

**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 September 30, 2012

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)

Delaware

(State or other jurisdiction of incorporation or organization)

76-0677208

(I.R.S. Employer Identification No.)

1880 S. Dairy Ashford, Suite 300

Houston, Texas

(Address of principal executive offices)

77077-4760

(Zip Code)

Registrant's telephone number, including area code: (281) 674-0100

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

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

At October 27, 2012, there were outstanding 15,676,566 shares of the registrant's Common Stock.

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

|  | September 30,<br>2012                | December 31,<br>2011 |
|--|--------------------------------------|----------------------|
|  | (in thousands, except share amounts) |                      |
| <b>ASSETS</b>  |                                      |                      |
| <b>Current assets:</b>   |                                      |                      |
| Cash and cash equivalents  | \$ 53,680                            | \$ 53,106            |
| Restricted cash  | 825                                  | —                    |
| Accounts receivable, net   | 43,619                               | 26,350               |
| Prepaid expenses and other current assets  | 3,791                                | 3,581                |
| <b>Total current assets</b>  | <b>101,915</b>                       | <b>83,037</b>        |
| Property and equipment, net  | 45,268                               | 32,655               |
| Restricted cash  | 2,134                                | —                    |
| Goodwill   | 33,800                               | 13,796               |
| Intangibles, net   | 22,190                               | 5,849                |
| Deferred tax and other assets  | 4,456                                | 5,585                |
| <b>TOTAL ASSETS</b>  | <b>\$ 209,763</b>                    | <b>\$ 140,922</b>    |
| <b>LIABILITIES AND EQUITY</b>  |                                      |                      |
| <b>Current liabilities:</b>  |                                      |                      |
| Accounts payable   | \$ 10,351                            | \$ 5,459             |
| Accrued expenses   | 8,029                                | 7,116                |
| Current maturities of long-term debt   | 9,393                                | 8,735                |
| Income taxes payable   | 3,695                                | 5,262                |
| Deferred revenue   | 7,127                                | 1,542                |
| <b>Total current liabilities</b>   | <b>38,595</b>                        | <b>28,114</b>        |
| Long-term debt   | 54,161                               | 14,785               |
| Deferred revenue   | 372                                  | 457                  |
| Deferred tax liability   | 2,559                                | 48                   |
| Other liabilities  | 17,370                               | 14,133               |
| <b>Total liabilities</b>   | <b>113,057</b>                       | <b>57,537</b>        |
| Commitments and contingencies (Note 13)  |                                      |                      |
| <b>Equity:</b>   |                                      |                      |
| <b>Stockholders' equity</b>  |                                      |                      |
| Preferred stock - \$0.001 par value; 10,000,000 shares authorized; no shares issued or outstanding at September 30, 2012 or December 31, 2011                                      | —                                    | —                    |
| Common stock - \$0.001 par value; 190,000,000 shares authorized; 15,675,628 and 15,440,801 shares issued and outstanding at September 30, 2012 and December 31, 2011, respectively | 16                                   | 15                   |
| Additional paid-in capital   | 119,234                              | 116,740              |
| Accumulated deficit  | (24,419)                             | (32,922)             |
| Accumulated other comprehensive income (loss)  | 1,812                                | (610)                |
| <b>Total stockholders' equity</b>  | <b>96,643</b>                        | <b>83,223</b>        |
| Non-redeemable, non-controlling interest   | 63                                   | 162                  |
| <b>Total equity</b>  | <b>96,706</b>                        | <b>83,385</b>        |
| <b>TOTAL LIABILITIES AND EQUITY</b>  | <b>\$ 209,763</b>                    | <b>\$ 140,922</b>    |

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

**RIGNET, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**  
(Unaudited)

|  | Three Months Ended<br>September 30,      |                 | Nine Months Ended<br>September 30, |                 |
|--|--|-----------------|------------------------------------|-----------------|
|  | 2012                                     | 2011            | 2012                               | 2011            |
|  | (in thousands, except per share amounts) |                 |                                    |                 |
| <b>Revenue</b>   | <b>\$47,939</b>                          | <b>\$28,905</b> | <b>\$ 112,389</b>                  | <b>\$79,569</b> |
| <b>Expenses:</b>   |  |                 |                                    |                 |
| Cost of revenue (excluding depreciation and amortization)                                  | 24,850                                   | 12,964          | 54,193                             | 35,536          |
| Depreciation and amortization  | 4,837                                    | 3,717           | 12,571                             | 10,829          |
| Selling and marketing  | 891                                      | 584             | 2,278                              | 1,637           |
| General and administrative   | 10,428                                   | 6,557           | 26,833                             | 19,057          |
| <b>Total expenses</b>  | <b>41,006</b>                            | <b>23,822</b>   | <b>95,875</b>                      | <b>67,059</b>   |
| <b>Operating income</b>  | <b>6,933</b>                             | <b>5,083</b>    | <b>16,514</b>                      | <b>12,510</b>   |
| <b>Other income (expense):</b>   |  |                 |                                    |                 |
| Interest expense   | (611)                                    | (235)           | (927)                              | (1,030)         |
| Other income (expense), net  | (341)                                    | 328             | (176)                              | 363             |
| Income before income taxes   | 5,981                                    | 5,176           | 15,411                             | 11,843          |
| Income tax benefit (expense)   | (2,808)                                  | 299             | (6,883)                            | (4,144)         |
| <b>Net income</b>  | <b>3,173</b>                             | <b>5,475</b>    | <b>8,528</b>                       | <b>7,699</b>    |
| Less: Net income (loss) attributable to<br>Non-redeemable, non-controlling interest        | (65)                                     | 24              | 25                                 | 153             |
| <b>Net income attributable to RigNet, Inc. stockholders</b>                                | <b>\$ 3,238</b>                          | <b>\$ 5,451</b> | <b>\$ 8,503</b>                    | <b>\$ 7,546</b> |
| <b>COMPREHENSIVE INCOME</b>  |  |                 |                                    |                 |
| Net income   | \$ 3,173                                 | \$ 5,475        | \$ 8,528                           | \$ 7,699        |
| Foreign currency translation   | 2,643                                    | (1,296)         | 2,422                              | 39              |
| <b>Comprehensive income</b>  | <b>5,816</b>                             | <b>4,179</b>    | <b>10,950</b>                      | <b>7,738</b>    |
| Less: Comprehensive income (loss) attributable to non-redeemable, non-controlling interest | (65)                                     | 24              | 25                                 | 153             |
| <b>Comprehensive income attributable to RigNet, Inc. stockholders</b>                      | <b>\$ 5,881</b>                          | <b>\$ 4,155</b> | <b>\$ 10,925</b>                   | <b>\$ 7,585</b> |
| <b>INCOME PER SHARE - BASIC AND DILUTED</b>  |  |                 |                                    |                 |
| Net income attributable to RigNet, Inc. common stockholders                                | \$ 3,238                                 | \$ 5,451        | \$ 8,503                           | \$ 7,546        |
| Net income per share attributable to RigNet, Inc. common stockholders, basic               | \$ 0.21                                  | \$ 0.35         | \$ 0.55                            | \$ 0.49         |
| Net income per share attributable to RigNet, Inc. common stockholders, diluted             | \$ 0.19                                  | \$ 0.32         | \$ 0.50                            | \$ 0.45         |
| Weighted average shares outstanding, basic   | 15,647                                   | 15,443          | 15,564                             | 15,369          |
| Weighted average shares outstanding, diluted   | 17,104                                   | 16,840          | 16,991                             | 16,792          |

