

RigNet, Inc.  
Form 10-Q  
May 06, 2013  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended March 31, 2013

or

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

Commission file number 001-35003

**RigNet, Inc.**

(Exact name of registrant as specified in its charter)

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<b>Delaware</b> (State or other jurisdiction of incorporation or organization)	<b>76-0677208</b> (I.R.S. Employer Identification No.)
<b>1880 S. Dairy Ashford, Suite 300</b>  <b>Houston, Texas</b> (Address of principal executive offices)	<b>77077-4760</b> (Zip Code)
<b>Registrant's telephone number, including area code: (281) 674-0100</b>	

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definition of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>
Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

At April 30, 2013, there were outstanding 15,915,005 shares of the registrant's Common Stock.

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**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Condensed Consolidated Financial Statements****RIGNET, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(Unaudited)**

	March 31, 2013	December 31, 2012
	(in thousands, except share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 54,716	\$ 59,744
Restricted cash	1,190	987
Accounts receivable, net	40,194	40,028
Prepaid expenses and other current assets	9,140	6,214
Total current assets	105,240	106,973
Property and equipment, net	48,857	46,650
Restricted cash	1,265	1,809
Goodwill	33,013	34,489
Intangibles, net	19,264	21,241
Deferred tax and other assets	5,145	4,770
TOTAL ASSETS	\$ 212,784	\$ 215,932
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 13,396	\$ 11,763
Accrued expenses	8,955	8,686
Current maturities of long-term debt	9,425	9,422
Income taxes payable	4,984	5,520
Deferred revenue	3,797	6,774
Total current liabilities	40,557	42,165
Long-term debt	49,510	51,871
Deferred revenue	258	302
Deferred tax liability	1,367	1,645
Other liabilities	18,758	17,977
Total liabilities	110,450	113,960
Commitments and contingencies (Note 12)		
Equity:		
Stockholders' equity		
Preferred stock \$0.001 par value; 10,000,000 shares authorized; no shares issued or outstanding at March 31, 2013 or December 31, 2012		
Common stock \$0.001 par value; 190,000,000 shares authorized; 15,845,921 and 15,701,615 shares issued and outstanding at March 31, 2013 and December 31, 2012, respectively	16	16
Additional paid-in capital	121,331	120,050
Accumulated deficit	(17,305)	(21,040)

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Accumulated other comprehensive income (loss)	(1,762)	2,829
<b>Total stockholders' equity</b>	<b>102,280</b>	<b>101,855</b>
Non-redeemable, non-controlling interest	54	117
<b>Total equity</b>	<b>102,334</b>	<b>101,972</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 212,784</b>	<b>\$ 215,932</b>

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

**Table of Contents****RIGNET, INC.****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)****(Unaudited)**

	<b>Three Months Ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
	<small>(in thousands, except per share amounts)</small>	
<b>Revenue</b>	<b>\$ 52,818</b>	<b>\$ 31,210</b>
<b>Expenses:</b>		
Cost of revenue (excluding depreciation and amortization)	29,122	14,181
Depreciation and amortization	4,969	3,928
Selling and marketing	787	658
General and administrative	11,760	7,545
<b>Total expenses</b>	<b>46,638</b>	<b>26,312</b>
<b>Operating income</b>	<b>6,180</b>	<b>4,898</b>
<b>Other income (expense):</b>		
Interest expense	(507)	(187)
Other income (expense), net	614	(74)
Income before income taxes	6,287	4,637
Income tax expense	(2,512)	(2,143)
<b>Net income</b>	<b>3,775</b>	<b>2,494</b>
Less: Net income attributable to		
Non-redeemable, non-controlling interest	40	82
<b>Net income attributable to RigNet, Inc. stockholders</b>	<b>\$ 3,735</b>	<b>\$ 2,412</b>
<b>COMPREHENSIVE INCOME (LOSS)</b>		
Net income	\$ 3,775	\$ 2,494
Foreign currency translation	(4,591)	1,113
<b>Comprehensive income (loss)</b>	<b>(816)</b>	<b>3,607</b>
Less: Comprehensive income attributable to non-controlling interest	40	82
<b>Comprehensive income (loss) attributable to RigNet, Inc. stockholders</b>	<b>\$ (856)</b>	<b>\$ 3,525</b>
<b>INCOME PER SHARE BASIC AND DILUTED</b>		
Net income attributable to RigNet, Inc. common stockholders	\$ 3,735	\$ 2,412
Net income per share attributable to RigNet, Inc. common stockholders, basic	\$ 0.24	\$ 0.16
Net income per share attributable to RigNet, Inc. common stockholders, diluted	\$ 0.22	\$ 0.14
Weighted average shares outstanding, basic	15,759	15,464
Weighted average shares outstanding, diluted	17,327	16,948

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

**Table of Contents****RIGNET, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

	<b>Three Months Ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
	<b>(in thousands)</b>	
<b>Cash flows from operating activities:</b>		
Net income	\$ 3,775	\$ 2,494
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	4,969	3,928
Stock-based compensation	817	581
Amortization of deferred financing costs	38	16
Deferred taxes	(250)	874
(Gain) loss on sales of property and equipment, net of retirements	41	(50)
Changes in operating assets and liabilities, net of effect of acquisition:		
Accounts receivable	(1,077)	1,479
Prepaid expenses and other assets	(3,352)	(2,645)
Accounts payable	886	1,248
Accrued expenses	(80)	(905)
Deferred revenue	(2,690)	(256)
Other liabilities	813	976
<b>Net cash provided by operating activities</b>	<b>3,890</b>	<b>7,740</b>
<b>Cash flows from investing activities:</b>		
Additional payment for acquisition of Nessco	(85)	
Capital expenditures	(5,571)	(7,067)
Proceeds from sales of property and equipment	50	165
Decrease in restricted cash	341	
<b>Net cash used in investing activities</b>	<b>(5,265)</b>	<b>(6,902)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of common stock	464	34
Subsidiary distributions to non-controlling interest	(103)	(90)
Repayments of long-term debt	(2,396)	(2,197)
<b>Net cash used in financing activities</b>	<b>(2,035)</b>	<b>(2,253)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(3,410)</b>	<b>(1,415)</b>
<b>Cash and cash equivalents:</b>		
Balance, January 1,	59,744	53,106
Changes in foreign currency translation	(1,618)	1,113
<b>Balance, March 31,</b>	<b>\$ 54,716</b>	<b>\$ 52,804</b>
<b>Supplemental disclosures:</b>		
Income taxes paid	\$ 3,232	\$ 1,446
Interest paid	\$ 479	\$ 168



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Non-cash investing capital expenditures accrued	\$ 2,760	\$ 1,165
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The accompanying notes are an integral part of the condensed consolidated financial statements .

