

RigNet, Inc.  
Form 10-Q  
November 10, 2011

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q**

(Mark One)

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

**For the quarterly period ended September 30, 2011  
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 November 4, 2011, there were outstanding 15,444,835 shares of the registrant's Common Stock.

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Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements**

**RIGNET, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(In thousands, except shares amounts)

	September 30, 2011 (Unaudited)	December 31, 2010
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 58,496	\$ 50,435
Restricted cash		2,500
Accounts receivable, net	21,038	15,972
Prepaid expenses and other current assets	3,260	3,419
<b>Total current assets</b>	<b>82,794</b>	<b>72,326</b>
Property and equipment, net	30,856	26,380
Restricted cash		7,500
Goodwill	13,905	13,841
Intangibles	6,007	6,766
Deferred tax and other assets	3,654	2,972
<b>TOTAL ASSETS</b>	<b>\$ 137,216</b>	<b>\$ 129,785</b>

**LIABILITIES AND EQUITY**

<b>Current liabilities:</b>		
Accounts payable	\$ 4,978	\$ 4,868
Accrued expenses	6,287	6,624
Current maturities of long-term debt	8,729	8,655
Income taxes payable	4,775	4,751
Deferred revenue	1,131	1,305
<b>Total current liabilities</b>	<b>25,900</b>	<b>26,203</b>
Long-term debt	16,967	23,484
Deferred revenue	449	325
Deferred tax liability	631	631
Other liabilities	11,586	11,282
<b>Total liabilities</b>	<b>55,533</b>	<b>61,925</b>

Commitments and contingencies (Note 11)

**Stockholders' equity:****RigNet, Inc. stockholders' equity**

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Preferred stock \$0.001 par value; 10,000,000 shares authorized; zero and zero shares issued and outstanding at September 30, 2011 and December 31, 2010, respectively

Common stock \$0.001 par value; 190,000,000 shares authorized; 15,442,960 and 14,760,687 shares issued and outstanding at September 30, 2011 and

December 31, 2010, respectively

Additional paid-in capital

Accumulated deficit

15	15
116,437	110,118
(34,894)	(42,440)

Accumulated other comprehensive income

**Total RigNet, Inc. stockholders equity**

Non-redeemable, non-controlling interest

44	5
<b>81,602</b>	<b>67,698</b>
81	162

**Total stockholders equity**

<b>81,683</b>	<b>67,860</b>
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**TOTAL LIABILITIES AND EQUITY**

<b>\$ 137,216</b>	<b>\$ 129,785</b>
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The accompanying notes are an integral part of the consolidated financial statements.

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

(In thousands, except per share amounts)

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>(Unaudited)</b>			
<b>Revenue</b>	<b>\$ 28,905</b>	<b>\$ 24,234</b>	<b>\$ 79,569</b>	<b>\$ 68,604</b>
<b>Expenses:</b>				
Cost of revenue	12,964	10,516	35,536	31,242
Depreciation and amortization	3,717	3,561	10,829	11,349
Selling and marketing	584	682	1,637	1,576
General and administrative	6,557	5,587	19,057	15,858
<b>Total expenses</b>	<b>23,822</b>	<b>20,346</b>	<b>67,059</b>	<b>60,025</b>
<b>Operating income</b>	<b>5,083</b>	<b>3,888</b>	<b>12,510</b>	<b>8,579</b>
<b>Other income (expense):</b>				
Interest expense	(235)	(412)	(1,030)	(1,174)
Other income (expense), net	328	(395)	363	(645)
Change in fair value of preferred stock derivatives		62		(12,384)
Income (loss) before income taxes	5,176	3,143	11,843	(5,624)
Income tax benefit (expense)	299	(2,661)	(4,144)	(4,953)
<b>Net income (loss)</b>	<b>5,475</b>	<b>482</b>	<b>7,699</b>	<b>(10,577)</b>
Less: Net income (loss) attributable to:				
Non-redeemable, non-controlling interest	24	49	153	211
Redeemable, non-controlling interest				25
<b>Net income (loss) attributable to RigNet, Inc. stockholders</b>	<b>\$ 5,451</b>	<b>\$ 433</b>	<b>\$ 7,546</b>	<b>\$ (10,813)</b>
<b>COMPREHENSIVE INCOME (LOSS)</b>				
Net income (loss)	\$ 5,475	\$ 482	\$ 7,699	\$ (10,577)
Foreign currency translation	(1,296)	1,417	39	(458)
<b>Total comprehensive income (loss)</b>	<b>\$ 4,179</b>	<b>\$ 1,899</b>	<b>\$ 7,738</b>	<b>\$ (11,035)</b>
<b>INCOME (LOSS) PER SHARE BASIC AND DILUTED</b>				
Net income (loss) attributable to RigNet, Inc. stockholders	\$ 5,451	\$ 433	\$ 7,546	\$ (10,813)
Less: Preferred stock dividends		910		2,430
Less: Adjustment to redeemable, non-controlling interest redemption value		75		50

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Net income (loss) attributable to RigNet, Inc. common stockholders	\$	5,451	\$	(552)	\$	7,546	\$	(13,293)
Net income (loss) per share attributable to RigNet, Inc. common stockholders, basic	\$	0.35	\$	(0.10)	\$	0.49	\$	(2.50)
Net income (loss) per share attributable to RigNet, Inc. common stockholders, diluted	\$	0.32	\$	(0.10)	\$	0.45	\$	(2.50)
Weighted average shares outstanding, basic		15,443		5,319		15,369		5,318
Weighted average shares outstanding, diluted		16,840		5,319		16,792		5,318

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

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**RIGNET, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In thousands)

