

RigNet, Inc.
Form 10-K
March 08, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 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.)

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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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, \$0.001 par value	NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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 ☒

As of June 30, 2011, the aggregate market value of the registrant's common stock, \$0.001 par value per share (the Common Stock) held by non-affiliates of the registrant on such date was approximately \$261.4 million. For purposes of this calculation, only executives and directors are deemed to be affiliates of the registrant. At March 1, 2012, there were outstanding 15,443,301 shares of the registrant's Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement for its 2012 Annual Meeting of Stockholders to be filed with the Commission within 120 days of December 31, 2011 are incorporated herein by reference in Part III of this Annual Report.

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PART I

Item 1. Business

Overview

We are a leading network infrastructure provider serving the remote communications needs of the oil and gas industry. Through a controlled and managed IP/MPLS (Internet Protocol/Multiprotocol Label Switching) global network, we deliver voice, data, video and other collaborative services under a multi-tenant revenue model. Our customers use our secure communications and private extranet to manage information flows and execute mission-critical operations primarily in remote areas where conventional telecommunications infrastructure is either unavailable or unreliable. We offer our clients what is often the sole means of communications with their remote operations, including offshore and land-based drilling rigs, offshore and onshore production facilities, energy maritime vessels and regional support offices. To ensure the maximum reliability demanded by our customers, we deliver our services through our IP/MPLS global network, tuned and optimized for communications with remote endpoints, that serves oil and gas customers both in the United States and in international markets. As of December 31, 2011, we were the primary provider of remote communications and collaborative services to approximately 400 customers reaching about 1,000 remote sites located in over 30 countries on six continents. For the twelve months ended December 31, 2011, our revenue generated from countries outside of the U.S. represented 68.0% of total revenue.

The emergence of highly sophisticated processing and visualization systems has allowed oil and gas companies to make decisions based on reliable and secure real-time information carried by our network from anywhere in the world to their home offices. We deliver turnkey solutions and value-added services that simplify the management of multiple communications services, allowing our customers to focus their attention on their core oil and gas drilling and production operations. Our customer solutions enable broadband data, voice and video communications with quality, reliability, security and scalability that is superior to conventional switched transport networks. Key aspects of our services include:

managed services solutions offered at a per site, per day subscription rate primarily through customer agreements with terms that typically range from one month to three years, with some customer agreement terms as long as five years;

enhanced end-to-end IP/MPLS global network to ensure significantly greater network reliability, faster trouble shooting and service restoration time and quality of service for various forms of data traffic;

enhanced end-to-end IP/MPLS network allows new components to be plugged into our network and be immediately available for use (plug-and-play);

a network designed to accommodate multiple customer groups resident at a site, including rig owners, drillers, operators, service companies and pay-per-use individuals;

value-added services, such as Wi-Fi hotspots, Internet kiosks and video conferencing, benefiting the multiple customer groups resident at a site;

proactive network monitoring and management through a network operations center that actively manages network reliability at all times and serves as an in-bound call center for trouble shooting, 24 hours per day, 365 days per year;

engineering and design services to determine the appropriate product and service solution for each customer;

installation of on-site equipment designed to perform in extreme and harsh environments with minimal maintenance; and

maintenance and support through locally-deployed engineering and service support teams as well as warehoused spare equipment inventories.

We believe our solutions help our customers increase their revenue and better manage their costs and resource allocations through the delivery, use and management of real-time information. We believe our commitment to our customers and the embedded nature of our solutions strengthens and extends our customer relationships.

We have lower capital expenditures than other remote communications providers because we do not own or operate any satellites, develop or manufacture communications or networking equipment, own terrestrial wireless facilities and landlines, or, as a general rule, own or operate teleport facilities and data centers. In order to provide our end-to-end services, we procure bandwidth from independent fixed satellite-services operators and terrestrial wireless and landline

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providers to meet the needs of our customers for end-to-end IP-based communications. We own the network infrastructure and communications equipment we install at remote sites as well as co-located equipment in third party teleport facilities and data centers, all of which we procure through various high quality equipment providers. By owning the network infrastructure and communications equipment on the customer premises, we are better able to ensure the high quality of our products and services and agnostically select the optimal equipment suite for each customer. Our network and communications services are designed to accommodate all customers at remote oil and gas sites including rig owners (drillers), operators, service companies and pay-per-use individuals, such as off-duty rig workers and visiting contractors, vendors and other visitors. Our communications services are initially offered to drillers, and the initial capital investment is scaled by up-selling communications services to other parties present on the rigs, such as operators, service companies and pay-per-use individuals, as well as through the cross-selling of value-added services.

For convenience in this Annual Report on Form 10-K, RigNet, the Company, we, us, and our refer to RigNet, Inc. and its subsidiaries taken whole, unless otherwise noted.

Our Industry

The remote telecommunications industry is highly competitive with a wide variety of companies and new potential entrants from adjacent vertical markets and from within the broader value chain. Within the remote telecommunications industry, we serve oil and gas companies that operate their remote locations through global always-connected networks driving demand for communications services and managed services solutions that can operate reliably in increasingly remote areas under harsh environmental conditions.

The oil and gas industry depends on maximum reliability, quality and continuity of products and services. Oil and gas companies with geographically dispersed operations are particularly motivated to use secure and highly reliable communications networks due to several factors:

oil and gas companies rely on secure real-time data collection and transfer methods for the safe and efficient coordination of remote operations;

technological advances in drilling techniques, driven by declining production from existing oil and gas fields and strong hydrocarbon demand, have enabled increased exploitation of offshore deepwater reserves and development of unconventional reserves (e.g., shales and tight sands) that require real-time data access by personnel in field and head offices to optimize performance; and

transmission of increased data volumes and real-time data management and access to key decision makers enable customers to maximize operational results, safety and financial performance.

While we experience competition in our markets, we believe that our established relationships with customers and proven performance serve as significant barriers to entry.

Operations

Our business operations are divided into three reportable segments: eastern hemisphere, western hemisphere and U.S. land. For financial information about our reportable segments, see Note 14 Segment Information in our consolidated financial statements included in this Annual Report on Form 10-K.

Eastern Hemisphere

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. As of December 31, 2011, this segment was serving approximately 147 jack up, semi-submersible and drillship rigs which we approximate to be a 28.7% market share of such rigs based on an IHS-Petrodata RigBase Current Activity report as of December 1, 2011. As of December 31, 2011, this segment also was serving approximately 187 other sites, which include production facilities, energy support vessels, land rigs, and related remote support offices and supply bases.

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Western Hemisphere

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 and Brazil, and within the Gulf of Mexico, but excluding land rigs and other land-based sites in the U.S. As of December 31, 2011, this segment was serving approximately 81 jack up, semi-submersible and drillship rigs which we approximate to be a 33.1% market share of such rigs based on an IHS-Petrodata RigBase Current Activity report as of December 1, 2011. As of December 31, 2011, this segment also was serving approximately 144 other sites, which include production facilities, energy support vessels and related remote support offices and supply bases.

U.S. Land

Our U.S. land segment provides remote communications services for drilling rigs, completions and production facilities located onshore in the U.S. Our U.S. land segment services are directed out of our Louisiana-based office for customers and sites located in the continental United States. We further provide installation and service support from ten other service centers and equipment depots located in key oil and gas producing areas around the continental United States. As of December 31, 2011, this segment was serving approximately 338 onshore drilling rigs and 157 other remote sites that consist of completion, production and other sites. We have approximately a 17.2% market share for onshore drilling rigs based on Baker Hughes North America Rotary Rig Count report for December 31, 2011. Our product suite consists of voice, data, Internet access and emergency response services along with communications services within the rig location such as wired and wireless intercoms and two-way radios. This segment leverages the same network infrastructure and network operations center used in our other two operating segments.

Our Strategy

To serve our customers and grow our business, we intend to pursue aggressively the following strategies:

expand our share of the growing number of offshore and onshore drilling rigs;

increase secondary customer penetration on our existing remote sites;

develop and market additional value-added products and services; and

extend our market presence into complementary remote communications segments through organic growth and strategic acquisitions.

Expand our share of the growing number of offshore and onshore drilling rigs: We intend to expand our drilling rig market share by increasing our penetration of the market for newly-built rigs, capturing existing rigs from competitors because of our superior performance, landing fleet-wide opportunities with major drillers made available as a result of drilling rig industry consolidation, improving penetration in underserved and new geographic markets and capturing opportunities for reactivated stacked rigs (rig stacking refers to when a rig is expected to be taken out of service for a protracted period of time). For example, several of our largest customers have recently completed acquisitions of rigs that are currently served by competitors. Although there is no contractual obligation by our customers to transition these rigs to us, we believe we are strongly positioned to compete for these new rigs. Because of our established relationships with our customers, reliable and robust service offerings and best-in-class customer service, we believe that we are well-positioned to capture new build and reactivated stacked rigs that our customers add to their fleets as well as to organically gain market share against other providers. The table below presents global fixed and floating rigs which, as of December 30, 2011, are scheduled to be delivered between 2012 and 2015.

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Fixed and Floating Rigs Scheduled for Delivery

We intend to continue to expand our penetration of the U.S. and international onshore drilling rig market. Global onshore drilling rig count is expected to increase by a consolidated annual growth rate (CAGR) of 3.2% between 2012 and 2015 according to projections provided by the Spears & Associates Drilling and Production Outlook. We believe we are well-positioned to increase our penetration in this segment because of our experience in the U.S. onshore drilling rig market, our in-depth understanding of the needs of oil and gas customers, high quality of service and global data network infrastructure.

Global Average Active Onshore Rigs

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Increase secondary customer penetration: We intend to continue to scale our initial capital investment with rig owners by using our incumbent position at remote sites to serve other users on the rigs. We will seek to increase revenue with low incremental capital costs by up-selling our services to other parties on the rigs, production platforms and energy support vessels, including drillers, operators, services companies and pay-per-use individuals.

Develop and market additional value-added products and services: We intend to continue to serve our customers' needs by commercializing additional products and services that complement our wide array of available remote communications services. We expect that over the next several years our customer base will require a variety of new services such as real-time functionality, videoconferencing, software acceleration technology, WiFi hotspots and media, and we will seek to position ourselves to capture new business opportunities. Additionally, with the continuously growing demand for communication-based products and increased network speed in the oil and gas industry, we expect bandwidth requirements for our existing customers to continue to increase. Through our engineering expertise, technical sales force and operational capabilities, we will continue to position ourselves to offer our customers a full range of remote communications services at different levels within customer organizations.

Extend our market presence into complementary remote communications segments through organic growth and strategic acquisitions: Our market presence and proven quality of service offer significant organic growth opportunities in targeted adjacent upstream energy segments where we are well positioned to deliver remote communications solutions. Targeted segments include upstream energy vessels (including seismic and offshore support and supply vessels), offshore fixed and floating production facilities and international onshore drilling rigs and production facilities. In addition, we will continue to look for and review opportunities in other remote communications market adjacencies that offer significant opportunities for growth and where we are well positioned to take advantage of these opportunities.

We are also focused on expanding our competitive market position through strategic acquisitions. As we continue to focus on expanding the target markets for our products, services and solutions, we plan to selectively acquire companies and/or technologies that would be complementary to our existing business. Strategic acquisition opportunities may be pursued to enhance our operations and further our strategic objectives. We have no agreements or commitments with respect to any acquisitions at this time.

Competitive Strengths

As a leading communications network infrastructure provider within the oil and gas industry, our competitive strengths include:

mission-critical services delivered by a trusted provider with a global network and operations;

high-quality customer support with full time monitoring and regional service centers;

operational leverage and multiple paths to growth supported by a plug-and-play IP/MPLS global platform;

scalable systems using standardized equipment that leverage our global infrastructure;

flexible, provider-neutral technology platform; and

long-term relationships with leading companies in the oil and gas industry.

Mission-critical services delivered by a trusted provider with global operations: Our focus on the oil and gas industry provides us with an in-depth understanding of the mission-critical needs of our customers that enables us to tailor our services to their requirements. Our network reliability and responsive customer service, along with the high switching costs associated with changing out remote communications providers, provide us with a high rate of customer retention. Our global presence allows us to serve our clients wherever they may operate around the world, except where U.S. government restrictions may apply. Our global terrestrial network also allows us to provide quality of service to prioritize various forms of data traffic for a more pleasing end user experience. Our ability to offer our customers such global coverage sets us

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apart from regional competitors at a time when our customers are expanding the geographic reach of their own businesses, exploring for oil and gas reserves in more remote locations and seeking partners that can match the breadth of their global operations and speed of deployment.

High-quality customer support with full-time monitoring and regional service centers: Our IP/MPLS global network allows us to provide high quality customer care by enabling us to monitor the network end-to-end so that we can easily and rapidly identify and resolve any network problems that our customers may experience. As of December

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31, 2011, we had 28 service operations centers and warehouses to support and service our customers' remote sites. A Global Network Operations Center located in Houston, Texas is staffed 24 hours per day, 365 days per year. We provide non-stop, end-to-end monitoring and technical support for every customer. This proactive network monitoring allows us to detect problems instantly and keep our services running at optimum efficiency. Fully managed technology is a key reason why we can support solutions that deliver high performance and new technologies that improve productivity. As of December 31, 2011, our U.S. land segment, which is one of our three reportable segments discussed below, was supported through a network of 13 field service centers and equipment depots, located in major oil and gas regions in the continental United States. Our onshore footprint allows us to respond with high quality same-day service for the shorter drilling cycles inherent in onshore drilling where rapid installation, decommissioning and repair services are required. We maintain field technicians as well as adequate spare parts and equipment inventory levels in these service centers.

Operational leverage and multiple paths to growth supported by a plug-and-play IP/MPLS platform: Our scalable, standardized communications platform provides us with plug-and-play capabilities to easily expand or improve service offerings. Our IP/MPLS global platform allows us the ability to add additional services to our standard offerings or change our service offerings on a rig, production platform or energy support vessel with little incremental cost once installed onsite. We can offer these services to all users of the rig, production platform or energy support vessel, including drillers, operators, service companies and pay-per-use individuals, such as off-duty rig workers and visiting contractors, vendors and others. We expect this operating leverage to help drive an expansion in our Adjusted EBITDA, which is defined in Item 6. Selected Financial Data of this Annual Report on Form 10-K. We expect the demand for our products and services to continue to increase as oil and gas producers continue to invest in the infrastructure needed to commercially produce deepwater reserves. Our IP/MPLS global platform gives us an important advantage by offering greater reliability, scalability, flexibility and security than conventional switched transports and accounts for what we believe to be a key reason for the market share we have today of remote installations on offshore and onshore drilling rigs with the potential that we can lift that market share over time.

Scalable systems using standardized equipment that leverages our global infrastructure: We have built our global satellite and terrestrial network with a significant amount of excess capacity to support our growth without substantial incremental capital investment. Our knowledge and capabilities can be applied to rigs and other remote sites located anywhere in the world. We install standardized equipment on each rig or remote site, which allows us to provide support and maintenance services for our equipment in a cost-efficient manner. Not all of the components of equipment that we install on each rig are the same, but the components that vary are limited in number and tend to be the same for rigs located in the same geography. As of December 31, 2011, we leased capacity from 22 satellites, and are co-located in 21 teleports and 18 datacenters worldwide in order to provide our end-to-end solutions. By leasing rather than owning our network enablers and owning the on-site equipment on each rig, we are able to both minimize the capital investment required by the base network infrastructure and maintain the flexibility to install high quality equipment on each rig tailored to its locale and environmental conditions. We do own and manage the IP layer end-to-end. The standardized nature of our equipment minimizes execution risk, lowers maintenance and inventory carrying costs and enables ease of service support. In addition, we are able to remain current with technology upgrades due to our back-end flexibility.

Flexible, provider-neutral technology platform: Because we procure communications connections and networks and equipment from third parties, we are able to customize the best solution for our customers' needs and reduce our required fixed capital investments. We aim to preserve the flexibility to select particular service providers and equipment so that we may access multiple providers and avoid downtime if any of our initial providers were to experience any problems. By procuring bandwidth from a variety of communications providers instead of owning our own satellites, we are able to minimize capital investment requirements and can expand our geographic coverage in response to customers' needs with much greater flexibility. Our product and service portfolio offers best-in-class technology platforms using the optimal suite communications and networking capabilities for customers. This best-of-breed approach does contrast with some of our larger competitors who are more backward integrated in the value chain and have a more limited solutions toolkit as a result.

Long-term relationships with leading companies in the oil and gas industry: We have established relationships with some of the largest companies in the global oil and gas industry. Some of our key customers are the leading contract drillers around the globe, with combined offshore fleets of hundreds of rigs. In many cases, these customers are investment grade rated companies with high standards of service that favor strategic providers such as RigNet and work in partnership with us to serve their remote operations.

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Service Offerings

We offer a comprehensive communications package of voice, data, video, networking and real-time data management to offshore and land-based remote locations. We are a single source solutions provider that links multiple offshore or remote site rigs and production facilities with real-time onshore decision centers and applications.

The main services we offer are high quality voice-over-Internet-protocol, or VoIP, data and high-speed Internet access. In addition, we increasingly provide other value-added services, such as video conferencing solutions, TurboNet WAN (for wide area network) acceleration solutions, real-time data management solutions, Wi-Fi hotspots and Internet kiosks, Secure Oil Information Link (SOIL), wireless intercoms and handheld radios. The price for these value-added services is generally included in the day rate and becomes incorporated into the recurring revenue from our customers.

Video Conferencing Solutions

The oil and gas industry increasingly uses video conferencing to save significant amounts of time and reduce costs. As an alternative to excessive travel and traditional meetings, video conferencing improves collaboration and expedites decision making. We provide a complete, high-performance video conferencing solution scalable for a wide range of uses. Video conferencing service can be delivered securely and reliably over our SOIL private extranet and is then branded as SOIL Meeting. Increasingly, we are deploying videoconferencing solutions to remote sites, allowing our customers to conduct secure and reliable videoconferences between their offices and their remote sites.

In addition, in 2009, we began offering high-resolution hand held wireless cameras through our Remote View service that allows experts in offices to troubleshoot equipment at remote sites, which can save customers time and money, with recent successful deployments in the Gulf of Mexico and the North Sea. This service is also delivered over our SOIL network.

TurboNet Solutions

Our customers are increasingly pushing software application use to the edge of their networks (remote sites such as drilling rigs, production facilities and vessels). While VSAT connections are reliable, many software applications are not designed to perform optimally over highly latent satellite links. Working with Riverbed Technology, Inc., or Riverbed, we deploy infrastructure appliances to improve the performance of client-server interactions over WANs without breaking the semantics of the protocols, file systems or applications. Whether our customers are copying a file from a distant file server, getting mail from a remote exchange server, backing up remote file servers to a main datacenter or sending very large files to colleagues at headquarters, slow WANs cost time and money. The costs are borne in redundant infrastructure, over-provisioned bandwidth, and lost productivity.

Working with Riverbed's appliances, RigNet's TurboNet solution can improve the performance, or throughput, of client-server interactions over WANs by up to 100 times, giving the end user the appearance that the server is local rather than remote. That degree of apparent network speed improvement enables our customers to centralize currently distributed resources like storage, mail servers and file servers and deliver new WAN-based IT services that have not been possible before. Not only do the software applications perform more as they would in offices, but our customers may better optimize the use of expensive satellite bandwidth.

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Wi-Fi Hotspot and Internet Kiosk

We offer WiFi hotspot and Internet kiosk solutions that facilitate access to the Internet by rig-based personnel. This is advantageous for rig owners who seek to improve the quality of life for employees by providing Internet access in the living quarters, and for service companies that seek office-like connectivity for their technicians and engineers. The WiFi hotspot and Internet kiosk solutions provide ready access with a familiar user interface without requiring specialized equipment to connect to the service. These solutions are either paid for by the business customer as a benefit to its remote employees or are paid for on a pay-per-use basis by individuals.

SOIL (Secure Oil Information Link)

In addition to the services we provide to offshore and onshore remote sites, we also operate a proprietary extranet enabling oil companies and their counterparties, such as rig owners, service companies and application service providers, to connect and collaborate on a high-speed, secure and reliable basis. We acquired SOIL in 2006 through the acquisition of 100% of OilCamp, AS, a Norwegian-based provider that began operating the network in 1998.

As of December 31, 2011, SOIL's value-added services were being provided to more than 200 oil and gas operators, service companies and other industry suppliers throughout the North Sea region. These customers use our SOIL services to collaborate with partners and suppliers or for internal company communications. We intend to extend the SOIL network to our other geographic areas of high oil and gas drilling and production activity.