**Table of Contents****RIGNET, INC.****CONDENSED CONSOLIDATED STATEMENTS OF EQUITY****(Unaudited)**

	Common Shares	Stock Amount	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss) (in thousands)	Total Stockholders Equity	Non-Redeemable, Non-Controlling Interest	Total Equity
<b>Balance, December 31, 2011</b>	<b>15,441</b>	<b>\$ 15</b>	<b>\$ 116,740</b>	<b>\$ (32,922)</b>	<b>\$ (610)</b>	<b>\$ 83,223</b>	<b>\$ 162</b>	<b>\$ 83,385</b>
Issuance of common stock upon the exercise of stock options	5		34			34		34
Issuance of restricted common stock, net of share repurchase from employees and share cancellations	76	1	(81)			(80)		(80)
Stock-based compensation			581			581		581
Foreign currency translation					1,113	1,113		1,113
Non-controlling owner distributions							(90)	(90)
Net income				2,412		2,412	82	2,494
<b>Balance, March 31, 2012</b>	<b>15,522</b>	<b>\$ 16</b>	<b>\$ 117,274</b>	<b>\$ (30,510)</b>	<b>\$ 503</b>	<b>\$ 87,283</b>	<b>\$ 154</b>	<b>\$ 87,437</b>
<b>Balance, December 31, 2012</b>	<b>15,702</b>	<b>\$ 16</b>	<b>\$ 120,050</b>	<b>\$ (21,040)</b>	<b>\$ 2,829</b>	<b>\$ 101,855</b>	<b>\$ 117</b>	<b>\$ 101,972</b>
Issuance of common stock upon the exercise of stock options	66		464			464		464
Issuance of restricted common stock, net of share cancellations	78							
Stock-based compensation			817			817		817
Foreign currency translation					(4,591)	(4,591)		(4,591)
Non-controlling owner distributions							(103)	(103)
Net income				3,735		3,735	40	3,775
<b>Balance, March 31, 2013</b>	<b>15,846</b>	<b>\$ 16</b>	<b>\$ 121,331</b>	<b>\$ (17,305)</b>	<b>\$ (1,762)</b>	<b>\$ 102,280</b>	<b>\$ 54</b>	<b>\$ 102,334</b>

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

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### **NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

#### **Note 1 Basis of Presentation**

The interim unaudited condensed consolidated financial statements of RigNet, Inc. (the Company) include all adjustments which, in the opinion of management, are necessary for a fair presentation of the Company's financial position and results of operations. All such adjustments are of a normal recurring nature. These financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and Rule 10-01 of Regulation S-X. The preparation of these financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying footnotes. Estimates and assumptions about future events and their effects cannot be perceived with certainty. Estimates may change as new events occur, as more experience is acquired, as additional information becomes available and as the Company's operating environment changes. Actual results could differ from estimates. These statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2012 included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 7, 2013.

#### ***Significant Accounting Policies***

Please refer to RigNet's Annual Report on Form 10-K for fiscal year 2012 for information regarding the Company's accounting policies.

#### ***Recently Issued Accounting Pronouncements***

In July 2012, the FASB issued Accounting Standards Update No. 2012-02 (ASU 2012-02), Testing Indefinite-Lived Intangible Assets for Impairment. ASU 2012-02 amends the guidance on testing indefinite-lived intangible assets for impairment. The revised guidance permits an entity first to assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test. The Company adopted ASU 2012-02 as of January 1, 2013. The adoption of ASU 2012-02 did not have any impact on the Company's condensed consolidated financial statements.

In February 2013, the FASB issued Accounting Standards Update No. 2013-02 (ASU 2013-02), Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. This update amends Accounting Standards Updates Nos. 2011-05 and 2011-12. This update requires the presentation of the components of amounts reclassified out of accumulated other comprehensive income either on the face of the statement of income or in the notes to the financial statements. The Company adopted ASU 2013-02 as of January 1, 2013. The adoption of ASU 2013-02 did not have any impact on the Company's condensed consolidated financial statements.

#### **Note 2 Business Combination**

On July 5, 2012, RigNet acquired 100% of Nessco Group Holdings Ltd. (Nessco), an Aberdeen-based international company operating in the field of telecommunications systems integration for the oil and gas industry, for an aggregate purchase price of \$42.6 million, net of cash acquired of \$6.0 million. The purchase price includes \$2.2 million of payments made under a \$2.5 million contingent consideration arrangement, based on the collection of specific third-party receivables. This acquisition broadens and strengthens RigNet's communications offerings to the oil and gas industry, allowing the Company to provide its services over the life of the field from drilling through production, both offshore and onshore, around the globe.

The assets and liabilities of Nessco have been recorded at their estimated fair values at the date of acquisition. The excess of the purchase price over the estimated fair values of the underlying net tangible and identifiable intangible assets and liabilities has been recorded as goodwill. The Company's allocation of the purchase price is preliminary as the amounts related to contingent consideration, identifiable intangible assets, and the effects of income taxes resulting from the transaction, are still being finalized. Any material measurement adjustments will be recorded retroactively to the acquisition date.

The goodwill of \$19.7 million, arising from the acquisition, consists largely of the synergies and other benefits that the Company believes will result from combining the operations of the Company and Nessco, as well as, other intangible assets that do not qualify for separate recognition, such as assembled workforce in place at the date of acquisition. None of the goodwill recognized is expected to be deductible for income tax

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purposes. The acquisition of Nessco, including goodwill, is included in the Company's condensed consolidated financial statements as of the acquisition date and is reflected in the Europe /Africa reporting segment.

**Table of Contents****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

	<b>Weighted Average Estimated Useful Life (Years)</b>	<b>Fair Market Values (in thousands)</b>
Current assets		\$ 22,298(a)(b)
Property and equipment		7,744
Identifiable intangible assets:		
Trade name	7.0	\$ 4,353
Covenant not to compete	1.7	151
Backlog	1.7	1,116
Customer relationships	7.0	11,706
Total identifiable intangible assets		17,326
Goodwill		19,678(b)
Other assets		575
Liabilities		(19,041)
Total purchase price		\$ 48,580(a)

(a) Includes \$2.2 million of contingent consideration paid between July 2012 and March 2013 based on the collection of specific third-party revenue.

(b) Includes \$0.5 million tax impact related to the contingent consideration.

For the three months ended March 31, 2013, Nessco contributed \$16.8 million of revenue and \$1.4 million of net income which are included in the Condensed Consolidated Statements of Comprehensive Income (Loss).

**Note 3 Business and Credit Concentrations**

The Company is exposed to various business and credit risks including interest rate, foreign currency, credit and liquidity risks.

***Interest Rate Risk***

The Company has significant interest-bearing liabilities at variable interest rates which generally price monthly. The Company's variable borrowing rates are tied to LIBOR and prime resulting in interest rate risk (see Note 6 Long-Term Debt). The Company does not currently use financial instruments to hedge these interest risk exposures, but evaluates this on a continual basis and may put financial instruments in place in the future if deemed necessary.

***Foreign Currency Risk***

The Company has exposure to foreign currency risk, as a portion of the Company's activities are conducted in currencies other than U.S. dollars. Currently, the Norwegian kroner and the British pound sterling are the currencies that could materially impact the Company's financial position and results of operations. The Company's historical experience with exchange rates for these currencies has been relatively stable, and, consequently, the Company typically does not use financial instruments to hedge this risk, but evaluates it on a continual basis and may put financial instruments in place in the future if deemed necessary. Foreign currency translations are reported as accumulated other comprehensive income (loss) in the Company's condensed consolidated financial statements.

***Credit Risk***

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Credit risk, with respect to accounts receivable, is due to the limited number of customers concentrated in the oil and gas industry. The Company mitigates the risk of financial loss from defaults through defined collection terms in each contract or service agreement and periodic evaluations of the collectability of accounts receivable. The evaluations include a review of customer credit reports and past transaction history with the customer. The Company provides an allowance for doubtful accounts which is adjusted when the Company becomes aware of a specific customer's inability to meet its financial obligations or as a result of changes in the overall aging of accounts receivable.

**Table of Contents****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS*****Liquidity Risk***

The Company maintains cash and cash equivalent balances with major financial institutions which, at times, exceed federally insured limits. The Company monitors the financial condition of the financial institutions and has not experienced losses associated with these accounts during 2013 or 2012. Liquidity risk is managed by continuously monitoring forecasted and actual cash flows and by matching the maturity profiles of financial assets and liabilities (see Note 6 – Long-Term Debt).

