any coupon payment on the securities should be taxable as ordinary income to a U.S. Holder at the time received or accrued, in accordance with the U.S. Holder's regular method of accounting for U.S. federal income tax purposes.

Sale, Exchange or Settlement of the Securities. Upon a sale, exchange or settlement of the securities, a U.S. Holder should recognize gain or loss equal to the difference between the amount realized on the sale, exchange or settlement and the U.S. Holder's tax basis in the securities sold, exchanged or settled. For this purpose, the amount realized does not include any coupon paid at settlement and may not include sale proceeds attributable to an accrued coupon, which may be treated as a coupon payment. Any such gain or loss recognized should be long-term capital gain or loss if the U.S. Holder has held the securities for more than one year at the time of the sale, exchange or settlement, and should be short-term capital gain or loss otherwise. The ordinary income treatment of the coupon payments, in conjunction with the capital loss treatment of any loss recognized upon the sale, exchange or settlement of the securities, could result in adverse tax consequences to holders of the securities because the deductibility of capital losses is subject to limitations.

Possible Alternative Tax Treatments of an Investment in the Securities

Due to the absence of authorities that directly address the proper tax treatment of the securities, no assurance can be given that the IRS will accept, or that a court will uphold, the treatment described above. In particular, the IRS could seek to analyze the U.S. federal income tax consequences of owning the securities under Treasury regulations governing contingent payment debt instruments (the "Contingent Debt Regulations"). If the IRS were successful in asserting that the Contingent Debt Regulations applied to the securities, the timing and character of income thereon would be significantly affected. Among other things, a U.S. Holder would be required to accrue into income original issue discount on the securities every year at a "comparable yield" determined at the time of their issuance, adjusted upward or downward to reflect the difference, if any, between the actual and the projected amount of any contingent payments on the securities. Furthermore, any gain realized by a U.S. Holder at maturity or upon a sale, exchange or other disposition of the securities would be treated as ordinary income, and any loss realized would be treated as ordinary loss to the extent of the U.S. Holder's prior accruals of original issue discount and as capital loss thereafter. The risk that financial instruments providing for buffers, triggers or similar downside protection features, such as the securities, would be recharacterized as debt is greater than the risk of recharacterization for comparable financial instruments that do not have such features.

Other alternative federal income tax treatments of the securities are possible, which, if applied,

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could significantly affect the timing and character of the income or loss with respect to the securities. In 2007, the U.S. Treasury Department and the IRS released a notice requesting comments on the U.S. federal income tax treatment of "prepaid forward contracts" and similar instruments. The notice focuses on whether to require holders of "prepaid forward contracts" and similar instruments to accrue income over the term of their investment. It also asks for comments on a number of related topics, including the character of income or loss with respect to these instruments; whether short-term instruments should be subject to any such accrual regime; the relevance of factors such as the exchange–traded status of the instruments and the nature of the underlying property to which the instruments are linked; whether these instruments are or should be subject to the "constructive ownership" rule, which very generally can operate to recharacterize certain long-term capital gain as ordinary income and impose an interest charge; and appropriate transition rules and effective dates. While it is not clear whether instruments such as the securities would be viewed as similar to the prepaid forward contracts described in the notice, any Treasury regulations or other guidance promulgated after consideration of these issues could materially and adversely affect the tax consequences of an investment in the securities, possibly with retroactive effect. U.S. Holders should consult their tax advisers regarding the U.S. federal income tax consequences of an investment in the securities, including possible alternative treatments and the issues presented by this notice.

Backup Withholding and Information Reporting

Backup withholding may apply in respect of payments on the securities and the payment of proceeds from a sale, exchange or other disposition of the securities, unless a U.S. Holder provides proof of an applicable exemption or a correct taxpayer identification number and otherwise complies with applicable requirements of the backup withholding rules. The amounts withheld under the backup withholding rules are not an additional tax and may be refunded, or credited against the U.S. Holder's U.S. federal income tax liability, provided that the required information is timely furnished to the IRS. In addition, information returns will be filed with the IRS in connection with payments on the securities and the payment of proceeds from a sale, exchange or other disposition of the securities, unless the U.S. Holder provides proof of an applicable exemption from the information reporting rules.

Tax Consequences to Non-U.S. Holders

This section applies to you only if you are a Non-U.S. Holder. As used herein, the term "Non-U.S. Holder" means a beneficial owner of a security that is for U.S. federal income tax purposes:

· an individual who is classified as a nonresident alien;

· a foreign corporation; or

· a foreign estate or trust.