Our SOIL network is a fully managed, high-performance, members-only communications network hub that enables collaborative partners, suppliers and customers to transfer and share data quickly, reliably and securely. We believe that this one-to-many private extranet is a cost effective and easy-to-deploy alternative to building out point-to-point VPN (virtual private network) connections. The network members do not have to extend the extranet to other partners or suppliers individually. With one link to SOIL, clients are connected to all other members.

With a service level uptime commitment of 99.7%, our SOIL network supports a wide range of bandwidths from 64 Kbps to 1 Gbps, offering speed and reliability ideal for a variety of applications used in the oil and gas industry as well as value-added services we provide such as SOIL Meeting (video conferencing) and SOIL Hosting (application hosting). SOIL offers clients quality of service and a guaranteed bandwidth that may be increased or decreased according to requirements.

We charge a monthly subscription fee for access to our SOIL network depending on the desired access speed. In addition, we charge for installation of the required equipment and value-added services.

Customer Contracts

In order to streamline the addition of new projects and solidify our position in the market, we have signed agreements with most customers that define the contractual relationship with oil and gas producers, service companies and drilling companies for our offshore and land-based telecommunications services. The specific services being provided are defined 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 penalty. Service orders are executed under the customer agreements 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 agreement or cold stacking of a drilling rig.

Customers

We have an international customer base comprising many of the largest drilling contractors, exploration and production companies and oilfield services companies. Our largest customer, Noble Corporation, accounted for approximately 12.0% of our total revenue for 2011.

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Suppliers

Although we have preferred suppliers of telecommunications and networking equipment, nearly all technology utilized in our solutions is available from more than one supplier. The standardized equipment may be deployed across any site or rig in any geographic area.

In addition, we do not rely on one satellite provider for our entire satellite bandwidth needs except for certain instances in which only one satellite bandwidth provider is available in an operating location, which is typically due to licensing restrictions. This approach generally allows us flexibility to use the satellite provider that offers the best service for specific areas and to change providers if one provider experiences any problems.

Competition

The remote telecommunications industry is highly competitive. We expect competition in the markets that we serve to persist, intensify and change, consistent with recent industry consolidation. We face varying degrees of competition from a wide variety of companies, including new potential entrants from providers to adjacent vertical markets and from forward integration by some of our suppliers deeper in the industry value chain, since successful service and system development is not necessarily dependent upon substantial financial resources.

Our primary global competitors in upstream oil and gas include Harris Corporation's Harris CapRock Communications and a portion of the enterprise segment of Inmarsat plc's Inmarsat Solutions. Most recently, our industry sector has experienced consolidation with Harris Corporation's acquisitions of CapRock Communications, Inc. and Schlumberger Ltd's Global Connectivity Services division. In addition, there are a range of regional providers serving smaller customers. Specifically in our U.S. land segment, we also face competition from: drilling instrumentation providers; living quarters companies; and other pure-play providers like us.

Our customers generally choose their provider(s) based on the quality and reliability of the service and the ability to restore service quickly when there is an outage. Pricing and breadth of service offerings is also a factor. The oil and gas industry depends on maximum reliability, quality and continuity of products and service. Established relationships with customers and proven performance serve as significant barriers to entry.

Government Regulation

The provision of telecommunications is highly regulated. We are required to comply with the laws and regulations of, and often obtain approvals from, national and local authorities in connection with most of the services we provide. In the United States, we are subject to the regulatory authority of the United States, primarily the Federal Communications Commission (FCC). Regulation of the telecommunications industry continues to change rapidly. Our U.S. services are currently provided on a private carrier basis and are therefore subject to light or no regulation by the FCC and other federal, state and local agencies. However, if the FCC or one or more state public utility commissions determine that our services or the services of our subsidiaries or affiliates constitute common carrier offerings subject to Title II of the Communications Act, associated FCC regulations, and similar state laws, we may be subject to significant costs to ensure compliance with the applicable provisions of those laws and regulations. We may be subject to enforcement actions including, but not limited to, fines, cease and desist orders, or other penalties if we fail to comply with those requirements.

Further, VoIP services that permit subscribers to send calls to and receive calls from the traditional telephone network, known as interconnected VoIP services, are generally subject to the regulatory authority of the FCC. We do not believe that the VoIP services that we currently provide were intended by the FCC to be considered interconnected VoIP. However, if our VoIP services were determined to constitute interconnected VoIP, we would become subject to a number of regulatory requirements including obligations to pay into the Universal Service Fund, accommodate the needs of disabled persons, protect customer proprietary network information, provide E911 services, etc. Compliance with those requirements may involve significant costs, and we could be subject to enforcement actions including, but not limited to, fines, cease and desist orders, or other penalties if we fail to comply with those requirements.

We are subject to export control laws and regulations, trade and economic sanction laws and regulations of the United States with respect to the export of telecommunications equipment and services. Certain aspects of our business are also subject to state and local regulation. We typically have to register to provide our telecommunications services in each country in which we do business. The laws and regulations governing these services are often complex and subject to change. At times, the rigs or vessels on which our equipment is located and to which our services are provided will need to operate in a new location on short notice and we must quickly register to provide our services in such country.

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Failure to comply with any of the laws and regulations to which we are subject may result in various sanctions, including fines, loss of authorizations and denial of applications for new authorizations or for renewal of existing authorizations. We are also subject to the Foreign Corrupt Practices Act, which prohibits payment of bribes or giving anything of value to foreign government officials for the purpose of obtaining or retaining business or gaining a competitive advantage.

Employees

As of December 31, 2011, we had approximately 243 full time employees consisting of 24 employees in sales and marketing, 54 employees in finance and administration, 146 employees in operations and technical support and 19 employees in management. We believe our employee relations are good.

Geographic Information

See Note 14 Segment Information, to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K for more information regarding geographic areas we serve.

Other Information

Corporate Structure and History

We were incorporated in Delaware on July 6, 2004. Our predecessor began operations in 2000 as RigNet Inc., a Texas corporation. In July 2004, our predecessor merged into us. The communications services we provide to the offshore drilling and production industry were established in 2001 by our predecessor, who established initial operations in the Asia Pacific region. Since we acquired our predecessor in 2004, we have evolved into one of the leading global providers of remote communications services in the offshore drilling and production industry. In 2006, we expanded our services to land-based, coastal and some shallow water drilling rigs through the acquisition of a controlling interest in LandTel, a leading provider of remote communications to the United States onshore drilling industry. We acquired 75.0% of LandTel in September 2006. We acquired the remaining 25.0% of LandTel between December 2008 and December 2010.

Principal Executive Offices

Our principal executive offices are located at 1880 Dairy Ashford, Suite 300, Houston, Texas 77077. Our main telephone number is (281) 674-0100.

Company Website

The Company's internet website is www.rig.net. The Company makes available free of charge on its website Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended.

Forward-Looking Statements

This Annual Report on Form 10-K 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:

potential impact of the recent rig explosion in the Gulf of Mexico and resulting oil spill;

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;

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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.

These forward-looking statements may be found in Item 1. Business; Item 1A. Risk Factors; Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and other items within this Annual Report on Form 10-K. In some cases, forward-looking statements can be identified by terminology such as may, will, could, should, would, may, expect, plan, project, intend, estimate, predict, potential, pursue, target, continue, the negative of such terms or other comparable terminology that convey uncertainty about future events or outcomes. All of these types of statements, other than statements of historical fact included in this Annual Report on Form 10-K, are forward-looking statements.

The forward-looking statements contained in this Annual Report on Form 10-K 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 Annual Report 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 Annual Report on Form 10-K. 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.

About Third-Party Information

In this report, the Company relies on and refers to information regarding industry data obtained from market research, publicly available information, industry publications, and other third parties. Although the Company believes the information is reliable, it cannot guarantee the accuracy or completeness of the information and have not independently verified it.

Item 1A. Risk Factors

Our business has many risks. Factors that could materially affect our business, financial position, operating results or liquidity and the trading price of our units are described below. This information should be considered carefully, together with other information in this report and other reports and materials we file with the Securities and Exchange Commission, or the SEC.

Any loss of a rig on which our equipment is located will likely lead to a complete loss of our equipment on that rig and a loss of the revenue related to that rig.

At the commencement of a new service contract for a rig, we generally install approximately \$100,000 to \$400,000 worth of equipment on each offshore drilling rig. If a rig were to sink or incur substantial damage for any reason, we would most likely lose all of our equipment. We do not insure for such losses as we believe the cost of such insurance outweighs the risk of potential loss. In addition to the loss of the equipment, we would likely lose the revenue related to that rig under the terms of most of our existing contracts. Also, we may be committed to paying the costs to secure satellite bandwidth for that rig under agreements with third party satellite communication providers even after the rig is no longer in service. Losses of rigs can occur as a result of catastrophic events such as hurricanes, fire or sinking. Such catastrophic events can occur without notice, but have historically been infrequent.

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Many of our contracts with customers may be terminated by our customers on short notice without penalty, which could harm our business, financial condition and results of operations.

Customers may switch service providers without incurring significant expense relative to the annual cost of the service, and our agreements generally provide that in the event of prolonged loss of service or for other good reasons, our customers may terminate service without penalty. In addition, many of our customer agreements may be terminated by our customers for no reason and upon short notice. Terms of customer agreements typically vary with a range of one month to three years, with some customer agreement terms as long as five years, and work orders placed under such agreements may have shorter terms than the relevant customer agreement. As a result, we may not be able to retain our customers through the end of the terms specified in the customer agreements. If we are not able to retain our customers, we would not receive expected revenues and may continue to incur costs, such as costs to secure satellite bandwidth for such customers under agreements with third party satellite communication services providers which may not be as easily or as quickly terminated without penalty, resulting in harm to our business, financial condition and results of operations. The loss of a drilling contractor customer site can limit or eliminate our ability to provide services to other customers on the affected drilling rigs.

A significant portion of our revenue is derived from two customers and the loss of either of these customers would materially harm our business, financial condition and results of operations.

We receive a significant part of our revenue from a relatively small number of large customers. For the year ended December 31, 2011, Noble Corporation and Ensco plc represented approximately 12.0% and 5.9%, respectively, of our consolidated revenue. Similarly, for the year ended December 31, 2010, these two significant customers, Noble Corporation and Ensco plc, represented approximately 10.6% and 6.5%, respectively, of our consolidated revenue. If either of these two customers terminates or significantly reduces its business with us, our business, financial condition and results of operations would be materially harmed.

Our industry is highly competitive and if we do not compete successfully, our business, financial condition and results of operations will be harmed.

The telecommunications industry is generally highly competitive, and we expect both product and pricing competition to persist and intensify. Increased competition could cause reduced revenue, price reductions, reduced profits and loss of market share. Our industry is characterized by competitive pressures to provide enhanced functionality for the same or lower price with each new generation of technology. As the prices of our products decrease, we will need to sell more products and/or reduce the per-unit costs to improve or maintain our results of operations. Our primary global competitors include Harris Corporation's Harris CapRock Communications and elements of the enterprise segment of Inmarsat plc's Inmarsat Solutions, as well as many regional competitors. Some of our competitors have longer operating histories, substantially greater financial and other resources for developing new solutions as well as for recruiting and retaining qualified personnel. Their greater financial resources may also make them better able to withstand downturns in the market, expand into new areas more aggressively or operate in developing markets without immediate financial returns. In addition, in certain markets outside of the U.S., we face competition from local competitors that provide their services at a lower price due to lower overhead costs, including lower costs of complying with applicable government regulations, and due to their willingness to provide services for a lower profit margin. Strong competition and significant investments by competitors to develop new and better solutions may make it difficult for us to maintain our customer base, force us to reduce our prices or increase our costs to develop new solutions.

Furthermore, competition may emerge from companies that we have previously not perceived as competitors or consolidation of our industry may cause existing competitors to become bigger and stronger with more resources, market awareness and market share. As we expand into new markets and geographic regions we may experience increased competition from some of our competitors that have prior experience or other business in these markets or geographic regions. In addition, some of our customers may decide to insource some of the communications services and managed services solutions that we provide, in particular our terrestrial communication services (e.g., terrestrial line-of-sight transport, microwave, Worldwide Interoperability for Microwave Access, or WiMax), which do not require the same level of maintenance and support as our other services. Our success will depend on our ability to adapt to these competitive forces, to adapt to technological advances, to develop more advanced products more rapidly and less expensively than our competitors, to continue to develop and deepen our global sales and business development network, and to educate potential customers about the benefits of using our solutions rather than our competitors' products and services or in sourced solutions. Our failure to successfully respond to these competitive challenges could harm our business, financial condition and results of operations.

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We rely on third parties to provide products and services for the operation of our business. Failures by third party providers could harm our business and reputation and result in loss of customers and revenue.

A significant part of our operations and growth depends on third party providers delivering reliable communications connections, networks, equipment, and satellite transponder capacity, subjecting our business, reputation and customer revenue to risks beyond our control, such as:

telecommunications failures;

saturation of communication connection points, networks and third-party facilities

in-orbit risks for satellites including malfunctions, commonly referred to as anomalies, and collisions with meteoroids, decommissioned spacecraft or other space debris;

satellite manufacturing or control system errors ;

lack of communication service alternatives;

providing access to faulty equipment;

human error;

natural disasters;

unexpected equipment failure;

power loss;

unauthorized access or security risks; and

sabotage or other intentional acts of vandalism.

Even if we take precautions, the occurrence of any of these risks or other unanticipated problems arising from third party services could result in interruption in the services we provide to customers. Any of these occurrences could harm our business, financial condition and results of operations.

Any failure on our part to perform under our customer service contracts due to the failures of our third party providers could result in: (i) loss of revenue despite continued obligations under our leasing arrangements; (ii) possible cancellation of customer contracts; (iii) incurrence of additional expenses to reposition customer antennas to alternative satellites or otherwise find alternate service (iv) inclusion in third party claims; and (v) damage to our reputation, which could negatively affect our ability to retain existing customers or to gain new business. Under most of our contracts with satellite service providers, our satellite service providers do not indemnify us for such loss or damage to our business

resulting from satellite failures. If any potential claims result in liabilities, we could be required to pay damages or other penalties, which could harm our business, financial condition and results of operations.

Our networks and those of our third-party service providers may be vulnerable to security risks and any unauthorized access to our clients data or systems could harm our business, financial condition and results of operations.

We expect the secure transmission of confidential information over public networks to continue to be a critical element of our operations. Our networks and those of our third-party service providers and our customers may be vulnerable to unauthorized access, computer viruses and other security problems. Persons who circumvent security measures could wrongfully obtain or use information on the network or cause interruptions, delays or malfunctions in our operations, any of which could harm our business, financial condition and results of operations. We may be required to expend significant resources to protect against the threat of security breaches or to alleviate problems, including reputational harm and litigation, caused by any breaches. In addition, our customer contracts, in general, do not contain provisions which would protect us against liability to third-parties with whom our customers conduct business. Although we have implemented and intend to continue to implement industry standard security measures, these measures may prove to be inadequate and result in system failures and delays that could lower system availability and have a material adverse effect on our business, financial condition and results of operations.

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We compete for satellite capacity for our services and any capacity constraints could harm our business, financial condition and results of operations.

We compete for satellite capacity with a number of commercial entities, such as broadcasting companies, and governmental entities, such as the military. In certain markets, the availability and pricing of capacity could be subject to competitive pressure, such as during renewals, and there is no guarantee that we will be able to secure the capacity needed to conduct our operations at current rates or levels going forward. This could harm our business, financial condition and results of operations. In certain markets, the availability of bandwidth may be restricted by the local government when needed to support its military, and in the event of such an action, there is no guarantee that we will be able to secure the capacity needed to conduct our operations, which could have a material adverse effect on our business, financial condition and results of operations.

We depend on a limited number of suppliers to provide key portions of our equipment and the loss of any of these key suppliers could materially harm our ability to service our clients and could result in loss of customers and harm our reputation, business, financial condition and results of operations revenue.

We currently rely upon and expect to continue to rely upon a limited number of third-party suppliers to supply the equipment required to provide our services, such as the equipment we install on offshore drilling rigs in order to provide remote communication services. Although this equipment is commercially available from more than one supplier, there are a limited number of suppliers of such equipment and price and quality vary among suppliers. If the suppliers enter into competition with us, or if our competitors enter into exclusive or restrictive arrangements with our suppliers, the availability and pricing of the equipment that we purchase could be materially adversely affected. In addition, we like to use a small group of suppliers and standardized equipment as much as possible so that we are installing generally the same equipment and we can maintain smaller quantities of replacement parts and equipment in our warehouses. If we have to change suppliers for any reason, we will incur additional costs due to the lack of uniformity and need to warehouse a broader array of replacement parts and equipment.

We are subject to the volatility of the global oil and gas industry and our business is likely to fluctuate with the level of global activity for oil and natural gas exploration, development and production.

Our business depends on the oil and natural gas industry and particularly on the level of activity for oil and natural gas exploration, development and production. Demand for our remote communication services and collaborative applications depends on our customers' willingness to make operating and capital expenditures to explore, develop and produce oil and natural gas in the regions in which we operate or may operate. Our business will suffer if these expenditures decline. Our customers' willingness to explore, develop and produce oil and natural gas depends largely upon prevailing market conditions that are influenced by numerous factors over which we have no control, including:

the supply and demand for oil and natural gas;

oil and natural gas prices and expectations about future prices;

the expected rate of decline in production;

the discovery rate of new oil and gas reserves;

the ability of the Organization of Petroleum Exporting Countries, or OPEC, to influence and maintain production levels and pricing;

the level of production in non-OPEC countries;

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the worldwide political and military environment, including uncertainty or instability resulting from an escalation or additional outbreak of armed hostilities or other crises in oil or natural gas producing areas of the Middle East and other crude oil and natural gas producing regions or further acts of terrorism in the United States, or elsewhere;

the impact of changing regulations and environmental and safety rules and policies, including changes to regulations, rules and policies, following oil spills and other pollution by the oil and gas industry, and legislative and regulatory interest to limit or further regulate drilling and hydraulic fracturing activities;

advances in exploration, development and production technology;

the global economic environment;

the political and legislative framework governing the activities of oil and natural gas companies; and

the price and availability of alternative fuels.

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The level of activity in the oil and natural gas exploration and production industry has historically been volatile and cyclical. Although we believe our customers will be dependent upon real-time voice and data communication services to optimize their oil and gas production and development in an environment with lower energy prices, a prolonged significant reduction in the price of oil and natural gas will likely affect oil and natural gas production levels and therefore affect demand for the communication services we provide. In addition, a prolonged significant reduction in the price of oil and natural gas could make it more difficult for us to collect outstanding account receivables from our customers. A material decline in oil and natural gas prices or oil and natural gas exploration, development or production activity levels could harm our business, financial condition and results of operations.

Bad weather in the Gulf of Mexico or other areas where we operate could harm our business, financial condition and results of operations.

Certain areas in and near the Gulf of Mexico and other areas in which our clients operate experience unfavorable weather conditions, including hurricanes and other extreme weather conditions, on a relatively frequent basis. A major storm or threat of a major storm in these areas may harm our business. Our clients' drilling rigs, production platforms and other vessels in these areas are susceptible to damage and/or total loss by these storms, which may cause them to no longer need our communication services. Our equipment on these rigs, platforms or vessels could be damaged causing us to have service interruptions and lose business. Even the threat of a very large storm will sometimes cause our clients to limit activities in an area and thus harm our business.

The loss of key personnel or the failure to attract and retain highly qualified personnel could compromise our ability to effectively manage our business and pursue our growth strategy.

Our future performance depends on the continued service of our key technical, development, sales, services and management personnel. In particular, we are heavily dependent on the following two key employees: our Chief Executive Officer and President, who has been critical to establishing our strategy and executing on our business model over the past four years; and our Vice President of Global Engineering, who is the technical architect of our global network and who is responsible for our global network's reliability, performance and security and the evaluation of technological developments and their impact on our business. The loss of key employees could result in significant disruptions to our business, and the integration of replacement personnel could be costly and time consuming, could cause additional disruptions to our business, and could be unsuccessful. We do not carry key person life insurance covering any of our employees.

Our future success also depends on our continued ability to attract and retain highly qualified technical, development, sales, services and management personnel, including personnel in all of the various regions of the world in which we operate. The current increase in the activity level in the oil and gas industry and the limited supply of skilled labor has made the competition to retain and recruit qualified personnel intense. A significant increase in the wages paid by competing employers could reduce our skilled labor force, increase the wages that we must pay to motivate, retain or recruit skilled employees or both.

In addition, wage inflation and the cost of retaining our key personnel in the face of competition for such personnel may increase our costs faster than we may offset these costs with increased prices or increased sales volume.

If we fail to manage our growth effectively, our business may suffer.