**Note 4 – Goodwill and Intangibles*****Goodwill***

Goodwill relates to the acquisitions of LandTel Communications LLC (LandTel), OilCamp AS (OilCamp), and Nessco as the consideration paid exceeded the fair value of acquired identifiable net tangible and intangible assets. Goodwill is reviewed for impairment annually with additional evaluations being performed when events or circumstances indicate that the carrying value of these assets may not be recoverable. The Company performs its annual impairment test on July 31<sup>st</sup>, with the most recent test being performed as of July 31, 2012. This 2012 test resulted in no impairment. No impairment indicators have been identified through March 31, 2013. As of March 31, 2013 and December 31, 2012, goodwill was \$33.0 million and \$34.5 million, respectively. Goodwill increases or decreases in value due to the effect of foreign currency translation.

***Intangibles***

Intangibles consist of customer relationships (acquired as part of the LandTel, OilCamp and Nessco acquisitions), as well as trade name, covenant not-to-compete and backlog (acquired as part of the Nessco acquisition) and internal-use software. The Company's intangibles have useful lives ranging from 1.7 to 9.0 years and are amortized on a straight-line basis. Impairment testing is performed when events or circumstances indicate that the carrying value of the assets may not be recoverable. No impairment indicators have been identified as of March 31, 2013. During the three months ended March 31, 2013 and 2012, the Company recognized amortization expense of \$1.1 million and \$0.3 million, respectively.

The following table sets forth amortization expense of intangibles for the remainder of 2013 and the following five years (in thousands):

2013	\$ 3,025
2014	3,420
2015	3,242
2016	3,089
2017	3,089
Thereafter	3,399
	<b>\$ 19,264</b>

**Note 5 – Restricted Cash**

As of March 31, 2013, the Company had restricted cash of \$1.2 million and \$1.3 million, in current and long-term assets, respectively. As of December 31, 2012, the Company had restricted cash of \$1.0 million and \$1.8 million, in current and long-term assets, respectively. This restricted cash is being used to collateralize outstanding performance bonds for Nessco's systems integration projects which were in effect prior to RigNet acquiring Nessco (see Note 6 – Long-Term Debt).

**Table of Contents****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****Note 6 Long-Term Debt**

As of March 31, 2013 and December 31, 2012, the following credit facilities and long-term debt arrangements with financial institutions were in place:

	<b>March 31, 2013</b>	<b>December 31, 2012</b>
	(in thousands)	
Term loan, net of unamortized deferred financing costs	\$ 58,851	\$ 61,184
Equipment notes	84	109
	58,935	61,293
Less: Current maturities of long-term debt	(9,425)	(9,422)
	\$ 49,510	\$ 51,871

***Term Loan***

The Company has a term loan (Term Loan) with two participating financial institutions. In July 2012, the Company amended its Term Loan, increasing the principal balance by \$47.2 million and extending the maturity of the loan from May 2014 to July 2017. Additionally, in March 2013 the Company amended the Term Loan to bear an interest rate of LIBOR plus a margin ranging from 2.0% to 3.0%, previously 2.25% to 3.5%; based on a ratio of funded debt to Adjusted EBITDA, a non-GAAP financial measure as defined in the agreement.

Interest is payable monthly along with quarterly principal installments of \$2.4 million, with the balance due July 31, 2017. The weighted average interest rate for the three months ended March 31, 2013 was 3.1%, with an interest rate of 2.7% at March 31, 2013.

The Term Loan is secured by substantially all the assets of the Company. As of March 31, 2013, the Term Loan had outstanding principal of \$59.3 million.

***Revolving Loans***

Under the amended and restated credit agreement dated July 2, 2012, the Company secured a \$10.0 million revolving credit facility which, subject to a borrowing base calculation based upon eligible receivables, can be used for working capital, performance bonds and letters of credit. As of March 31, 2013, no draws have been made on the facility.

***Performance Bonds***

Prior to acquisition, NesscoInvsat Limited, had performance bonds for Nessco's systems integration projects which are currently outstanding and require the Company to maintain restricted cash balances to collateralize these bonds. As of March 31, 2013, the Company had restricted cash of \$1.2 million and \$1.3 million, in current and long-term assets, respectively, to satisfy this requirement.

On September 14, 2012, the Company, entered into an additional performance bond facility with a lender in the amount of £4.0 million, or \$6.1 million. Interest of 1.5% per annum is paid quarterly on the utilized portion of the facility. This facility has a maturity date of June 30, 2017. As of March 31, 2013, the amount available under this facility was £3.2 million, or \$4.9 million.

***Covenants and Restrictions***

The Company's Term Loan contains certain covenants and restrictions, including restricting the payment of cash dividends under default and maintaining certain financial covenants such as a ratio of funded debt to Adjusted EBITDA, a non-GAAP financial measure as defined in the



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agreement, and a fixed charge coverage ratio. If any default occurs related to these covenants, the unpaid principal and any accrued interest shall be declared immediately due and payable. As of March 31, 2013 and December 31, 2012, the Company believes it was in compliance with all covenants.

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The following table sets forth the aggregate principal maturities of long-term debt, net of deferred financing cost amortization, as of March 31, 2013 (in thousands):

2013	\$ 7,090
2014	9,363
2015	9,387
2016	9,410
2017	23,685
Total debt, including current maturities	\$ 58,935

**Note 7 Fair Value Disclosures**

The Company uses the following methods and assumptions to estimate the fair value of financial instruments:

***Cash and Cash Equivalents*** Reported amounts approximate fair value based on quoted market prices (Level 1).

***Restricted Cash*** Reported amounts approximate fair value.

***Accounts Receivable*** Reported amounts, net of the allowance for doubtful accounts, approximate fair value due to the short term nature of these assets.

***Accounts Payable, Including Income Taxes Payable and Accrued Expenses*** Reported amounts approximate fair value due to the short term nature of these liabilities.

***Long-Term Debt*** The carrying amount of the Company's floating-rate debt approximates fair value since the interest rates paid are based on short-term maturities and recent quoted rates from financial institutions. The estimated fair value of debt was calculated based upon observable (Level 2) inputs regarding interest rates available to the Company at the end of each respective period.

**Note 8 Income Taxes**

The Company's effective income tax rate was 40.0% and 46.2% for the three months ended March 31, 2013 and 2012, respectively. Effective tax rates are affected by factors including fluctuations in income across jurisdictions with varying tax rates, changes in valuation allowances related to operating in a loss jurisdiction for which a benefit cannot be claimed, and changes in income tax reserves, including related penalties and interest. The variance in the effective tax rate between the reporting periods was primarily impacted by tax benefits resulting from the strategic legal entity restructuring completed in December 2012.

The Company has computed the provision for taxes for both periods using the actual year-to-date effective tax rate. The Company's financial projections for those periods did not provide the level of detail necessary to calculate a forecasted effective tax rate.

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The Company and the Internal Revenue Service agreed to the final assessments related to an audit of the Company's 2010 income tax return in March of 2013. The final settlement did not have a material change to the Company's financial position or results of operations for the three months ended March 31, 2013.

### **Note 9 Stock-Based Compensation**

During the three months ended March 31, 2013, the Company granted 84,166 shares of restricted stock to certain officers and employees of the Company under the 2010 Omnibus Incentive Plan (2010 Plan). Restricted shares have no exercise price and are considered issued and outstanding common stock. Restricted shares granted vest over a four year period of continued employment, with 25% of shares vesting on each of the first four anniversaries of the grant date.