The term "Non-U.S. Holder" does not include any of the following holders:

· a holder who is an individual present in the United States for 183 days or more in the taxable year of disposition and who is not otherwise a resident of the United States for U.S. federal income tax purposes;

· certain former citizens or residents of the United States; or

· a holder for whom income or gain in respect of the securities is effectively connected with the conduct of a trade or business in the United States.

Such holders should consult their tax advisers regarding the U.S. federal income tax consequences of an investment in the securities.

Although significant aspects of the tax treatment of each security are uncertain, we intend to withhold on any coupon paid to a Non-U.S. Holder generally at a rate of 30% or at a reduced rate specified by an applicable income tax treaty under an "other income" or similar provision. We will not be required to pay any additional amounts with respect to amounts withheld. In order to claim an exemption from, or a reduction in, the 30% withholding tax, a Non-U.S. Holder of the securities must comply with certification requirements to establish that it is not a U.S. person and is eligible for such an exemption or reduction under an applicable tax treaty. If you are a Non-U.S. Holder, you should consult your tax adviser regarding the tax treatment of the securities, including the possibility of obtaining a refund of any withholding tax and the certification requirement described above.

Section 871(m) Withholding Tax on Dividend Equivalents

Morgan Stanley Finance LLC

Contingent Income Buffered Auto-Callable Securities due February 2, 2021, With 6-month Initial Non-Call Period

All Payments on the Securities Based on the Worst Performing of the SPDR® S&P® Oil & Gas Exploration & Production ETF and the Market Vectors Gold Miners ETF

Principal at Risk Securities

Section 871(m) of the Code and Treasury regulations promulgated thereunder (“Section 871(m)”) generally impose a 30% (or a lower applicable treaty rate) withholding tax on dividend equivalents paid or deemed paid to Non-U.S. Holders with respect to certain financial instruments linked to U.S. equities or indices that include U.S. equities (each, an “Underlying Security”). Subject to certain exceptions, Section 871(m) generally applies to securities that substantially replicate the economic performance of one or more Underlying Securities, as determined based on tests set forth in the applicable Treasury regulations (a “Specified Security”). However, pursuant to an IRS notice, Section 871(m) will not apply to securities issued before January 1, 2021 that do not have a delta of one with respect to any Underlying Security. Based on our determination that the securities do not have a delta of one with respect to any Underlying Security, our counsel is of the opinion that the securities should not be Specified Securities and, therefore, should not be subject to Section 871(m).

Our determination is not binding on the IRS, and the IRS may disagree with this determination. Section 871(m) is complex and its application may depend on your particular circumstances, including whether you enter into other transactions with respect to an Underlying Security. If Section 871(m) withholding is required, we will not be required to pay any additional amounts with respect to the amounts so withheld. You should consult your tax adviser regarding the potential application of Section 871(m) to the securities.

U.S. Federal Estate Tax

Individual Non-U.S. Holders and entities the property of which is potentially includible in such an individual’s gross estate for U.S. federal estate tax purposes (for example, a trust funded by such an individual and with respect to which the individual has retained certain interests or powers) should note that, absent an applicable treaty exemption, the securities may be treated as U.S.-situs property subject to U.S. federal estate tax. Prospective investors that are non-U.S. individuals, or are entities of the type described above, should consult their tax advisers regarding the U.S. federal estate tax consequences of an investment in the securities.

Backup Withholding and Information Reporting

Information returns will be filed with the IRS in connection with any coupon payment and may be filed with the IRS in connection with the payment at maturity on the securities and the payment of proceeds from a sale, exchange or other disposition. A Non-U.S. Holder may be subject to backup withholding in respect of amounts paid to the Non-U.S. Holder, unless such Non-U.S. Holder complies with certification procedures to establish that it is not a U.S. person for U.S. federal income tax purposes or otherwise establishes an exemption. The amount of any backup withholding from a payment to a Non-U.S. Holder will be allowed as a credit against the Non-U.S. Holder's U.S. federal income tax liability and may entitle the Non-U.S. Holder to a refund, provided that the required information is timely furnished to the IRS.

FATCA

Legislation commonly referred to as "FATCA" generally imposes a withholding tax of 30% on payments to certain non-U.S. entities (including financial intermediaries) with respect to certain financial instruments, unless various U.S. information reporting and due diligence requirements have been satisfied. An intergovernmental agreement between the United States and the non-U.S. entity's jurisdiction may modify these requirements. FATCA generally applies to certain financial instruments that are treated as paying U.S.-source interest or other U.S.-source "fixed or determinable annual or periodical" income ("FDAP income"). Withholding (if applicable) applies to payments of U.S.-source FDAP income and to payments of gross proceeds of the disposition (including upon retirement) of certain financial instruments treated as providing for U.S.-source interest or dividends. Under recently proposed regulations (the preamble to which specifies that taxpayers are permitted to rely on them pending finalization), no withholding will apply on payments of gross proceeds. While the treatment of the securities is unclear, you should assume that any coupon payment with respect to the securities will be subject to the FATCA rules. If withholding applies to the securities, we will not be required to pay any additional amounts with respect to amounts withheld. Both U.S. and Non-U.S. Holders should consult their tax advisers regarding the potential application of FATCA to the securities.