	<b>Nine Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>
	<b>(Unaudited)</b>	
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ 7,699	\$ (10,577)
Adjustments to reconcile net income (loss) to net cash from operations:		
Change in fair value of preferred stock derivatives		12,384
Depreciation and amortization	10,829	11,349
Adjustment to redemption value of non-controlling interest		(75)
Stock-based compensation	741	334
Write-off/amortization of deferred financing costs	(5)	112
Deferred taxes	(171)	1
(Gain) loss on retirement of property and equipment	(111)	320
Changes in operating assets and liabilities:		
Accounts receivable	(5,066)	(3,238)
Prepaid expenses and other assets	(352)	(438)
Accounts payable	1,251	1,542
Accrued expenses	(38)	1,722
Deferred revenue	(50)	(176)
Other liabilities	304	1,552
<b>Net cash provided by operating activities</b>	<b>15,031</b>	<b>14,812</b>
<b>Cash flows from investing activities:</b>		
Capital expenditures	(14,897)	(9,586)
Proceeds from sale of property and equipment	162	
Decrease in restricted cash	10,000	
<b>Net cash used by investing activities</b>	<b>(4,735)</b>	<b>(9,586)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of common stock, net of cash issuance costs	4,628	5
Subsidiary distributions to non-controlling interest	(234)	(271)
Redemption of redeemable, non-controlling interest		(4,576)
Proceeds from borrowings	75	10,000
Repayments of long-term debt	(6,593)	(6,624)
<b>Net cash used by financing activities</b>	<b>(2,124)</b>	<b>(1,466)</b>
<b>Net increase in cash and cash equivalents</b>	<b>8,172</b>	<b>3,760</b>
<b>Cash and cash equivalents:</b>		



Balance, January 1,	50,435	11,379
Changes in foreign currency translation	(111)	(625)
<b>Balance, September 30,</b>	<b>\$ 58,496</b>	<b>\$ 14,514</b>

**Supplemental disclosures:**

Income taxes paid	\$ 3,666	\$ 1,942
Interest paid	\$ 957	\$ 1,114
Non-cash investing capital expenditures	\$ 696	\$ 1,131

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

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**RIGNET, INC.**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
(In thousands)

			Additional		Accumulated		Other		Total		Non-Controlling		Total	
	Common Stock		Paid-In Capital		Deficit		Comprehensive Income (Loss) (Unaudited)		RigNet, Inc. Stockholders' Equity		Interest		Stockholders' Equity	
	Shares	Amount												
<b>Balance, December 31, 2009</b>	<b>5,318</b>	<b>\$ 5</b>	<b>\$ 9,521</b>		<b>\$ (26,847)</b>		<b>\$ 941</b>		<b>\$ (16,380)</b>		<b>\$ 141</b>		<b>\$ (16,239)</b>	
Issuance of common stock upon the exercise of stock options	1		5						5				5	
Preferred stock dividends			(2,430)						(2,430)				(2,430)	
Stock-based compensation			334						334				334	
Foreign currency translation							(458)		(458)				(458)	
Adjustment to redemption value of non-controlling interest			(50)						(50)				(50)	
Non-controlling owner distributions											(271)		(271)	
Net income (loss)					(10,813)				(10,813)		211		(10,602)	
<b>Balance, September 30, 2010</b>	<b>5,319</b>	<b>\$ 5</b>	<b>\$ 7,380</b>		<b>\$ (37,660)</b>		<b>\$ 483</b>		<b>\$ (29,792)</b>		<b>\$ 81</b>		<b>\$ (29,711)</b>	
<b>Balance, December 31, 2010</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 and warrants	43		64						64				64	
Issuance of restricted stock	144													
	(5)													

Forfeiture of restricted stock										
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>		

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

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1 Business and Basis of Presentation**

RigNet, Inc. (the Company or RigNet) provides remote communication services for the oil and gas industry through a controlled and managed Internet Protocol/Multiprotocol Label Switching (IP/MPLS) global network, enabling drilling contractors, oil companies and oilfield service companies to communicate more effectively. The Company provides its customers with voice, fax, video and data services in real-time between remote sites and home offices throughout the world, while the Company manages and operates the infrastructure from its land-based Network Operations Center.

The Company's corporate offices are located in Houston, Texas. The Company serves the owners and operators of offshore drilling rigs and production facilities, land rigs, remote offices and supply bases in approximately 30 countries including the United States, Brazil, Norway, Great Britain, Nigeria, Qatar, Saudi Arabia, Singapore and Australia.

The interim unaudited consolidated financial statements of 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, 2010 included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 30, 2011.

**Note 2 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 a significant interest-bearing liability with a variable interest rate which is priced monthly. The Company's variable borrowing rate is tied to LIBOR and prime resulting in interest rate risk (see Note 5 Long-Term Debt). The Company does not currently use financial instruments to hedge interest rate risk exposure, 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. Consequently, the Company 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) on the Consolidated Statements of Stockholders' Equity. Transactional foreign currency adjustments are reported as other income (expense), net on the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss).

***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.



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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

***Liquidity Risk***

The Company maintains cash and cash equivalent balances with major financial institutions which, at times, exceed federally insured limits. The Company monitors the financial condition of the financial institutions and has not experienced losses associated with these accounts during 2011 or 2010. 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 5 Long-Term Debt).

**Note 3 Initial Public Offering and Preferred Stock**

***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 anticipates that the remaining net proceeds from the IPO and the Over-Allotment will be used for capital expenditures, working capital and other general corporate purposes, which may include the acquisition of other businesses, products or technologies. However, RigNet has no agreements or commitments for any specific acquisitions at this time.