We have experienced rapid growth in our business in recent periods, which has strained our managerial, operational, financial and other resources. We plan to continue to grow our business and anticipate that continued growth of our operations will be required to satisfy increasing customer demand and avail ourselves of new market opportunities. The expanding scope and geographic breadth of our business and growth in the number of our employees, customers and locations will continue to place a significant strain on our management team, information technology systems and other resources and may distract key personnel from other key operations. To properly manage our growth, we may need to hire and retain personnel, upgrade our existing operational, management and financial reporting systems, and improve our business processes and controls and implement those processes and controls in all of our geographic locations. Failure to effectively manage our growth in a cost-effective manner could result in declines in service quality and customer satisfaction, increased costs or disruption of our operations. Our rapid growth also makes it difficult for us to adequately predict the investments we will need to make in the future to effectively manage our world-wide operations.

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We may need to raise additional funds to pursue our growth strategy or continue our operations, and if we are unable to do so, our growth may be impaired.

We plan to pursue a growth strategy. We have made significant investments to grow our business. Additional investments will be required to pursue further growth and to respond to technological innovations and competition. There is no guarantee that we will be able to obtain additional financing or financing on favorable terms. If financing is not available on satisfactory terms, or at all, we may be unable to expand our business or to develop new business at the rate desired and our business, financial condition and results of operations may be harmed.

Our term loan agreement places financial restrictions and operating restrictions on our business, which may limit our flexibility to respond to opportunities and may harm our business, financial condition and results of operations.

The operating and financial restrictions and covenants in our term loan agreement restricts and any future financing agreements could restrict our ability to finance future operations or capital needs or to engage, expand or pursue our business activities.

For example, our term loan agreement restricts our ability to:

dispose of property;

enter into a merger, consolidate or acquire capital in other entities;

incur additional indebtedness;

incur liens on the property secured by the term loan agreement;

make certain investments;

enter into transactions with affiliates;

pay cash dividends;

commit to make capital expenditures not in the ordinary course of business; and

enter into sales and lease back transactions.

These limitations are subject to a number of important qualifications and exceptions. Our term loan agreement also requires us to maintain specified financial ratios. Our compliance with these provisions may materially adversely affect our ability to react to changes in market conditions, take advantage of business opportunities we believe to be desirable, obtain future financing, fund needed capital expenditures, finance acquisitions, equipment purchases and development expenditures, or withstand a future downturn in our business.

Our ability to comply with the covenants and restrictions contained in our term loan agreement may be affected by events beyond our control. If market or other economic conditions deteriorate, our ability to comply with these covenants may be impaired. If we violate any of the restrictions, covenants, ratios or tests in our term loan agreement, a significant portion of our indebtedness may become immediately due and payable, and our lenders' commitment to make further loans to us may terminate. We might not have, or be able to obtain, sufficient funds to make these accelerated payments. Even if we could obtain alternative financing, that financing may not be on terms that are favorable or

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acceptable to us. If we are unable to repay amounts borrowed, the holders of the debt could initiate a bankruptcy proceeding or liquidation proceeding against the collateral. In addition, our obligations under our term loan agreement are secured by substantially all of our assets and if we are unable to repay our indebtedness under our term loan agreement, the lenders could seek to foreclose on our assets.

If we infringe or if third parties assert that we infringe third party intellectual property rights we could incur significant costs and incur significant harm to our business.

Third parties may assert infringement or other intellectual property claims against us, which could result in substantial damages if it is ultimately determined that our services infringe a third party's proprietary rights. Even if claims are without merit, defending a lawsuit takes significant time, may be expensive and may divert management's attention from our other business concerns.

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Most of our contracts are on a fixed price basis and if our costs increase, we may not be able to recover these cost increases.

Most of our contracts provide for a fixed price per month for our services. If our costs increase to provide those services, such as the cost to secure bandwidth or personnel costs, we may not be able to offset some or all of our increased costs by increasing the rates we charge our customers until our next contract renewal, which could have a material adverse effect on our business, financial condition and results of operations.

Many of our contracts are governed by non-U.S. law, which may make them more difficult or expensive to enforce than contracts governed by United States law.

Many of our customer contracts are governed by non-U.S. law, which may create both legal and practical difficulties in case of a dispute or conflict. We operate in regions where the ability to protect contractual and other legal rights may be limited compared to regions with better-established legal systems. In addition, having to pursue litigation in a non-U.S. country may be more difficult or expensive than pursuing litigation in the United States.

Our industry is characterized by rapid technological change, and if we fail to keep up with these changes or if access to telecommunications in remote locations becomes easier or less expensive, our business, financial condition and results of operations may be harmed.

The telecommunications industry is characterized by rapid changes in technology, new evolving standards, emerging competition and frequent new product and service introductions. As an example of technological change, in August 2010, Inmarsat plc announced a major commitment to a new constellation of satellites using the Ka frequency band (branded as GlobalXpress), compared to our use of the Ku-band and C-band satellite space segment today. When this Ka-band service is made available in late 2013 and early 2014, we may have to adapt to its use, contracting with either Inmarsat or other satellite operators, which might impair our business if other providers are more successful in using Ka-band services to meet customer needs than us. Our future business prospects largely depend on our ability to meet changing customer preferences, to anticipate and respond to technological changes and to develop competitive products. If telecommunications to remote locations becomes more readily accessible or less expensive than our services, our business will suffer. New disruptive technologies could make our VSAT-based networks or other services obsolete or less competitive than they are today, requiring us to reduce the prices that we are able to charge for our services or causing us to undergo expensive transitions to new transport technologies. We may not be able to successfully respond to new technological developments and challenges or identify and respond to new market opportunities, services or products offered by competitors. In addition, our efforts to respond to technological innovations and competition may require significant capital investments and resources. Furthermore, we may not have the necessary resources to respond to new technological changes and innovations and emerging competition. Failure to keep up with future technological changes could harm our business, financial condition and results of operations.

Many of our potential clients are resistant to new solutions and technologies which may limit our growth.

Although there is a strong focus on technology development within the oil industry, some of the companies in the upstream oil and gas industry are relatively conservative and risk averse with respect to adopting new solutions and technologies in the area of remote communications due to our services being so integral to highly-complex drilling, completion and production operations. Some drilling contractors, oil and gas companies and oilfield service companies may choose not to adopt new solutions and technology, such as our remote communications and collaboration applications solutions, which may limit our growth potential. The market for IP/MPLS based communication services is in a relatively early stage, and some oil and gas companies may choose not to adopt our IP/ MPLS based communications technology. This may in turn limit our growth.

We may face difficulties in obtaining regulatory approvals for our provision of telecommunication services, and we may face changes in regulation, each of which could adversely affect our operations.

In a number of countries where we operate, the provision of telecommunication services is highly regulated. In such countries, we are required to obtain approvals from national and local authorities in connection with most of the services that we provide. In many jurisdictions, we must maintain such approvals through compliance with license conditions or payment of annual regulatory fees.

Many of our customers utilize our services on mobile vessels or drilling platforms that may enter into new countries on short notice. If we do not already have a license to provide our service in that country, we may be required to obtain a license or other regulatory approval on short notice, which may not be feasible in some countries. Failure to comply

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with such regulatory requirements could subject us to various sanctions including fines, penalties, arrests or criminal charges, loss of authorizations and the denial of applications for new authorizations or for the renewal of existing authorizations or cause us to delay or terminate our service to such vessel or platform until such license or regulatory approval may be obtained. In some areas of international waters, it is ambiguous as to which country's regulations apply, if any, and thus difficult and costly for us to determine which licenses or other regulatory approvals we should obtain.

In such areas, we could be subject to various penalties or sanctions if we fail to comply with the applicable country's regulations.

Future changes to the regulations under which we operate could make it difficult for us to obtain or maintain authorizations, increase our costs or make it easier or less expensive for our competitors to compete with us.

Changes in the regulatory framework under which we operate could adversely affect our business prospects or results of operations.

Our U.S. services are currently provided on a private carrier basis and are therefore subject to light or no regulation by the Federal Communications Commission, or FCC, and other federal, state and local agencies. As a private carrier, we may not market and provide telecommunications service to the general public or otherwise hold our services out indifferently to the public as a common carrier. As a private carrier, we are not entitled to certain rights afforded to or subject to certain obligations imposed on common carriers.

However, the FCC or one or more state public utility commissions could determine that our services or the services of our subsidiaries and/or affiliates constitute common carrier offerings subject to Title II of the Communications Act, associated FCC regulations, and similar state laws. Among other things, common carriers must offer service on a nondiscriminatory basis at just and reasonable rates. The FCC and state public utility commissions have jurisdiction to hear complaints regarding the compliance or non-compliance with these and other common carrier requirements of the Communications Act and the FCC's rules, and similar state laws. If our services or the services provided by our subsidiaries or affiliates are found to be provided on a common carrier basis, we may be subject to significant costs to ensure compliance with the applicable provisions of these laws and regulations. We may be subject to enforcement actions including, but not limited to, fines, cease and desist orders, or other penalties if we fail to comply with those requirements.

Our international operations are regulated by various non-U.S. governments and international bodies. These regulatory regimes frequently require that we maintain licenses for our operations and conduct our operations in accordance with prescribed standards. The adoption of new laws or regulations, changes to the existing regulatory framework, new interpretations of the laws that apply to our operations, or the loss of, or a material limitation on, any of our material licenses could materially harm our business, results of operations and financial condition.

VoIP services that permit subscribers to send calls to and receive calls from the traditional telephone network, known as interconnected VoIP services, are generally subject to the regulatory authority of the FCC and certain regulatory requirements. We do not believe that the voice services that we currently provide were intended by the FCC to be considered interconnected VoIP. However, the FCC could determine that our services or the services of our subsidiaries and/or affiliates constitute interconnected VoIP, which could subject such services to a number of regulatory requirements including obligations to pay into the Universal Service Fund, accommodate the needs of disabled persons, protect customer proprietary network information, provide E911 services, etc. We cannot predict whether the FCC may classify our VoIP services as interconnected VoIP, and if so, what other regulatory obligations, if any, will be imposed on our VoIP services or interconnected VoIP services generally. To the extent that our services or the services provided by our subsidiaries or affiliates are deemed to be interconnected VoIP services, we may be subject to significant costs to ensure compliance with the applicable FCC requirements governing the provision of those services. Further, we may be subject to enforcement actions including, but not limited to, fines, cease and desist orders, or other penalties if we fail to comply with those requirements.

Changes to the FCC's USF Regime or state universal service fund regimes or findings that we have not complied with USF requirements or state universal service fund regimes may adversely affect our financial condition.

A proceeding pending before the FCC has the potential to significantly alter our Universal Service Fund, or USF, contribution obligations. The FCC is considering changing the basis upon which USF contributions are determined from a revenue percentage measurement, as well as increasing the breadth of the USF contribution base to include certain services now exempt from contribution. Adoption of these proposals could have a material adverse effect on our costs of providing service, our ability to separately list USF contributions on end-user bills, and our ability to collect these fees from our customers. We are unable to predict the timing or outcome of this proceeding.

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We cannot predict the application and impact of changes to the federal or state universal service fund contribution requirements on the communications industry generally and on certain of our business activities in particular. We recently assessed the nature and extent of our federal and state universal service fund obligations. If the FCC or any state determines that we have incorrectly calculated or failed to remit any required universal service fund contribution, we could be subject to the assessment and collection of past due remittances as well as interest and penalties thereon. Changes in the federal or state universal service fund requirements or findings that we have not met our obligations could materially increase our universal service fund contributions and have a material adverse effect on our business, financial condition and results of operations.

We may be subject to a variety of federal and state regulatory actions that may affect our ability to operate.

Federal and state telecommunications regulators have the right to sanction a service provider or to revoke licenses if a service provider violates applicable laws or regulations. If any regulatory agency were to conclude that we were providing telecommunications services without the appropriate authority or are otherwise not in compliance with applicable regulations, the agency could initiate enforcement actions, which could result in, among other things, revocation of authority, the imposition of fines, a requirement to disgorge revenues, or refusal to grant regulatory authority necessary for the future provision of services.

Our business operations in countries outside the United States are subject to a number of United States federal laws and regulations, including restrictions imposed by the Foreign Corrupt Practices Act as well as trade sanctions administered by the Office of Foreign Assets Control of the United States Department of Treasury and the United States Department of Commerce, which could adversely affect our operations if violated.

We must comply with all applicable export control laws and regulations of the United States and other countries. We cannot provide services to certain countries subject to United States trade sanctions administered by the Office of Foreign Asset Control of the United States Department of the Treasury or the United States Department of Commerce unless we first obtain the necessary authorizations. In addition, we are subject to the Foreign Corrupt Practices Act that, generally, prohibits bribes or unreasonable gifts to non-U.S. governments or officials and may be subject to anti-corruption laws of other countries in which the Company may operate or may otherwise have a substantial business connection. Violations of these laws or regulations could result in significant additional sanctions including fines, more onerous compliance requirements, and more extensive debarments from export privileges or loss of authorizations needed to conduct aspects of our international business. In certain countries, we engage third party agents or intermediaries to act on our behalf in dealings with government officials, such as customs agents, and if these third party agents or intermediaries violate applicable laws, their actions may result in penalties or sanctions being assessed against us.

Our international operations are subject to additional or different risks than our United States operations, which may harm our business and financial results.

We operate in approximately 30 countries around the world, including countries in Asia, the Middle East, Africa, Latin America and Europe and intend to continue to expand the number of countries in which we operate. There are many risks inherent in conducting business internationally that are in addition to or different than those affecting our United States operations, including:

sometimes vague and confusing regulatory requirements that may be subject to unexpected changes or interpretations;

import and export restrictions;

tariffs and other trade barriers;

difficulty in staffing and managing geographically dispersed operations and culturally diverse work forces and increased travel, infrastructure and legal compliance costs associated with multiple international locations;

differences in employment laws and practices among different countries, including restrictions on terminating employees;

differing technology standards;

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fluctuations in currency exchange rates;

imposition of currency exchange controls;

potential political and economic instability in some regions;

legal and cultural differences in the conduct of business;

less due process and sometimes arbitrary application of laws and sanctions, including criminal charges and arrests;

difficulties in raising awareness of applicable United States laws to our agents and third party intermediaries;

potentially adverse tax consequences;

difficulties in enforcing contracts and collecting receivables;

difficulties and expense of maintaining international sales distribution channels; and

difficulties in maintaining and protecting our intellectual property.

Operating internationally exposes our business to increased regulatory and political risks in some non-U.S. jurisdictions where we operate. In addition to changes in laws and regulations, changes in governments or changes in governmental policies in these jurisdictions may alter current interpretation of laws and regulations affecting our business. We also face increased risk of incidents such as war or other international conflict and nationalization, and possible expropriation of our assets. If a non-U.S. country were to nationalize our industry or expropriate our assets, we could lose not only our investment in the assets that we have in that country, but also all of our contracts and business in that country.

Many of the countries in which we operate have legal systems that are less developed and less predictable than legal systems in Western Europe or the United States. It may be difficult for us to obtain effective legal redress in the courts of some jurisdictions, whether in respect of a breach of law or regulation, or in an ownership dispute because of: (i) a high degree of discretion on the part of governmental authorities, which results in less predictability; (ii) a lack of judicial or administrative guidance on interpreting applicable rules and regulations; (iii) inconsistencies or conflicts between or within various laws, regulations, decrees, orders and resolutions; (iv) the relative inexperience of the judiciary and courts in such matters or (v) a predisposition in favor of local claimants against United States companies.

In certain jurisdictions, the commitment of local business people, government officials and agencies and the judicial system to abide by legal requirements and negotiated agreements may be unreliable. In particular, agreements may be susceptible to revision or cancellation and legal redress may be uncertain or time-consuming. Actions of governmental authorities or officers may adversely affect joint ventures, licenses, license applications or other legal arrangements, and such arrangements in these jurisdictions may not be effective or enforced.

The authorities in the countries where we operate may introduce additional regulations for the oil and gas and communications industries with respect to, but not limited to, various laws governing prospecting, development, production, taxes, price controls, export controls, currency remittance, expropriation of property, foreign investment, maintenance of claims, environmental legislation, land use, land claims of local people, water use, labor standards, occupational health network access and other matters. New rules and regulations may be enacted or existing rules and regulations may be applied or interpreted in a manner which could limit our ability to provide our services. Amendments to current laws and regulations governing operations and activities in the oil and gas industry and telecommunications industry could harm our operations and financial results. Compliance with and changes in tax laws or adverse positions taken by taxing authorities could be costly and could affect our operating results.

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Compliance related tax issues could also limit our ability to do business in certain countries. Changes in tax laws or tax rates, the resolution of tax assessments or audits by various taxing authorities, disagreements with taxing authorities over our tax positions and the ability to fully utilize our tax loss carry-forwards and tax credits could have a significant financial impact on our future operations and the way we conduct, or if we conduct, business in the affected countries.

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Changes in effective tax rates or adverse outcomes resulting from examination of our income or other tax returns could adversely affect our operating results and financial condition.

Our future effective tax rates could be subject to volatility or adversely affected by a number of factors, including:

earnings being lower than anticipated in countries where we have lower statutory rates and higher than anticipated earnings in countries where we have higher statutory rates;

changes in the valuation of our deferred tax assets;

repatriation of cash; or

expiration or non-utilization of net operating losses or credits.

We conduct our worldwide operations through various subsidiaries. Tax laws and regulations are highly complex and subject to interpretation. Consequently, we are subject to changing tax laws, treaties and regulations in and between countries in which we operate, including treaties between the United States and other nations. Our income tax expense is based upon our interpretation of the tax laws in effect in various countries at the time that the expense was incurred. A change in these tax laws, treaties or regulations, including those in and involving the United States, or in the interpretation thereof, could result in a materially higher tax expense or a higher effective tax rate on our worldwide earnings.

In addition, tax returns filed are subject to examination by the Internal Revenue Service and other tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. Outcomes from these continuous examinations could have a material adverse effect on our financial condition, results of operations or cash flows. Our 2010 United States federal income tax return is currently under audit by the United States Internal Revenue Service. We may incur material costs to support the audit and /or defend our tax positions.

We are subject to fluctuations in currency exchange rates and limitations on the expatriation or conversion of currencies, which may result in significant financial charges, increased costs of operations or decreased demand for our products and services.

During the year ended December 31, 2011, 20.5% of our revenues were earned in non-U.S. currencies, while a significant portion of our capital and operating expenditures and all of our outstanding debt, was priced in U.S. dollars. In addition, we report our results of operations in U.S. dollars. Accordingly, fluctuations in exchange rates relative to the U.S. dollar could have a material adverse effect on our earnings or the value of our assets. In the future, a greater portion of our revenues may be earned in non-U.S. currencies, increasing this risk of fluctuations in exchange rates.

Any depreciation of local currencies in the countries in which we conduct business may result in increased costs to us for imported equipment and may, at the same time, decrease demand for our products and services in the affected markets. If our operating companies distribute dividends in local currencies in the future, the amount of cash we receive will also be affected by fluctuations in exchange rates. In addition, some of the countries in which we have operations do or may restrict the expatriation or conversion of currency.

We have not implemented any hedging strategies to mitigate risks related to the impact of fluctuations in exchange rates. Even if we were to implement hedging strategies, not every exposure can be hedged, and, where hedges are put in place based on expected non-U.S. exchange exposure, they are based on forecasts which may vary or which may later prove to have been inaccurate. Failure to hedge successfully or anticipate currency risks accurately could harm our business, financial condition and results of operations.

Some of our stockholders could together exert control over our Company.

As of March 1, 2012, funds affiliated with Altira Group LLC, or Altira, owned in the aggregate shares representing approximately 14.3% of our outstanding voting power. Additionally, as of March 1, 2012, funds associated with Cubera Secondary (GP) AS, or Cubera, owned in the aggregate shares representing approximately 26.5% of our outstanding voting power. As a result, these stockholders could together potentially

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have significant influence over all matters presented to our stockholders for approval, including election and removal of our directors and change of control transactions. The interests of these stockholders may not always coincide with the interests of the other holders of our common stock.

Provisions in our organizational documents and in the Delaware General Corporation Law may prevent takeover attempts that could be beneficial to our stockholders.

Provisions in our certificate of incorporation and bylaws and in the Delaware General Corporation Law, may make it difficult and expensive for a third-party to pursue a takeover attempt we oppose even if a change in control of our Company would be beneficial to the interests of our stockholders. Any provision of our certificate of incorporation or

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bylaws or Delaware law that has the effect of delaying or deterring a change in control could limit the opportunity for our stockholders to receive a premium for their shares of our common stock, and could also affect the price that some investors are willing to pay for our common stock. In our certificate of incorporation, our board of directors has the authority to issue up to 10,000,000 shares of preferred stock in one or more series and to fix the powers, preferences and rights of each series without stockholder approval. The ability to issue preferred stock could discourage unsolicited acquisition proposals or make it more difficult for a third party to gain control of our Company, or otherwise could adversely affect the market price of our common stock. Further, as a Delaware corporation, we are subject to Section 203 of the Delaware General Corporation Law. This section generally prohibits us from engaging in mergers and other business combinations with stockholders that beneficially own 15% or more of our voting shares, or with their affiliates, unless our directors or stockholders approve the business combination in the prescribed manner. However, because funds affiliated with Altira, Cubera and Sanders Morris Harris Inc. acquired their shares prior to the IPO, Section 203 is currently inapplicable to any business combination or transaction with them or their affiliates. Our bylaws require that any stockholder proposals or nominations for election to our board of directors must meet specific advance notice requirements and procedures, which make it more difficult for our stockholders to make proposals or director nominations.