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

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

|   | Nine Months Ended |                  |
|---|-------------------|------------------|
|   | September 30,     |                  |
|   | 2012              | 2011             |
|   | (in thousands)    |                  |
| <b>Cash flows from operating activities:</b>                            |                   |                  |
| Net income  | \$ 8,528          | \$ 7,699         |
| Adjustments to reconcile net income to net cash provided by operations: |                   |                  |
| Depreciation and amortization   | 12,571            | 10,829           |
| Stock-based compensation  | 1,874             | 741              |
| Amortization of deferred financing costs                                | 58                | (5)              |
| Deferred taxes  | 5,443             | (171)            |
| Gain on sales of property and equipment, net of retirements             | (141)             | (111)            |
| Changes in operating assets and liabilities:                            |                   |                  |
| Accounts receivable   | (6,090)           | (5,066)          |
| Prepaid expenses and other assets                                       | 546               | (352)            |
| Accounts payable  | (1,751)           | 1,251            |
| Accrued expenses  | (2,551)           | (38)             |
| Deferred revenue  | (3,879)           | (50)             |
| Other liabilities   | 2,851             | 304              |
| <b>Net cash provided by operating activities</b>                        | <b>17,459</b>     | <b>15,031</b>    |
| <b>Cash flows from investing activities:</b>                            |                   |                  |
| Acquisition of Nessco, net of cash acquired                             | (40,548)          | —                |
| Capital expenditures  | (16,609)          | (14,897)         |
| Proceeds from sales of property and equipment                           | 328               | 162              |
| (Increase) decrease in restricted cash                                  | (2,862)           | 10,000           |
| <b>Net cash used in investing activities</b>                            | <b>(59,691)</b>   | <b>(4,735)</b>   |
| <b>Cash flows from financing activities:</b>                            |                   |                  |
| Proceeds from issuance of common stock, net of cash issuance costs      | 710               | 4,628            |
| Repurchase of restricted shares from employees                          | (89)              | —                |
| Subsidiary distributions to non-controlling interest                    | (124)             | (234)            |
| Proceeds from borrowings  | 47,238            | 75               |
| Repayments of long-term debt  | (6,772)           | (6,593)          |
| Payments of financing fees  | (579)             | —                |
| <b>Net cash provided by (used in) financing activities</b>              | <b>40,384</b>     | <b>(2,124)</b>   |
| <b>Net increase (decrease) in cash and cash equivalents</b>             | <b>(1,848)</b>    | <b>8,172</b>     |
| <b>Cash and cash equivalents:</b>                                       |                   |                  |
| Balance, January 1,   | 53,106            | 50,435           |
| Changes in foreign currency translation                                 | 2,422             | (111)            |
| <b>Balance, September 30,</b>   | <b>\$ 53,680</b>  | <b>\$ 58,496</b> |
| <b>Supplemental disclosures:</b>  |                   |                  |
| Income taxes paid   | \$ 4,703          | \$ 3,666         |
| Interest paid - other   | \$ 873            | \$ 957           |
| Non-cash investing - capital expenditures                               | \$ 1,555          | \$ 696           |
| Liabilities assumed - Nessco acquisition                                | \$ 19,041         | \$ —             |

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

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

|   | Common Stock   |              | Additional<br>Paid-In<br>Capital | Accumulated<br>Deficit | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Total<br>Stockholders'<br>Equity | Non-<br>Redeemable,<br>Non-<br>Controlling<br>Interest | Total<br>Equity |
|---|----------------|--------------|----------------------------------|------------------------|--|----------------------------------|--|-----------------|
|   | Shares         | Amount       |                                  |                        |  |                                  |  |                 |
|   | (in thousands) |              |                                  |                        |  |                                  |  |                 |
| <b>Balance, January 1, 2011</b>   | <b>14,761</b>  | <b>\$ 15</b> | <b>\$110,118</b>                 | <b>\$ (42,440)</b>     | <b>\$ 5</b>  | <b>\$ 67,698</b>                 | <b>\$ 162</b>  | <b>\$67,860</b> |
| Issuance of common stock upon the exercise of stock options   | 43             | —            | 64                               | —                      | —  | 64                               | —  | 64              |
| Issuance of restricted common stock, net of share cancellations                                     | 139            | —            | —                                | —                      | —  | —                                | —  | —               |
| Sale of common stock  | 500            | —            | 5,514                            | —                      | —  | 5,514                            | —  | 5,514           |
| Stock-based compensation  | —              | —            | 741                              | —                      | —  | 741                              | —  | 741             |
| Foreign currency translation  | —              | —            | —                                | —                      | 39   | 39                               | —  | 39              |
| Non-controlling owner distributions   | —              | —            | —                                | —                      | —  | —                                | (234)  | (234)           |
| Net income  | —              | —            | —                                | 7,546                  | —  | 7,546                            | 153  | 7,699           |
| <b>Balance, September 30, 2011</b>  | <b>15,443</b>  | <b>\$ 15</b> | <b>\$116,437</b>                 | <b>\$ (34,894)</b>     | <b>\$ 44</b>   | <b>\$ 81,602</b>                 | <b>\$ 81</b>   | <b>\$81,683</b> |
| <b>Balance, January 1, 2012</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 and warrants                            | 117            | 1            | 709                              | —                      | —  | 710                              | —  | 710             |
| Issuance of restricted common stock, net of share repurchase from employees and share cancellations | 118            | —            | (89)                             | —                      | —  | (89)                             | —  | (89)            |
| Stock-based compensation  | —              | —            | 1,874                            | —                      | —  | 1,874                            | —  | 1,874           |
| Foreign currency translation  | —              | —            | —                                | —                      | 2,422  | 2,422                            | —  | 2,422           |
| Non-controlling owner distributions   | —              | —            | —                                | —                      | —  | —                                | (124)  | (124)           |
| Net income  | —              | —            | —                                | 8,503                  | —  | 8,503                            | 25   | 8,528           |
| <b>Balance, September 30, 2012</b>  | <b>15,676</b>  | <b>\$ 16</b> | <b>\$119,234</b>                 | <b>\$ (24,419)</b>     | <b>\$ 1,812</b>  | <b>\$ 96,643</b>                 | <b>\$ 63</b>   | <b>\$96,706</b> |

The accompanying notes are an integral part of 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, 2011 included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 8, 2012.

***Significant Accounting Policies***

Please refer to RigNet’s Annual Report on Form 10-K for fiscal year 2011 for information regarding the Company’s accounting policies. The following statements represent additions to the accounting policies previously disclosed in these reports.

***Contracts in Process and Billings in Excess of Costs and Estimated Earnings on Uncompleted Contracts***

Revenues related to long-term systems integration contracts for customized network solutions are recognized using the percentage-of-completion method. At any point, RigNet has numerous contracts in progress, all of which are at various stages of completion. Accounting for revenues and profits on long-term contracts requires estimates of total estimated contract costs and estimates of progress toward completion to determine the extent of revenue and profit recognition. Progress towards completion on fixed price contracts is measured based on the ratio of costs incurred to total estimated contract costs (the cost-to-cost method). These estimates may be revised as additional information becomes available or as specific project circumstances change. The Company reviews all of its material contracts on a monthly basis and revises the estimates as appropriate for developments such as, providing services and purchasing third-party materials and equipment at costs differing from those previously estimated and incurring or expecting to incur schedule issues. Changes in estimated final contract revenues and costs can either increase or decrease the final estimated contract profit. In the period in which a change in estimate is recognized, the cumulative impact of that change is recorded based on progress achieved through the period of change. Revenue recognized in excess of amounts billed is classified as a current asset under prepaid expenses and other current assets. Amounts billed to clients in excess of revenue recognized to date are classified as a current liability under deferred revenue. Under long-term contracts, amounts recorded in work in process may not be realized or paid, respectively, within a one-year period. The full amount of contracts in process and billings in excess of costs and estimated earnings on uncompleted contracts is included in current assets and current liabilities on the consolidated balance sheet, respectively.

***Recently Issued Accounting Pronouncements***

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2011-04 (ASU 2011-04), *Fair Value Measurement: Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRS*. Some of the key amendments to the fair value measurement guidance include the highest and best use and valuation premise for nonfinancial assets, application to financial assets and financial liabilities with offsetting positions in market risks or counterparty credit risk, premiums or discounts in fair value measurement and fair value of an instrument classified in a reporting entity’s shareholders’ equity. Additional disclosures for fair value measurements categorized in Level 3 of the fair value hierarchy include a quantitative disclosure of the unobservable inputs and assumptions used in the measurement, a description of the valuation processes in place, a narrative description of the sensitivity of the fair value to changes in unobservable inputs and interrelationships between those inputs and the level in the fair value hierarchy of items that are not measured at fair value in the consolidated balance sheet but whose fair value must be disclosed. ASU 2011-04 became effective for the Company’s annual and interim periods beginning January 1, 2012. The adoption of ASU 2011-04 did not have a material effect on the disclosures contained in the notes to the Company’s condensed consolidated financial statements.