The discussion in the preceding paragraphs, insofar as it purports to describe provisions of U.S. federal income tax laws or legal conclusions with respect thereto, constitutes the full opinion of Davis Polk & Wardwell LLP regarding the material U.S. federal tax consequences of an investment in the securities.

Use of proceeds and hedging:	The proceeds from the sale of the securities will be used by us for general corporate purposes. We will receive, in aggregate, $1,000 per security issued, because, when we enter into hedging

transactions in order to meet our obligations under the securities, our hedging counterparty will reimburse the cost of the agent's commissions. The costs of the securities borne by you and described beginning on page 5 above comprise the agent's commissions and the cost of issuing, structuring and hedging the securities.

On or prior to the pricing date, we hedged our anticipated exposure in connection with the securities by entering into hedging transactions with our affiliates and/or third-party dealers. We expect our hedging counterparties to have taken positions in the underlying shares and in futures and/or options contracts on the underlying shares or any component stocks of the share underlying indices. Such purchase activity could have increased the initial share price of one or both of the underlying shares and, therefore, could have increased (i) the value at or above which such underlying shares must close on the redemption determination dates so that the securities are redeemed prior to maturity for the early redemption payment (depending also on the performance of the other underlying shares) and (ii) the coupon barrier level for such underlying shares, which is the value at or above which the underlying shares must close on the observation dates so that you receive a contingent monthly coupon on the securities (depending also on the performance of the other underlying shares) and (iii) the value at or above which such underlying shares must close on the final observation date so that you are not exposed to the negative performance of the worst performing underlying shares at maturity (depending also on the performance of the other underlying shares). These entities may be unwinding or adjusting hedge positions during the term of the securities, and the hedging strategy may involve greater and more frequent dynamic adjustments to the hedge as the final observation date approaches. Additionally, our hedging activities, as well as our other trading activities, during the term of the securities could potentially affect the value of any of the underlying shares on the redemption determination dates and other observation dates and, accordingly, whether we redeem the securities prior to maturity, whether we pay a contingent monthly coupon on the securities and the amount of cash you will receive at maturity. For further information on our use of proceeds and hedging, see "Use of Proceeds and Hedging" in the accompanying product supplement.

Benefit plan investor considerations: Each fiduciary of a pension, profit-sharing or other employee benefit plan subject to Title I of the Employee Retirement Income Security Act of 1974, as amended ("ERISA") (a "Plan"), should consider the fiduciary standards of ERISA in the context of the Plan's particular circumstances before authorizing an investment in the securities. Accordingly, among other factors, the fiduciary should consider whether the investment would satisfy the prudence and diversification requirements of ERISA and would be consistent with the documents and instruments governing the Plan.

In addition, we and certain of our affiliates, including MS & Co., may each be considered a “party in interest” within the meaning of ERISA, or a “disqualified person” within the meaning of the Internal Revenue Code of 1986, as amended (the “Code”), with respect to many Plans, as well as many individual retirement accounts and Keogh plans (such accounts and plans, together with other plans, accounts and arrangements subject to Section 4975 of the Code, also “Plans”). ERISA Section 406 and Code Section 4975 generally prohibit transactions between Plans and parties in interest or disqualified persons. Prohibited transactions within the meaning of ERISA or the Code would likely arise, for example, if the securities are acquired by or with the assets of a Plan with respect to which MS & Co. or any of its affiliates is a service provider or other party in interest, unless the securities are acquired pursuant to an exemption from the “prohibited transaction” rules. A violation of these “prohibited transaction” rules could result in an excise tax or other liabilities under ERISA and/or Section 4975 of the Code for those persons, unless exemptive relief is available under an applicable statutory or administrative exemption.