We have a small market capitalization and lower trading volume compared to most publicly trading companies. If, due to our size, securities analysts do not publish research or reports about our business or if they publish negative evaluations of our stock, the price of our stock could decline.

The trading market for our common stock depends in part on the research and reports that industry or financial analysts publish about us or our business. If one or more of the analysts covering our business downgrade their evaluations of or recommendations regarding our stock, or if one or more of the analysts cease providing research coverage on our stock due to our small market capitalization or low trading volume, the price of our stock could decline. If one or more of these analysts cease providing research coverage on our stock, we could lose visibility in the market for our stock, which in turn could cause our stock price to decline.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

Facilities

Our headquarters are located in Houston, Texas. We lease our headquarters facility, which comprises approximately 15,206 square feet of office space as of December 31, 2011. The term of this lease runs through June 30, 2015. We have regional offices under lease in Lafayette, Louisiana; Aberdeen, U.K.; Stavanger, Norway; Doha, Qatar and Singapore, and additional leased offices and service centers in the United States, Brazil, Nigeria and Saudi Arabia. We believe our current facilities are adequate for our current needs and for the foreseeable future.

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

Not applicable.

Table of Contents**PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

RigNet's common stock, \$0.001 par value, is traded on the NASDAQ Global Market Exchange (NASDAQ), under the ticker symbol RNET and began trading on December 15, 2010.

QUARTERLY COMMON STOCK SALES PRICE (HIGH & LOW SALES PRICE)

	September 30, High	September 30, Low
Year Ended December 31, 2011		
Fourth Quarter	\$ 16.74	\$ 14.52
Third Quarter	\$ 17.50	\$ 13.37
Second Quarter	\$ 20.08	\$ 15.50
First Quarter	\$ 18.82	\$ 13.22
Year Ended December 31, 2010		
Fourth Quarter From December 15, 2010)	\$ 13.70	\$ 12.55

There were approximately 72 holders of RigNet's common stock on record as of March 1, 2012.

Dividends

We have not paid any cash dividends on our common stock and do not intend to do so in the foreseeable future. Further, our term loan agreement restricts our ability to pay cash dividends. We currently intend to retain all available funds and any future earnings to support the operation of and to finance the growth and development of our business.

Securities Authorized for Issuance Under Equity Compensation Plans

See the information incorporated by reference under Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters of this Annual Report on Form 10-K regarding securities authorized for issuance under the Company's equity compensation plans, which information is incorporated by reference into this Item 5.

Stockholder Return Performance Presentation

The following graph compares the change in the cumulative total stockholder return on our common stock during the period from December 15, 2010 (the first day our stock began trading on NASDAQ) through December 31, 2011, with the cumulative total return on the NASDAQ Composite Index, the Oil Service Sector Index and the NASDAQ Telecommunications Index. The Oil Service Sector Index is a price-weighted index composed of the common stocks of 15 companies that provide oil drilling and production services, oil field equipment, support services, and geophysical/reservoir services. The comparison assumes that \$100 was invested on December 15, 2010 in our common stock and in each of the foregoing indices and assumes reinvestment of dividends, if any.

Table of Contents**Comparison of Cumulative Total Return**

	September 30, 12/15/2010	September 30, 12/31/2010	September 30, 3/31/2011	September 30, 6/30/2011	September 30, 9/30/2011	September 30, 12/31/2011
RigNet, Inc. ⁽¹⁾	\$ 100	\$ 109	\$ 145	\$ 135	\$ 128	\$ 133
NASDAQ	\$ 100	\$ 101	\$ 106	\$ 106	\$ 92	\$ 100
Oil Service Sector	\$ 100	\$ 104	\$ 125	\$ 113	\$ 81	\$ 92
NASDAQ						
Telecommunications	\$ 100	\$ 102	\$ 101	\$ 96	\$ 80	\$ 89

(1) Based on the last reported sale price of the Company's stock as reported by NASDAQ on the disclosed date or nearest date prior to disclosed date on which a sales occurred.

Investors are cautioned against drawing any conclusions from the data contained in the graph as past results are not necessarily indicative of future performance.

Notwithstanding anything to the contrary set forth in any of the Company's previous or future filings under the Securities Act of 1933 or the Securities Act of 1934 that might incorporate this Annual Report on Form 10-K or future filings with the SEC, in whole or in part, the preceding performance information shall not be deemed to be soliciting material or to be filed with the SEC or incorporated by reference into any filing except to the extent this performance presentation is specifically incorporated by reference therein.

Item 6. Selected Financial Data

The following table sets forth our selected consolidated financial data for the periods indicated. Data was derived from RigNet, Inc.'s audited consolidated financial statements. The data set forth should be read together with Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and with Item 8. Financial Statements and Supplementary Data. Our historical results for any prior period are not necessarily indicative of the results to be expected in the future.

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During 2006, the Company acquired 100% of OilCamp AS, or OilCamp, as well as a 75.0% controlling interest in LandTel Communications LLC, or LandTel, which established a 25.0% redeemable, non-controlling interest. The Company subsequently acquired the remaining non-controlling interest in LandTel with purchases made in December 2008 (10.7%), February 2009 (7.3%) and August 2010 (7.0%). As a result, the comparability of the financial data disclosed in the following table may be affected.

We have never declared or paid any cash dividends on our common stock.

	September 30, 2011	September 30, 2010	September 30, Year Ended December 31, 2009	September 30, 2008	September 30, 2007
(in thousands, except per share amounts)					
Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) Data:					
Revenue	\$ 109,355	\$ 92,921	\$ 80,936	\$ 89,909	\$ 67,164
Expenses:					
Cost of revenue (excluding depreciation and amortization)	48,645	42,479	35,165	39,294	29,747
Depreciation and amortization	14,584	14,983	12,554	10,519	9,451
Impairment of goodwill			2,898		
Selling and marketing	2,276	2,103	2,187	2,605	2,405
General and administrative	26,960	20,756	16,444	21,277	20,338
Total expenses	92,465	80,321	69,248	73,695	61,941
Operating income	16,890	12,600	11,688	16,214	5,223
Interest expense	(1,249)	(1,618)	(5,146)	(2,464)	(5,497)
Other income (expense), net	613	(399)	304	27	(63)
Change in fair value of preferred stock derivatives		(17,190)	(21,009)	2,461	(1,156)
Income (loss) before income taxes	16,254	(6,607)	(14,163)	16,238	(1,493)
Income tax expense	(6,502)	(8,669)	(5,457)	(5,882)	(628)
Net income (loss)	9,752	(15,276)	(19,620)	10,356	(2,121)
Less: Net income (loss) attributable to:					
Non-redeemable, non-controlling interest	234	292	292	235	167
Redeemable, non-controlling interest		25	10	1,715	971
Net income (loss) attributable to RigNet, Inc. stockholders	\$ 9,518	\$ (15,593)	\$ (19,922)	\$ 8,406	\$ (3,259)
Net income (loss) attributable to RigNet, Inc. common stockholders	\$ 9,518	\$ (18,807)	\$ (22,118)	\$ (4,190)	\$ (3,931)
Net income (loss) per share attributable to RigNet, Inc. common stockholders:					
Basic	\$ 0.62	\$ (3.38)	\$ (4.16)	\$ (0.79)	\$ (0.74)
Diluted	\$ 0.57	\$ (3.38)	\$ (4.16)	\$ (0.79)	\$ (0.74)
Weighted average shares outstanding:					
Basic	15,387	5,571	5,312	5,301	5,279

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Diluted	16,814	5,571	5,312	5,301	5,279
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Other Non-GAAP Data:

Gross Profit	\$	60,710	\$	50,442	\$	45,771	\$	50,615	\$	37,417
Adjusted EBITDA	\$	33,456	\$	29,740	\$	29,093	\$	30,409	\$	17,536

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	September 30, 2011	September 30, 2010	September 30, December 31, 2009 (in thousands)	September 30, 2008	September 30, 2007
Consolidated Balance Sheets Data:					
Cash and cash equivalents	\$ 53,106	\$ 50,435	\$ 11,379	\$ 15,376	\$ 6,862
Restricted cash - current portion		2,500	2,500	775	
Restricted cash - long-term portion		7,500	7,500		
Total assets	140,922	129,785	88,810	89,517	72,925
Current maturities of long-term debt	8,735	8,655	8,664	5,753	11,807
Long-term deferred revenue	457	325	348	1,516	679
Long-term debt	14,785	23,484	21,022	18,322	20,427
Preferred stock derivatives			30,446	8,413	9,808
Preferred stock			17,333	16,257	14,097
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.
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;

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

In communications with our board of directors concerning our financial performance.

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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 net income (loss) to Adjusted EBITDA for each of the periods presented. Net income (loss) is the most comparable GAAP measure to Adjusted EBITDA.

	September 30, 2011	September 30, 2010	September 30, Year Ended December 31, 2009 (in thousands)	September 30, 2008	September 30, 2007
Reconciliation of Net Income (Loss) to Adjusted EBITDA:					
Net income (loss)	\$ 9,752	\$ (15,276)	\$ (19,620)	\$ 10,356	\$ (2,121)
Interest expense	1,249	1,618	5,146	2,464	5,497
Depreciation and amortization	14,584	14,983	12,554	10,519	9,451
Impairment of goodwill			2,898		
(Gain) loss on retirement of property and equipment	(165)	294	111	(92)	(27)
Change in fair value of preferred stock derivatives		17,190	21,009	(2,461)	1,156
Stock-based compensation	1,534	437	277	231	169
Initial public offering costs		1,825	1,261	3,510	2,783
Income tax expense	6,502	8,669	5,457	5,882	628
Adjusted EBITDA (non-GAAP measure)	\$ 33,456	\$ 29,740	\$ 29,093	\$ 30,409	\$ 17,536

Item 7. Management's Discussion And Analysis Of Financial Condition And Results Of Operations

General

The following discussion should be read together with our consolidated financial statements and the related notes included elsewhere in this Annual Report on Form 10-K. This discussion contains forward-looking statements about our business and operations. Our future results may differ materially from those we currently anticipate as a result of the factors we describe under Risk Factors and elsewhere in this Annual Report on Form 10-K.

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.

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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, 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). In the year ended December 31, 2011, our largest customer, who has been our customer for over five years, provided approximately 12.0% of our total revenue. In the year ended December 31, 2010, this same customer provided approximately 10.6% of our total revenue.

We operate three reportable business segments based on geographic location, 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 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.

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 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.

Critical Accounting Policies

Certain of our accounting policies require judgment by management in selecting the appropriate assumptions for calculating financial estimates. By their nature, these judgments are subject to an inherent degree of uncertainty. These judgments are based on our historical experience, terms of existing contracts, observance of trends in the industry,

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information provided by our customers, and information available from other outside sources, as appropriate. Future results may differ from these judgments under different assumptions or conditions. Our accounting policies that require management to apply significant judgment include:

Revenue Recognition

All revenue is recognized when persuasive evidence of an arrangement exists, the service is complete, the amount is fixed or determinable and collectability is reasonably assured. Network service fee revenue is based on fixed-price, day-rate contracts and recognized monthly as the service is provided. Generally, customer contracts also provide for installation and maintenance services. Installation services are paid upon initiation of the contract and recognized over the life of the respective contract. Maintenance charges are recognized as specific services are performed and are generally billed on a time and materials basis. Deferred revenue consists of installation billings, customer deposits and other prepayments for which services have not yet been rendered. Revenue is reported net of any tax assessed and collected on behalf of a governmental authority. Such tax is then remitted directly to the appropriate jurisdictional entity.

Accounts Receivable

Trade accounts receivable are recognized as customers are billed in accordance with customer contracts. We report an allowance for doubtful accounts for probable credit losses existing in accounts receivable. Management determines the allowance based on a review of currently outstanding receivables and our historical collection experience. Significant individual receivables and balances which have been outstanding greater than 90 days are reviewed individually. Account balances, when determined to be uncollectible, are charged against the allowance.

Property and Equipment

Property and equipment, which consists of (i) telecommunication and computer equipment and (ii) furniture and other, is stated at acquisition cost net of accumulated depreciation. Depreciation is calculated using the straight-line method over the expected useful lives of the respective assets, which range from one to seven years. We assess property and equipment for impairment when events indicate the carrying value exceeds fair value. Maintenance and repair costs are charged to expense when incurred. During the years ended December 31, 2011, 2010 and 2009, no events have occurred to indicate an impairment of our property and equipment.

Derivatives

All contracts are evaluated for embedded derivatives which are bifurcated when (a) the economic characteristics and risks of such instruments are not clearly and closely related to the economic characteristics and risks of the preferred stock agreement, (b) the contract is not already reported at fair value and (c) such instruments meet the definition of a derivative instrument and are not scope exceptions under the Financial Accounting Standards Board's (FASB) guidance on derivatives and hedging.

In connection with the Company's IPO completed in December, 2011, its preferred stock derivatives were settled with the conversion of preferred stock to common stock. Previously identified embedded derivative features within its preferred stock agreements which qualified as derivatives were reported separately from preferred stock. Preferred stock derivatives represented conversion and redemption rights associated with the series A, B and C preferred stock, which were bifurcated based on an analysis of the features in relation to the preferred stock. Preferred stock derivatives were non-current and reported at fair value as of December 31, 2009.

Fair values of the preferred stock derivatives were determined using a combination of the expected present value of future cash flows and a market approach. The present value of future cash flows was estimated using the Company's most recent forecast and its weighted average cost of capital. The market approach used a market multiple on the related cash generated from operations. Significant estimates for determining fair value included cash flow forecasts, estimates of the Company's weighted average cost of capital, projected income tax rates and market multiples.

Goodwill

Goodwill relates to the acquisitions of LandTel and OilCamp as the consideration paid exceeded the fair value of acquired identifiable net tangible assets and intangibles. Goodwill is reviewed for impairment annually, as of July 31st, with additional evaluations being performed when events or circumstances indicate that the carrying value of these assets may not be recoverable.

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Goodwill impairment is determined using a two-step process. The first step of the impairment test is used to identify potential impairment by comparing the fair value of each reporting unit to the book value of the reporting unit, including goodwill. Fair value of the reporting unit is determined using a combination of the reporting unit's expected present value of future cash flows and a market approach. The present value of future cash flows is estimated using our most recent forecast and our weighted average cost of capital. The market approach uses a market multiple on the reporting unit's cash generated from operations. Significant estimates for each reporting unit included in our impairment analysis are cash flow forecasts, our weighted average cost of capital, projected income tax rates and market multiples. Changes in these estimates could affect the estimated fair value of our reporting units and result in an impairment of goodwill in a future period.

If the fair value of a reporting unit is less than its book value, goodwill of the reporting unit is considered to be impaired and the second step of the impairment test is performed to measure the amount of impairment loss, if any. The second step of the impairment test compares the implied fair value of the reporting unit's goodwill with the book value of that goodwill. If the book value of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. The implied fair value of goodwill is determined by allocating the reporting unit's fair value to all of its assets and liabilities other than goodwill in the same manner as a purchase price allocation.

Any impairment in the value of goodwill is charged to earnings in the period such impairment is determined. In 2009, we recognized \$2.9 million in impairment of goodwill. Such impairment was a result of a significant reduction in the U.S. land rig count as of June 30, 2009 as a result of reduced natural gas and oil prices. This circumstance resulted in a reduction in our cash flow projections utilizing Spears & Associates, Inc. forward land-based rig count projections in the revision of internal forecasts, which reduced the estimated fair value of our U.S. land reporting unit below its carrying value. Our projections in 2009 provided for a slow recovery of revenue and Adjusted EBITDA (non-GAAP measure) from 2010 through 2014, which is consistent with our results since 2009.

We recorded no goodwill impairments in 2011 or 2010. As of July 31, 2011, our latest completed goodwill impairment testing date, the fair values of our reporting units are substantially in excess of their carrying values. As such, the test resulted in no impairment and no additional impairment indicators have been identified through December 31, 2011. While we believe that there appears to be no indication of current or future impairment, historical operating results may not be indicative of future operating results and events and circumstances may occur causing a triggering event in a period as short as three months.

Long-Term Debt

Long-term debt is recognized in the consolidated balance sheets net of costs incurred in connection with obtaining the financing. Debt financing costs are deferred and reported as a reduction to the principal amount of the debt. Such costs are amortized over the life of the debt using the effective interest rate method and included in interest expense in the Company's consolidated financial statements. We believe the carrying amount of our debt, which has a floating interest rate, approximates fair value, since the interest rates are based on short-term maturities and recent quoted rates from financial institutions.

Stock-Based Compensation

We have three stock-based compensation plans; the 2010 Omnibus Incentive Plan (2010 Plan), the RigNet, Inc. 2006 Long-Term Incentive Plan (2006 Plan) and the RigNet Inc. 2001 Performance Stock Option Plan (2001 Plan). All equity instruments granted under either the 2001 Plan or the 2006 Plan are settled in stock. All equity instruments currently outstanding under the 2010 Plan will be settled in stock, however future awards granted subsequent to December 31, 2011 may be settled in stock or cash and may be classified as equity or liability instruments, as determined by the type of award granted.

Our policy is to recognize compensation expense for service-based awards on a straight-line basis over the requisite service period for the entire award. Expense for stock-based compensation related to equity awards is recorded using the calculated fair value of options on the grant date of the awards. Fair value of options on the grant date is determined using the Black-Scholes model, which requires judgment in estimating the expected term of the option, risk-free interest rate, expected volatility of our stock and dividend yield of the option.

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The fair value of each 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:

Expected Volatility based on peer group price volatility for periods equivalent to the expected term of the options

Expected Term expected life adjusted based on management's best estimate for the effects of non-transferability, exercise restriction and behavioral considerations

Risk-free Interest Rate risk-free rate, for periods within the contractual terms of the options, is based on the U.S. Treasury yield curve in effect at the time of grant

Dividend Yield expected dividends based on the Company's historical dividend rate at the date of grant

Additionally, in connection with RigNet's acquisition of LandTel, LandTel issued share appreciation rights (SARs) to certain employees. The value of these SARs is based on the value of the LandTel subsidiary only. These SARs will be settled in cash upon exercise by holders and are classified as liability awards by the Company. We record expense for these awards based on the fair value of the awards at each balance sheet date.

Stock-based compensation expense is based on awards ultimately expected to vest. We did not issue fractional shares nor pay cash in lieu of fractional shares.

Taxes

Current income taxes are provided based on the tax laws and rates in effect in the jurisdictions and countries that the Company operates in and revenue is earned. Deferred income taxes reflect the tax effect of net operating losses, foreign tax credits and the tax effects of temporary differences between the carrying amount of assets and liabilities for financial statement and income tax purposes, as determined under enacted tax laws and rates. Valuation allowances are established when management determines that it is more likely than not that some portion or the entire deferred tax asset will not be realized. U.S. Federal deferred tax liabilities are recorded for the unremitted earnings of foreign subsidiaries that are not permanently reinvested, net of potential foreign tax credits; otherwise, no U.S. Federal deferred taxes are provided on foreign subsidiaries. The financial effect of changes in tax laws or rates is accounted for in the period of enactment.

From time to time, the Company engages in transactions in which the tax consequences may be subject to uncertainty. In the normal course of business, the Company prepares and files tax returns based on interpretation of tax laws and regulations, which are subject to examination by various taxing authorities. Such examinations may result in future tax and interest assessments by these taxing authorities. We evaluate our tax positions and recognize only tax benefits for financial purposes that, more likely than not, will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits of the position.

New Accounting Pronouncements

No standard implemented during 2011 or 2010 had a material effect on our financial position, cash flow or results of operation. See our audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K for more details regarding our implementation and assessment of new accounting standards.