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In September 2011, the FASB issued Accounting Standards Update No. 2011-08 (ASU 2011-08), *Intangibles – Goodwill and Other: Testing Goodwill for Impairment* which permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. An entity is not required to calculate the fair value of a reporting unit unless the entity determines that it is more likely than not that its fair value is less than its carrying amount. The Company adopted ASU 2011-08 as of January 1, 2012, however, the Company has elected to continue to calculate the value of each reporting unit within its annual goodwill impairment testing. Therefore, the adoption of ASU 2011-08 did not have any impact on the Company's condensed consolidated financial statements.

In December 2011, the FASB issued Accounting Standards Update No. 2011-12 (ASU 2011-12), *Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income* in Accounting Standards Update No. 2011-05. This update requires the presentation of the components of net income and other comprehensive income either in a single continuous statement or in two separate but consecutive statements. The requirement to present reclassification adjustments for items that are reclassified from other comprehensive income to net income on the face of the financial statement has been deferred by the FASB. The Company adopted ASU 2011-12 as of January 1, 2012. The adoption of ASU 2011-12 had no impact on the Company's condensed consolidated financial statements as net income and other comprehensive income are, and have been, presented in a single continuous statement for the current reporting period and prior comparative period.

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. ASU 2012-02 is effective for impairment tests performed for fiscal years beginning after September 15, 2012. The Company will adopt ASU 2012-02 as of January 1, 2013. The Company does not expect ASU 2012-02 to have any impact on its financial position and results of operations as it is a change in application of the intangibles impairment test only.

### **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 \$40.5 million, net of cash acquired of \$6.0 million. 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 \$19.2 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 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.



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|                                      | Weighted Average<br>Estimated Useful<br>Life (Years) | Fair Market Values |
|--------------------------------------|--|--------------------|
| Current assets                       |  | \$ 20,687          |
| 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                             |  | 19,196             |
| Other assets                         |  | 575                |
| Liabilities                          |  | (19,041)           |
| Total purchase price *               |  | <u>\$ 46,487</u>   |

\* Includes \$0.1 million of contingent paid in July and August 2012.

In connection with the Nessco acquisition, the Company incurred incremental expenses for the three and nine months ended September 30, 2012 of \$0.5 million and \$1.1 million, respectively related to legal, accounting and valuation services, which are reflected in general and administrative expenses. Additional costs related to this acquisition may be incurred and recorded as expense during the remainder of 2012.

*Actual and Pro Forma Impact of the Nessco Acquisition*

Nessco's revenues and net loss included in the Condensed Consolidated Statements of Income and Comprehensive Income for the three and nine months ended September 30, 2012 were as follows (in thousands):

|          | Three and Nine<br>Months Ended<br>September 30, 2012 |
|----------|--|
| Revenue  | \$ 10,333  |
| Net loss | \$ (1,283)   |

As RigNet has a fiscal year ending on December 31 and Nessco has a fiscal year ending on March 31, the unaudited pro forma condensed combined statements of income for the nine and three months ended combines the historical results of RigNet for the nine and three months ended September 30, 2011 with the historical results of Nessco for the nine and three months ended December 31, 2011.

The following table represents supplemental pro forma information as if the Nessco acquisition had occurred on January 1, 2011. Pro forma adjustments include:

- Reverse Nessco depreciation and amortization and reporting depreciation and amortization based on estimated fair values and remaining lives of the acquired assets at the date of acquisition.
- Adjust interest expense to recognize interest expense as if the acquisition-related debt of RigNet had been outstanding at January 1, 2011.
- Record nonrecurring transaction costs as if they had been incurred in 2011 rather than 2012.

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|  | Three Months Ended<br>September 30, |          | Nine Months Ended<br>September 30, |           |
|--|-------------------------------------|----------|------------------------------------|-----------|
|  | 2012                                | 2011     | 2012                               | 2011      |
| Revenue  | \$47,939                            | \$43,367 | \$141,981                          | \$117,944 |
| Expenses   | 44,305                              | 38,131   | 132,151                            | 112,223   |
| Net income from continuing operations  | \$ 3,634                            | \$ 5,236 | \$ 9,830                           | \$ 5,721  |
| Income continuing operations attributable to RigNet common stockholders                | \$ 3,699                            | \$ 5,212 | \$ 9,805                           | \$ 5,568  |
| Income per share from continuing operations attributable to RigNet common stockholders |                                     |          |                                    |           |
| Basic  | \$ 0.24                             | \$ 0.34  | \$ 0.63                            | \$ 0.36   |
| Diluted  | \$ 0.22                             | \$ 0.31  | \$ 0.58                            | \$ 0.33   |

**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 7 – 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***

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.

***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 2012 or 2011. 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 7 – Long-Term Debt).

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**Note 4 – Initial Public Offering**

***Initial Public Offering***

On December 20, 2010, the Company completed an initial public offering (IPO) consisting of 5,000,000 shares of common stock priced at \$12.00 per share. The total shares sold in the offering consisted of 1,666,666 shares sold by selling stockholders and 3,333,334 shares issued and sold by the Company.

As a result of the IPO, the Company received net proceeds of approximately \$35.4 million, after deducting underwriting discounts and commissions of \$2.8 million and additional offering related expenses of \$1.8 million, of which \$0.8 million was paid during the twelve months ended December 31, 2010 with the balance paid during the three months ended March 31, 2011. From these net proceeds, the Company used \$0.2 million to compensate our key employees, including executive officers and \$0.2 million was used to pay accrued and unpaid dividends on preferred shares that were converted in connection with the IPO.

On January 6, 2011, the underwriters of the IPO exercised their over-allotment option (Over-Allotment) for the sale of 750,000 shares of common stock at \$12.00 per share. The total shares sold in the Over-Allotment included 250,000 common shares sold by selling stockholders and 500,000 common shares issued and sold by the Company. Net proceeds to the Company from the sale of shares in the Over-Allotment were \$5.5 million, after deducting underwriting discounts and commissions of \$0.4 million and additional offering related expenses of \$0.1 million.

The Company utilizes the remaining net proceeds from the IPO and the Over-Allotment for capital expenditures, working capital and other general corporate purposes.

**Note 5 – 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 September 30, 2012. As of September 30, 2012 and December 31, 2011, goodwill was \$33.8 million and \$13.8 million, respectively. Goodwill increased \$19.2 million, as a result of the Nessco acquisition. Additionally, 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, backlog 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 September 30, 2012. During the three months ended September 30, 2012 and 2011, the Company recognized amortization expense of \$1.1 million and \$0.3 million, respectively. During the nine months ended September 30, 2012 and 2011, the Company recognized amortization expense of \$1.7 million and \$0.9 million, respectively.

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The following table sets forth amortization expense of intangibles for the remainder of 2012 and the following five years (in thousands):

|            |                 |
|------------|-----------------|
| 2012       | \$ 1,055        |
| 2013       | 4,218           |
| 2014       | 3,564           |
| 2015       | 3,382           |
| 2016       | 3,223           |
| Thereafter | 6,748           |
|            | <u>\$22,190</u> |

### Note 6 – Restricted Cash

As of September 30, 2012, the Company had restricted cash of \$0.8 million and \$2.1 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. As of September 14, 2012, the Company entered into a new performance bond facility to support future performance bonds (see Note 7 – Long-Term Debt).