***Preferred Stock***

In connection with the IPO in December 2010, the Company settled and converted all preferred stock, accrued preferred stock dividends and major event preference rights through the issuance of 5,661,292 shares of common stock. Prior to the IPO, conversion and redemption rights associated with preferred stock were bifurcated based on an analysis of the features of the preferred stock agreements (Series A, B, and C Preferred Stock), classified as a non-current liability and reported at approximate fair value, with changes in fair value being reported as other income (expense).

RigNet is authorized to issue 10.0 million shares of preferred stock with a par value of \$0.001 per share. As of September 30, 2011 and December 31, 2010, no shares of preferred stock were outstanding.

**Note 4 Goodwill and Intangibles**

***Goodwill***

Goodwill relates to the acquisitions of LandTel Communications LLC (LandTel) and OilCamp AS (OilCamp) as the consideration paid exceeded the fair value of acquired identifiable net tangible assets and intangibles. 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, 2011. This test resulted in no impairment. No impairment indicators have been identified through September 30, 2011. As of September 30, 2011 and December 31, 2010, goodwill was \$13.9 million and \$13.8 million, respectively. Goodwill increases or decreases in value due to the effect of foreign currency translation.



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

Intangibles consist of customer relationships acquired as part of the LandTel and OilCamp acquisitions, as well as internal-use software. The Company's intangibles have useful lives ranging from four to nine 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, 2011. During the three months ended September 30, 2011 and 2010, the Company recognized amortization expense of \$0.3 million and \$0.5 million, respectively. During the nine months ended September 30, 2011 and 2010, the Company recognized amortization expense of \$0.9 million and \$1.5 million, respectively.

**Note 5 Long-Term Debt**

As of September 30, 2011 and December 31, 2010, the following credit facilities and long-term debt arrangements with financial institutions were in place:

	<b>September 30, 2011</b>	<b>December 31, 2010</b>
	(in thousands)	
Term loan, net of unamortized deferred financing costs	\$ 25,622	\$ 32,034
Equipment notes	74	105
	25,696	32,139
Less: Current maturities of long-term debt	(8,729)	(8,655)
	\$ 16,967	\$ 23,484

***Term Loan***

The Company has a term loan (Term Loan) with two participating financial institutions. The Term Loan was amended in November 2010 to provide for a draw feature available through May 9, 2011, under which the Company borrowed an additional \$1.1 million used solely for purchases of equipment. In May 2011, the Company further amended its Term Loan, increasing the principle balance by \$0.1 million, extending the maturity of the loan to May 2014 and removing the requirement to maintain compensating cash balances.

Additionally, the amended Term Loan bears a reduced interest rate of LIBOR plus a margin ranging from 2.25% to 3.25%, 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 \$2.2 million, with the balance due May 31, 2014. The weighted average interest rate for the three and nine months ended September 30, 2011 was 3.3% and 4.2%, respectively, with an interest rate of 3.0% at September 30, 2011.

The Term Loan is secured by substantially all the assets of the Company. As of September 30, 2011, the Term Loan had outstanding principal of \$25.7 million.

***Covenants and Restrictions***

The Company's Term Loan contains certain covenants and restrictions, including restricting the payment of cash dividends 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, 2011 and December 31, 2010, the Company was in compliance with all covenants.



Table of Contents**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS*****Debt Maturities***

The following table sets forth the aggregate principal maturities of long-term debt after September 30, 2011, net of unamortized deferred financing cost amortization, for years ending December, 31, (in thousands):

2011	\$ 2,180
2012	8,735
2013	8,749
2014	6,032
Total debt, including current maturities	\$ 25,696

**Note 6 Fair Value Measurements**

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.

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

***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.

***Preferred Stock Derivatives*** Conversion and redemption rights associated with preferred stock, which were bifurcated based on an analysis of the features in relation to Series A, B, and C Preferred Stock, classified as a non-current liability and reported at approximate fair value, with changes in fair value being reported as other income (expense). All preferred stock derivatives were settled immediately prior to the Company's IPO in December 2010 (see Note 3 Initial Public Offering and Preferred Stock).

**Note 7 Income Taxes**

Our effective income tax rate was (5.8)% and 84.7% for the three months ended September 30, 2011 and 2010, respectively. Our effective income tax rate was 35.0% and (88.1)% for the nine months ended September 30, 2011 and 2010, respectively. Our effective tax rates are affected by factors including fluctuations in income across international jurisdictions with varying tax rates, non-deductibility of changes in fair value of preferred stock derivatives in 2010, changes in valuation allowances, and changes in income tax reserves, including related penalties and interest. The effective tax rates are also impacted by calculating the tax provision of the domestic jurisdiction discrete to the respective quarter rather than benefitting from the utilization of a blended rate for all the current year.

The Company and the U.S. Internal Revenue Service (IRS) agreed to the final assessments related to an audit of the Company's 2008 income tax return in August of 2011. The final settlement did not have a material change to our financial position or results of operations for the three or nine months ended September 30, 2011.

**Note 8 Stock-Based Compensation**

During the nine months ended September 30, 2011, the Company granted 144,110 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 issued to officers and employees, totaling 116,942 shares, generally 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 issued to directors, totaling 27,168 shares, generally vest over a two year period of continued service, with 50% of shares vesting on each of the first two anniversaries of the grant date.

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

During the nine months ended September 30, 2011, the Company also granted 208,444 stock options to certain officers and employees of the Company under the 2010 Plan. Options granted during this period have an exercise price ranging from \$17.90 to \$18.00, 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, 2011, were as follows:

	<b>Nine Months Ended September 30, 2011</b>
Expected volatility	50%
Expected term (in years)	7
Risk-free interest rate	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, 2011 was \$9.73 per option.