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During the three months ended March 31, 2013, the Company also granted 227,475 stock options to certain officers and employees of the Company under the 2010 Plan. Options granted during this period have an exercise price of \$19.96, a contractual term of ten years and vest over a four year period of continued employment, with 25% of shares vesting on each of the first four anniversaries of the grant date.

The fair value of restricted stock is determined based on the closing trading price of the Company's common stock on the grant date of the award. Compensation expense is recognized on a straight-line basis over the requisite service period of the entire award.

The fair value of each stock option award is estimated on the grant date using a Black-Scholes option valuation model, which uses certain assumptions as of the date of grant. The assumptions used for the stock option grants made during the three months ended March 31, 2013 and 2012, were as follows:

	<b>Three Months Ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
Expected volatility	50%	50%
Expected term (in years)	7	7
Risk-free interest rate	1.3%	2.8%
Dividend yield		

Based on these assumptions, the weighted average grant date fair value of stock options granted during the three months ended March 31, 2013 and 2012 was \$11.11 and \$9.45 per option, respectively.

Stock-based compensation expense related to the Company's stock-based compensation plans for the three months ended March 31, 2013 and 2012 was \$0.8 million and \$0.6 million, respectively. As of March 31, 2013, there was \$5.9 million of total unrecognized compensation cost related to unvested options and restricted stock expected to vest. This cost is expected to be recognized over a remaining weighted-average period of 2.8 years.

**Note 10 Related Party Transactions**

One of the Company's directors is the president and chief executive officer of a drilling corporation which is also a customer of the Company. Revenue recognized for the three months ended March 31, 2013 and 2012 was \$0.4 million and \$0.1 million, respectively. All revenue relates to services performed by the Company in the ordinary course of business.

**Note 11 Income per Share**

Basic earnings per share (EPS) are computed by dividing net income attributable to RigNet common stockholders by the number of basic shares outstanding. Basic shares equal the total of the common shares outstanding, weighted for the average days outstanding for the period. Basic shares exclude the dilutive effect of common shares that could potentially be issued due to the exercise of stock options or the exercise of warrants. Diluted EPS is computed by dividing net income attributable to RigNet common stockholders by the number of diluted shares outstanding. Diluted shares equal the total of the basic shares outstanding and all potentially issuable shares, weighted for the average days outstanding for the period. The Company uses the treasury stock method to determine the dilutive effect.

For the three months ended March 31, 2013 and 2012, 1,568,917 and 1,483,806 shares of unexercised or unvested securities, respectively, were included in the diluted earnings per share computation due to the dilutive effect.

**Table of Contents****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****Note 12 Commitments and Contingencies*****Litigation***

The Company, in the ordinary course of business, is a claimant or a defendant in various legal proceedings, including proceedings as to which the Company has insurance coverage and those that may involve the filing of liens against the Company or its assets. The Company does not consider its exposure in these proceedings, individually or in the aggregate, to be material.

***Regulatory Matter***

RigNet's internal compliance program has recently detected potential violations of U.S. sanctions regulations by one of its foreign subsidiaries in connection with certain of its customers' rigs that were moved into the territorial waters of countries sanctioned by the United States. The Company estimates that it received total revenue of approximately \$0.1 million during the period related to the potential violations. The Company has voluntarily self-reported the potential violations to U.S. Treasury Department's Office of Foreign Assets Control (OFAC) and retained outside counsel who conducted an investigation of the matter under the supervision of the Company's Audit Committee and submitted a report to OFAC. The Company is cooperating with OFAC with respect to resolution of the matter.

The Company incurred legal expenses of \$0.3 million in connection with the investigation as of March 31, 2013. The Company may continue to incur significant legal fees and related expenses and the investigations may involve management time in the future in order to cooperate with OFAC. The Company cannot predict the ultimate outcome of the investigation, the total costs to be incurred in completing the investigation, the potential impact on personnel, the effect of implementing any further measures that may be necessary to ensure full compliance with applicable laws or to what extent, if at all, the Company could be subject to fines, sanctions or other penalties.

Based on the information available at this time and management's understanding of the potential sanctions, the Company currently estimates that it may incur penalties associated with these potential violations within a range of \$0.8 million to \$1.5 million. The Company has accrued an estimated liability of \$0.8 million as management believes this is the most probable outcome. This estimate is based on RigNet's internal investigation and no assurance can be given as to what, if any, penalties OFAC will impose or whether it will identify or allege additional violations or remedies.

***Operating Leases***

The Company leases office space under lease agreements expiring on various dates through 2017. For the three months ended March 31, 2013 and 2012, the Company recognized expense under operating leases of \$0.7 million and \$0.4 million, respectively. As of March 31, 2013, future minimum lease obligations for the remainder of 2013 and future year were as follows (in thousands):

2013	\$ 1,455
2014	790
2015	498
2016	109
2017	45
	\$ 2,897

***Commercial Commitments***

The Company enters into contracts for satellite bandwidth and other network services with certain providers. As of March 31, 2013, the Company had the following commercial commitments related to satellite and network services (in thousands):

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2013	\$ 15,962
2014	10,422
2015	4,803
2016	1,980
2017	1,053

\$ 34,220

### Note 13 Segment Information

Segment information has been prepared consistent with the components of the enterprise for which separate financial information is available and regularly evaluated by the chief operating decision-maker for the purpose of allocating resources and assessing performance. Certain operating segments are aggregated into one reportable segment based on similar economic characteristics. Accordingly, RigNet's business consists of three reportable segments:

**Americas.** The Americas segment provides remote communications services for offshore and onshore drilling rigs and production facilities, as well as, energy support vessels and other remote sites. The Americas segment services are performed out of the Company's United States and Brazil based offices for onshore and offshore customers and rig sites located on the western side of the Atlantic Ocean primarily in the United States, Mexico and Brazil, and within the Gulf of Mexico.

**Europe/Africa.** The Europe/Africa segment provides remote communications services for offshore drilling rigs, production facilities, energy support vessels and other remote sites, as well as, systems integration projects. The Europe/Africa segment services are performed out of the Company's Norway and United Kingdom based offices for customers and rig sites located on the eastern side of the Atlantic Ocean primarily off the coasts of the United Kingdom, Norway and West Africa.

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**Middle East/Asia Pacific (MEAP).** The MEAP segment provides remote communications services for onshore and offshore drilling rigs, production facilities, energy support vessels and other remote sites. The MEAP segment services are primarily performed out of the Company's Qatar and Singapore based offices for customers and rig sites located on the eastern side of the Atlantic Ocean primarily around the Indian Ocean in Qatar, Saudi Arabia and India, around the Pacific Ocean near Australia, and within the South China Sea.

Corporate and eliminations primarily represents unallocated corporate office activities, interest expenses, income taxes and eliminations.

The Company's business segment information as of and for the three months ended March 31, 2013 and 2012, is presented below. Prior year information has been recast to conform to the current year presentation.