### Note 7 – Long-Term Debt

As of September 30, 2012 and December 31, 2011, the following credit facilities and long-term debt arrangements with financial institutions were in place:

|  | September 30,<br>2012 | December 31,<br>2011 |
|--|-----------------------|----------------------|
|  | (in thousands)        |                      |
| Term loan, net of unamortized deferred financing costs | \$ 63,423             | \$ 23,454            |
| Equipment notes  | 131                   | 66                   |
|  | <u>63,554</u>         | <u>23,520</u>        |
| Less: Current maturities of long-term debt             | <u>(9,393)</u>        | <u>(8,735)</u>       |
|  | <u>\$ 54,161</u>      | <u>\$ 14,785</u>     |

#### 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, the amended Term Loan bears an interest rate of LIBOR plus a margin ranging from 2.25% to 3.50%, 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 and nine months ended September 30, 2012 was 3.4% and 3.2%, respectively, with an interest rate of 3.5% at September 30, 2012.

The Term Loan is secured by substantially all the assets of the Company. As of September 30, 2012, the Term Loan had outstanding principal of \$64.0 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 September 30, 2012, no draws have been made on the facility.

#### Performance Bonds

On September 14, 2012, NesscoInvsat Limited, a subsidiary of RigNet Inc., secured a performance bond facility with a lender in the amount of £4.0 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 September 30, 2012, the amount available under this facility was £3.8 million.

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### ***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 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 September 30, 2012 and December 31, 2011, the Company believes it was in compliance with all covenants.

### ***Debt Maturities***

The following table sets forth the aggregate principal maturities of long-term debt, net of deferred financing cost amortization, as of September 30, 2012 (in thousands):

|  |                 |
|--|-----------------|
| 2012                                     | \$ 2,345        |
| 2013                                     | 9,396           |
| 2014                                     | 9,367           |
| 2015                                     | 9,369           |
| 2016                                     | 9,397           |
| Thereafter                               | 23,680          |
| Total debt, including current maturities | <u>\$63,554</u> |

### **Note 8 – 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. Since the cash equivalents are based on quoted market prices (Level 1).
- ***Accounts Receivable*** — Reported amounts, net of the allowance for doubtful accounts, approximate fair value.
- ***Accounts Payable, Including Income Taxes Payable and Accrued Expenses*** — Reported amounts approximate fair value.
- ***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 9 – Income Taxes**

The Company's effective income tax rate was 46.9% and (5.8%) for the three months ended September 30, 2012 and 2011, respectively. The Company's effective income tax rate was 44.7% and 35.0% for the nine months ended September 30, 2012 and 2011, 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 both the recognition and the fluctuation in the amount of taxable deemed distributions in the domestic jurisdiction in the 2011 periods and the settlement of the final assessments related to the 2008 U.S. Internal Revenue Service (IRS) audit in the quarter ended September 30, 2011.

The Company has computed the provision for taxes related to the domestic jurisdiction for all periods in 2011, and all jurisdictions for all periods in 2012, based on the actual effective tax rate by applying the discrete method. The Company's forecast for those jurisdictions in the respective periods did not provide the level of detail necessary to calculate a forecasted effective tax rate.

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The IRS is currently performing an audit of the Company's 2010 income tax return. It is unclear if the audit and the appeals process, if necessary, will be completed within the next twelve months and the Company is unable to quantify any potential settlement or outcome of the audit at this time as the IRS is still gathering and examining taxpayer information. The Company does not anticipate significant changes in the remaining unrecognized tax benefits within the next twelve months.

### **Note 10 – Stock-Based Compensation**

During the nine months ended September 30, 2012, the Company granted 130,723 shares of restricted stock to certain directors, 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 to officers and employees, totaling 95,466 shares, 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. Restricted shares granted to directors, totaling 35,257 shares, either vested immediately or vest over a one year period of continued service.

During the nine months ended September 30, 2012, the Company also granted 215,563 stock options to certain officers and employees of the Company under the 2010 Plan. Options granted during this period have an exercise price of \$17.08, 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 nine months ended September 30, 2012 and 2011, were as follows:

|                          | Nine Months Ended<br>September 30, |      |
|--------------------------|------------------------------------|------|
|                          | 2012                               | 2011 |
| Expected volatility      | 50%                                | 50%  |
| Expected term (in years) | 7                                  | 7    |
| Risk-free interest rate  | 2.8%                               | 2.8% |
| Dividend yield           | —                                  | —    |

Based on these assumptions, the weighted average grant date fair value of stock options granted during the nine months ended September 30, 2012 and 2011 was \$9.45 and \$9.73 per option, respectively.

Stock-based compensation expense related to the Company's stock-based compensation plans for the nine months ended September 30, 2012 and 2011 was \$1.9 million and \$0.7 million, respectively. As of September 30, 2012, there was \$5.1 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 2.6 years.

### **Note 11 – 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 September 30, 2012 and 2011 was \$0.1 million. Revenue recognized for the nine months ended September 30, 2012 and 2011 were \$0.2 million and \$0.5 million, respectively. All revenue relates to services performed by the Company in the ordinary course of business.

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[Table of Contents](#)**Note 12 – 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 September 30, 2012 and 2011, 1,457,495 and 1,396,638 shares of unexercised or unvested securities, respectively, were included in the diluted earnings per share computation due to the dilutive effect. For the nine months ended September 30, 2012 and 2011, 1,427,828 and 1,423,331 shares of unexercised or unvested securities, respectively, were included in the diluted earnings per share computation due to the dilutive effect.

**Note 13 – 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.

*Operating Leases*

The Company leases office space under lease agreements expiring on various dates through 2016. For the nine months ended September 30, 2012 and 2011, the Company recognized expense under operating leases of \$1.1 million. As of September 30, 2012, future minimum lease obligations for the remainder of 2012 and future year were as follows (in thousands):

|      |                |
|------|----------------|
| 2012 | \$ 915         |
| 2013 | 2,177          |
| 2014 | 790            |
| 2015 | 498            |
| 2016 | 109            |
|      | <u>\$4,489</u> |

*Commercial Commitments*

The Company enters into contracts for satellite bandwidth and other network services with certain providers. As of September 30, 2012, the Company had the following commercial commitments related to satellite and network services (in thousands):

|      |                 |
|------|-----------------|
| 2012 | \$ 4,566        |
| 2013 | 12,792          |
| 2014 | 5,509           |
| 2015 | 2,576           |
| 2016 | 1,536           |
|      | <u>\$26,979</u> |

**Note 14 – 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.

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In connection with the Nesso acquisition, the Company evaluated its current core assets and operations, and organized them into three segments based on geographic location. Accordingly, RigNet now considers its business to consist 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.
- **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.

Segment information for the three-month and nine-month periods ended September 30, 2012 and 2011 is presented below. Prior year information has been recast to conform to the current year presentation. The Company's business segment information as of and for the three and nine months ended September 30, 2012 and 2011, is as follows:

|                             | Three Months Ended September 30, 2012 |               |                |                            |                    |
|-----------------------------|---------------------------------------|---------------|----------------|----------------------------|--------------------|
|                             | Americas                              | Europe/Africa | MEAP           | Corporate and Eliminations | Consolidated Total |
|                             |                                       |               | (in thousands) |                            |                    |
| Total revenue               | \$13,053                              | \$ 21,972     | \$12,914       | \$ —                       | \$ 47,939          |
| Total expenses              | 9,686                                 | 17,965        | 6,753          | 6,602                      | 41,006             |
| Interest expense            | —                                     | (21)          | —              | (590)                      | (611)              |
| Other income (expense), net | 24                                    | (317)         | (1)            | (47)                       | (341)              |
| Income tax expense          | —                                     | —             | —              | (2,808)                    | (2,808)            |
| Net income (loss)           | 3,391                                 | 3,669         | 6,160          | (10,047)                   | 3,173              |
| Capital expenditures        | 2,620                                 | 690           | 1,722          | 98                         | 5,130              |

|                             | Three Months Ended September 30, 2011 |               |                |                            |                    |
|-----------------------------|---------------------------------------|---------------|----------------|----------------------------|--------------------|
|                             | Americas                              | Europe/Africa | MEAP           | Corporate and Eliminations | Consolidated Total |
|                             |                                       |               | (in thousands) |                            |                    |
| Total revenue               | \$11,124                              | \$ 8,871      | \$ 8,985       | \$ (75)                    | \$ 28,905          |
| Total expenses              | 9,145                                 | 5,465         | 5,152          | 4,060                      | 23,822             |
| Interest expense            | (23)                                  | —             | —              | (212)                      | (235)              |
| Other income (expense), net | (26)                                  | 326           | 42             | (14)                       | 328                |
| Income tax benefit          | —                                     | —             | —              | 299                        | 299                |
| Net income (loss)           | 2,169                                 | 4,094         | 3,875          | (4,663)                    | 5,475              |
| Capital expenditures        | 2,290                                 | 1,004         | 1,198          | —                          | 4,492              |