Stock-based compensation expense related to the Company's stock-based compensation plans for the nine months ended September 30, 2011 and 2010 was \$0.7 million and \$0.3 million, respectively. As of September 30, 2011, there was \$3.4 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 9 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, 2011 and 2010 were \$0.1 million and \$0.1 million, respectively, for services performed by the Company in the ordinary course of business. Revenue recognized for these services the nine months ended September 30, 2011 and 2010 were \$0.5 million and \$0.3 million, respectively.

**Note 10 Income (Loss) per Share**

Basic earnings per share (EPS) are computed by dividing net income (loss) 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 conversion of preferred stock, exercise of stock options, exercise of warrants or satisfaction of necessary conditions for contingently issuable shares. Diluted EPS is computed by dividing net income (loss) 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.

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The following table provides a reconciliation of the numerators and denominators of the basic and diluted per share computations for net income (loss) attributable to RigNet, Inc. common stockholders:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	(in thousands)			
Net income (loss) attributable to RigNet, Inc. stockholders	\$ 5,451	\$ 433	\$ 7,546	\$ (10,813)
Less: Dividends accrued on preferred stock		273		813
Less: Derivatives related to preferred stock dividends (See Note 8 – Fair Value Measurements)		637		1,617
Less: Adjustment to redeemable, non-controlling interest redemption value		75		50
Net income (loss) attributable to RigNet, Inc. common stockholders	\$ 5,451	\$ (552)	\$ 7,546	\$ (13,293)
Weighted average shares outstanding, basic	15,443	5,319	15,369	5,318
Effect of dilutive securities	1,397		1,423	
Weighted average shares outstanding, diluted	16,840	5,319	16,792	5,318

Dilutive securities outstanding during the three and nine months ended September 30, 2011 included stock options and warrants. All equivalent units were anti-dilutive for the three and nine months ended September 30, 2010, which included preferred stock, stock options and warrants. Anti-dilutive share equivalents excluded from the earnings per share computations for the three and nine months ended September 30, 2010 totaled 5.2 million and 4.8 million, respectively.

**Note 11 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 to our financial position or results of operations.

**Note 12 Segment Information**

The Company's business segment information as of and for the three and nine months ended September 30, 2011 and 2010, is as follows:

	<b>Three Months Ended September 30, 2011</b>				
	<b>Eastern Hemisphere</b>	<b>Western Hemisphere</b>	<b>U.S. Land</b>	<b>Corporate and Eliminations</b>	<b>Consolidated Total</b>
	(in thousands)				
Total revenue	\$ 17,856	\$ 5,859	\$ 5,265	\$ (75)	\$ 28,905
Total expenses	10,616	4,912	4,234	4,060	23,822
Interest expense			(23)	(212)	(235)
Other income (expense), net	368	(26)		(14)	328
Income tax benefit				299	299

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Net income (loss)	7,969	1,041	1,128	(4,663)	5,475
Capital expenditures	2,202	1,108	1,182		4,492

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	<b>Eastern Hemisphere</b>	<b>Western Hemisphere</b>	<b>U.S. Land</b>	<b>Corporate and Eliminations</b>	<b>Consolidated Total</b>
			(in thousands)		
Total revenue	\$ 15,572	\$ 5,332	\$ 3,376	\$ (46)	\$ 24,234
Total expenses	9,682	3,860	3,292	3,512	20,346
Interest expense		(10)	(3)	(399)	(412)
Other income (expense), net	(530)	5	(1)	131	(395)
Income tax expense				(2,661)	(2,661)
Net income (loss)	5,668	1,544	80	(6,810)	482
Capital expenditures	1,782	385	330		2,497

**Nine Months Ended September 30, 2011**

	<b>Eastern Hemisphere</b>	<b>Western Hemisphere</b>	<b>U.S. Land</b>	<b>Corporate and Eliminations</b>	<b>Consolidated Total</b>
			(in thousands)		
Total revenue	\$ 49,476	\$ 15,794	\$ 14,371	\$ (72)	\$ 79,569
Total expenses	30,715	13,581	11,256	11,507	67,059
Interest expense	(1)		(63)	(966)	(1,030)
Other income (expense), net	265	122	3	(27)	363
Income tax expense				(4,144)	(4,144)
Net income (loss)	19,385	2,455	3,175	(17,316)	7,699
Total assets	63,573	50,084	27,530	(3,971)	137,216
Capital expenditures	6,699	5,594	1,891	247	14,431

**Nine Months Ended September 30, 2010**

	<b>Eastern Hemisphere</b>	<b>Western Hemisphere</b>	<b>U.S. Land</b>	<b>Corporate and Eliminations</b>	<b>Consolidated Total</b>
			(in thousands)		
Total revenue	\$ 45,979	\$ 13,980	\$ 8,971	\$ (326)	\$ 68,604
Total expenses	29,528	11,209	9,223	10,065	60,025
Interest expense		(10)	(54)	(1,110)	(1,174)
Other income (expense), net	(356)	(397)	17	91	(645)
Income tax expense				(4,953)	(4,953)
Net income (loss)	16,095	2,363	(289)	(28,746)	(10,577)
Capital expenditures	4,734	3,818	446	62	9,060

For the three and nine months ended September 30, 2011 and 2010, the Company earned revenue from both our domestic and international operations as follows:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
		(in thousands)		
Domestic	\$ 8,693	\$ 7,930	\$ 25,290	\$ 18,944

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International	20,212	16,304	54,279	49,660
Total	\$ 28,905	\$ 24,234	\$ 79,569	\$ 68,604

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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 consolidated financial statements as of September 30, 2011 and for the three and nine months ended September 30, 2011 and 2010 included elsewhere herein, and with our annual report on Form 10-K for the year ended December 31, 2010. 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.*

#### **Executive Overview**

We, along with our wholly and majority-owned subsidiaries, provide information and communication technology for the oil and gas industry through a controlled and managed IP/ MPLS global network, enabling drilling contractors, oil companies and oilfield service companies to communicate more effectively.