	<b>Three Months Ended March 31, 2013</b>				<b>Consolidated Total</b>
	<b>Americas</b>	<b>Europe/Africa</b>	<b>MEAP</b> (in thousands)	<b>Corporate and Eliminations</b>	
Revenue	\$ 12,415	\$ 27,572	\$ 12,831	\$ -	\$ 52,818
Cost of revenue (excluding depreciation and amortization)	5,281	17,522	5,008	1,311	29,122
Depreciation and amortization	1,794	1,746	1,282	147	4,969
Selling, general and administrative	1,677	2,536	1,117	7,217	12,547
Operating income (loss)	\$ 3,663	\$ 5,768	\$ 5,424	\$ (8,675)	\$ 6,180
Total assets	94,425	143,878	44,802	(70,321)	212,784
Capital expenditures	2,725	1,454	2,375	93	6,647

	<b>Three Months Ended March 31, 2012</b>				<b>Consolidated Total</b>
	<b>Americas</b>	<b>Europe/Africa</b>	<b>MEAP</b> (in thousands)	<b>Corporate and Eliminations</b>	
Revenue	\$ 11,843	\$ 9,513	\$ 9,854	\$ -	\$ 31,210
Cost of revenue (excluding depreciation and amortization)	5,666	3,773	3,821	921	14,181
Depreciation and amortization	1,880	741	1,301	6	3,928
Selling, general and administrative	1,639	871	950	4,743	8,203
Operating income (loss)	\$ 2,658	\$ 4,128	\$ 3,782	\$ (5,670)	\$ 4,898
Total assets	86,140	37,641	36,879	(17,760)	142,900
Capital expenditures	3,059	775	2,187	-	6,021

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The following table presents revenue earned from the Company's domestic and international operations for the three months ended March 31, 2013 and 2012. Revenue is based on the location where services are provided or goods are sold. Due to the mobile nature of RigNet's customer base and the services provided, the Company works closely with its customers to ensure rig or vessel moves are closely monitored to ensure location of service information is properly reflected.

	<b>Three Months Ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
	(in thousands)	
Domestic	\$ 7,736	\$ 8,737
International	45,082	22,473
<b>Total</b>	<b>\$ 52,818</b>	<b>\$ 31,210</b>

The following table presents long-lived assets for the Company's domestic and international operations as of March 31, 2013 and December 31, 2012.

	<b>March 31, 2013</b>	<b>December 31, 2012</b>
	(in thousands)	
Domestic	\$ 35,978	\$ 28,412
International	65,156	73,968
<b>Total</b>	<b>\$ 101,134</b>	<b>\$ 102,380</b>



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### **Item 2. Management's Discussion And Analysis Of Financial Condition And Results Of Operations**

*Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the accompanying unaudited condensed consolidated financial statements as of March 31, 2013 and for the three months ended March 31, 2013 and 2012 included elsewhere herein, and with our annual report on Form 10-K for the year ended December 31, 2012. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under Risk Factors in Item 1A of our annual report and elsewhere in this quarterly report. See Forward-Looking Statements below.*

#### **Forward-Looking Statements**

This Quarterly Report on Form 10-Q contains forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that are subject to a number of risks and uncertainties, many of which are beyond the Company's control. These statements may include statements about:

new regulations, delays in drilling permits or other changes in the drilling industry;

competition and competitive factors in the markets in which we operate;

demand for our products and services;

the advantages of our services compared to others;

changes in customer preferences and our ability to adapt our product and services offerings;

our ability to develop and maintain positive relationships with our customers;

our ability to retain and hire necessary employees and appropriately staff our marketing, sales and distribution efforts;

our cash needs and expectations regarding cash flow from operations;

our ability to manage and grow our business and execute our business strategy;

our strategy;

our financial performance; and

the costs associated with being a public company.

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In some cases, forward-looking statements can be identified by terminology such as *may*, *could*, *should*, *would*, *may*, *expect*, *plan*, *propose*, *intend*, *anticipate*, *believe*, *estimate*, *predict*, *potential*, *pursue*, *target*, *continue*, the negative of such terms or other comparable terms. All of these types of statements, other than statements of historical fact included in this Quarterly Report on Form 10-Q, are forward-looking statements.

The forward-looking statements contained in this Quarterly Report on Form 10-Q are largely based on Company expectations, which reflect estimates and assumptions made by Company management. These estimates and assumptions reflect management's best judgment based on currently known market conditions and other factors. Although the Company believes such estimates and assumptions to be reasonable, they are inherently uncertain and involve a number of risks and uncertainties beyond its control. In addition, management's assumptions may prove to be inaccurate. The Company cautions that the forward-looking statements contained in this Quarterly Report on Form 10-Q are not guarantees of future performance, and it cannot assure any reader that such statements will be realized or the forward-looking statements or events will occur. Future results may differ materially from those anticipated or implied in forward looking statements due to factors listed in the Risk Factors section and elsewhere in this Quarterly Report on Form 10-Q. If one or more of these factors materialize, or if any underlying assumptions prove incorrect, our future results, performance or achievements may vary materially from any future results, performance or achievements expressed or implied by these forward-looking statements. The forward-looking statements speak only as of the date made, and other than as required by law, the Company undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

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### **Our Operations**

We are a global provider of managed remote communications, systems integration (project management of turn-key engineered telecommunications solutions) and collaborative applications dedicated to the oil and gas industry, focusing on offshore and onshore drilling rigs, energy production facilities and energy maritime. We focus on developing customer relationships in the oil and gas industry resulting in a significant portion of our revenue being concentrated in a few customers. In addition, due to the concentration of our customers in the oil and gas industry, we face the challenge of service demands fluctuating with the exploration and development plans and capital expenditures of that industry.

Network service customers are primarily served under fixed-price, day-rate contracts, which are based on the concept of pay-per-day of use and are consistent with other service terms used in the oil and gas industry. Our contracts are generally in the form of Master Service Agreements, or MSAs, with specific services being provided under individual service orders that have a term of one to three years with renewal options, while land-based locations are generally shorter term or terminable on short notice without a penalty. Service orders are executed under the MSA for individual remote sites or groups of sites, and generally may be terminated early on short notice without penalty in the event of force majeure, breach of the MSA or cold stacking of a drilling rig (when a rig is taken out of service and is expected to be idle for a protracted period of time).

Segment information has been prepared consistent with the components of the enterprise for which separate financial information is available and regularly evaluated by the chief operating decision-maker for the purpose of allocating resources and assessing performance. Certain operating segments are aggregated into one reportable segment based on similar economic characteristics. Accordingly, we operate three reportable business segments based on geographic location:

***Americas.*** Our Americas segment provides remote communications services for offshore and onshore drilling rigs and production facilities, as well as, energy support vessels and other remote sites. Our Americas segment services are performed out of our United States and Brazil based offices for customers and rig sites located on the western side of the Atlantic Ocean primarily in the United States, Mexico and Brazil, and within the Gulf of Mexico.

***Europe/Africa.*** Our Europe/Africa segment provides remote communications services for offshore drilling rigs, production facilities, energy support vessels and other remote sites, as well as, systems integration projects. Our Europe/Africa segment services are performed out of our Norway and United Kingdom based offices for customers and rig sites located on the eastern side of the Atlantic Ocean primarily off the coasts of the United Kingdom, Norway and West Africa.

***Middle East/Asia Pacific (MEAP).*** Our MEAP segment provides remote communications services for onshore and offshore drilling rigs, production facilities, energy support vessels and other remote sites. Our MEAP segment services are primarily performed out of our Qatar and Singapore based offices for customers and rig sites located on the eastern side of the Atlantic Ocean primarily around the Indian Ocean in Qatar, Saudi Arabia and India, around the Pacific Ocean near Australia, and within the South China Sea.

Cost of revenue consists primarily of satellite charges, voice and data termination costs, network operations expenses, internet connectivity fees, equipment purchases related to systems integration projects and direct service labor. Satellite charges consist of the costs associated with obtaining satellite bandwidth (the measure of capacity) used in the transmission of service to and from leased satellites. Network operations expenses consist primarily of costs associated with the operation of our network operations center, which is maintained 24 hours a day, seven days a week. Depreciation and amortization is recognized on all property and equipment either installed at a customer's site or held at our corporate and regional offices, as well as intangibles arising from acquisitions and internal use software. Selling and marketing expenses consist primarily of salaries and commissions, travel costs and marketing communications. General and administrative expenses consist of expenses associated with our management, finance, contract, support and administrative functions.