The U.S. Department of Labor has issued five prohibited transaction class exemptions (“PTCEs”) that may provide exemptive relief for direct or indirect prohibited transactions resulting from the purchase or holding of the securities. Those class exemptions are PTCE 96-23 (for certain transactions determined by in-house asset managers), PTCE 95-60 (for certain transactions involving insurance company general accounts), PTCE 91-38 (for certain transactions involving bank collective investment funds), PTCE 90-1 (for certain transactions involving insurance company separate accounts) and PTCE 84-14 (for certain transactions determined by independent qualified professional asset managers). In addition, ERISA Section 408(b)(17) and Code Section 4975(d)(20) provide an exemption for the purchase and sale of securities and the related lending transactions, provided that neither the issuer of the securities nor any of its affiliates has or exercises any discretionary authority or control or renders any investment advice with respect to the assets of the Plan involved in the transaction and provided further that the Plan pays no more, and receives no less, than “adequate consideration” in connection with the transaction (the so-called “service provider” exemption). There can be no assurance that any of these class or statutory exemptions will be available with respect to transactions involving the securities.

Morgan Stanley Finance LLC

Contingent Income Buffered Auto-Callable Securities due February 2, 2021, With 6-month Initial Non-Call Period

All Payments on the Securities Based on the Worst Performing of the SPDR® S&P® Oil & Gas Exploration & Production ETF and the Market Vectors Gold Miners ETF

Principal at Risk Securities

Because we may be considered a party in interest with respect to many Plans, the securities may not be purchased, held or disposed of by any Plan, any entity whose underlying assets include “plan assets” by reason of any Plan’s investment in the entity (a “Plan Asset Entity”) or any person investing “plan assets” of any Plan, unless such purchase, holding or disposition is eligible for exemptive relief, including relief available under PTCEs 96-23, 95-60, 91-38, 90-1, 84-14 or the service provider exemption or such purchase, holding or disposition is otherwise not prohibited. Any purchaser, including any fiduciary purchasing on behalf of a Plan, transferee or holder of the securities will be deemed to have represented, in its corporate and its fiduciary capacity, by its purchase and holding of the securities that either (a) it is not a Plan or a Plan Asset Entity and is not purchasing such securities on behalf of or with “plan assets” of any Plan or with any assets of a governmental, non-U.S. or church plan that is subject to any federal, state, local or non-U.S. law that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code (“Similar Law”) or (b) its purchase, holding and disposition of these securities will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or violate any Similar Law.

Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is particularly important that fiduciaries or other persons considering purchasing the securities on behalf of or with “plan assets” of any Plan consult with their counsel regarding the availability of exemptive relief.

The securities are contractual financial instruments. The financial exposure provided by the securities is not a substitute or proxy for, and is not intended as a substitute or proxy for, individualized investment management or advice for the benefit of any purchaser or holder of the securities. The securities have not been designed and will not be administered in a manner intended to reflect the individualized needs and objectives of any purchaser or holder of the securities.

Each purchaser or holder of any securities acknowledges and agrees that:

(i) the purchaser or holder or its fiduciary has made and shall make all investment decisions for the purchaser or holder and the purchaser or holder has not relied and shall not rely in any way upon us or our affiliates to act as a fiduciary or adviser of the purchaser or holder with respect to (A) the design and terms of the securities, (B) the purchaser or holder's investment in the securities, or (C) the exercise of or failure to exercise any rights we have under or with respect to the securities;

(ii) we and our affiliates have acted and will act solely for our own account in connection with (A) all transactions relating to the securities and (B) all hedging transactions in connection with our obligations under the securities;

(iii) any and all assets and positions relating to hedging transactions by us or our affiliates are assets and positions of those entities and are not assets and positions held for the benefit of the purchaser or holder;

(iv) our interests are adverse to the interests of the purchaser or holder; and

(v) neither we nor any of our affiliates is a fiduciary or adviser of the purchaser or holder in connection with any such assets, positions or transactions, and any information that we or any of our affiliates may provide is not intended to be impartial investment advice.

Each purchaser and holder of the securities has exclusive responsibility for ensuring that its purchase, holding and disposition of the securities do not violate the prohibited transaction rules of ERISA or the Code or any Similar Law. The sale of any securities to any Plan or plan subject to Similar Law is in no respect a representation by us or any of our affiliates or representatives that such an investment meets all relevant legal requirements with respect to investments by plans generally or any particular plan, or that such an investment is appropriate for plans generally or any particular plan. In this regard, neither this discussion nor anything provided in this document is or is intended to be investment advice directed at any potential Plan purchaser or at Plan purchasers generally and such purchasers of these securities should consult and rely on their own counsel and advisers as to whether an investment in these securities is suitable.