We enable our customers to deliver voice, fax, video and data, in real-time, between remote sites and home offices throughout the world while we manage and operate the infrastructure from our land-based network operations center. We serve offshore drilling rigs and production platforms, land rigs and remote locations including offices and supply bases, in approximately 30 countries on six continents.

#### **Our Operations**

We focus on developing customer relationships with the owners and operators of drilling rig fleets resulting in a significant portion of our revenue being concentrated in a few customers. In addition, due to the concentration of our customers in the oil and gas industry, we face the challenge of service demands fluctuating with the exploration and development plans and capital expenditures of that industry.

Network service customers are primarily served under fixed-price, day-rate contracts, which are based on the concept of pay per day of use and are consistent with terms used in the oil and gas industry. Our contracts are generally in the form of Master Service Agreements (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, 2011, our largest customer, who has been our customer for over five years, provided approximately 11.3% of our total revenue.

We operate three reportable business segments which are managed as distinct business units.

**Eastern Hemisphere.** Our Eastern Hemisphere segment provides remote communications services for offshore drilling rigs, production facilities, energy support vessels and other remote sites. Our Eastern Hemisphere segment services are performed out of our Norway, Qatar, United Kingdom and Singapore based offices for customers and rig sites located on the eastern side of the Atlantic Ocean primarily off the coasts of the U.K., Norway and West Africa, around the Indian Ocean in Qatar, Saudi Arabia and India, around the Pacific Ocean near Australia, and within the South China Sea.

**Western Hemisphere.** Our Western Hemisphere segment provides remote communications services for offshore drilling rigs, production facilities, energy support vessels and other remote sites. Our Western Hemisphere 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 off the coasts of the United States, Mexico, Venezuela and Brazil, and within the Gulf of Mexico, but excluding land rigs and other land-based sites in North America.

**U.S. Land.** Our U.S. Land segment provides remote communications services for drilling rigs and production facilities located onshore in North America. Our U.S. Land segment services are performed out of our Louisiana based office for customers and rig sites located in the continental United States.





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Cost of revenue consists primarily of satellite charges, voice and data termination costs, network operations expenses, Internet connectivity fees 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. 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.

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, including 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, may result in the delay of service initiation, which may negatively impact our results of operations.

**Results of Operations**

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	(in thousands)			
Revenue	\$ 28,905	\$ 24,234	\$ 79,569	\$ 68,604
Expenses:				
Cost of revenue	12,964	10,516	35,536	31,242
Depreciation and amortization	3,717	3,561	10,829	11,349
Selling and marketing	584	682	1,637	1,576
General and administrative	6,557	5,587	19,057	15,858
Total expenses	23,822	20,346	67,059	60,025
Operating income	5,083	3,888	12,510	8,579
Other income (expense), net	93	(745)	(667)	(14,203)
Income before income taxes	5,176	3,143	11,843	(5,624)
Income tax benefit (expense)	299	(2,661)	(4,144)	(4,953)
Net income (loss)	5,475	482	7,699	(10,577)
Less: Net income attributable to non-controlling interests	24	49	153	236
Net income (loss) attributable to RigNet, Inc. stockholders	\$ 5,451	\$ 433	\$ 7,546	\$ (10,813)
<b>Other Non-GAAP Data:</b>				
Gross Profit	\$ 15,941	\$ 13,718	\$ 44,033	\$ 37,362
Adjusted EBITDA	\$ 9,448	\$ 7,706	\$ 24,332	\$ 21,311



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The following represents selected financial operating results for our segments:

	Three Months Ended September 30, 2011		2010		Nine Months Ended September 30, 2011		2010	
	(in thousands)							
<b>Eastern Hemisphere:</b>								
Revenue	\$	17,856	\$	15,572	\$	49,476	\$	45,979
Cost of revenue		6,499		5,696		18,378		17,986
Gross Profit (non-GAAP measure)		11,357		9,876		31,098		27,993
Depreciation and amortization		1,997		1,895		6,049		6,022
Selling, general and administrative		2,120		2,091		6,288		5,520
Eastern hemisphere operating income	\$	7,240	\$	5,890	\$	18,761	\$	16,451
<b>Western Hemisphere:</b>								
Revenue	\$	5,859	\$	5,332	\$	15,794	\$	13,980
Cost of revenue		2,630		2,209		7,526		6,556
Gross Profit (non-GAAP measure)		3,229		3,123		8,268		7,424
Depreciation and amortization		1,297		1,061		3,554		2,861
Selling, general and administrative		985		589		2,501		1,792
Western hemisphere operating income	\$	947	\$	1,473	\$	2,213	\$	2,771
<b>U.S. Land:</b>								
Revenue	\$	5,265	\$	3,376	\$	14,371	\$	8,971
Cost of revenue		2,341		1,795		6,803		4,829
Gross Profit (non-GAAP measure)		2,461		1,581		6,923		4,142
Depreciation and amortization		470		709		1,379		2,484
Selling, general and administrative		840		788		2,309		1,910
U.S. land operating income (loss)	\$	1,031	\$	84	\$	3,115	\$	(252)

***Three Months Ended September 30, 2011 and 2010***

**Revenue.** Revenue increased by \$4.7 million, or 19.3%, to \$28.9 million for the three months ended September 30, 2011 from \$24.2 million for the three months ended September 30, 2010. The increase in revenue was primarily attributable to increases in Eastern Hemisphere revenue of \$2.3 million, or 14.7%, and Western Hemisphere revenue of \$0.5 million, or 9.9%. Both the Eastern and Western Hemisphere changes are primarily due to increases in deepwater unit counts and increased revenue-per-unit resulting from additional value-added services provided. Additionally, U.S. Land revenue increased \$1.9 million, or 56.0%, resulting from the continued recovery of the U.S. land-based drilling market and our widening geographic footprint in this market.