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Profitability increases at a site as we add customers and value-added services. Assumptions used in developing the day rates for a site may not cover cost variances from inherent uncertainties or unforeseen obstacles, including both physical conditions and unexpected problems encountered with third party service providers. Profitability risks include oil and gas market trends, service responsiveness to remote locations, communication network complexities, political and economic instability in certain regions, export restrictions, licenses and other trade barriers. These risks may result in the delay of service initiation, which may negatively impact our results of operations.

**Results of Operations**

The following table sets forth selected financial and operating data for the periods indicated.

	<b>Three Months Ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
	(in thousands)	
Revenue	\$ 52,818	\$ 31,210
Expenses:		
Cost of revenue (excluding depreciation and amortization)	29,122	14,181
Depreciation and amortization	4,969	3,928
Selling and marketing	787	658
General and administrative	11,760	7,545
Total expenses	46,638	26,312
Operating income	6,180	4,898
Other income (expense), net	107	(261)
Income before income taxes	6,287	4,637
Income tax expense	(2,512)	(2,143)
Net income	3,775	2,494
Less: Net income attributable to non-controlling interests	40	82
Net income attributable to RigNet, Inc. stockholders	\$ 3,735	\$ 2,412
<b>Other Non-GAAP Data:</b>		
Gross Profit (excluding depreciation and amortization)	\$ 23,696	\$ 17,029
Adjusted EBITDA	\$ 12,621	\$ 9,283

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The following represents selected financial operating results for our segments:

	Three Months Ended March 31,	
	2013	2012
	(in thousands)	
<b>Americas:</b>		
Revenue	\$ 12,415	\$ 11,843
Cost of revenue (excluding depreciation and amortization)	5,281	5,666
Gross Profit (non-GAAP measure)	7,134	6,177
Depreciation and amortization	1,794	1,880
Selling, general and administrative	1,677	1,639
Americas operating income	\$ 3,663	\$ 2,658
<b>Europe/Africa:</b>		
Revenue	\$ 27,572	\$ 9,513
Cost of revenue (excluding depreciation and amortization)	17,522	3,773
Gross Profit (non-GAAP measure)	10,050	5,740
Depreciation and amortization	1,746	741
Selling, general and administrative	2,536	871
Europe/Africa operating income	\$ 5,768	\$ 4,128
<b>Middle East/Asia Pacific:</b>		
Revenue	\$ 12,831	\$ 9,854
Cost of revenue (excluding depreciation and amortization)	5,008	3,821
Gross Profit (non-GAAP measure)	7,823	6,033
Depreciation and amortization	1,282	1,301
Selling, general and administrative	1,117	950
Middle East/Asia Pacific operating income	\$ 5,424	\$ 3,782

NOTE: Consolidated balances include the three segments above along with corporate activities and intercompany eliminations.

**Three Months Ended March 31, 2013 and 2012**

**Revenue.** Revenue increased by \$21.6 million, or 69.2%, to \$52.8 million for the three months ended March 31, 2013 from \$31.2 million for the three months ended March 31, 2012. This increase includes \$16.8 million of revenue contributed by Nessco during the three months ended March 31, 2013 and is included in the Europe/Africa segment. Exclusive of Nessco, the revenue increased in each of our reportable segments. Americas revenue increased \$0.6 million, or 4.8%, Europe/Africa revenue increased \$1.3 million, or 13.1% and MEAP revenue increased \$3.0 million, or 30.2%. These increases are primarily due to increases in unit counts and increased revenue-per-unit resulting from bandwidth upgrades and additional value-added services provided.

**Cost of Revenue.** Costs increased by \$14.9 million to \$29.1 million for the three months ended March 31, 2013 from \$14.2 million for the three months ended March 31, 2012. This increase includes \$12.9 million of costs incurred by Nessco during the three months ended March 31, 2013. Exclusive of Nessco, cost of revenue increased by \$2.0 million, primarily due to incremental network services and capacity required to serve the increased unit counts and bandwidth upgrades.

Gross Profit (excluding depreciation and amortization) increased by \$6.7 million, or 39.2%, to \$23.7 million for the three months ended March 31, 2013 from \$17.0 million for the three months ended March 31, 2012. This increase includes \$3.9 million of Gross Profit (excluding

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depreciation and amortization) contributed by Nessco during the three months ended March 31, 2013. Excluding Nessco, Gross Profit (excluding depreciation and amortization) as a percentage of revenue increased to 54.9%, for the three months ended March 31, 2013 compared to 54.6% for the three months ended March 31, 2012. This increase is primarily attributable to efficiencies in our management of bandwidth capacity.

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**Depreciation and Amortization.** Depreciation and amortization expense increased by \$1.1 million to \$5.0 million for the three months ended March 31, 2013 from \$3.9 million for the three months ended March 31, 2012. Amortization expense increased \$0.8 million due to the intangibles assets purchased in the Nessco acquisition. Additionally, the continued increase in our capital expenditures, which support our growing operations, contributed to the increase.

**Selling and Marketing.** Selling and marketing expenses increased by \$0.1 million, or 19.6%, to \$0.8 million for the three months ended March 31, 2013 from \$0.7 million for the three months ended March 31, 2012.

**General and Administrative.** General and administrative expenses increased by \$4.3 million to \$11.8 million for the three months ended March 31, 2013 from \$7.5 million for the three months ended March 31, 2012. This increase includes \$1.1 million of costs incurred by Nessco during the three months ended March 31, 2013. Excluding Nessco, general and administrative costs increased \$3.2 million primarily due to increased compensation resulting from headcount additions and increased stock-based compensation, increased other professional fees and a contingent liability, and related legal costs, accrued related to potential violations of U.S. sanctions regulations (see Regulatory Matter section below).

**Income Tax Expense.** Our effective income tax rate was 40.0% and 46.2% for the three months ended March 31, 2013 and 2012, respectively. Our effective tax rates are affected by factors including fluctuations in income across jurisdictions with varying tax rates, changes in valuation allowances related to operating in a loss jurisdiction for which a benefit cannot be claimed, and changes in income tax reserves, including related penalties and interest.

## **Liquidity and Capital Resources**

Our primary sources of liquidity and capital since our formation have been proceeds from private equity issuances, stockholder loans, cash flow from operations, bank borrowings and our IPO. To date, our primary use of capital has been to fund our growing operations and to finance acquisitions. We raised approximately \$73.7 million of net proceeds through private offerings of our common and preferred stock and our December 2010 IPO. As a result of the underwriters' exercise of the Over-Allotment in January 2011, we received net cash proceeds of \$5.5 million.

At March 31, 2013, we had working capital of \$64.7 million, including cash and cash equivalents of \$54.7 million, current restricted cash of \$1.2 million, accounts receivable of \$40.2 million and other current assets of \$9.1 million, offset by \$13.4 million in accounts payable, \$9.0 million in accrued expenses, \$9.4 million in current maturities of long-term debt, \$5.0 million in tax related liabilities and \$3.8 million in deferred revenue.

Over the past three years, we have spent \$13.5 million to \$21.9 million annually on capital expenditures. Based on our current expectations, we believe our liquidity and capital resources will be sufficient for the conduct of our business and operations for the foreseeable future. We may also use a portion of our available cash to finance growth through the acquisition of, or investment into, businesses, products, services or technologies complementary to our current business, through mergers, acquisitions, and joint ventures or otherwise.

During the next twelve months, we expect our principal sources of liquidity to be cash flows from operating activities. In forecasting our cash flows we have considered factors including contracted services related to long-term deepwater drilling programs, U.S. Land rig count trends, projected oil and natural gas prices, contracted and available satellite bandwidth and the additional operations acquired from Nessco.