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

	September 30, 2011	September 30, Year Ended December 31, 2010	September 30, 2009	September 30, Percentage Change 2010 to 2011	September 30, Percentage Change 2009 to 2010
	(in thousands, except percentages)				
Revenue	\$ 109,355	\$ 92,921	\$ 80,936	17.7%	14.8%
Expenses:					
Cost of revenue (excluding depreciation and amortization)	48,645	42,479	35,165	14.5%	20.8%
Depreciation and amortization	14,584	14,983	12,554	(2.7)%	19.3%
Impairment of goodwill			2,898	%	(100.0)%
Selling and marketing	2,276	2,103	2,187	8.2%	(3.8)%
General and administrative	26,960	20,756	16,444	29.9%	26.2%
Total expenses	92,465	80,321	69,248	15.1%	16.0%
Operating income	16,890	12,600	11,688	34.0%	7.8%
Other income (expense), net	(636)	(19,207)	(25,851)	(96.7)%	(25.7)%
Income (loss) before income taxes	16,254	(6,607)	(14,163)	(346.0)%	(53.4)%
Income tax expense	(6,502)	(8,669)	(5,457)	(25.0)%	58.9%
Net income (loss)	9,752	(15,276)	(19,620)	163.8%	(22.1)%
Less: Net income (loss) attributable to non-controlling interests	234	317	302	(26.2)%	5.0%
Net income (loss) attributable to RigNet, Inc. stockholders	\$ 9,518	\$ (15,593)	\$ (19,922)	161.0%	(21.7)%
Other Non-GAAP Data:					
Gross Profit	\$ 60,710	\$ 50,442	\$ 45,771	20.4%	10.2%
Adjusted EBITDA	\$ 33,456	\$ 29,740	\$ 29,093	12.5%	2.2%

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Our business operations are managed through three reportable operating segments: eastern hemisphere, western hemisphere and U.S. land. The following represents selected financial operating results for our segments:

	September 30, 2011	September 30, Year Ended December 31, 2010	September 30, 2009	September 30, Percentage Change 2010 to 2011	September 30, Percentage Change 2009 to 2010
(in thousands, except percentages)					
Eastern Hemisphere:					
Revenue	\$ 68,155	\$ 61,390	\$ 60,917	11.0%	0.8%
Cost of revenue (excluding depreciation and amortization)	25,503	24,015	23,247	6.2%	3.3%
Gross Profit (non-GAAP measure)	42,652	37,375	37,670	14.1%	(0.8)%
Depreciation and amortization	8,020	8,020	6,894	%	16.3%
Selling, general and administrative	8,970	6,833	5,818	31.3%	17.4%
Eastern hemisphere operating income	\$ 25,662	\$ 22,522	\$ 24,958	13.9%	(9.8)%
Western Hemisphere:					
Revenue	\$ 22,173	\$ 19,012	\$ 11,222	16.6%	69.4%
Cost of revenue (excluding depreciation and amortization)	10,550	8,918	4,841	18.3%	84.2%
Gross Profit (non-GAAP measure)	11,623	10,094	6,381	15.1%	58.2%
Depreciation and amortization	4,890	3,973	2,428	23.1%	63.6%
Selling, general and administrative	4,085	2,364	1,834	72.8%	28.9%
Western hemisphere operating income	\$ 2,648	\$ 3,757	\$ 2,119	(29.5)%	77.3%
U.S. Land:					
Revenue	\$ 19,344	\$ 12,845	\$ 9,850	50.6%	30.4%
Cost of revenue (excluding depreciation and amortization)	9,934	6,943	5,195	43.1%	33.6%
Gross Profit (non-GAAP measure)	9,410	5,902	4,655	59.4%	26.8%
Depreciation and amortization	1,853	3,122	3,204	(40.6)%	(2.6)%
Impairment of goodwill			2,898	%	(100.0)%
Selling, general and administrative	3,809	2,580	2,749	47.6%	(6.1)%
U.S. land operating income (loss)	\$ 3,748	\$ 200	\$ (4,196)	1,774.0%	(104.8)%

NOTE: Consolidated balances include the three segments above along with corporate activities and intercompany eliminations.
Years Ended December 31, 2011 and 2010

Revenue. Revenue increased by \$16.5 million, or 17.7%, to \$109.4 million for the year ended December 31, 2011 from \$92.9 million for the year ended December 31, 2010. The increase in revenue was primarily attributable to a \$6.5 million, or 50.6%, increase in U.S. Land revenue resulting from the continued growth of the U.S. land-based drilling market and our widening geographic footprint in this market. Additionally, Eastern Hemisphere revenues increased \$6.8 million, or 11.0%, and Western Hemisphere revenue increased \$3.2 million, or 16.6%. Both the Eastern and Western Hemisphere changes are primarily due to increases in deepwater contract orders, increased unit counts and increased bandwidth requirements for existing units.

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Cost of Revenue. Costs increased by \$6.1 million, or 14.5%, to \$48.6 million for the year ended December 31, 2011 from \$42.5 million for the year ended December 31, 2010, primarily due to incremental network services and capacity required to serve the increased unit counts. Gross Profit increased by \$10.3 million, or 20.4%, to \$60.7 million for the year ended December 31, 2011 from \$50.4 million for the year ended December 31, 2010. As a percentage of revenue, Gross Profit increased to 55.5%, for the year ended December 31, 2011 compared to 54.3% for the year ended December 31, 2010. The increase in the operating profitability as a percentage of revenue resulted primarily from increases in Gross Profit as a percentage of revenue for Eastern Hemisphere, to 62.6% in 2011 from 60.9% in 2010, and U.S. Land, to 48.6% in 2011 from 45.9% in 2010. This increase is primarily attributable to efficiencies in our management of bandwidth capacity.

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Depreciation and Amortization. Depreciation and amortization expenses decreased by \$0.4 million, or 2.7%, to \$14.6 million for the year ended December 31, 2011 from \$15.0 million for the year ended December 31, 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. This decrease is partially offset by an increase in acquisitions of rig-based telecommunication equipment, which were acquired in conjunction with growth initiatives during 2011 and 2010.

Selling and Marketing. Selling and marketing expenses increased by \$0.2 million, or 8.2%, to \$2.3 million for the year ended December 31, 2011 from \$2.1 million for the year ended December 31, 2010.

General and Administrative. General and administrative expenses increased by \$6.2 million, or 29.9%, to \$27.0 million for the year ended December 31, 2011 from \$20.8 million for the year ended December 31, 2010. The increase was primarily due to increases in (i) eastern hemisphere technical personnel to support growth initiatives, (ii) development of our Brazil regional office as an expansion effort and (iii) costs related to operating as a publicly-traded company including costs for additional management and directors, additional audit costs and efforts to strengthen our internal control over our financial reporting.

Other Income (Expense). The change in other income (expense) is comprised primarily of expense related to the change in fair value of preferred stock derivatives which totaled \$17.2 million for the year ended December 31, 2010. 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 further expense is incurred.

Income Tax Expense. Our effective income tax rate was 40.0% and (131.2)% for the years ended December 31, 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, changes in the valuation allowance related to operating in a loss jurisdiction for which a benefit cannot be claimed, and changes in income tax reserves. See Note 15 Income Taxes, to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K for more information regarding the items comprising our effective tax rates.

Years Ended December 31, 2010 and 2009

Revenue. Revenue increased by \$12.0 million, or 14.8%, to \$92.9 million for the year ended December 31, 2010 from \$80.9 million for the year ended December 31, 2009. The increase in revenue was primarily attributable to a 69.4% increase in western hemisphere revenue resulting from our expansion in Brazil and from an increase in contract orders and unit counts in Brazil and other markets. Demand for our service and revenue may change in as little as three months for our U.S. land operations as drilling rig counts change in response to oil and gas prices and, in 2010, U.S. land revenue increased 30.4% due to increased U.S. land rig counts driven by increased natural gas and oil prices.

Cost of Revenue. Costs increased by \$7.3 million, or 20.8%, to \$42.5 million for the year ended December 31, 2010 from \$35.2 million for the year ended December 31, 2009, primarily due to incremental network services and capacity required to serve the increased unit counts. Gross Profit increased by \$4.6 million, or 10.2%, to \$50.4 million for the year ended December 31, 2010 from \$45.8 million for the year ended December 31, 2009. As a percentage of revenue, Gross Profit decreased to 54.3%, for the year ended December 31, 2010 compared to 56.6% for the year ended December 31, 2009. The decline in the operating profitability as a percentage of revenue resulted from decreases across all operating segments. These decreases in Gross Profit as a percentage of revenue are consistent with the increase in cost of revenue resulting from increased contracted satellite bandwidth costs to position our business for future growth. As a percentage of revenue, eastern hemisphere Gross Profit decreased to 60.9%, in 2010 from 61.8% in 2009, western hemisphere Gross Profit decreased to 53.1%, in 2010 from 56.9% in 2009, and U.S. land Gross Profit decreased to 45.9% in 2010 from 47.3% in 2009. The future relationship between the revenue and Gross Profit growth of our operating segments will depend on a variety of factors, including the timing of major contracts, our ability to leverage existing infrastructure and our exploitation of market opportunities, which are difficult to predict.

Depreciation and Amortization. Depreciation and amortization expenses increased by \$2.4 million, or 19.3%, to \$15.0 million for the year ended December 31, 2010 from \$12.6 million for the year ended December 31, 2009. The increase resulted from an increase in the acquisition of rig-based telecommunication equipment, which was acquired in conjunction with growth initiatives during 2010 and 2009.

Selling and Marketing. Selling and marketing expenses decreased by \$0.1 million, or 3.8%, to \$2.1 million for the year ended December 31, 2010 from \$2.2 million for the year ended December 31, 2009.

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General and Administrative. General and administrative expenses increased by \$4.4 million, or 26.2%, to \$20.8 million for the year ended December 31, 2010 from \$16.4 million for the year ended December 31, 2009. The increase was primarily due to non-recurring costs of \$1.8 million incurred during 2010 in preparation for our IPO of our common stock, which closed on December 20, 2010. In addition, general and administrative cost increases resulted from increases in (i) eastern hemisphere technical personnel to support growth initiatives, (ii) development of our Brazil regional office as an expansion effort and (iii) senior level staff in anticipation of operating as a public company.

Other Income (Expense). The change in other income (expense) is comprised primarily of changes in interest expense and changes in fair value of preferred stock derivatives. Interest expense decreased \$3.5 million, or 68.6%, to \$1.6 million for the year ended December 31, 2010 from \$5.1 million for the year ended December 31, 2009. The decrease in interest expense reflects the value of warrants issued in connection with stockholder notes repaid during 2009 being fully recognized in interest expense through 2009. We had no interest expense during 2010 related to warrants.

Expense related to the change in fair value of preferred stock derivatives decreased by \$3.8 million, or 18.1%, to \$17.2 million for the year ended December 31, 2010 from \$21.0 million in income for the year ended December 31, 2009, as a result of the increased fair value of certain bifurcated derivatives related to the conversion and redemption features of our preferred stock. Accounting standards require the separate valuation and recording of certain features of our preferred stock until such shares are converted or redeemed. Those features are 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). The increase in value of the conversion option was in part due to the increased probability of an IPO in 2010. Upon completion of the IPO, the preferred stock derivatives were settled upon the conversion of the preferred stock to common stock.

Income Tax Expense. Our effective income tax rate was (131.2)% and (38.5)% for the years ended December 31, 2010 and 2009, 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, changes in the valuation allowance related to operating in a loss jurisdiction for which a benefit cannot be claimed, and changes in income tax reserves. See Note 15 Income Taxes, to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K for more information regarding the items comprising our effective tax rates.

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 December 31, 2011, we had working capital of \$55.0 million, including cash and cash equivalents of \$53.1 million, accounts receivable of \$26.4 million and other current assets of \$3.6 million, offset by \$5.5 million in accounts payable, \$7.1 million in accrued expenses, \$8.7 million in current maturities of long-term debt, \$5.3 million in tax related liabilities and \$1.5 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. However, we have no agreements or commitments for any specific acquisitions at this time.

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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.

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.

	September 30, 2011	September 30, Year Ended December 31, 2010 (in thousands)	September 30, 2009
Consolidated Statements of Cash Flows Data:			
Cash and cash equivalents, January 1,	\$ 50,435	\$ 11,379	\$ 15,376
Net cash provided by operating activities	16,592	19,896	26,189
Net cash used by investing activities	(8,996)	(13,449)	(19,305)
Net cash provided (used) by financing activities	(4,310)	33,480	(10,774)
Changes in foreign currency translation	(615)	(871)	(107)
Cash and cash equivalents, December 31,	\$ 53,106	\$ 50,435	\$ 11,379

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 years ended December 31, 2011, 2010 and 2009, 79.5%, 77.5% and 77.2% of our revenue was denominated in U.S. dollars, respectively.

Operating Activities

Net cash provided by operating activities was \$16.6 million for the year ended December 31, 2011 compared to \$19.9 million for the year ended December 31, 2010. The decrease in cash provided by operating activities during 2011 of \$3.3 million was primarily due to the timing of collections of our accounts receivable, partially offset by the increased profitability of our core operations. Net cash provided by operating activities was \$19.9 million for the year ended December 31, 2010 compared to \$26.2 million for the year ended December 31, 2009. The decrease in cash provided by operating activities during 2010 of \$6.3 million was primarily due to increased billings compared to prior period and 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 by investing activities was \$9.0 million, \$13.4 million and \$19.3 million in the years ended December 31, 2011, 2010 and 2009, respectively. Of these amounts \$19.2 million, \$13.5 million, and \$10.2 million, respectively, were for capital expenditures. For the year ended December 31, 2011, net cash used by investing activities also included cash provided of \$10.0 million related to a decrease in our restricted cash. The continued growth in capital expenditures of \$5.7 million and \$3.3 million for the years ended December 31, 2011 and 2010, respectively, compared to each of the respective prior periods. We expect capital expenditures to continue this growth during 2012 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 in the near future.

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Financing Activities

Net cash provided (used) by financing activities was \$(4.3) million, \$33.5 million and \$(10.8) million in the years ended December 31, 2011, 2010 and 2009, respectively. Cash used by financing activities during the year ended December 31, 2011 was attributable to \$8.8 million of principal payments on our long-term debt. This outflow was 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. Cash provided by financing activities during the year ended December 31, 2010 was attributable to 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. Additionally, we received \$11.1 million of proceeds from amendments of our term loan agreement. These proceeds were offset by \$8.8 million of principal payments of long-term debt and the \$4.7 million redemption of non-controlling interest acquiring all remaining non-controlling ownership of LandTel.

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. As of December 31, 2011, the Term Loan had outstanding principal of \$23.5 million. The weighted average interest rate for the year ended December 31, 2011 was 4.0%, with an interest rate of 3.0% at December 31, 2011.

The Term Loan is secured by substantially all the assets of the Company.

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 December 31, 2011, our Adjusted EBITDA exceeded the minimum levels required by the: (i) fixed charge coverage ratio by \$12.7 million (or 37.9% of our Adjusted EBITDA for the trailing twelve months) and (ii) funded debt to Adjusted EBITDA ratio by \$21.7 million (or 64.8% of our Adjusted EBITDA for the trailing twelve months).

Off-Balance Sheet Arrangements

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

Table of Contents**Contractual Obligations and Commercial Commitments**

At December 31, 2011, we had contractual obligations and commercial commitments as follows:

	September 30, Total	September 30, 2012	September 30, 2013 - 2014 (in thousands)	September 30, 2015 - 2016	September 30, 2017 and Beyond
Contractual Obligations:					
Debt obligations					
Term loan	\$ 23,454	\$ 8,700	\$ 14,754	\$	\$
Equipment notes	66	35	31		
Interest (1)	1,019	609	410		
Operating leases	2,345	1,248	951	146	
Other non-current liabilities	14,181				14,181
Commercial Commitments:					
Satellite and network services	15,069	8,213	6,856		
	\$ 56,134	\$ 18,805	\$ 23,002	\$ 146	\$ 14,181

(1) Computed on the expected outstanding principle balance through the term of the loan, at the interest rate in effect at December 31, 2011.

Adjusted EBITDA (Non-GAAP Measure)

The non-GAAP financial measure, Adjusted EBITDA, may not be comparable to similarly titled measures used by other companies. Therefore, this non-GAAP measure should be considered in conjunction with net income and other performance measures prepared in accordance with GAAP, such as operating income or net cash provided by operating activities. Further, Adjusted EBITDA should not be considered in isolation or as a substitute for GAAP measures such as net income, operating income or any other GAAP measure of liquidity or financial performance.

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

	September 30, 2011	September 30, Year Ended December 31, 2010 (in thousands)	September 30, 2009
Net income (loss)	\$ 9,752	\$ (15,276)	\$ (19,620)
Interest expense	1,249	1,618	5,146
Depreciation and amortization	14,584	14,983	12,554
Impairment of goodwill			2,898
(Gain) loss on retirement of property and equipment	(165)	294	111
Change in fair value of preferred stock derivatives		17,190	21,009
Stock-based compensation	1,534	437	277
Initial public offering costs		1,825	1,261
Income tax expense	6,502	8,669	5,457

Adjusted EBITDA (non-GAAP measure) \$ 33,456 \$ 29,740 \$ 29,093

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

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During the year ended December 31, 2011, Adjusted EBITDA increased by \$3.8 million, or 12.5%, from \$29.7 million in 2010 to \$33.5 million in 2011 which resulted primarily 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. During the year ended December 31, 2010, Adjusted EBITDA increased by \$0.6 million, or 2.2%, from \$29.1 million in 2009 to \$29.7 million in 2010 which resulted primarily from the expansion of our operations in Brazil and increased U.S. land rig counts driven by increased natural gas and oil prices.

Table of Contents**Item 7A. 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 years ended December 31, 2011 and 2010, 20.5% and 22.5%, respectively of our revenues were earned in non-U.S. currencies. At December 31, 2010 and 2009, we had no significant outstanding foreign exchange contracts.

Our results of operations and cash flows are subject to fluctuations due to changes in interest rates primarily from our variable interest rate long-term debt. We do not currently use financial instruments to hedge these interest risk exposures, but evaluate this on a continual basis and may put financial instruments in place in the future if deemed necessary. The following analysis reflects the annual impacts of potential changes in our interest rate to net income (loss) attributable to us and our total stockholders' equity based on our outstanding long-term debt on and December 31, 2011 and 2010, assuming those liabilities were outstanding for the entire year.

	September 30, December 31, 2011	September 30, 2010
	(in thousands)	
Effect on Net Income (Loss) and Equity Increase/Decrease:		
1% Decrease/increase in rate	\$ 236	\$ 323
2% Decrease/increase in rate	\$ 472	\$ 646
3% Decrease/increase in rate	\$ 708	\$ 970

Item 8. Financial Statements and Supplementary Data

Our consolidated financial statements, together with the related notes and report of independent registered public accounting firm, are set forth on the pages indicated in Item 15.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. 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 December 31, 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

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evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of December 31, 2011, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures provide reasonable assurance that information required to be disclosed by the Company is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the quarter ended December 31, 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Management's Annual Report on Internal Control over Financial Reporting

The management report called for by Item 308(a) of Regulation S-K is provided below.

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MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management RigNet, Inc. and its subsidiaries (the Company) is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control system was designed to provide reasonable assurance to management and the Board of Directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

All internal control systems, no matter how well designed, have inherent limitations. Even those systems determined to be effective can provide only reasonable assurance with respect to financial statement presentation and preparation. Further, because of changes in conditions, the effectiveness of internal control may vary over time.

As of December 31, 2011, our management assessed the effectiveness of our internal control over financial reporting based on the criteria for effective internal control over financial reporting established in Internal Control – Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the assessment, management determined that we maintained effective internal control over financial reporting as of December 31, 2011, based on those criteria. Management included in its assessment of internal control over financial reporting all consolidated entities.

Deloitte & Touche LLP, the independent registered public accounting firm that audited our consolidated financial statements included in this Annual Report on Form 10-K, has issued an attestation report on the effectiveness of internal control over financial reporting as of December 31, 2011 which is included in Item 8. Financial Statements and Supplementary Data.

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Attestation Report of the Registered Accounting Firm

The independent auditor's attestation report called for by Item 308(b) of Regulation S-K is incorporated herein by reference to Report of Independent Registered Public Accounting Firm (Internal Control Over Financial Reporting), included in Item 8. Financial Statements and Supplementary Data.

Limitations of the Effectiveness of Internal Control

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the internal control system are met. Because of the inherent limitations of any internal control system, internal control over financial reporting may not detect or prevent misstatements. Projections of any evaluation of the effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies and procedures may deteriorate.

Item 9B. Other Information

None.

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PART III

Certain information required by Part III is omitted from this Annual Report on Form 10-K as we intend to file our definitive Proxy Statement for the 2012 Annual Meeting of Stockholders (the 2012 Proxy Statement) pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K, and certain information included in the Proxy Statement is incorporated herein by reference.