**Cost of Revenue.** Costs increased by \$2.5 million to \$13.0 million for the three months ended September 30, 2011 from \$10.5 million for the three months ended September 30, 2010, primarily due to incremental network services and capacity required to serve the increased unit counts. Gross Profit increased by \$2.2 million, or 16.2%, to \$15.9 million

for the three months ended September 30, 2011 from \$13.7 million for the three months ended September 30, 2010. However, as a percentage of revenue, Gross Profit decreased to 55.1%, for the three months ended September 30, 2011 compared to 56.6% for the three months ended September 30, 2010. The decrease in Gross Profit as a percentage of revenue during the period resulted from decreases in Western Hemisphere, from 58.6% to 55.1% and US Land, from 46.8% to 44.5%. These decreases are primarily attributable to the purchase of excess bandwidth capacity to ensure coverage to our growing customer base.

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**Depreciation and Amortization.** Depreciation and amortization expenses increased by \$0.1 million to \$3.7 million for the three months ended September 30, 2011 from \$3.6 million for the three months ended September 30, 2010. The increase resulted from increased capital expenditures which totaled \$14.9 million for the nine months ended September 30, 2011. This increase is offset by reduced intangible amortization expense as certain intangibles recorded in connection with our 2006 acquisitions of LandTel Communications LLC and OilCamp AS became fully amortized in the fourth quarter of 2010.

**General and Administrative.** General and administrative expenses increased by \$1.0 million to \$6.6 million for the three month ended September 30, 2011 from \$5.6 million for the three months ended September 30, 2010. The increase was primarily due to costs incurred in 2011 related to operating as a publicly-traded company including salaries for additional management and efforts to strengthen our internal control over our financial reporting.

**Other Income (Expense).** Other income (expense), net increased by \$0.8 million to a net income of \$0.1 million for the three month ended September 30, 2011 from a net expense of \$0.7 million for the three months ended September 30, 2010. This increase is primarily attributable to expense reported in 2010 related to the change in fair value of preferred stock derivatives. Accounting standards required the separate valuation and recording of certain features of our preferred stock until such shares were converted or redeemed. Those features were revalued and reported each period at the then fair value, with changes in fair value recorded in the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss). Upon completion of the IPO in December 2010, the preferred stock derivatives were settled upon the conversion of the preferred stock to common stock. As such, no charges related to the fair value of these derivatives will be recorded in 2011 or future periods.

**Income Tax Expense.** Our effective income tax rate was (5.8%) and 84.7% for the three months ended September 30, 2011 and 2010, respectively. Our effective tax rates are affected by factors including fluctuations in income across international jurisdictions with varying tax rates, non-deductibility of changes in fair value of preferred stock derivatives in 2010, changes in valuation allowances, and changes in income tax reserves, including related penalties and interest. The effective tax rates are also impacted by calculating the tax provision of the domestic jurisdiction discrete to the respective quarter rather than benefitting from the utilization of a blended rate for the current year.

***Nine Months Ended September 30, 2011 and 2010***

**Revenue.** Revenue increased by \$11.0 million, or 16.0%, to \$79.6 million for the nine months ended September 30, 2011 from \$68.6 million for the nine months ended September 30, 2010. The increase in revenue was primarily attributable to a \$5.4 million, or 60.2%, increase in U.S. Land revenue resulting from the continued recovery of the U.S. land-based drilling market and our widening geographic footprint in this market. Additionally, Eastern Hemisphere revenues increased \$3.5 million, or 7.6%, and Western Hemisphere revenue increased \$1.8 million, or 13.0%. Both the Eastern and Western Hemisphere changes are primarily due to increases in deepwater contract orders and unit counts.

**Cost of Revenue.** Costs increased by \$4.3 million to \$35.5 million for the nine months ended September 30, 2011 from \$31.2 million for the nine months ended September 30, 2010, primarily due to incremental network services and capacity required to serve the increased unit counts. Gross Profit increased by \$6.6 million to \$44.0 million for the nine months ended September 30, 2011 from \$37.4 million for the nine months ended September 30, 2010. As a percentage of revenue, Gross Profit increased to 55.3%, for the nine months ended September 30, 2011 compared to 54.5% for the nine months ended September 30, 2010. The increase in the operating profitability as a percentage of revenue resulted primarily from an increase in Eastern Hemisphere Gross Profit as a percentage of revenue to 62.9% in 2011 from 60.9% in 2010. This increase is primarily attributable to the increases in our revenue and efficiencies in our management of bandwidth capacity.

**Depreciation and Amortization.** Depreciation and amortization expenses decreased by \$0.5 million to \$10.8 million for the nine months ended September 30, 2011 from \$11.3 million for the nine months ended September 30, 2010. The decrease resulted from reduced intangible amortization expense as certain intangibles recorded in connection with our 2006 acquisitions of LandTel Communications LLC and OilCamp AS became fully amortized in the fourth quarter of 2010.