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|                             | Nine Months Ended September 30, 2012 |               |          |                               |                       |
|-----------------------------|--------------------------------------|---------------|----------|-------------------------------|-----------------------|
|                             | Americas                             | Europe/Africa | MEAP     | Corporate and<br>Eliminations | Consolidated<br>Total |
|                             | (in thousands)                       |               |          |                               |                       |
| Total revenue               | \$ 37,065                            | \$ 41,292     | \$34,032 | \$ —                          | \$ 112,389            |
| Total expenses              | 28,286                               | 29,984        | 19,294   | 18,311                        | 95,875                |
| Interest expense            | (20)                                 | (21)          | —        | (886)                         | (927)                 |
| Other income (expense), net | 78                                   | (241)         | (18)     | 5                             | (176)                 |
| Income tax expense          | —                                    | —             | —        | (6,883)                       | (6,883)               |
| Net income (loss)           | 8,837                                | 11,046        | 14,720   | (26,075)                      | 8,528                 |
| Total assets                | 90,064                               | 168,474       | 38,918   | (87,693)                      | 209,763               |
| Capital expenditures        | 7,237                                | 2,638         | 5,963    | 125                           | 15,963                |

|                                   | Nine Months Ended September 30, 2011 |               |          |                               |                       |
|-----------------------------------|--------------------------------------|---------------|----------|-------------------------------|-----------------------|
|                                   | Americas                             | Europe/Africa | MEAP     | Corporate and<br>Eliminations | Consolidated<br>Total |
|                                   | (in thousands)                       |               |          |                               |                       |
| Total revenue                     | \$ 30,165                            | \$ 25,013     | \$24,463 | \$ (72)                       | \$ 79,569             |
| Total expenses                    | 24,836                               | 15,402        | 15,314   | 11,507                        | 67,059                |
| Interest expense                  | (63)                                 | (1)           | —        | (966)                         | (1,030)               |
| Other income (expense), net       | 125                                  | 258           | 7        | (27)                          | 363                   |
| Income tax expense                | —                                    | —             | —        | (4,144)                       | (4,144)               |
| Net income (loss)                 | 5,630                                | 10,229        | 9,156    | (17,316)                      | 7,699                 |
| Total assets at December 31, 2011 | 107,437                              | 33,215        | 34,311   | (34,041)                      | 140,922               |
| Capital expenditures              | 7,485                                | 2,897         | 3,802    | 247                           | 14,431                |

For the three and nine months ended September 30, 2012 and 2011, the Company earned revenue from both our domestic and international operations as follows:

|               | Three Months Ended<br>September 30, |                 | Nine Months Ended<br>September 30, |                 |
|---------------|-------------------------------------|-----------------|------------------------------------|-----------------|
|               | 2012                                | 2011            | 2012                               | 2011            |
|               | (in thousands)                      |                 |                                    |                 |
| Domestic      | \$11,738                            | \$ 8,693        | \$ 29,678                          | \$25,290        |
| International | 36,201                              | 20,212          | 82,711                             | 54,279          |
| Total         | <u>\$47,939</u>                     | <u>\$28,905</u> | <u>\$112,389</u>                   | <u>\$79,569</u> |

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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 September 30, 2012 and for the three and nine months ended September 30, 2012 and 2011 included elsewhere herein, and with our annual report on Form 10-K for the year ended December 31, 2011. 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.

In some cases, forward-looking statements can be identified by terminology such as "may," "could," "should," "would," "may," "expect," "plan," "project," "intend," "anticipate," "believe," "estimate," "predict," "potential," "pursue," "target," "continue," the negative of such terms or other comparable terminology that convey uncertainty of future events or outcomes. 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.

## 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.

Managed remote communications 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 terms used in the oil and gas industry. Systems integration projects are primarily long-term turn-key contracts with revenue being recognized using percentage-of-completion method. Our network service 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). For the nine months ended September 30, 2012, our largest customer, who has been our customer for over five years, provided approximately 14.4% of our total revenue, an increase of 3.1%, from the nine months ended September 30, 2011.

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.

In connection with the Nescoco Group Holdings Ltd. (Nescoco) acquisition, we evaluated our current core assets and operations, and organized them into three segments based on geographic location. Accordingly, we operate three reportable business segments based on geographic location, which are managed as distinct business units.

- **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.

|   | Three Months Ended<br>September 30, |          | Nine Months Ended<br>September 30, |          |
|---|-------------------------------------|----------|------------------------------------|----------|
|   | 2012                                | 2011     | 2012                               | 2011     |
|   | (in thousands)                      |          |                                    |          |
| Revenue   | \$47,939                            | \$28,905 | \$112,389                          | \$79,569 |
| Expenses:   |                                     |          |                                    |          |
| Cost of revenue (excluding depreciation and amortization)         | 24,850                              | 12,964   | 54,193                             | 35,536   |
| Depreciation and amortization                                     | 4,837                               | 3,717    | 12,571                             | 10,829   |
| Selling and marketing   | 891                                 | 584      | 2,278                              | 1,637    |
| General and administrative  | 10,428                              | 6,557    | 26,833                             | 19,057   |
| Total expenses  | 41,006                              | 23,822   | 95,875                             | 67,059   |
| Operating income  | 6,933                               | 5,083    | 16,514                             | 12,510   |
| Other income (expense), net                                       | (952)                               | 93       | (1,103)                            | (667)    |
| Income before income taxes  | 5,981                               | 5,176    | 15,411                             | 11,843   |
| Income tax benefit (expense)                                      | (2,808)                             | 299      | (6,883)                            | (4,144)  |
| Net income  | 3,173                               | 5,475    | 8,528                              | 7,699    |
| Less: Net income (loss) attributable to non-controlling interests | (65)                                | 24       | 25                                 | 153      |
| Net income attributable to RigNet, Inc. stockholders              | \$ 3,238                            | \$ 5,451 | \$ 8,503                           | \$ 7,546 |
| <b>Other Non-GAAP Data:</b>                                       |                                     |          |                                    |          |
| Gross Profit  | \$23,089                            | \$15,941 | \$ 58,196                          | \$44,033 |
| Adjusted EBITDA   | \$12,392                            | \$ 9,448 | \$ 31,765                          | \$24,332 |