Item 10. Directors, Executive Officers and Corporate Governance

Certain information in response to this item is incorporated herein by reference to Our Board of Directors and Nominees and Corporate Governance in the 2012 Proxy Statement to be filed with the SEC. Information on compliance with Section 16(a) of the Exchange Act is incorporated herein by reference to Section 16(a) Beneficial Ownership Reporting Compliance in the 2012 Proxy Statement to be filed with the SEC.

Code of Business Conduct and Ethics

We have adopted a code of business conduct and ethics (code of conduct) applicable to our principal executive, financial and accounting officers. Copies of both the code of conduct, as well as any waiver of a provision of the code of conduct granted to any principal executive, financial and accounting officers or material amendment to the code of conduct, if any, are available, without charge, on our website at www.rig.net.

Item 11. Executive Compensation

Information in response to this item is incorporated herein by reference to Executive Compensation in the 2012 Proxy Statement to be filed with the SEC.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information in response to this item is incorporated herein by reference to Security Ownership of Certain Beneficial Owners and Management in the 2012 Proxy Statement to be filed with the SEC.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Information in response to this item is incorporated herein by reference to Certain Relationships and Related Transactions in the 2012 Proxy Statement to be filed with the SEC.

Item 14. Principal Accounting Fees and Services

Information in response to this item is incorporated herein by reference to Fees Paid to Independent Registered Public Accounting Firm in the 2012 Proxy Statement to be filed with the SEC.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(A) Consolidated Financial Statement

1. Consolidated Financial Statements. The consolidated financial statements listed in the accompanying Index to Consolidated Financial Information are filed as part of this Annual Report.

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2. Consolidated Financial Statement Schedules. All schedules have been omitted because the information required to be presented in them is not applicable or is shown in the financial statements or related notes.

(B) Exhibits

The exhibits listed in the Index to Exhibits are filed as part of this Annual Report for Form 10-K.

Table of Contents**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

RIGNET, INC.

By: /s/ MARK B. SLAUGHTER

March 7, 2012

Mark B. Slaughter

Chief Executive Officer and President

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

Name	Title	Date
/s/ MARK B. SLAUGHTER Mark B. Slaughter	Chief Executive Officer, President and Director (Principal Executive Officer)	March 7, 2012
/s/ MARTIN L. JIMMERSON, JR. Martin L. Jimmerson, Jr.	Chief Financial Officer (Principal Financial & Accounting Officer)	March 7, 2012
/s/ THOMAS M. MATTHEWS Thomas M. Matthews	Chairman of the Board	March 7, 2012
/s/ JAMES H. BROWNING James H. Browning	Director	March 7, 2012
/s/ DITLEF DE VIBE Ditlef de Vibe	Director	March 7, 2012
/s/ CHARLES L. DAVIS IV Charles L. Davis IV	Director	March 7, 2012
/s/ KEVIN A. NEVEU Kevin A. Neveu	Director	March 7, 2012
/s/ KEVIN J. O HARA Kevin J. O Hara	Director	March 7, 2012
/s/ KEITH OLSEN Keith Olsen	Director	March 7, 2012
/s/ BRENT K. WHITTINGTON Brent K. Whittington	Director	March 7, 2012

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INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of RigNet, Inc.

Houston, Texas

We have audited the accompanying consolidated balance sheets of RigNet, Inc. and subsidiaries (the Company) as of December 31, 2011 and 2010, and the related consolidated statements of income (loss) and comprehensive income (loss), cash flows, and stockholders' equity for each of the three years in the period ended December 31, 2011. We also have audited the Company's internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of RigNet, Inc. and subsidiaries as of December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ DELOITTE & TOUCHE LLP

Houston, Texas

March 7, 2012

Table of Contents**RIGNET, INC.****CONSOLIDATED BALANCE SHEETS**

	September 30, December 31, 2011 (in thousands)	September 30, December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 53,106	\$ 50,435
Restricted cash		2,500
Accounts receivable, net	26,350	15,972
Prepaid expenses and other current assets	3,581	3,419
Total current assets	83,037	72,326
Property and equipment, net	32,655	26,380
Restricted cash		7,500
Goodwill	13,796	13,841
Intangibles	5,849	6,766
Deferred tax and other assets	5,585	2,972
TOTAL ASSETS	\$ 140,922	\$ 129,785
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 5,459	\$ 4,868
Accrued expenses	7,116	6,624
Current maturities of long-term debt	8,735	8,655
Income taxes payable	5,262	4,751
Deferred revenue	1,542	1,305
Total current liabilities	28,114	26,203
Long-term debt	14,785	23,484
Deferred revenue	457	325
Deferred tax liability	48	631
Other liabilities	14,133	11,282
Total liabilities	57,537	61,925
Commitments and contingencies (Notes 8 and 11)		
Stockholders' equity:		
RigNet, Inc. stockholders' equity		
Preferred stock \$0.001 par value; 10,000,000 shares authorized; zero and zero shares issued and outstanding at December 31, 2011 and 2010, respectively		
Common stock \$0.001 par value; 190,000,000 shares authorized; 15,440,801 and 14,760,687 shares issued and outstanding at December 31, 2011 and 2010, respectively	15	15
Additional paid-in capital	116,740	110,118
Accumulated deficit	(32,922)	(42,440)
Accumulated other comprehensive income	(610)	5
Total RigNet, Inc. stockholders' equity	83,223	67,698

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Non-redeemable, non-controlling interest	162	162
Total stockholders' equity	83,385	67,860
TOTAL LIABILITIES AND EQUITY	\$ 140,922	\$ 129,785

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

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

	September 30, 2011 (in thousands, except per share amounts)	September 30, Year Ended December 31, 2010	September 30, 2009
Revenue	\$ 109,355	\$ 92,921	\$ 80,936
Expenses:			
Cost of revenue (excluding depreciation and amortization)	48,645	42,479	35,165
Depreciation and amortization	14,584	14,983	12,554
Impairment of goodwill			2,898
Selling and marketing	2,276	2,103	2,187
General and administrative	26,960	20,756	16,444
Total expenses	92,465	80,321	69,248
Operating income	16,890	12,600	11,688
Other income (expense):			
Interest expense	(1,249)	(1,618)	(5,146)
Other income (expense), net	613	(399)	304
Change in fair value of preferred stock derivatives		(17,190)	(21,009)
Income (loss) before income taxes	16,254	(6,607)	(14,163)
Income tax expense	(6,502)	(8,669)	(5,457)
Net income (loss)	9,752	(15,276)	(19,620)
Less: Net income (loss) attributable to:			
Non-redeemable, non-controlling interest	234	292	292
Redeemable, non-controlling interest		25	10
Net income (loss) attributable to RigNet, Inc. stockholders	\$ 9,518	\$ (15,593)	\$ (19,922)
COMPREHENSIVE INCOME (LOSS)			
Net income (loss)	\$ 9,752	\$ (15,276)	\$ (19,620)
Foreign currency translation	(615)	(936)	1,496
Total comprehensive income (loss)	\$ 9,137	\$ (16,212)	\$ (18,124)
INCOME (LOSS) PER SHARE BASIC AND DILUTED			
Net income (loss) attributable to RigNet, Inc. stockholders	\$ 9,518	\$ (15,593)	\$ (19,922)
Less: Preferred stock dividends		3,164	2,100
Less: Adjustment to redeemable, non-controlling interest redemption value		50	96
Net income (loss) attributable to RigNet, Inc. common stockholders	\$ 9,518	\$ (18,807)	\$ (22,118)
Net income (loss) per share attributable to RigNet, Inc. common stockholders, basic	\$ 0.62	\$ (3.38)	\$ (4.16)
Net income (loss) per share attributable to RigNet, Inc. common stockholders, diluted	\$ 0.57	\$ (3.38)	\$ (4.16)

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Weighted average shares outstanding, basic	15,387	5,571	5,312
Weighted average shares outstanding, diluted	16,814	5,571	5,312

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

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Table of Contents**RIGNET, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

	September 30, 2011	September 30, Year Ended December 31, 2010 (in thousands)	September 30, 2009
Cash flows from operating activities:			
Net income (loss)	\$ 9,752	\$ (15,276)	\$ (19,620)
Adjustments to reconcile net income (loss) to net cash from operations:			
Change in fair value of preferred stock derivatives		17,190	21,009
Depreciation and amortization	14,584	14,983	12,554
Impairment of goodwill			2,898
Stock-based compensation	1,534	437	277
Write-off/amortization of deferred financing costs	95	147	352
Deferred taxes	(3,046)	(1,428)	(818)
(Gain) loss on sale or retirement of property and equipment	(165)	294	111
Changes in operating assets and liabilities:			
Accounts receivable	(10,297)	(3,243)	3,717
Prepaid expenses and other assets	(312)	655	(633)
Accounts payable	449	933	609
Accrued expenses	778	(853)	4,849
Deferred revenue	369	(24)	(509)
Other liabilities	2,851	6,081	1,393
Net cash provided by operating activities	16,592	19,896	26,189
Cash flows from investing activities:			
Capital expenditures	(19,220)	(13,481)	(10,173)
Proceeds from sale of property and equipment	224	32	93
Decrease/(Increase) in restricted cash	10,000		(9,225)
Net cash used by investing activities	(8,996)	(13,449)	(19,305)
Cash flows from financing activities:			
Proceeds from issuance of common stock, net of cash issuance costs	4,638	36,398	137
Payment of preferred stock dividends		(197)	
Subsidiary distributions to non-controlling interest	(234)	(271)	(335)
Redemption of redeemable, non-controlling interest		(4,651)	(4,763)
Proceeds from borrowings	75	11,067	35,000
Repayments of long-term debt	(8,789)	(8,811)	(40,440)
Payments of financing fees		(55)	(373)
Net cash provided (used) by financing activities	(4,310)	33,480	(10,774)
Net increase (decrease) in cash and cash equivalents	3,286	39,927	(3,890)
Cash and cash equivalents:			
Balance, January 1,	50,435	11,379	15,376
Changes in foreign currency translation	(615)	(871)	(107)

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Balance, December 31,	\$	53,106	\$	50,435	\$	11,379
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Supplemental disclosures:

Income taxes paid	\$	5,763	\$	4,444	\$	2,243
Interest paid other	\$	1,168	\$	1,547	\$	1,240
Interest paid stockholders	\$		\$		\$	5,708
Non-cash investing capital expenditures	\$	2,202	\$	1,162	\$	1,657

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

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Table of Contents**RIGNET, INC.****CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

	Common Stock		Additional Paid-In	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss) (in thousands)	RigNet, Inc. Stockholder Equity	Non-Redeemable, Non-Controlling Interest	Total stockholders' Equity
	Shares	Amount	Capital					
Balance, January 1, 2009	5,303	5	11,303	(6,925)	(555)	3,828	73	3,901
Issuance of common stock upon the exercise of stock options	15		137			137		137
Preferred stock dividends			(2,100)			(2,100)		(2,100)
Stock-based compensation			277			277		277
Foreign currency translation					1,496	1,496		1,496
Adjustment to redemption value of non-controlling interest			(96)			(96)		(96)
Non-controlling owner distributions							(224)	(224)
Net income (loss)				(19,922)		(19,922)	292	(19,630)
Balance, December 31, 2009	5,318	5	9,521	(26,847)	941	(16,380)	141	(16,239)
Issuance of common stock upon the exercise of stock options and warrants	449	1	9			10		10
Preferred stock dividends			(3,164)			(3,164)		(3,164)
Conversion of preferred stock	5,661	6	67,930			67,936		67,936
Sale of common stock	3,333	3	35,435			35,438		35,438
Stock-based compensation			437			437		437
Foreign currency translation					(936)	(936)		(936)
Adjustment to redemption value of non-controlling interest			(50)			(50)		(50)
Non-controlling owner distributions							(271)	(271)
Net income (loss)				(15,593)		(15,593)	292	(15,301)
Balance, December 31, 2010	14,761	15	110,118	(42,440)	5	67,698	162	67,860
Issuance of common stock upon the exercise of stock options and warrants	45		73			73		73
Issuance of restricted common stock, net of forfeitures	135							
Sale of common stock	500		5,515			5,515		5,515
Stock-based compensation			1,034			1,034		1,034
Foreign currency translation					(615)	(615)		(615)
Non-controlling owner distributions							(234)	(234)
Net income				9,518		9,518	234	9,752
Balance, December 31, 2011	15,441	\$ 15	\$ 116,740	\$ (32,922)	\$ (610)	\$ 83,223	\$ 162	\$ 83,385

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

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RIGNET, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 1 Business and Summary of Significant Accounting Policies

Nature of Business

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, the United Kingdom, Nigeria, Qatar, Saudi Arabia, Singapore and Australia.

Basis of Presentation

The Company presents its financial statements in accordance with generally accepted accounting principles in the United States (U.S. GAAP).

Principles of Consolidation and Reporting

The Company's consolidated financial statements include the accounts of RigNet, Inc. and all subsidiaries thereof. All intercompany accounts and transactions have been eliminated in consolidation. As of December 31, 2011, 2010 and 2009, non-controlling interest of subsidiaries represents the outside economic ownership interest of Qatar, WLL of less than 3.0%.

Use of Estimates in Preparation of Financial Statements

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods, as well as certain financial statement disclosures. The estimates that are particularly significant to the financial statements include the Company's valuation of goodwill, intangibles, preferred stock derivatives, stock-based compensation, income tax valuation allowance and uncertain tax positions. While management believes that the estimates and assumptions used in the preparation of the financial statements are appropriate, future results could differ from these estimates. Further, volatile equity and energy markets combine to increase uncertainty in such estimates and assumptions. As such, estimates and assumptions are adjusted when facts and circumstances dictate and any changes will be reflected in the financial statements in future periods.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on-hand and highly-liquid investments purchased with maturities of three months or less.

Restricted Cash

At December 31, 2010 the Company had \$10.0 million in restricted cash to satisfy credit facility requirements, of which \$7.5 million was non-current. The restricted cash was maintained in the form of minimum required balances in two of its bank accounts. In May 2011, the Company amended its credit facility which no longer requires these compensating balances.

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RIGNET, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Accounts Receivable

Trade accounts receivable are recognized as customers are billed in accordance with customer contractual agreements. The Company reports an allowance for doubtful accounts for probable credit losses existing in accounts receivable. Management determines the allowance based on a review of currently outstanding receivables and the Company's historical write-off experience. Significant individual receivables and balances which have been outstanding greater than 90 days are reviewed individually. Account balances, when determined to be uncollectible, are charged against the allowance.

Property and Equipment

Property and equipment, which consists of (i) telecommunication and computer equipment and (ii) furniture and other, is stated at acquisition cost net of accumulated depreciation. Depreciation is provided using the straight-line method over the expected useful lives of the respective assets, which range from one to seven years. The Company assesses property and equipment for impairment when events indicate the carrying value exceeds fair value. Maintenance and repair costs are charged to expense when incurred.

Derivatives

All contracts are evaluated for embedded derivatives which are bifurcated when (i) the economic characteristics and risks of such instruments are not clearly and closely related to the economic characteristics and risks of the preferred stock agreement, (ii) the contract is not already reported at fair value and (iii) such instruments meet the definition of a derivative instrument and are not scope exceptions under the Financial Accounting Standards Board's (FASB) guidance on derivatives and hedging.

Prior to the Company's initial public offering completed on December 20, 2010 (IPO) and as of December 31, 2009, the Company had identified embedded derivative features within its preferred stock agreements which qualified as derivatives and are reported separately from preferred stock. Fair values of these derivatives were determined using a combination of the expected present value of future cash flows and a market approach. The present value of future cash flows was estimated at the end of each reporting period using the Company's most recent forecast and its weighted average cost of capital. The market approach used a market multiple on the related cash generated from operations. Significant estimates for determining fair value included cash flow forecasts, the Company's weighted average cost of capital, projected income tax rates and market multiples.

In connection with the IPO, preferred stock derivatives were settled upon conversion of preferred stock to common stock, therefore, no derivatives were outstanding at December 31, 2010 (see Note 2 Initial Public Offering, Preferred Stock and Warrants).

Intangibles

Intangibles consist of brand names and 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 December 31, 2011.

Goodwill

Goodwill relates to the acquisitions of LandTel and OilCamp as the consideration paid exceeded the fair value of acquired identifiable net tangible assets and intangibles. Goodwill is reviewed for impairment at least 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 31st, with the most recent test being performed as of July 31, 2011. This test resulted in no impairment. No additional impairment indicators have been identified through December 31, 2011. As of December 31, 2011 and 2010, goodwill was \$13.8 million. Goodwill increases or decreases in value due to the effect of foreign currency translation.

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RIGNET, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

During 2009, the Company identified a triggering event associated with the significant decline in land-based drilling activity for which an impairment test was performed as of June 30, 2009. The Company recognized a \$2.9 million impairment of goodwill within its U.S. land reporting unit as a result of such test. Subsequently, the Company performed its annual impairment test on July 31, 2009 which identified no additional impairment indicators.

Goodwill impairment is determined using a two-step process. The first step of the impairment test is used to identify potential impairment by comparing the fair value of each reporting unit to the book value of the reporting unit, including goodwill. Fair value of the reporting unit is determined using a combination of the reporting unit's expected present value of future cash flows and a market approach. The present value of future cash flows is estimated using the Company's most recent forecast and the weighted average cost of capital. The market approach uses a market multiple on the reporting unit's cash generated from operations. Significant estimates for each reporting unit included in the Company's impairment analysis are cash flow forecasts, the Company's weighted average cost of capital, projected income tax rates and market multiples. Changes in these estimates could affect the estimated fair value of the reporting units and result in an impairment of goodwill in a future period.

If the fair value of a reporting unit is less than its book value, goodwill of the reporting unit is considered to be impaired and the second step of the impairment test is performed to measure the amount of impairment loss, if any. The second step of the impairment test compares the implied fair value of the reporting unit's goodwill with the book value of that goodwill. If the book value of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. The implied fair value of goodwill is determined by allocating the reporting unit's fair value to all of its assets and liabilities other than goodwill in the same manner as a purchase price allocation. Any impairment in the value of goodwill is charged to earnings in the period such impairment is determined.

Long-Term Debt

Long-term debt is recognized in the consolidated balance sheets, net of costs incurred, in connection with obtaining debt financing. Debt financing costs are deferred and reported as a reduction to the principal amount of the debt. Such costs are amortized over the life of the debt using the effective interest rate method and included in interest expense in the Company's consolidated financial statements.

Revenue Recognition

All revenue is recognized when persuasive evidence of an arrangement exists, the service is complete, the amount is fixed or determinable and collectability is reasonably assured. Network service fee revenue is based on fixed-price, day-rate contracts and recognized monthly as the service is provided. Generally, customer contracts also provide for installation and maintenance services. Installation services are paid upon initiation of the contract and recognized over the life of the respective contract. Maintenance charges are recognized as specific services are performed. Deferred revenue consists of deferred installation billings, customer deposits and other prepayments for which services have not yet been rendered. Revenue is reported net of any tax assessed and collected on behalf of a governmental authority. Such tax is then remitted directly to the appropriate jurisdictional entity.

Stock-Based Compensation

The Company recognizes expense for stock-based compensation based on the calculated fair value of options on the grant date of the awards. Fair value of options on the grant date is determined using the Black-Scholes model, which requires judgment in estimating the expected term of the option, risk-free interest rate, expected volatility of the Company's stock and dividend yield of the option. The Company's policy is to recognize compensation expense for service-based awards on straight-line basis over the requisite service period of the entire award. Stock-based compensation expense is based on awards ultimately expected to vest.

Taxes

Current income taxes are provided based on the tax laws and rates in effect in the jurisdictions and countries that the Company operates in and revenue is earned. Deferred income taxes reflect the tax effect of net operating losses, foreign tax credits and the tax effects of temporary differences between the carrying amount of assets and liabilities for financial statement and income tax purposes, as determined under enacted tax laws and rates. Valuation allowances are

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RIGNET, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

established when management determines that it is more likely than not that some portion or the entire deferred tax asset will not be realized. U.S. federal deferred tax liabilities are recorded for the unremitted earnings of foreign subsidiaries that are not permanently reinvested, net of potential foreign tax credits; otherwise, no U.S. federal deferred taxes are provided on foreign subsidiaries. The financial effect of changes in tax laws or rates is accounted for in the period of enactment.

From time to time, the Company engages in transactions in which the tax consequences may be subject to uncertainty. In the normal course of business, the Company prepares and files tax returns based on interpretation of tax laws and regulations, which are subject to examination by various taxing authorities. Such examinations may result in future tax and interest assessments by these taxing authorities. The Company evaluates its tax positions and recognizes only tax benefits for financial purposes that, more likely than not, will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits of the position.

The Company has elected to include income tax related interest and penalties as a component of income tax expense.

Foreign Currency Translation

The U.S. dollar serves as the currency of measurement and reporting for the Company's consolidated financial statements. The Company has certain subsidiaries with functional currencies of Norwegian kroner, British pound sterling, Australian dollar or Brazilian real. Functional currencies of all the Company's other subsidiaries are U.S. dollar.