**General and Administrative.** General and administrative expenses increased by \$3.1 million to \$19.0 million for the nine months ended September 30, 2011 from \$15.9 million for the nine months ended September 30, 2010. The

increase was primarily due to costs incurred in 2011 related to operating as a publicly-traded company including salaries for additional management, additional audit costs and efforts to strengthen our internal control over our financial reporting.

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**Other Income (Expense).** Other expense, net decreased by \$13.5 million to a net expense of \$0.7 million for the nine months ended September 30, 2011 from a net expense of \$14.2 million for the nine months ended September 30, 2010. This decrease is primarily attributable to expense reported in 2010 related to the change in fair value of preferred stock derivatives. Accounting standards required the separate valuation and recording of certain features of our preferred stock until such shares were converted or redeemed. Those features were revalued and reported each period at the then fair value, with changes in fair value recorded in the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss). Upon completion of the IPO in December 2010, the preferred stock derivatives were settled upon the conversion of the preferred stock to common stock. As such, no charges related to the fair value of these derivatives will be recorded in 2011 or future periods.

**Income Tax Expense.** Our effective income tax rate was 35.0% and (88.1)% for the nine months ended September 30, 2011 and 2010, respectively. Our effective tax rates are affected by factors including fluctuations in income across international jurisdictions with varying tax rates, non-deductibility of changes in fair value of preferred stock derivatives in 2010, changes in valuation allowances, and changes in income tax reserves, including related penalties and interest. The effective tax rates are also impacted by calculating the tax provision of the domestic jurisdiction discrete to the respective quarter rather than benefitting from the utilization of a blended rate for the current year.

**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. Prior to our IPO, we raised approximately \$38.3 million of net proceeds through private offerings of our common and preferred stock. In December 2010, we received net proceeds from our IPO of \$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 2011. As a result of the underwriters' exercise of the Over-Allotment in January 2011, 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 three months ended March 31, 2011.

At September 30, 2011, we had working capital of \$56.9 million, including cash and cash equivalents of \$58.5 million, accounts receivable of \$21.0 million and other current assets of \$3.3 million, offset by \$5.0 million in accounts payable, \$6.3 million in accrued expenses, \$8.7 million in current maturities of long-term debt, \$4.8 million in tax related liabilities and \$1.1 million in deferred revenue.

Over the past four years, we have spent \$7.2 million to \$13.5 million annually on capital expenditures. For the nine months ended September 30, 2011, we have spent an additional \$14.9 million 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. However, we have no agreements or commitments for any specific acquisitions at this time.

During the next twelve months, we expect our principal sources of liquidity to be cash flows from operating activities and available cash and cash equivalents, which includes the proceeds of our IPO and the sale of stock related to underwriters' Over-Allotment. 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 and contracted and available satellite bandwidth.

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. We intend to use cash from operations and the net proceeds generated by the IPO and the Over-Allotment for capital expenditures, working capital and other general corporate purposes.





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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,	
	2011	2010
	(in thousands)	
<b>Consolidated Statements of Cash Flows Data:</b>		
Cash and cash equivalents, January 1,	\$ 50,435	\$ 11,379
Net cash provided by operating activities	15,031	14,812
Net cash used by investing activities	(4,735)	(9,586)
Net cash used by financing activities	(2,124)	(1,466)
Changes in foreign currency translation	(111)	(625)
Cash and cash equivalents, September 30,	\$ 58,496	\$ 14,514

**Operating Activities**

Net cash provided by operating activities was \$15.0 million for the nine months ended September 30, 2011 compared to \$14.8 million for the nine months ended September 30, 2010. The increase in cash provided by operating activities of \$0.2 million was primarily due to the timing of collections of our accounts receivable and payments of our accounts payable.

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.

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 currently 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, 2011 and 2010, 79.2% and 77.8% of our revenue was denominated in U.S. dollars, respectively.

**Investing Activities**

Net cash used by investing activities was \$4.7 million and \$9.6 million during the nine months ended September 30, 2011 and 2010, respectively. The decrease of \$4.9 million is primarily due to the release of \$10.0 million of cash previously restricted by our Term Loan. This increase was offset by a \$5.3 million increase in capital expenditures which totaled \$14.9 million for the nine months ended September 30, 2011 compared to \$9.6 million for the same period of 2010. Capital expenditures grew \$3.3 million during the year ended December 31, 2010 and \$1.5 million during each of the years ended December 31, 2009 and 2008, compared to each of the respective prior periods. We expect capital expenditures to continue this growth during the remainder of 2011 primarily resulting from growth opportunities arising from increasing demand for deepwater drilling. While drilling programs and timing change due to various factors beyond our control, we currently expect that our Western Hemisphere operations will benefit from the majority of capital expenditures to be spent during the remainder of 2011.

**Financing Activities**

Net cash used by financing activities was \$2.1 million and \$1.5 million for the nine months ended September 30, 2011 and 2010, respectively. Cash provided by financing activities during the nine months ended September 30, 2011 was attributable to 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. These proceeds were offset by a \$6.6 million principal payment on our long-term debt.

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### ***Term Loan***

The Company has a term loan (Term Loan) with two participating financial institutions. The Term Loan was amended in November 2010 to provide for a draw feature available through May 9, 2011, under which the Company borrowed an additional \$1.1 million used solely for purchases of equipment. In May 2011, the Company further amended its Term Loan, increasing the principle balance by \$0.1 million, extending the maturity of the loan to May 2014 and removing the requirement to maintain compensating cash balances.

Additionally, the amended Term Loan bears a reduced interest rate of LIBOR plus a margin ranging from 2.25% to 3.25%, 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 \$2.2 million, with the balance due May 31, 2014. The weighted average interest rate for the three and nine months ended September 30, 2011 was 3.3% and 4.2%, respectively, with an interest rate of 3.0% at September 30, 2011.