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The following represents selected financial operating results for our segments:

|   | Three Months Ended<br>September 30, |                 | Nine Months Ended<br>September 30, |                 |
|---|-------------------------------------|-----------------|------------------------------------|-----------------|
|   | 2012                                | 2011            | 2012                               | 2011            |
| (in thousands)  |                                     |                 |                                    |                 |
| <b>Americas:</b>  |                                     |                 |                                    |                 |
| Revenue   | \$13,053                            | \$11,124        | \$37,065                           | \$30,165        |
| Cost of revenue (excluding depreciation and amortization) | 5,765                               | 5,553           | 17,012                             | 15,093          |
| Gross Profit (non-GAAP measure)                           | 7,288                               | 5,571           | 20,053                             | 15,072          |
| Depreciation and amortization                             | 1,909                               | 1,767           | 5,536                              | 4,933           |
| Selling, general and administrative                       | 2,012                               | 1,825           | 5,738                              | 4,810           |
| Americas operating income                                 | <u>\$ 3,367</u>                     | <u>\$ 1,979</u> | <u>\$ 8,779</u>                    | <u>\$ 5,329</u> |
| <b>Europe/Africa:</b>                                     |                                     |                 |                                    |                 |
| Revenue   | \$21,972                            | \$ 8,871        | \$41,292                           | \$25,013        |
| Cost of revenue (excluding depreciation and amortization) | 13,536                              | 3,439           | 21,869                             | 9,321           |
| Gross Profit (non-GAAP measure)                           | 8,436                               | 5,432           | 19,423                             | 15,692          |
| Depreciation and amortization                             | 1,774                               | 770             | 3,267                              | 2,309           |
| Selling, general and administrative                       | 2,655                               | 1,256           | 4,848                              | 3,772           |
| Europe/Africa operating income                            | <u>\$ 4,007</u>                     | <u>\$ 3,406</u> | <u>\$11,308</u>                    | <u>\$ 9,611</u> |
| <b>MEAP:</b>  |                                     |                 |                                    |                 |
| Revenue   | \$12,914                            | \$ 8,985        | \$34,032                           | \$24,463        |
| Cost of revenue (excluding depreciation and amortization) | 4,512                               | 3,059           | 12,442                             | 9,056           |
| Gross Profit (non-GAAP measure)                           | 8,402                               | 5,926           | 21,590                             | 15,407          |
| Depreciation and amortization                             | 1,153                               | 1,226           | 3,767                              | 3,740           |
| Selling, general and administrative                       | 1,088                               | 867             | 3,085                              | 2,518           |
| MEAP operating income                                     | <u>\$ 6,161</u>                     | <u>\$ 3,833</u> | <u>\$14,738</u>                    | <u>\$ 9,149</u> |

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

**Three Months Ended September 30, 2012 and 2011**

**Revenue.** Revenue increased by \$19.0 million, or 65.9%, to \$47.9 million for the three months ended September 30, 2012 from \$28.9 million for the three months ended September 30, 2011. This increase includes \$10.3 million of revenue contributed by Nessco during the three months ended September 30, 2012 and is included in the Europe/Africa segment. Exclusive of Nessco, the revenue increased in each of our reportable segments. Americas revenue increased \$1.9 million, or 17.3%, Europe/Africa revenue increased \$2.8 million, or 31.5% and MEAP revenue increased \$3.9 million, or 43.7%. The 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 \$11.9 million to \$24.9 million for the three months ended September 30, 2012 from \$13.0 million for the three months ended September 30, 2011. This increase includes \$9.0 million of costs incurred by Nessco during the three months ended September 30, 2012. Exclusive of Nessco, cost of revenue increased by \$2.9 million, primarily due to incremental network services and capacity required to serve the increased unit counts and bandwidth upgrades.

**Depreciation and Amortization.** Depreciation and amortization expense increased by \$1.1 million to \$4.8 million for the three months ended September 30, 2012 from \$3.7 million for the three months ended September 30, 2011. 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.

**General and Administrative.** General and administrative expenses increased by \$3.9 million to \$10.4 million for the three months ended September 30, 2012 from \$6.6 million for the three months ended September 30, 2011. This increase includes \$1.1 million of costs incurred by Nessco during the three months ended September 30, 2012. The remainder of the increase was primarily due to costs associated with head count additions, costs related to the Nessco acquisition and other professional fees.

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**Income Tax Expense.** Our effective income tax rate was 46.9% and (5.8%) for the three months ended September 30, 2012 and 2011, 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. The variance in the effective tax rate between the reporting periods was primarily impacted by the reduction of taxable deemed distributions in the domestic jurisdiction for the September 30, 2011 period compared to prior periods in 2011 and the settlement of the final assessments related to the 2008 U.S. Internal Revenue Service (IRS) audit in the quarter ending September 30, 2011.

The Company has computed the provision for taxes related to the domestic jurisdiction for the period ended September 30, 2011, and all jurisdictions for the period ended September 30, 2012, based on the actual effective tax rate by applying the discrete method. The Company's forecast for those jurisdictions in the respective periods did not provide the level of detail necessary to calculate a forecasted effective tax rate.

### **Nine Months Ended September 30, 2012 and 2011**

**Revenue.** Revenue increased by \$32.8 million, or 41.2%, to \$112.4 million for the nine months ended September 30, 2012 from \$79.6 million for the nine months ended September 30, 2011. This increase includes \$10.3 million of revenue contributed by Nessco during the nine months ended September 30, 2012 and is included in the Europe/Africa segment. Exclusive of Nessco, revenue increased in each of our reportable segments. Americas revenue increased \$6.9 million, or 22.9%, Europe/Africa revenue increased \$6.0 million, or 24.0% and MEAP revenue increased \$9.6 million, or 39.1%. 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 \$18.7 million to \$54.2 million for the nine months ended September 30, 2012 from \$35.5 million for the nine months ended September 30, 2011. This increase includes \$9.0 million of costs incurred by Nessco during the nine months ended September 30, 2012. Exclusive of Nessco cost of revenue increase by \$9.7 million, primarily due to incremental network services and capacity required to serve the increased unit counts and bandwidth upgrades.

**Depreciation and Amortization.** Depreciation and amortization expense increased by \$1.7 million to \$12.6 million for the nine months ended September 30, 2012 from \$10.8 million for the nine months ended September 30, 2011. 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 totaled \$16.1 million for the nine months ended September 30, 2012, contributed to the increase.

**General and Administrative.** General and administrative expenses increased by \$7.8 million to \$26.8 million for the nine months ended September 30, 2012 from \$19.1 million for the nine months ended September 30, 2011. This increase includes \$1.1 million of costs incurred by Nessco during the nine months ended September 30, 2012. The remainder of the increase was primarily due to costs associated with head count additions, costs related to the Nessco acquisition and other professional fees.

**Income Tax Expense.** Our effective income tax rate was 44.7% and 35.0% for the nine months ended September 30, 2012 and 2011, 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. The variance in the effective tax rate between the reporting periods was primarily impacted by the settlement of the final assessments related to the 2008 U.S. Internal Revenue Service (IRS) audit in the quarter ending September 30, 2011.

The Company has computed the provision for taxes related to the domestic jurisdiction for the period ended September 30, 2011, and all jurisdictions for the period ended September 30, 2012, based on the actual effective tax rate by applying the discrete method. The Company's forecast for those jurisdictions in the respective periods did not provide the level of detail necessary to calculate a forecasted effective tax rate.

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[Table of Contents](#)**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 September 30, 2012, we had working capital of \$63.3 million, including cash and cash equivalents of \$53.7 million, current restricted cash of \$0.8 million, accounts receivable of \$43.6 million and other current assets of \$3.8 million, offset by \$10.4 million in accounts payable, \$8.0 million in accrued expenses, \$9.4 million in current maturities of long-term debt, \$3.7 million in tax related liabilities and \$7.1 million in deferred revenue.

Over the past five years, we have spent \$7.2 million to \$19.0 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.

|   | Nine Months Ended |                 |
|---|-------------------|-----------------|
|   | September 30,     |                 |
|   | 2012              | 2011            |
|   | (in thousands)    |                 |
| <b>Consolidated Statements of Cash Flows Data:</b>  |                   |                 |
| Cash and cash equivalents, January 1,               | \$ 53,106         | \$50,435        |
| Net cash provided by operating activities           | 17,459            | 15,031          |
| Net cash used in investing activities               | (59,691)          | (4,735)         |
| Net cash provided by (used in) financing activities | 40,384            | (2,124)         |
| Changes in foreign currency translation             | 2,422             | (111)           |
| Cash and cash equivalents, September 30,            | <u>\$ 53,680</u>  | <u>\$58,496</u> |

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 nine months ended September 30, 2012 and 2011, 72.1% and 79.2% of our revenue was denominated in U.S. dollars, respectively.

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**Operating Activities**

Net cash provided by operating activities was \$17.5 million for the nine months ended September 30, 2012 compared to \$15.0 million for the nine months ended September 30, 2011. The increase in cash provided by operating activities during 2012 of \$2.5 million was primarily due to the increased profitability of our core operations and changes in our tax liabilities, offset by the timing of collections of our accounts receivable.