Beyond the next twelve months, we expect our principal sources of liquidity to be cash flows provided by operating activities, cash and cash equivalents and additional financing activities we may pursue, which may include equity offerings.

While we believe we have sufficient liquidity and capital resources to meet our current operating requirements and expansion plans, we may want to pursue additional expansion opportunities within the next year which could require additional financing, either debt or equity. If we are unable to secure additional financing at favorable terms in order to pursue such additional expansions opportunities, our ability to maintain our desired level of revenue growth could be materially adversely affected.

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	Three Months Ended March 31,	
	2013	2012
	(in thousands)	
<b>Condensed Consolidated Statements of Cash Flows Data:</b>		
Cash and cash equivalents, January 1,	\$ 59,744	\$ 53,106
Net cash provided by operating activities	3,890	7,740
Net cash used in investing activities	(5,265)	(6,902)
Net cash used in financing activities	(2,035)	(2,253)
Changes in foreign currency translation	(1,618)	1,113
Cash and cash equivalents, March 31,	\$ 54,716	\$ 52,804

Currently, the Norwegian kroner and the British pound sterling are the currencies that could materially impact our liquidity. Our historical experience with exchange rates for these currencies has been relatively stable and, consequently, we do not typically hedge these risks, but evaluate these risks on a continual basis and may put financial instruments in place in the future if deemed necessary. During the three months ended March 31, 2013 and 2012, 52.2% and 78.2% of our revenue was denominated in U.S. dollars, respectively. This increase in non-U.S. dollar denominated revenue resulted from the addition of Nessco operations which are primarily denominated in British pounds sterling.

**Operating Activities**

Net cash provided by operating activities was \$3.9 million for the three months ended March 31, 2013 compared to \$7.7 million for the three months ended March 31, 2012. The decrease in cash provided by operating activities during 2012 of \$3.8 million was primarily due to the increased deferred revenue related to systems integration projects accounted for under the percentage-of-completion method and the timing of collections of our accounts receivable, offset by the increased profitability of our core operations.

Our cash provided by operations is subject to many variables, the most significant of which is the volatility of the oil and gas industry and, therefore, the demand for our services. Other factors impacting operating cash flows include the availability and cost of satellite bandwidth, as well as the timing of collecting our receivables. Our future cash flow from operations will depend on our ability to increase our contracted services through our sales and marketing efforts while leveraging the contracted satellite and other communication service costs.

**Investing Activities**

Net cash used in investing activities was \$5.3 million and \$6.9 million for the three months ended March 31, 2013 and 2012, respectively. Net cash used during the three months ended March 31, 2013 includes capital expenditures of \$5.6 million. We expect capital expenditures to continue to increase during 2013 primarily resulting from growth opportunities arising from increasing demand for our services.

**Financing Activities**

Net cash used in financing activities was \$2.0 million and \$2.3 million in the three months ended March 31, 2013 and 2012, respectively. Cash used by financing activities during these periods include \$2.4 million and \$2.2 million of principal payments on our long-term debt, respectively.

**Term Loan**

The Company has a term loan (Term Loan) with two participating financial institutions. In July 2012, the Company amended its Term Loan, increasing the principal balance by \$47.2 million, extending the maturity of the loan from May 2014 to July 2017. Additionally, the amended Term Loan bears an interest rate of LIBOR plus a margin ranging from 2.00% to 3.00%, based on a ratio of funded debt to Adjusted EBITDA, a non-GAAP financial measure as defined in the agreement.

Interest is payable monthly along with quarterly principal installments of \$2.4 million, with the balance due July 31, 2017. The weighted average interest rate for the three months ended March 31, 2013 was 3.1%, with an interest rate of 2.7% at March 31, 2013.



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The Term Loan is secured by substantially all the assets of the Company. As of March 31, 2013, the Term Loan had outstanding principal of \$59.3 million.

The Term Loan agreement imposes certain restrictions including our ability to obtain additional debt financing and on our payment of cash dividends. It also requires us to maintain certain financial covenants such as a funded debt to Adjusted EBITDA ratio of less than or equal to 2.5 to 1.0 and a fixed charge coverage ratio of not less than 1.35 to 1.0. At March 31, 2013, our Adjusted EBITDA exceeded the minimum levels required by the: (i) fixed charge coverage ratio by \$23.2 million (or 47.7% of our Adjusted EBITDA for the trailing twelve months) and (ii) funded debt to Adjusted EBITDA ratio by \$25.1 million (or 51.6% of our Adjusted EBITDA for the trailing twelve months).

### ***Off-Balance Sheet Arrangements***

We do not engage in any off-balance sheet arrangements.

### **Regulatory Matter**

Our internal compliance program has recently detected potential violations of U.S. sanctions regulations by one of our foreign subsidiaries in connection with certain of our customers' rigs that were moved into the territorial waters of countries sanctioned by the United States. We estimate that we received total revenue of approximately \$0.1 million during the period related to the potential violations. These countries are subject to a number of economic regulations, including sanctions administered by OFAC, and comprehensive restrictions on the export and re-export of U.S.-origin items to these countries. Our customers that are not based in the U.S. are not subject to the same restrictions on operating in these countries as we are, but we are prohibited from providing services or facilitating the provision of services to their rigs in transit to or while operating in a sanctioned country.

Failure to comply with applicable laws and regulations relating to sanctions and export restrictions may subject us to criminal sanctions and civil remedies, including fines, denial of export privileges, injunctions or seizures of our assets. We have voluntarily self-reported the potential violations to OFAC and retained outside counsel who conducted an investigation of the matter and submitted a report to OFAC. We are cooperating with OFAC with respect to resolution of the matter.

We incurred legal expenses of \$0.3 million in connection with the investigation as of March 31, 2013. We may continue to incur significant legal fees and related expenses, and the investigations may involve management time in the future in order to cooperate with OFAC. We cannot predict the ultimate outcome of the investigation, the total costs to be incurred in completing the investigation, the potential impact on personnel, the effect of implementing any further measures that may be necessary to ensure full compliance with applicable laws or to what extent, if at all, we could be subject to fines, sanctions or other penalties.

### **Non-GAAP Measures**

The non-GAAP financial measures, Gross Profit (excluding depreciation and amortization) and Adjusted EBITDA, may not be comparable to similarly titled measures used by other companies. Therefore, these non-GAAP measures should be considered in conjunction with net income and other performance measures prepared in accordance with GAAP, such as gross profit, operating income or net cash provided by operating activities. Further, Gross Profit (excluding depreciation and amortization) and Adjusted EBITDA should not be considered in isolation or as a substitute for GAAP measures such as net income, gross profit, operating income or any other GAAP measure of liquidity or financial performance. Our Gross Profit (excluding depreciation and amortization) and Adjusted EBITDA may not be comparable to similarly titled measures of other companies because other companies may not calculate Gross Profit (excluding depreciation and amortization), Adjusted EBITDA or similarly titled measures in the same manner as we do. We prepare Gross Profit (excluding depreciation and amortization) and Adjusted EBITDA to eliminate the impact of items that we do not consider indicative of our core operating performance. We encourage you to evaluate these adjustments and the reasons we consider them appropriate.