The Term Loan is secured by substantially all the assets of the Company. As of September 30, 2011, the Term Loan had outstanding principal of \$25.7 million.

Our 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 2.0 to 1.0 and a fixed charge coverage ratio of not less than 1.5 to 1.0. At September 30, 2011, our Adjusted EBITDA exceeded the minimum levels required by the: (i) fixed charge coverage ratio by \$11.6 million (or 35.5% of our Adjusted EBITDA for the trailing twelve months) and (ii) funded debt to Adjusted EBITDA ratio by \$19.9 million (or 60.8% of our Adjusted EBITDA for the trailing twelve months).

### ***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. 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 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.

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Our management uses Adjusted EBITDA:

- To indicate profit contribution and cash flow availability for growth and/or debt retirement;
- 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;
- 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 (loss) to Adjusted EBITDA.

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	(in thousands)			
Net income (loss)	\$ 5,475	\$ 482	\$ 7,699	\$ (10,577)
Interest expense	235	412	1,030	1,174
Depreciation and amortization	3,717	3,561	10,829	11,349
(Gain) loss on retirement of property and equipment	(1)		(111)	320
Change in fair value of preferred stock derivatives		(62)		12,384
Stock-based compensation	321	116	741	334
Initial public offering costs		536		1,374
Income tax (benefit) expense	(299)	2,661	4,144	4,953
Adjusted EBITDA (non-GAAP measure)	\$ 9,448	\$ 7,706	\$ 24,332	\$ 21,311

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 \$1.7 million to \$9.4 million for the three months ended September 30, 2011, from \$7.7 million for the three months ended September 30, 2010. Adjusted EBITDA increased by \$3.0 million to \$24.3 million for the nine months ended September 30, 2011 from \$21.3 million for the nine months ended September 30, 2010. These increases resulted from the recovery of the U.S. land-based drilling market and increases in contract orders and unit counts in the U.S. Gulf of Mexico, partially offset by costs incurred in 2011 related to operating as a publicly-traded company.



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### **Recently Issued Accounting Pronouncements**

In June 2011, the FASB issued the Accounting Standard Update 2011-05, Presentation of Comprehensive Income ( Update 2011-05 ) which is effective for public entities for fiscal years, and interim periods within those years, beginning after December 15, 2011. Update 2011-05 provides amendments to Topic 220, Comprehensive Income, to be applied retrospectively. Update 2011-05 requires that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. We will adopt Update 2011-05 upon its effective date of January 1, 2012. We do not expect the adoption of Update 2011-05 to have a material effect on our consolidated statements of income, balance sheets or statements of cash flows.

In September 2011, the FASB issued Accounting Standards Update No. 2011-08, Intangibles—Goodwill and Other: Testing Goodwill for Impairment ( Update 2011-08 ) 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. Update 2011-08 is effective for annual periods beginning after December 15, 2011, although early adoption is allowed. We will not elect early adoption of this standard and expect to adopt the provisions of Update 2011-08 for our annual impairment test as of July 31, 2012. We do not expect Update 2011-08 to have any impact on our financial position and results of operations as it is a change in application of the goodwill impairment test only.

### **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, will, could, should, w may, expect, plan, project, intend, anticipate, believe, estimate, predict, potential, pursue, tar 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.

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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.

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

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

Our objective in managing our exposure to foreign currency exchange rate fluctuations is to reduce the impact of adverse fluctuations in earnings and cash flows associated with foreign currency exchange rates. We do not currently use foreign currency forward contracts to hedge our exposure on firm commitments denominated in foreign currencies, but evaluate this on a continual basis and may put financial instruments in place in the future if deemed necessary. During the nine months ended September 30, 2011 and 2010, 20.8% and 22.2% 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, 2011 and December 31, 2010, assuming those liabilities were outstanding for the previous twelve months:

	September 30, 2011		December 31, 2010	
			(in thousands)	
<b>Effect on Net Income (Loss) and Equity    Increase/Decrease:</b>				
1% Decrease/increase in rate	\$	257	\$	323
2% Decrease/increase in rate	\$	514	\$	646
3% Decrease/increase in rate	\$	771	\$	970

**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, 2011. 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, 2011, 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.



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**Changes in Internal Control over Financial Reporting**

During the nine months ended September 30, 2011, in order to strengthen our internal control over our financial reporting, we have instituted an Internal Audit function, reporting directly to the Chairman of our Audit Committee, to work directly with our finance and accounting departments with the sole objective of improving, documenting and testing our internal control environment. Additionally, we have expanded our management team to include a Director of Information Technology managing all information systems, globally and across all functions.

The process of improving our internal control has required and will continue to require us to expend significant resources to design, implement and maintain a system of internal controls that is adequate to satisfy our reporting obligations as a public company. We will continue to evaluate the effectiveness of our disclosure controls and procedures and internal controls over financial reporting on an ongoing basis.

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**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings**

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

**Item 1A. Risk Factors**

There have been no material changes from the risk factors disclosed in Item 1A. Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2010.

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

None

**Item 3. Defaults Upon Senior Securities**

None

**Item 5. Other Information**

None

**Item 6. Exhibits**

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**INDEX TO EXHIBITS**

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 June 20, 2005 among the Registrant and the holders of our preferred stock party thereto
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.

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**SIGNATURES**

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

**RIGNET, INC.**

By: /s/ MARTIN L. JIMMERSON, JR.  
Martin L. Jimmerson, Jr.  
*Chief Financial Officer*  
*(Principal Financial & Accounting Officer)*

Date: November 9, 2011