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 \$59.7 million and \$4.7 million for the nine months ended September 30, 2012 and 2011, respectively. Net cash used during the nine months ended September 30, 2012 includes cash paid for the acquisition of Nessco totaling \$40.5 million, net of cash acquired of \$6.0 million, and capital expenditures of \$16.6 million. We expect capital expenditures to continue to increase during 2012 primarily resulting from growth opportunities arising from increasing demand for our services.

Net cash used during the nine months ended September 30, 2011 includes capital expenditures of \$14.9 million offset by the release of \$10.0 million of cash which was restricted by the Term Loan prior to September 30, 2011.

**Financing Activities**

Net cash provided by (used in) financing activities was \$40.4 million and \$(2.1) million in the nine months ended September 30, 2012 and 2011, respectively. Cash provided by financing activities during the nine months ended September 30, 2012 includes proceeds of \$47.2 million from the amendment of our term loan in connection with the Nessco acquisition, offset by \$6.8 million of principal payments on our long-term debt. Cash used by financing activities during the nine months ended September 30, 2011 includes \$6.8 million of principal payments on our long-term debt partially offset by net proceeds from the underwriters' exercise of the Over-Allotment in January 2011, from which we received net cash proceeds of \$5.5 million, after deducting underwriting discounts and commissions of \$0.4 million and additional offering related expenses of \$0.1 million paid during the period.

***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 2.25% to 3.50%, 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 and nine months ended September 30, 2012 was 3.4% and 2.3%, respectively, with an interest rate of 3.5% at September 30, 2012.

The Term Loan is secured by substantially all the assets of the Company. As of September 30, 2012, the Term Loan had outstanding principal of \$64.0 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 September 30, 2012, our Adjusted EBITDA exceeded the minimum levels required by the: (i) fixed charge coverage ratio by \$18.7 million (or 45.8% of our Adjusted EBITDA for the trailing twelve months) and (ii) funded debt to Adjusted EBITDA ratio by \$15.5 million (or 37.8% of our Adjusted EBITDA for the trailing twelve months).



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

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

### **Non-GAAP Financial Measures**

We define Gross Profit as revenue less cost of revenue (excluding depreciation and amortization). This measure is used to evaluate operating margins and the effectiveness of cost management.

We define Adjusted EBITDA as net income (loss) plus interest expense, income tax expense (benefit), depreciation and amortization, impairment of goodwill, (gain) loss on retirement of property and equipment, change in fair value of derivatives, stock-based compensation and IPO or merger/acquisition costs and related bonuses. Adjusted EBITDA is a financial measure that is not calculated in accordance with generally accepted accounting principles, or GAAP. The table below provides a reconciliation of this non-GAAP financial measure to net income (loss), the most directly comparable financial measure calculated and presented in accordance with GAAP. Adjusted EBITDA should not be considered as an alternative to net income (loss), operating income (loss) or any other measure of financial performance calculated and presented in accordance with GAAP. Our Adjusted EBITDA may not be comparable to similarly titled measures of other companies because other companies may not calculate Adjusted EBITDA or similarly titled measures in the same manner as we do. We prepare 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;
- 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;
- 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;

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- 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 net income to Adjusted EBITDA.

|  | Three Months Ended<br>September 30, |                | Nine Months Ended<br>September 30, |                 |
|--|-------------------------------------|----------------|------------------------------------|-----------------|
|  | 2012                                | 2011           | 2012                               | 2011            |
|  | (in thousands)                      |                |                                    |                 |
| Net income                                   | \$ 3,173                            | \$5,475        | \$ 8,528                           | \$ 7,699        |
| Interest expense                             | 611                                 | 235            | 927                                | 1,030           |
| Depreciation and amortization                | 4,837                               | 3,717          | 12,571                             | 10,829          |
| Gain on retirement of property and equipment | (90)                                | (1)            | (141)                              | (111)           |
| Stock-based compensation                     | 592                                 | 321            | 1,874                              | 741             |
| Acquisition costs                            | 461                                 | —              | 1,123                              | —               |
| Income tax expense                           | 2,808                               | (299)          | 6,883                              | 4,144           |
| Adjusted EBITDA (non-GAAP measure)           | <u>\$12,392</u>                     | <u>\$9,448</u> | <u>\$31,765</u>                    | <u>\$24,332</u> |

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.

Adjusted EBITDA increased by \$3.0 million to \$12.4 million for the three months ended September 30, 2012, from \$9.4 million for the three months ended September 30, 2011. Adjusted EBITDA increased by \$7.5 million to \$31.8 million for the nine months ended September 30, 2012, from \$24.3 million for the nine months ended September 30, 2011. This increase resulted from increases in unit counts served, additional demand for our services, partially offset by costs associated with head count additions and other professional fees.

### **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 typically 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 nine months ended September 30, 2012 and 2011, 27.9% and 20.8% of our revenues were earned in non-U.S. currencies, respectively.

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 September 30, 2012 and December 31, 2011, assuming those liabilities were outstanding for the previous twelve months:

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|  | September 30,<br>2012 | December 31,<br>2011 |
|--|-----------------------|----------------------|
|  | (in thousands)        |                      |
| <b>Effect on Net Income (Loss) and Equity - Increase/Decrease:</b> |                       |                      |
| 1% Decrease/increase in rate                                       | \$ 636                | \$ 236               |
| 2% Decrease/increase in rate                                       | \$ 1,271              | \$ 472               |
| 3% Decrease/increase in rate                                       | \$ 1,907              | \$ 708               |

**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 September 30, 2012. 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 September 30, 2012, 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**

During the three months ended September 30, 2012, there were no changes in our internal control over financial reporting that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**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 adverse impact on our business, financial condition or condensed consolidated financial statements.

**Item 1A. Risk Factors**

Our operations and financial results are subject to various risks and uncertainties that could adversely affect our business, financial condition and results of operations, and the trading price of our common stock. Please refer to our Annual Report on Form 10-K for fiscal year 2011 and our Quarterly Reports on Form 10-Q filed subsequent to the Annual Report on Form 10-K for information concerning risks and uncertainties that could negatively impact us. The following statements represent changes and/or additions to the risks and uncertainties previously disclosed in these reports as a result of our July 5, 2012 acquisition of Nesso Group Holdings Ltd., which designs, builds, installs and commissions client telecommunications systems encompassing the full spectrum of technologies including fiber optic, digital radio, voice and data networks, closed circuit television, marine communications and satellite networks.

***Acquisitions, such as our recent acquisition of Nesso, bring new risks that could adversely affect our business and operations.***

We may acquire businesses, assets, technologies or products to enhance our business in the future if appropriate opportunities become available. In connection with any future acquisitions, we could:

- issue additional equity securities which would dilute our current stockholders;
- incur substantial debt to fund the acquisitions; or
- assume significant liabilities.

Acquisitions involve numerous risks, including problems integrating the purchased operations, technologies or products, unanticipated costs and other liabilities, diversion of management's attention from our core business, adverse effects on existing business relationships with current and/or prospective partners, customers and/or suppliers, risks associated with entering markets and business lines in which we have no or limited prior experience and potential loss of key employees. We may not be able to successfully integrate any businesses, assets, products, technologies or personnel that we might acquire in the future without a significant expenditure of operating, financial and management resources, if at all. The integration process could divert management time from focusing on operating our business, result in a decline in employee morale and cause retention issues to arise from changes in compensation, reporting relationships, future prospects or the direction of the business. Acquisitions may also require us to record goodwill, non-amortizable intangible assets that will be subject to impairment testing on a regular basis and potential periodic impairment charges, incur amortization expenses related to certain intangible assets and incur large and immediate write-offs and restructuring and other related expenses, all of which could harm our operating results and financial condition. In addition, we may acquire companies that have insufficient internal financial controls, which could impair our ability to integrate the acquired company and adversely impact our financial reporting. If we fail in our integration efforts with respect to any of our acquisitions and are unable to efficiently operate as a combined organization, our business, financial condition and results of operations may be materially harmed.