However, individual retirement accounts, individual retirement annuities and Keogh plans, as well as employee benefit plans that permit participants to direct the investment of their accounts, will not be permitted to purchase or hold the securities if the account, plan or annuity is for the benefit of an employee of Morgan Stanley or Morgan Stanley Wealth Management or a family member and the

	employee receives any compensation (such as, for example, an addition to bonus) based on the purchase of the securities by the account, plan or annuity.
Additional considerations:	Client accounts over which Morgan Stanley, Morgan Stanley Wealth Management or any of their respective subsidiaries have investment discretion are **not** permitted to purchase the securities, either directly or indirectly.

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Morgan Stanley Finance LLC

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All Payments on the Securities Based on the Worst Performing of the SPDR® S&P® Oil & Gas Exploration & Production ETF and the Market Vectors Gold Miners ETF

Principal at Risk Securities

	Selected dealers, which may include our affiliates, and their financial advisors will collectively receive from the agent a fixed sales commission of $27.50 for each security they sell.
Supplemental information regarding plan of distribution; conflicts of interest:	MS & Co. is an affiliate of MSFL and a wholly owned subsidiary of Morgan Stanley, and it and other affiliates of ours expect to make a profit by selling, structuring and, when applicable, hedging the securities. MS & Co. will conduct this offering in compliance with the requirements of FINRA Rule 5121 of the Financial Industry Regulatory Authority, Inc., which is commonly referred to as FINRA, regarding a FINRA member firm's distribution of the securities of an affiliate and related conflicts of interest. MS & Co. or any of our other affiliates may not make sales in this offering to any discretionary account. See "Plan of Distribution (Conflicts of Interest)" and "Use of Proceeds and Hedging" in the accompanying product supplement for auto-callable securities.
Validity of the securities:	In the opinion of Davis Polk & Wardwell LLP, as special counsel to MSFL and Morgan Stanley, when the securities offered by this pricing supplement have been executed and issued by MSFL, authenticated by the trustee pursuant to the MSFL Senior Debt Indenture (as defined in the accompanying prospectus) and delivered against payment as contemplated herein, such securities will be valid and binding obligations of MSFL and the related guarantee will be a valid and binding obligation of Morgan Stanley, enforceable in accordance with their terms, subject to applicable bankruptcy, insolvency and similar laws affecting creditors' rights generally, concepts of reasonableness and equitable principles of general applicability (including, without limitation, concepts of good faith, fair dealing and the lack of bad faith), *provided* that such counsel expresses no opinion as to (i) the effect of fraudulent conveyance, fraudulent transfer or similar provision of applicable law on the conclusions expressed above and (ii) any provision of the MSFL Senior Debt Indenture that purports to avoid the effect of fraudulent conveyance, fraudulent transfer or similar provision of applicable law by limiting the amount of Morgan Stanley's obligation under the related guarantee. This opinion is given as of the date hereof and is limited to the laws of the State of New York, the General Corporation Law of the State of Delaware and the Delaware Limited Liability

Company Act. In addition, this opinion is subject to customary assumptions about the trustee's authorization, execution and delivery of the MSFL Senior Debt Indenture and its authentication of the securities and the validity, binding nature and enforceability of the MSFL Senior Debt Indenture with respect to the trustee, all as stated in the letter of such counsel dated November 16, 2017, which is Exhibit 5-a to the Registration Statement on Form S-3 filed by Morgan Stanley on November 16, 2017.

Contact: Morgan Stanley Wealth Management clients may contact their local Morgan Stanley branch office or our principal executive offices at 1585 Broadway, New York, New York 10036 (telephone number (866) 477-4776). All other clients may contact their local brokerage representative. Third-party distributors may contact Morgan Stanley Structured Investment Sales at (800) 233-1087.

Morgan Stanley and MSFL have filed a registration statement (including a prospectus, as supplemented by the product supplement for auto-callable securities and the index supplement) with the Securities and Exchange Commission, or SEC, for the offering to which this communication relates. You should read the prospectus in that registration statement, the product supplement for auto-callable securities, the index supplement and any other documents relating to this offering that MSFL and Morgan Stanley have filed with the SEC for more complete information about Morgan Stanley and this offering. You may get these documents without cost by visiting EDGAR on the SEC web site at.www.sec.gov. Alternatively, MSFL, Morgan Stanley, any underwriter or any dealer participating in the offering will arrange to send you the prospectus and the product supplement for auto-callable securities and the index supplement if you so request by calling toll-free 1-(800)-584-6837.

Where you can find more information: You may access these documents on the SEC web site at.www.sec.gov as follows:

Product Supplement for Auto-Callable Securities dated November 16, 2017

Index Supplement dated November 16, 2017

Prospectus dated November 16, 2017

Terms used but not defined in this document are defined in the product supplement for auto-callable securities, the index supplement or in the prospectus.