Transactions occurring in currencies other than the functional currency of a subsidiary have been converted to the functional currency of that subsidiary at the exchange rate in effect at the transaction date with resulting gains and losses included in current earnings. Carrying values of monetary assets and liabilities in functional currencies other than U.S. dollars have been translated to U.S. dollars based on the U.S. exchange rate at the balance sheet date and the resulting foreign currency translation gain or loss is included in comprehensive income (loss) in the accompanying financial statements.

Recently Issued Accounting Pronouncements

In January 2010, the FASB issued guidance *Improving Disclosures about Fair Value Measurements*, which amends Topic 820-10, *Fair Value Measurement and Disclosures - Overall*. This guidance requires new disclosures regarding fair value measurements. This guidance is effective for annual and interim reporting periods beginning after December 15, 2009. The Company adopted this new guidance effective January 1, 2010, which did not have a material impact on the Company's financial position, cash flow, or results of operations.

In December 2010, the FASB issued guidance *Business Combinations - Disclosure of Supplementary Pro Forma Information for Business Combinations*. This guidance applies to any public entity as defined by Topic 805 that enters into business combinations that are material on an individual or aggregate basis. This guidance requires that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The provisions of this guidance are to be applied prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The Company will adopt this guidance for all acquisitions occurring after January 1, 2011. The Company currently has no pending or probable business combinations and, as such, cannot yet determine the potential implementation effect of this standard.

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RIGNET, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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. In December 2011, the FASB issued Accounting Standard Update 2011-12 which amended this Update 2011-05 by deferring the effective date of the requirement to reclassify out of accumulated other comprehensive income indefinitely. The Company will adopt Update 2011-05, as amended, upon its effective date of January 1, 2012. The Company does not expect the adoption of Update 2011-05 to have a material effect on its 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. The Company did not elect early adoption of this standard and expect to adopt the provisions of Update 2011-08, as of January 1, 2012. The Company does 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.

Note 2 Initial Public Offering, Preferred Stock and Warrants

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 converted all preferred stock to 3,470,224 shares of common stock, settled preference rights through the issuance of 1,678,065 shares of common stock, and redeemed accrued dividends through the payment of \$0.2 million in cash and issuance of 513,003 shares of common stock in connection with the Company's IPO. 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 non-current and reported at approximate fair value.

Table of Contents**RIGNET, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

RigNet is authorized to issue ten million shares of preferred stock. As of December 31, 2011, no shares of preferred stock were outstanding.

Warrants

The Company issued warrants in conjunction with certain financing arrangements, which were exercisable upon issuance. Detachable warrants are accounted for separately from the debt security as additional paid-in capital. The allocation is based on the relative fair value of the warrant compared to the total fair value of the two securities at the time of issuance. Fair values of instruments were determined using a combination of the expected present value of future cash flows and a market approach. The present value of future cash flows is estimated using the Company's most recent forecast and the weighted average cost of capital. The market approach uses a market multiple on the related cash generated from operations. Significant estimates for determining fair value included cash flow forecasts, the Company's weighted average cost of capital, projected income tax rates and market multiples. Fair value calculations also consider the fair value of the Company's common stock at the grant date, exercise price of the warrants, expected volatility, expected term, risk-free interest rate and dividend yield.

No warrants were issued in the year ended December 31, 2011. The assumptions used for warrants issued in the years ended December 31, 2010 and 2009 were as follows:

	September 30, Year Ended December 31, 2010	September 30, Year Ended December 31, 2009
Expected volatility	47.5%	60.0%
Expected term (in years)	0.3	1.5
Risk-free interest rate	0.2%	0.9%
Dividend yield		

RigNet has warrants outstanding with exercise prices of \$0.04 and \$7.00 per share. The following table summarizes the Company's warrant activity for the years ended December 31, 2011, 2010 and 2009:

	September 30, Number of Underlying Shares (in thousands)	September 30, Weighted Average Exercise Price
Outstanding, January 1, 2009	1,968	\$ 3.74
Issued	7	\$ 0.04
Exercised		\$
Outstanding, December 31, 2009	1,975	\$ 3.73
Issued	22	\$ 0.04
Exercised	(432)	\$ 0.04
Outstanding, December 31, 2010	1,565	\$ 4.70
Issued		\$
Exercised	(31)	\$ 0.04
Outstanding, December 31, 2011	1,534	\$ 4.79

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The weighted average remaining life in years of outstanding warrants as of December 31, 2011, 2010 and 2009 was 4.0, 5.0 and 5.7 years, respectively.

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Table of Contents**RIGNET, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****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 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 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.

	September 30, 2011	September 30, Year Ended December 31, 2010 (in thousands)	September 30, 2009
Accounts receivable	\$ 28,087	\$ 18,592	\$ 15,349
Allowance for doubtful accounts, January 1,	(2,620)	(2,620)	(2,735)
Current year provision for doubtful accounts	65		(296)
Write-offs	818		411
Allowance for doubtful accounts, December 31,	(1,737)	(2,620)	(2,620)
Accounts receivable, net	\$ 26,350	\$ 15,972	\$ 12,729

During 2011, 2010 and 2009, the Company had one significant customer comprising 12.0%, 10.6% and 10.9% of its revenue, respectively.

Liquidity Risk

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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, 2010 or 2009. 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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Table of Contents**RIGNET, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****Note 4 Acquisitions**

Prior to 2010, the Company had acquired a 93.0% controlling interest in LandTel resulting in a 7.0% redeemable, non-controlling interest in LandTel. In connection with this acquisition, the Company entered into an agreement which provided the non-controlling interest owners a right to sell their interest in LandTel to the Company, with a purchase price determinable based on an agreed-upon formula. In August 2010, the Company acquired the remaining redeemable non-controlling interest for \$4.7 million in cash. As of December 31, 2011 and 2010, LandTel is a wholly owned subsidiary.

The Company uses the acquisition method of accounting for acquisitions of non-controlling interest. Under the acquisition method, purchases or sales of non-controlling equity interests that do not result in a change in control are accounted for as equity transactions. As such, the underlying asset and liability balances did not change for these acquisitions of non-controlling interest.

The following table reconciles redeemable, non-controlling interest for the years ended December 31, 2010 and 2009:

	September 30, Year Ended December 31, 2010	September 30, Year Ended December 31, 2009
	(in thousands)	
Balance, January 1,	\$ 4,576	\$ 9,344
Adjustment to redemption value	50	96
Acquisition of non-controlling interest	(4,651)	(4,763)
Non-controlling owner distributions		(111)
Net income	25	10
Balance, December 31,	\$	\$ 4,576

Note 5 Goodwill and Intangibles**Goodwill**

Goodwill consists of amounts recognized from the acquisitions of LandTel, included in the U.S. land reporting segment, and OilCamp, included in the eastern hemisphere reporting segment. The goodwill primarily relates to the growth prospects foreseen for the companies acquired, synergies between existing business and the acquirees and the assembled workforce of the acquired companies. Goodwill balances and changes therein, by reporting unit, as of and for the years ended December 31, 2011 and 2010 are as follows:

	September 30, Eastern Hemisphere	September 30, U.S. Land (in thousands)	September 30, Total
Balance, January 1, 2010	\$ 2,994	\$ 10,893	\$ 13,887
Foreign currency translation	(46)		(46)
Balance, December 31, 2010	2,948	10,893	13,841
Foreign currency translation	(45)		(45)

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Balance, December 31, 2011	\$	2,903	\$	10,893	\$	13,796
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Table of Contents**RIGNET, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)*****Intangibles***

Intangibles consist of brand names and customer relationships acquired as part of the LandTel and OilCamp acquisitions, as well as internal-use software. The following table reflects intangibles activities for the years ended December 31, 2011, 2010 and 2009:

	September 30, Brand Name	September 30, Customer Relation- ships (in thousands)	September 30, Software	September 30, Total
Intangibles acquired	\$ 4,048	\$ 9,778	\$ 804	\$ 14,630
Accumulated amortization and foreign currency translation, January 1, 2009	(2,296)	(2,221)	(397)	(4,914)
Balance, January 1, 2009	1,752	7,557	407	9,716
Additions			192	192
Amortization expense	(1,043)	(859)	(118)	(2,020)
Foreign currency translation	160	324		484
Balance, December 31, 2009	869	7,022	481	8,372
Additions			571	571
Amortization expense	(860)	(907)	(170)	(1,937)
Foreign currency translation	(9)	(223)	(8)	(240)
Balance, December 31, 2010		5,892	874	6,766
Additions			270	270
Amortization expense		(904)	(286)	(1,190)
Foreign currency translation		(14)	17	3
Balance, December 31, 2011	\$	\$ 4,974	\$ 875	\$ 5,849

The Company estimates the lives of the brand name, customer relationships and software at four years, eight to nine years and five years, respectively. The following table sets forth amortization expense for intangibles over the next five years (in thousands):

	September 30,
2012	\$ 1,196
2013	1,137
2014	1,079
2015	971
2016	762
Thereafter	704
	\$ 5,849

Table of Contents**RIGNET, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****Note 6 Property and Equipment**

Property and equipment consists of the following:

	September 30, Estimated Lives (in years)	September 30, December 31, 2011 (in thousands)	September 30, December 31, 2010 (in thousands)
Telecommunication and computer equipment	1 - 5	\$ 88,288	\$ 72,597
Furniture and other	5 - 7	5,473	2,027
		93,761	74,624
Less: Accumulated depreciation		(61,106)	(48,244)
		\$ 32,655	\$ 26,380

Depreciation expense associated with property and equipment was \$13.4 million, \$13.1 million and \$10.3 million for the years ended December 31, 2011, 2010 and 2009, respectively.

Note 7 Long-Term Debt

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

	September 30, December 31, 2011 (in thousands)	September 30, December 31, 2010 (in thousands)
Term loan, net of unamortized deferred financing costs	\$ 23,454	\$ 32,034
Equipment notes	66	105
	23,520	32,139
Less: Current maturities of long-term debt	(8,735)	(8,655)
	\$ 14,785	\$ 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.

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As of December 31, 2011, the Term Loan had outstanding principal of \$23.5 million. The weighted average interest rate for the year ended December 31, 2011 was 4.0%, with an interest rate of 3.0% at December 31, 2011. At December 31, 2010, \$32.2 million was outstanding, with an interest rate of 5.0%.

The Term Loan is secured by substantially all the assets of the Company.

Equipment Notes

In December 2010, the Company acquired computer equipment under a three-year note in the amount of \$0.1 million, with an interest rate of 5.5%.

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Table of Contents**RIGNET, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)*****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. The Term Loan also requires maintenance of a restricted cash balance. If any default occurs related to these covenants, the unpaid principal and any accrued interest shall be declared immediately due and payable. As of December 31, 2011 and 2010, the Company was in compliance with all covenants.

Deferred Financing Costs

The Company incurred legal and bank fees associated with the Term Loan, and certain amendments thereto, which were capitalized and reported as a reduction to long-term debt and current maturities of long-term debt. Deferred financing costs are expensed using the effective interest method over the life of the agreement. For the years ended December 31, 2011 and 2010, deferred financing cost amortization of \$0.1 million is included in interest expense in the Company's consolidated financial statements.

Debt Maturities

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

	September 30,
2012	\$ 8,735
2013	8,753
2014	6,032
Total debt, including current maturities	\$ 23,520

Note 8 Operating Leases and Commercial Commitments***Operating Leases***

The Company leases office space under lease agreements expiring on various dates through 2015. The Company recognized expense under operating leases of \$1.5 million, \$1.2 million and \$0.9 million for the years ended December 31, 2011, 2010 and 2009, respectively. As of December 31, 2011, future minimum lease obligations were as follows (in thousands):

	September 30,
2012	\$ 1,248
2013	639
2014	312
2015	146
2016	
	\$ 2,345

Table of Contents**RIGNET, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)*****Commercial Commitments***

The Company enters into contracts for satellite bandwidth and other network services with certain providers. As of December 31, 2011, the Company had the following commercial commitments related to satellite and network services (in thousands):

	September 30,
2012	\$ 8,213
2013	5,492
2014	1,364
2015	
Thereafter	
	\$ 15,069

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 years ended December 31, 2011, 2010 and 2009 were \$0.6 million, \$0.6 million and \$0.1 million, respectively, for services performed by the Company in the ordinary course of business.

Additionally, during the year ended December 31, 2010, the Company had related party transactions with stockholders related to the conversion of preferred stock to common stock and dividends paid on preferred stock (see Note 2 Initial Public Offering, Preferred Stock and Warrants). During the year ended December 31, 2009, the Company also had the following related party transactions with stockholders, including members of the Company's Board of Directors, related to stockholder notes previously issued:

	September 30, Year Ended December 31, 2009 (in thousands)
Stockholder notes:	
Repayment of notes to officers	\$ 200
Repayment of notes to other stockholders	\$ 8,379
Interest expense related to stockholder notes:	
Accrued and imputed interest expense	\$ 3,214
Payment of interest	\$ 5,708

Note 10 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.

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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 All preferred stock derivatives were settled immediately prior to the Company's IPO in December 2010 (see Note 2 Initial Public Offering, Preferred Stock and Warrants). Prior to settlement, all preferred stock derivatives were reported at approximate fair value.

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Table of Contents**RIGNET, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. For items that are not actively traded, fair value reflects the price in a transaction with a market participant, including an adjustment for risk, not just the mark-to-market value. The fair value measurement standard establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. As presented in the table below, the hierarchy consists of three broad levels:

Level 1 Inputs are unadjusted quoted prices in active markets for identical assets and liabilities and have the highest priority.

Level 2 Inputs are observable inputs other than quoted prices considered Level 1. Level 2 inputs are market-based and are directly or indirectly observable, including quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; or valuation techniques whose inputs are observable. Where observable inputs are available, directly or indirectly, for substantially the full term of the asset or liability, the instrument is categorized in Level 2.

Level 3 Inputs are unobservable (meaning they reflect the Company's assumptions regarding how market participants would price the asset or liability based on the best available information) and therefore have the lowest priority. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. RigNet believes it uses appropriate valuation techniques, such as market-based valuation, based on the available inputs to measure the fair values of its assets and liabilities. The Company's valuation technique maximizes the use of observable inputs and minimizes the use of unobservable inputs.

The Company had no derivatives as of December 31, 2011 or 2010. Derivatives not designated as hedging instruments as of December 31, 2009 consisted of preferred stock conversion and redemption rights of \$30.4 million, which were accounted for at fair value based on level 3 inputs. The fair value of preferred stock derivative liabilities classified as Level 3 changed as follows during 2010 and 2009:

	September 30, Year Ended December 31, 2010	September 30, Year Ended December 31, 2009
	(in thousands)	
Balance, January 1,	\$ 30,446	\$ 8,413
Unrealized (gains) losses included in earnings	17,190	21,009
Derivative related to preferred stock dividends	2,108	1,024
Conversion of preferred stock	(49,744)	
Balance, December 31,	\$ 30,446	\$ 30,446

Dividends were paid on Series B and C Preferred stock in the form of additional shares, each with conversion rights, which are bifurcated and reported at fair value (see Note 2 Initial Public Offering, Preferred Stock and Warrants). The Level 3 amounts representing the change in fair value of derivatives included in the Company's consolidated financial statements for the years ended December 31, 2010 and 2009, were \$(17.2) million and \$(21.0) million, respectively.

The Company's non-financial assets, such as goodwill, intangibles and property and equipment, are measured at fair value, based on level 3 inputs, when there is an indicator of impairment and recorded at fair value only when an impairment charge is recognized. See Note 5 Goodwill and Intangibles, for discussion of an impairment of goodwill reported in 2009. The impairment charge recognized in 2009 incorporated fair value measurements based on level 3 inputs.

Note 11 Commitments and Contingencies***Litigation***

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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.

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RIGNET, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Taxes

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 year ended December 31, 2011. 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 will be completed within the next twelve months and the Company is unable to quantify the expected settlement or outcome of the audit at this time as the IRS has not notified the Company of all potential issues. The Company does not anticipate significant changes in the remaining unrecognized tax benefits within the next twelve months.

Note 12 Stock-Based Compensation

The Company has three stock-based compensation plans as described below.

2010 Omnibus Incentive Plan

In May 2010, the Board of Directors adopted the 2010 Omnibus Incentive Plan (2010 Plan). Under the 2010 Plan, the Board of Directors or its designated committee is authorized to issue awards representing a total of three million shares of common stock to certain directors, officers and employees of the Company. Awards may be in the form of new stock incentive awards or options including (i) incentive or non-qualified stock options, (ii) stock appreciation rights, (iii) restricted stock, (iv) restricted stock units, (v) performance stock, (vi) performance units, (vii) director awards (viii) annual cash incentive awards, (ix) cash-based awards, (x) substitution awards or (xi) other stock-based awards, as approved by the Board of Directors or its designated committee. The stock incentive awards and options granted under the 2010 plan will generally expire at the earlier of a specified period after termination of service or the date specified by the Board of Directors or its designated committee at the date of grant, but not more than ten years from such grant date.

During the year ended December 31, 2011, the Company granted 144,110 shares of restricted stock to certain directors, officers and employees of the Company under the 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. As of December 31, 2011, 8,868 shares of restricted stock have been forfeited and 135,242 shares of restricted stock were outstanding.

During the year ended December 31, 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 options vesting on each of the first four anniversaries of the grant date.

2006 Long-Term Incentive Plan

In March 2006, the Board of Directors adopted the RigNet 2006 Long-Term Incentive Plan (2006 Plan). Under the 2006 Plan, the Board of Directors is authorized to issue options to purchase RigNet common stock to certain officers and employees of the Company. In general, all options granted under the 2006 Plan have a contractual term of ten years and a four-year vesting period, with 25.0% of the options vesting on each of the first four anniversaries of the grant date. The 2006 Plan authorized the issuance of three million options, which was increased to five million in January 2010, net of any options returned or forfeited. As of December 31, 2011, the Company has issued 981,125 options under the 2006 Plan, of which 30,624 options have been exercised, 200,626 options have been returned or forfeited and 749,875 options are outstanding. The Company will issue no additional options under the 2006 Plan as the Company's Board of Directors has resolved to freeze the 2006 Plan.

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RIGNET, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2001 Stock Option Plan

The 2001 Performance Stock Option Plan (2001 Plan) was authorized to issue options to purchase RigNet common stock to certain officers and employees of the Company. Options granted under the 2001 Plan vest either (a) over a four-year term, with 25.0% of the options vesting on each of the first four anniversary dates of the grant or (b) over a three-year term, with 25.0% of the options vesting 30 days after the grant date and 25.0% vesting on each of the first three anniversary dates of the grant. Vested options, which have not been forfeited, are exercisable in whole or in part during the option term, which does not exceed ten years. The 2001 Plan authorized the issuance of 0.6 million options. As of December 31, 2011, the Company has issued 130,967 options under the 2001 Plan, of which 79,557 options have been exercised, 22,660 options have been returned and 28,750 options are outstanding. The Company will issue no additional options under the 2001 Plan as the Company's Board of Directors has resolved to freeze the 2001 Plan.

Share Appreciation Rights (SARs)

In August 2006, in connection with RigNet's acquisition of LandTel, LandTel issued a total of 9,676 share appreciation rights to certain employees, using a baseline share price of \$100.00 per share. The value of these SARs is based on the value of the LandTel subsidiary only. These SARs will be settled in cash upon exercise by holders and are classified as liability awards by the Company. Since August 2006, 4,838 SARs have been forfeited. As of December 31, 2011, a total of 4,838 SARs remain outstanding, exercisable and will expire in August 2016. No other SARs have been issued by the Company other than those issued by LandTel in August 2006. The Company has not issued nor does it currently have plans to issue any additional SARs or any other awards which would be classified as a liability awards or settled in cash.

During 2011, share appreciation resulted in an increase in the value of the SARs of \$0.5 million which was recognized to compensation expense. For the years ended December 31, 2010 and 2009, the fair value of SARs was less than \$0.1 million. As of December 31, 2011, no SARs have been exercised and no cash payments have yet been made to the SARs holders.

There are no dividends related to stock options, restricted stock, SARs or common stock.

Stock-based compensation expense related to the Company's stock-based compensation plans for the years ended December 31, 2011, 2010 and 2009 was \$1.5 million, \$0.4 million and \$0.3 million, respectively, and accordingly, reduced income for each period.

There were no significant modifications to the three stock-based compensation plans during the years ended December 31, 2011, 2010 and 2009. As of December 31, 2011 and 2010, there were \$3.0 million and \$0.8 million, respectively, of total unrecognized compensation cost related to unvested equity awards granted and expected to vest, under the 2010 Plan, the 2006 Plan and the 2001 Plan. This cost is expected to be recognized on a remaining weighted-average period of two years.