***Future adjustments to contingent purchase price related to acquisitions could materially affect our results.***

From time to time we acquire companies with a component of the purchase consideration being delayed and the payment thereof contingent on certain performance or other factors (the "contingent purchase price"). In the case of the Nesso acquisition, the contingent amount is up to approximately \$2.5 million to be determined contingent on certain post-closing events by November 2012. The accounting principles generally accepted in the United States require that we estimate the amount of the contingent purchase price at the time we complete the acquisition. Each subsequent reporting period (until the contingent purchase price is either paid or no longer potentially payable), we are required to re-evaluate the estimated amount of remaining contingent purchase price that is likely to be paid. If the revised estimate of the future contingent purchase price is higher than the amount accrued, then the difference must be accrued and charged to the statement of income in that period. If the revised estimate of the future contingent purchase price is lower

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than the amount accrued, then the accrual is reduced and the difference is credited to income for the period. Because some of these payments would not be deductible for tax purposes, it is possible that the expense (or income) would not be tax-effected on our income statements. These adjustments, if required, could be material to our future results of operations.

***Our revenue and earnings are largely dependent on the award of new contracts which we do not directly control.***

A substantial portion of our revenue and earnings is generated from large-scale and increasingly international project awards. The timing of when project awards will be made is unpredictable and outside of our control. We operate in highly competitive markets where it is difficult to predict whether and when we will receive awards since these awards and projects often involve complex and lengthy negotiations and bidding processes. These processes can be impacted by a wide variety of factors including financing contingencies, commodity prices and overall market and economic conditions. In addition, we may not win contracts that we have bid upon due to price, a client's perception of our ability to perform and/or perceived technology advantages held by others. In these highly competitive times, many of our competitors may be more inclined to take greater or unusual risks or terms and conditions in a contract that we might not deem market or acceptable. Because a significant portion of our revenue is generated from large projects, our results of operations can fluctuate from quarter to quarter and year to year depending on whether and when project awards occur and the commencement and progress of work under awarded contracts. As a result, we are subject to the risk of losing new awards to competitors or the risk that revenue may not be derived from awarded projects as quickly as anticipated.

***If we experience delays and/or defaults in client payments, we could suffer liquidity problems or we could be unable to recover all expenditures.***

Because of the nature of our contracts, we sometimes commit resources to projects prior to receiving payments from the client in amounts sufficient to cover expenditures as they are incurred. In difficult economic times, some of our clients may find it increasingly difficult to pay invoices for our services timely, increasing the risk that our accounts receivable could become uncollectible and ultimately be written off. Delays in client payments may require us to make a working capital investment, which could impact our cash flows and liquidity. If a client fails to pay invoices on a timely basis or defaults in making its payments on a project in which we have devoted significant resources, there could be a material adverse effect on our results of operations or liquidity.

***We are dependent upon third parties to complete many of our contracts.***

Significant portions of the work performed under our systems integration contracts, is reliant upon third-party suppliers for equipment and materials. If the amounts we are required to pay for equipment and supplies exceed what we have estimated, especially in a fixed-price systems integration contract, we may suffer losses on these contracts. If a supplier fails to provide supplies or equipment as required under a negotiated contract for any reason, or provides supplies or equipment that are not an acceptable quality, we may be required to source those supplies or equipment on a delayed basis or at a higher price than anticipated, which could impact contract profitability. In addition, faulty equipment or materials could impact the overall project, resulting in claims against us for failure to meet required project specifications. These risks may be intensified if these suppliers experience financial difficulties or find it difficult to obtain sufficient financing to fund their operations or access to bonding, and are not able to provide the materials or supplies necessary for our business. In addition, in instances where we rely on a single contracted supplier or a small number of contracted suppliers, there can be no assurance that the marketplace can provide these products in a timely basis, or at the costs we had anticipated. A failure by a supplier to comply with applicable laws, rules or regulations could negatively impact our business.

***Our use of the percentage-of-completion method of accounting could result in a reduction or reversal of previously recorded revenue or profits.***

Under our accounting procedures, we measure and recognize a large portion of our telecommunication systems integration profits and revenue under the percentage-of-completion accounting methodology. This methodology allows us to recognize revenue and profits ratably over the life of a contract by comparing the amount of the cost incurred to date against the total amount of cost expected to be incurred. The effect of revisions to revenue and estimated cost is recorded when the amounts are known and can be reasonably estimated, and these revisions can occur at any time and could be material.

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***Our continued success requires us to hire and retain qualified personnel.***

The success of our business is dependent upon being able to attract and retain personnel, including engineers, project management and technicians around the globe, who have the necessary and required experience and expertise. Competition for these kinds of personnel is intense. In addition, as some of our key personnel approach retirement age, we need to provide for smooth transitions, and our operations and results may be negatively affected if we are not able to do so.

**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**

**INDEX TO EXHIBITS**

|        |  |
|--------|--|
| 2.1**  | Share Purchase Agreement between RigNet, Inc. and the shareholders of Nessco Group Holdings Ltd. dated July 5, 2012.                             |
| 3.1*   | Amended and Restated Certificate of Incorporation  |
| 3.2*   | Amended and Restated Bylaws  |
| 4.1*   | Specimen certificate evidencing common stock   |
| 4.2*   | Registration Rights Agreement dated effective as of September 20, 2005 among the Registrant and the holders of our preferred stock party thereto |
| 10.1** | First Amended and Restated Credit Agreement, dated as of July 2, 2012 by and among RigNet, Inc. and Bank of America, N.A., among others.         |
| 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   |

\* Incorporated by reference to exhibit filed with Registrant's registration statement on Form S-1 (File No. 333-169723), as amended.

\*\* Incorporated by reference to exhibit filed with Current Report on Form 8-K (File No. 001-35003), as amended.

**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: November 7, 2012



CERTIFICATION OF  
CHIEF EXECUTIVE OFFICER  
OF RIGNET, INC.  
PURSUANT TO 15 U.S.C. SECTION 7241, AS ADOPTED  
PURSUANT TO SECTION 302 OF THE  
SARBANES-OXLEY ACT OF 2002

I, Mark Slaughter, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of RigNet, Inc. (the "Registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
  - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
  - d. disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's Board of Directors (or persons performing the equivalent functions):
  - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

By: /s/ MARK SLAUGHTER  
Mark Slaughter  
Chief Executive Officer and President

Date: November 7, 2012

CERTIFICATION OF  
CHIEF FINANCIAL OFFICER  
OF RIGNET, INC.  
PURSUANT TO 15 U.S.C. SECTION 7241, AS ADOPTED  
PURSUANT TO SECTION 302 OF THE  
SARBANES-OXLEY ACT OF 2002

I, Martin Jimmerson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of RigNet, Inc. (the "Registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
  - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
  - d. disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's Board of Directors (or persons performing the equivalent functions):
  - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

By: /s/ MARTIN JIMMERSON  
Martin Jimmerson  
Chief Financial Officer

Date: November 7, 2012

CERTIFICATION OF  
CHIEF EXECUTIVE OFFICER  
OF RIGNET, INC.  
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED  
PURSUANT TO SECTION 906 OF THE  
SARBANES-OXLEY ACT OF 2002

In connection with the accompanying Quarterly Report on Form 10-Q for the period ended September 30, 2012 filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Mark Slaughter, Chief Executive Officer of RigNet, Inc. (the "Company"), hereby certify, to my knowledge, that:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 7, 2012

/s/ MARK SLAUGHTER

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Mark Slaughter  
Chief Executive Officer and President

CERTIFICATION OF  
CHIEF FINANCIAL OFFICER  
OF RIGNET, INC.  
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED  
PURSUANT TO SECTION 906 OF THE  
SARBANES-OXLEY ACT OF 2002

In connection with the accompanying Quarterly Report on Form 10-Q for the period ended September 30, 2012 filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Martin Jimmerson, Chief Financial Officer of RigNet, Inc. (the "Company"), hereby certify, to my knowledge, that:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 7, 2012

/s/ MARTIN JIMMERSON

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Martin Jimmerson  
Chief Financial Officer