We believe Adjusted EBITDA is useful to investors in evaluating our operating performance for the following reasons:

Securities analysts use Adjusted EBITDA as a supplemental measure to evaluate the overall operating performance of companies, and we understand our investor and analyst presentations include Adjusted EBITDA;

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By comparing our Adjusted EBITDA in different periods, our investors may evaluate our operating results without the additional variations caused by items that we do not consider indicative of our core operating performance and which are not necessarily comparable from year to year; and

Adjusted EBITDA is an integral component of the financial ratio covenants of our debt agreement.  
Our management uses Adjusted EBITDA:

To indicate profit contribution;

For planning purposes, including the preparation of our annual operating budget and as a key element of annual incentive programs;

To allocate resources to enhance the financial performance of our business; and

In communications with our Board of Directors concerning our financial performance.  
Although Adjusted EBITDA is frequently used by investors and securities analysts in their evaluations of companies, Adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results of operations as reported under GAAP. Some of these limitations are:

Adjusted EBITDA does not reflect our cash expenditures or future requirements for capital expenditures or other contractual commitments;

Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;

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Adjusted EBITDA does not reflect interest expense;

Adjusted EBITDA does not reflect cash requirements for income taxes;

Adjusted EBITDA does not reflect the stock based compensation component of employee compensation;

Although depreciation and amortization are non-cash charges, the assets being depreciated or amortized will often have to be replaced in the future, and Adjusted EBITDA does not reflect any cash requirements for these replacements; and

Other companies in our industry may calculate Adjusted EBITDA or similarly titled measures differently than we do, limiting its usefulness as a comparative measure.

The following table presents a reconciliation of our gross profit to Gross Profit (excluding depreciation and amortization).

	<b>Three Months Ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
	(in thousands)	
Gross profit	\$ 18,968	\$ 13,301
Depreciation and amortization related to cost of revenue	4,728	3,728
<b>Gross Profit (excluding depreciation and amortization)</b>	<b>\$ 23,696</b>	<b>\$ 17,029</b>

GAAP defines gross profit as revenue less cost of revenue, and includes in costs of revenue depreciation and amortization expenses related to revenue-generating long-lived and intangible assets. We define Gross Profit (excluding depreciation and amortization) as revenue less cost of revenue (excluding depreciation and amortization). This measure differs from the GAAP definition of gross profit as we do not include the impact of depreciation and amortization expenses related to revenue-generating long-lived and intangible assets which represent non-cash expenses. We use this measure to evaluate operating margins and the effectiveness of cost management.

The following table presents a reconciliation of our net income to Adjusted EBITDA.

	<b>Three Months Ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
	(in thousands)	
Net income	\$ 3,775	\$ 2,494
Interest expense	507	187
Depreciation and amortization	4,969	3,928
(Gain) loss on sales of property and equipment, net of retirements	41	(50)
Stock-based compensation	817	581
Income tax expense	2,512	2,143
<b>Adjusted EBITDA (non-GAAP measure)</b>	<b>\$ 12,621</b>	<b>\$ 9,283</b>

We evaluate Adjusted EBITDA generated from our operations and operating segments to assess the potential recovery of historical capital expenditures, determine timing and investment levels for growth opportunities, extend commitments of satellite bandwidth cost to expand our offshore production platform and vessel market share, invest in new products and services, expand or open new offices, service centers and SOIL nodes, and assist purchasing synergies.

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Adjusted EBITDA increased by \$3.3 million to \$12.6 million for the three months ended March 31, 2013, from \$9.3 million for the three months ended March 31, 2012. This increase resulted from \$3.8 million of adjusted EBITDA contributed by Nessco operations offset by costs associated with head count additions and other professional fees.

**Table of Contents****Item 3. Qualitative and Quantitative Disclosures about Market Risk**

We are subject to a variety of risks, including foreign currency exchange rate fluctuations relating to foreign operations and certain purchases from foreign vendors. In the normal course of business, we assess these risks and have established policies and procedures to manage our exposure to fluctuations in foreign currency values.

Our objective in managing our exposure to foreign currency exchange rate fluctuations is to reduce the impact of adverse fluctuations in earnings and cash flows associated with foreign currency exchange rates. We do not currently use foreign currency forward contracts to hedge our exposure on firm commitments denominated in foreign currencies, but evaluate this on a continual basis and may put financial instruments in place in the future if deemed necessary. During the three months ended March 31, 2013 and 2012, 47.8% and 21.8%, respectively of our revenues were earned in non-U.S. currencies. This increase in non-U.S. dollar denominated revenue resulted from the addition of Nessco operations which are primarily denominated in British pounds sterling. At March 31, 2013 and 2012, we had no significant outstanding foreign exchange contracts.

Our results of operations and cash flows are subject to fluctuations due to changes in interest rates primarily from our variable interest rate long-term debt. We do not currently use financial instruments to hedge these interest risk exposures, but evaluate this on a continual basis and may put financial instruments in place in the future if deemed necessary. The following analysis reflects the annual impacts of potential changes in our interest rate to net income (loss) attributable to us and our total stockholders' equity based on our outstanding long-term debt on March 31, 2013 and December 31, 2012, assuming those liabilities were outstanding for the previous twelve months:

	March 31, 2013	December 31, 2012
	(in thousands)	
<b>Effect on Net Income and Equity Increase/Decrease:</b>		
1% Decrease/increase in rate	\$ 589	\$ 618
2% Decrease/increase in rate	\$ 1,179	\$ 1,235
3% Decrease/increase in rate	\$ 1,768	\$ 1,853

**Item 4. Controls and Procedures****Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2013. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of March 31, 2013, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

**Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the quarter ended March 31, 2013 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings**

From time to time, we have been subject to various claims and legal actions in the ordinary course of our business. We are not currently involved in any legal proceeding the ultimate outcome of which, in our judgment based on information currently available, would have a material impact on our business, financial condition or results of operations.

**Item 1A. Risk Factors**

There have been no material changes from the risk factors disclosed in Part I, Item 1A. Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2012 except that: our internal compliance program has identified and we have self-reported potential OFAC compliance issues involving certain of our customers' rigs that were moved into the territorial waters of countries sanctioned by the United States. See Part I- Financial Information, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations - Regulatory Matter of this report.

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

None

**Item 3. Defaults Upon Senior Securities**

None

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

None

**Item 6. Exhibits**

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**INDEX TO EXHIBITS**

2.1	Share Purchase Agreement between RigNet, Inc. and the shareholders of Nessco Group Holdings Ltd. dated July 5, 2012 (filed as Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed with the SEC on July 2, 2012, and incorporated herein by reference)
3.1	Amended and Restated Certificate of Incorporation (filed as Exhibit 3.2 to the Registrant's Registration Statement on Form S-1 [File No. 333-169723], as amended, and incorporated herein by reference)
3.2	Amended and Restated Bylaws (filed as Exhibit 3.4 to the Registrant's Registration Statement on Form S-1 [File No. 333-169723], as amended, and incorporated herein by reference)
4.1	Specimen certificate evidencing common stock (filed as Exhibit 4.1 to the Registrant's Registration Statement on Form S-1 [File No. 333-169723], as amended, and incorporated herein by reference)
4.2	Registration Rights Agreement dated effective as of September 20, 2005 among the Registrant and the holders of our preferred stock party thereto (filed as Exhibit 4.2 to the Registrant's Registration Statement on Form S-1 [File No. 333-169723], as amended, and incorporated herein by reference)
10.1	Second Amended and Restated Credit Agreement dated effective as of March 28, 2013 by and among RigNet, Inc. and Bank of America, N.A.
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.LAB	XBRL Label Linkbase Document
101.PRE	XBRL Presentation Linkbase Document
101.DEF	XBRL Definition Linkbase Document

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following person on behalf of the Registrant and in the capacities and on the dates indicated.

**RIGNET, INC.**

By: /s/ MARTIN L. JIMMERSON, JR.

Martin L. Jimmerson, Jr.

*Chief Financial Officer*

*(Principal Financial & Accounting Officer)*

Date: May 6, 2013