All outstanding equity instruments are settled in stock. The Company currently does not have any awards accounted for as a liability. The fair value of each option and restricted stock award is estimated on the grant date using a Black-Scholes option valuation model, which uses certain assumptions as of the date of grant:

Expected Volatility based on peer group price volatility for periods equivalent to the expected term of the options

Expected Term expected life adjusted based on management's best estimate for the effects of non-transferability, exercise restriction and behavioral considerations

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Risk-Free Interest Rate risk-free rate, for periods within the contractual terms of the options, is based on the U.S. Treasury yield curve in effect at the time of grant

Dividend Yield expected dividends based on the Company's historical dividend rate at the date of grant

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Table of Contents**RIGNET, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

The assumptions used for grants made in the years ended December 31, 2011, 2010 and 2009 were as follows:

	September 30, 2011	September 30, 2010	September 30, 2009
Expected volatility	50%	58%	42% - 60%
Expected term (in years)	7	4	4
Risk-free interest rate	2.8%	2.7%	2.2 - 3.1%
Dividend yield			

Based on these assumptions, the weighted average fair value of options granted, per share, for the years ended December 31, 2011, 2010 and 2009 was \$9.73, \$3.92 and \$2.92, respectively. Based on these assumptions, the weighted average fair value of restricted stock granted, per share, for the year ended December 31, 2011 was \$18.21. The following table summarizes the Company's stock option activity as of and for the years ended December 31, 2011, 2010 and 2009:

	September 30, 2011		September 30, 2010		September 30, 2009	
	Number of Underlying Shares	Weighted Average Exercise Price	Number of Underlying Shares	Weighted Average Exercise Price	Number of Underlying Shares	Weighted Average Exercise Price
	(in thousands, except per share amounts)					
Balance, January 1,	810	\$ 7.13	743	\$ 6.79	604	\$ 7.43
Granted	208	\$ 17.99	137	\$ 8.48	194	\$ 5.32
Exercised	(14)	\$ 5.54	(17)	\$ 0.57	(16)	\$ 8.99
Forfeited	(28)	\$ 11.35	(53)	\$ 7.85	(39)	\$ 8.57
Expired		\$		\$		\$
Balance, December 31,	976	\$ 9.36	810	\$ 7.13	743	\$ 6.79
Exercisable, December 31,	588	\$ 7.12	416	\$ 6.92	287	\$ 6.51

	September 30, 2011	September 30, 2010	September 30, 2009
	(in thousands)		
Intrinsic value of options exercised	\$ 240	\$ 197	\$ 32
Fair value of options vested	\$ 435	\$ 332	\$ 234

The weighted average remaining contractual term in years for equity awards outstanding as of and for the years ended December 31, 2011, 2010 and 2009 was 7.0, 7.0 and 7.6 years, respectively. At December 31, 2011 equity awards vested and expected to vest totaled 1.0 million with awards available for grant of approximately 2.7 million.

Table of Contents**RIGNET, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

The following is a summary of changes in unvested equity awards, including stock options and restricted stock, as of and for the years ended December 31, 2011, 2010 and 2009:

	September 30, Number of Underlying Shares (in thousands)	September 30, Weighted Average Grant Date Fair Value
Unvested equity awards, January 1, 2009	425	\$ 1.58
Granted	194	\$ 2.92
Vested	(147)	\$ 1.59
Forfeited	(16)	\$ 1.49
Unvested equity awards, December 31, 2009	456	\$ 2.14
Granted	137	\$ 3.91
Vested	(167)	\$ 1.99
Forfeited	(32)	\$ 2.06
Unvested equity awards, December 31, 2010	394	\$ 2.82
Granted	352	\$ 13.20
Vested	(189)	\$ 2.31
Forfeited	(38)	\$ 9.09
Unvested equity awards, December 31, 2011	519	\$ 9.59

Note 13 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. 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:

	September 30, 2011	September 30, Year Ended December 31, 2010 (in thousands)	September 30, 2009
Net income (loss) attributable to RigNet, Inc. stockholders	\$ 9,518	\$ (15,593)	\$ (19,922)
Less: Dividends accrued on preferred stock		1,056	1,076
Less: Derivatives related to preferred stock dividends (See Note 10-Fair Value Measurements)		2,108	1,024
		50	96

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Less: Adjustment to redeemable, non-controlling interest redemption value (See Note 4-Acquisitions)

Net income (loss) attributable to RigNet, Inc. common stockholders	\$	9,518	\$	(18,807)	\$	(22,118)
Weighted average shares outstanding, basic		15,387		5,571		5,312
Effect of dilutive securities		1,427				
Weighted average shares outstanding, diluted		16,814		5,571		5,312

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RIGNET, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

All equivalent units were anti-dilutive for the years ended December 31, 2010 and 2009. Anti-dilutive share equivalents excluded from the earnings per share computations totaled 4.8 million and 4.4 million for the years ended December 31, 2010 and 2009, respectively, and related to outstanding preferred shares, options and warrants.

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. The Company's reportable segments are business units which operate in different regions and are each managed separately. Accordingly, the Company has three reportable segments:

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 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.

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

Table of Contents**RIGNET, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

The Company's business segment information as of December 31, 2011 and 2010 and for the years ended December 31, 2011, 2010 and 2009 is as follows:

	September 30, Eastern Hemisphere	September 30, Western Hemisphere	September 30, U.S. Land (in thousands)	September 30, Corporate and Eliminations	September 30, Consolidated Total
2011					
Total revenue	\$ 68,155	\$ 22,173	\$ 19,344	\$ (317)	\$ 109,355
Total expenses	42,493	19,525	15,596	14,851	92,465
Interest expense	(1)		(86)	(1,162)	(1,249)
Other income (expense), net	436	222	3	(48)	613
Income tax expense				(6,502)	(6,502)
Net income (loss)	26,097	2,870	3,665	(22,880)	9,752
Total assets	67,348	58,984	27,349	(12,759)	140,922
Capital expenditures	9,015	8,314	2,191	247	19,767
2010					
Total revenue	\$ 61,390	\$ 19,012	\$ 12,845	\$ (326)	\$ 92,921
Total expenses	38,868	15,255	12,645	13,553	80,321
Interest expense		(10)	(83)	(1,525)	(1,618)
Other income (expense), net	(119)	(396)	17	99	(399)
Income tax expense				(8,669)	(8,669)
Net income (loss)	22,403	3,351	134	(41,164)	(15,276)
Total assets	45,016	54,589	25,574	4,606	129,785
Capital expenditures	6,532	5,515	963	81	13,091
2009					
Total revenue	\$ 60,917	\$ 11,222	\$ 9,850	\$ (1,053)	\$ 80,936
Total expenses	35,959	9,103	14,045	10,141	69,248
Interest expense	(345)		(455)	(4,346)	(5,146)
Other income (expense), net	342	(84)	43	3	304
Income tax expense				(5,457)	(5,457)
Net income (loss)	24,711	2,205	(4,532)	(42,004)	(19,620)
Total assets	42,934	21,859	25,661	(1,644)	88,810
Capital expenditures	1,168	9,160	29	135	10,492

The Company provides customers with two primary product lines onshore communications and offshore communications. Onshore communication products are represented by the U.S. land segment. The majority of the eastern hemisphere segment and western hemisphere segment operations relates to offshore communication products primarily provided to jackup, semi-submersible and drillship rigs.

For the years ended December 31, 2011, 2010 and 2009, the Company earned revenue from both our domestic and international operations as follows:

	September 30, 2011	September 30, Year Ended December 31, 2010 (in thousands)	September 30, 2009
Domestic	\$ 35,023	\$ 25,957	\$ 18,045
International	74,332	66,964	62,891

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Total	\$	109,355	\$	92,921	\$	80,936
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Table of Contents**RIGNET, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****Note 15 Income Taxes*****Income Tax Expense***

The components of the income tax expense are:

	September 30, 2011	September 30, Year Ended December 31, 2010 (in thousands)	September 30, 2009
Current:			
Federal	\$ (137)	\$	\$ 42
State	98	9	72
Foreign	5,994	3,727	4,791
Total current	5,955	3,736	4,905
Deferred:			
Federal	1,220	3,046	(841)
State	(60)	157	(123)
Foreign	(613)	1,730	1,516
Total deferred	547	4,933	552
Income tax expense	\$ 6,502	\$ 8,669	\$ 5,457

The following table sets forth the components of income (loss) before income taxes:

	September 30, 2011	September 30, Year Ended December 31, 2010 (in thousands)	September 30, 2009
Income (loss) before income taxes:			
United States	\$ (5,799)	\$ (25,314)	\$ (34,050)
Foreign	22,053	18,707	19,887
	\$ 16,254	\$ (6,607)	\$ (14,163)

Table of Contents**RIGNET, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

Income tax expense differs from the amount computed by applying the statutory federal income tax rate of 35.0% to income (loss) before taxes as follows:

	September 30, 2011	September 30, Year Ended December 31, 2010 (in thousands)	September 30, 2009
United States statutory federal income tax rate	\$ 5,689	\$ (2,312)	\$ (4,957)
Non-deductible expenses	491	910	3,021
Non-deductible financial expenses		6,016	7,197
U.S. tax on foreign earnings, net of tax credits	(32)	5,376	1,756
Changes in valuation allowances	1,004	(2,927)	705
Tax credits	(137)	(1,081)	(2,048)
State taxes	38	(163)	(129)
Effect of operating in foreign jurisdictions	(984)	(1,471)	(714)
Non-controlling interest in U.S. subsidiary		(95)	(4)
Changes in prior year estimates	(253)	(88)	(969)
Changes in uncertain tax benefits	735	4,918	1,393
Revisions of deferred tax accounts	(143)	(517)	
Other	94	103	206
Income tax expense	\$ 6,502	\$ 8,669	\$ 5,457

Deferred Tax Assets and Liabilities

The Company's deferred tax position reflects the net tax effects of the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax reporting. Significant components of the deferred tax assets and liabilities are as follows:

	September 30, 2011 (in thousands)	September 30, December 31, 2010 (in thousands)
Deferred tax assets:		
Net operating loss carryforwards	\$ 98	\$ 56
Federal, foreign and state tax credits	7,368	5,212
Depreciation and amortization	6,365	5,593
Allowance for doubtful accounts	759	1,375
Accruals not currently deductible	335	683
Stock-based compensation	438	
Other	43	155
Valuation allowance	(5,769)	(4,941)
Total deferred tax assets	9,637	8,133

Deferred tax liabilities:

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Depreciation and amortization	(565)	(1,137)
Tax on foreign earnings	(5,001)	(5,030)
Other	(33)	(181)
Total deferred tax liabilities	(5,599)	(6,348)
Net deferred tax assets (liabilities)	\$ 4,038	\$ 1,785

At December 31, 2011, on an as filed basis, the Company had a federal net operating loss carry forward of \$3.5 million which will expire in varying amounts beginning in 2029, state net operating loss carry forwards of approximately \$2.2 million which will expire in varying amounts beginning in 2024, and foreign net operating losses of \$0.1 million of which \$19,000 expires in 2016. As of December 31, 2011, the Company, on an as filed basis, has U.S. domestic foreign tax credit carry forwards of \$2.4 million which begin expiring in varying amounts in 2018. The amount reported on an as filed basis can differ from the amount recorded in the deferred tax assets of the Company's financial statements due to the utilization or creation of assets in recording uncertain tax benefits.

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Table of Contents**RIGNET, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

In assessing deferred tax assets, the Company considers whether a valuation allowance should be recorded for some or all of the deferred tax assets which may not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which the temporary differences become deductible. Among other items, the Company considers the scheduled reversal of deferred tax liabilities, projected future taxable income and available tax planning strategies. As of December 31, 2011, a valuation allowance of \$5.8 million had been recorded for primarily US federal deferred tax assets that were not more likely than not to be realized. While the Company expects to realize the remaining net deferred tax assets, changes in future taxable income or in tax laws may alter this expectation and result in future increases to the valuation allowance.

U.S. federal deferred income taxes, net of foreign tax credits of \$5.0 million have been provided on those foreign subsidiaries for which the undistributed earnings as of December 31, 2010, were no longer considered permanently reinvested, due to the need to service the Company's debt obligations. Certain subsidiaries prior to 2011, and all foreign subsidiaries as of January 1, 2011, have undistributed earnings which are considered permanently reinvested for which \$4.0 million in U.S. federal deferred taxes, net of foreign tax credits, have not been recognized as of December 31, 2011.

During 2009 and 2010, the Company acquired the remaining non-controlling interest of LandTel. At the time of the acquisition in 2010, the Company recorded \$4.2 million of deferred tax asset and related valuation allowance to additional paid in capital. This entry was necessary to account for the book versus tax basis difference in the assets as a result of the acquisition.

Because the Company records the valuation allowance on the net deferred tax asset, no provision is recorded for the deferred tax liability related to other comprehensive income. The future reversal of the valuation allowance related to other comprehensive income will be recorded in income tax expense.

The Company has elected to include income tax related interest and penalties as a component of income tax expense. As of December 31, 2011, \$0.1 million has been included in the income tax payable accounts. In 2010 and 2009, no amount has been included in the income tax payable accounts. The amount included in income tax expense not related to uncertain tax benefits for the year ending December 31, 2011, is \$0.2 million.

Uncertain Tax Benefits

The Company evaluates its tax positions and recognizes only tax benefits that, more likely than not, will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax position is measured at the largest amount of benefit that has a greater than 50.0% likelihood of being realized upon settlement. At December 31, 2011, 2010 and 2009, the Company's uncertain tax benefits totaling \$14.1 million, \$11.3 million and \$5.2 million, respectively, are reported as other liabilities in the consolidated balance sheets. Changes in the Company's gross unrecognized tax benefits are as follows:

	September 30, 2011	September 30, Year Ended December 31, 2010	September 30, 2009
Balance, January 1,	9,110	\$ 7,110	\$ 4,040
Additions for the current year tax	1,548	1,394	3,070
Additions related to prior years	2,884	2,453	
Reductions related to settlements with taxing authorities	(1,664)		
Reductions related to lapses in statute of limitations	(173)		
Reductions related to prior years	(975)	(1,847)	
Balance, December 31,	\$ 10,730	\$ 9,110	\$ 7,110

Table of Contents**RIGNET, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

As of December 31, 2011, the Company's gross unrecognized tax benefits which would impact the annual effective tax rate upon recognition were \$9.5 million. In addition, as of December 31, 2011, the Company has recorded related assets, net of a valuation allowance of \$3.4 million. The related asset might not be recognized in the same period as the contingent tax liability and like interest and penalties does have an impact on the annual effective tax rate. The Company recognized interest and penalties related to unrecognized tax benefits in income tax expense. As of December 31, 2011, 2010 and 2009, the Company has accrued penalties and interest of approximately \$4.6 million, \$3.5 million and \$1.9 million, respectively. The Company has recognized \$1.1 million, \$1.6 million and \$0.7 million of interest and penalties in income tax expense for the years ended December 31, 2011, 2010 and 2009, respectively. To the extent interest and penalties are not assessed with respect to uncertain tax positions, accruals will be reduced and reflected as a reduction to income tax expense.

The Company files income tax returns in the U.S. federal jurisdiction, and various states and foreign jurisdictions. Due to net operating losses, all of the Company's federal filings are still subject to tax examinations. With few exceptions, the Company is no longer subject to the foreign income tax examinations by tax authorities for years before 2001.

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 year ended December 31, 2011. Currently, the Company's United States corporate tax filings are under review for the 2010 tax year. It is unclear if the audit and the appeals process will be completed within the next twelve months and the Company is unable to quantify the expected settlement or outcome of the audit at this time as the IRS has not notified the Company of all potential issues. RigNet does not anticipate significant changes in the remaining unrecognized tax benefits within the next twelve months.

Note 16 Supplemental Quarterly Financial Information (Unaudited)

Summarized quarterly supplemental consolidated financial information for 2011 and 2010 are as follows:

	September 30, March 31	September 30, 2011 Quarter Ended June 30 (in thousands, except per share data)	September 30, September 30	September 30, December 31
Revenue	\$ 24,467	\$ 26,197	\$ 28,905	\$ 29,786
Operating income	\$ 3,054	\$ 4,373	\$ 5,083	\$ 4,380
Net income (loss)	\$ 23	\$ 2,201	\$ 5,475	\$ 2,053
Net income (loss) attributable to RigNet, Inc. common stockholders	\$ (25)	\$ 2,120	\$ 5,451	\$ 1,972
Net income (loss) per share attributable to RigNet, Inc. common stockholders, basic	\$	\$ 0.14	\$ 0.35	\$ 0.13
Net income (loss) per share attributable to RigNet, Inc. common stockholders, diluted	\$	\$ 0.13	\$ 0.32	\$ 0.12
Weighted average shares outstanding, basic	15,241	15,420	15,443	15,443
Weighted average shares outstanding, diluted	15,241	16,894	16,840	16,822

Table of Contents**RIGNET, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

	September 30, March 31	September 30, 2010 Quarter Ended June 30 (in thousands, except per share data)	September 30, September 30	September 30, December 31
Revenue	\$ 21,820	\$ 22,550	\$ 24,234	\$ 24,317
Operating income	\$ 1,867	\$ 2,824	\$ 3,888	\$ 4,021
Net income (loss)	\$ (7)	\$ (11,052)	\$ 482	\$ (4,699)
Net income (loss) attributable to RigNet, Inc. common stockholders	\$ (800)	\$ (11,941)	\$ (552)	\$ (5,514)
Net income (loss) per share attributable to RigNet, Inc. common stockholders, basic	\$ (0.15)	\$ (2.24)	\$ (0.10)	\$ (0.87)
Net income (loss) per share attributable to RigNet, Inc. common stockholders, diluted	\$ (0.15)	\$ (2.24)	\$ (0.10)	\$ (0.87)
Weighted average shares outstanding, basic	5,318	5,319	5,319	6,321
Weighted average shares outstanding, diluted	5,318	5,319	5,319	6,321

During the quarters ended March 31, June 30, September 30 and December 31, 2010, the Company recorded a charge to net income (loss) of \$0.2 million, \$12.2 million, \$0.0 million and \$4.8 million, respectively, related to the increase in the fair value of derivatives embedded within its preferred stock. In connection with the IPO completed in December 2010, preferred stock derivatives were settled upon conversion of preferred stock to common stock, therefore, no derivatives were outstanding at December 31, 2011 and 2010. See Note 1 Business and Summary of Significant Accounting Policies, for the Company's accounting policy related to derivatives.

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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
10.1+*	2006 Long-Term Incentive Plan
10.2+*	2010 Omnibus Incentive Plan
10.3+*	Form of Option Award Agreement under the 2006 Plan
10.4+*	Form of Incentive Stock Option Award Agreement under the 2010 Plan
10.5+*	Form of Nonqualified Stock Option Award Agreement under the 2010 Plan
10.6*	Form of Indemnification Agreement entered into with each director and executive officer
10.7+	Employment Agreement between the Registrant and Mark Slaughter dated February 20, 2012
10.8+*	Employment Agreement between the Registrant and Martin Jimmerson dated August 15, 2007, as amended
10.9+*	Employment Agreement between the RigNet AS and Lars Eliassen dated June 1, 2010, as amended
10.10*	Lease Agreement between RigNet Inc., a Texas corporation, and KWI Ashford Westchase Buildings, L.P. dated as of June 17, 2003, as amended
10.11*	Credit Agreement dated as of May 29, 2009 among RigNet, Inc., Bank of America Bank N.A., as administrative agent, and the lenders party thereto
10.12*	First Amendment to Credit Agreement dated as of June 10, 2010 among RigNet, Inc., Bank of America, N.A., as administrative agent, and the lenders party thereto
10.13*	Second Amendment to Credit Agreement dated as of August 19, 2010 among RigNet, Inc., Bank of America, N.A., as administrative agent, and the lenders party thereto
10.14*	Employment Agreement between the Registrant and William Sutton dated May 18, 2010, as amended
10.15*	Employment Agreement between the Registrant and Hector Maytorena dated May 18, 2010, as amended
10.16*	Third Amendment to Credit Agreement dated as of November 9, 2010 among RigNet, Inc., Bank of America, N.A., as administrative agent, and the lenders party thereto
21.1**	Subsidiaries of RigNet, Inc.
23.1	Consent of Deloitte & Touche LLP, independent registered public accounting firm
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
99.1	Consent of IHS Petrodata, Inc. dated March 6, 2012
99.2	Consent of Spears & Associates, Inc. dated March 6, 2012

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* 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 Registrant's annual report on Form 10-K (File No. 001-35003).

+ Indicates management contract or compensatory plan.

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