RigNet, Inc.
Form 10-Q
August 05, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2013

or

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

Commission file number 001-35003

RigNet, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**76-0677208**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
1880 S. Dairy Ashford, Suite 300 Houston, Texas	**77077-4760**
(Address of principal executive offices)	**(Zip Code)**

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

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

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

Large accelerated filer	¨	Accelerated filer	x
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 x

At July 31, 2013, there were outstanding 16,008,666 shares of the registrant s Common Stock.

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PART I FINANCIAL INFORMATION

Item 1. ***Condensed Consolidated Financial Statements***

RIGNET, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	June 30, 2013	December 31, 2012
	(in thousands, except share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 48,601	$ 59,744
Restricted cash	886	987
Accounts receivable, net	46,293	40,028
Prepaid expenses and other current assets	8,983	6,214
Total current assets	**104,763**	**106,973**
Property and equipment, net	52,664	46,650
Restricted cash	1,266	1,809
Goodwill	32,912	34,489
Intangibles, net	18,334	21,241
Deferred tax and other assets	5,651	4,770
TOTAL ASSETS	**$ 215,590**	**$ 215,932**
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 14,007	$ 11,763
Accrued expenses	8,507	8,686
Current maturities of long-term debt	9,387	9,422
Income taxes payable	4,159	5,520
Deferred revenue	3,736	6,774
Total current liabilities	**39,796**	**42,165**
Long-term debt	47,123	51,871
Deferred revenue	413	302
Deferred tax liability	1,369	1,645
Other liabilities	19,709	17,977
Total liabilities	**108,410**	**113,960**
Commitments and contingencies (Note 12)		
Equity:		
Stockholders equity		
Preferred stock $0.001 par value; 10,000,000 shares authorized; no shares issued or outstanding at June 30, 2013 or December 31, 2012		
Common stock $0.001 par value; 190,000,000 shares authorized; 16,001,217 and 15,701,615 shares issued and outstanding at June 30, 2013 and December 31, 2012, respectively	16	16

Additional paid-in capital	122,748	120,050
Accumulated deficit	(12,444)	(21,040)
Accumulated other comprehensive income (loss)	(3,248)	2,829
Total stockholders equity	**107,072**	**101,855**
Non-redeemable, non-controlling interest	108	117
Total equity	**107,180**	**101,972**
TOTAL LIABILITIES AND EQUITY	**$ 215,590**	**$ 215,932**

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

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RIGNET, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
	(in thousands, except per share amounts)			
Revenue	**$ 51,329**	**$ 33,240**	**$ 104,147**	**$ 64,450**
Expenses:				
Cost of revenue (excluding depreciation and amortization)	25,927	15,162	55,049	29,343
Depreciation and amortization	5,249	3,806	10,218	7,734
Selling and marketing	1,029	729	1,816	1,387
General and administrative	11,530	8,860	23,290	16,405
Total expenses	**43,735**	**28,557**	**90,373**	**54,869**
Operating income	**7,594**	**4,683**	**13,774**	**9,581**
Other income (expense):				
Interest expense	(440)	(129)	(947)	(316)
Other income, net	313	239	927	165
Income before income taxes	7,467	4,793	13,754	9,430
Income tax expense	(2,552)	(1,932)	(5,064)	(4,075)
Net income	**4,915**	**2,861**	**8,690**	**5,355**
Less: Net income attributable to Non-redeemable, non-controlling interest	54	8	94	90
Net income attributable to RigNet, Inc. stockholders	**$ 4,861**	**$ 2,853**	**$ 8,596**	**$ 5,265**
COMPREHENSIVE INCOME				
Net income	$ 4,915	$ 2,861	$ 8,690	$ 5,355
Foreign currency translation	(1,486)	(1,334)	(6,077)	(221)
Comprehensive income	**3,429**	**1,527**	**2,613**	**5,134**
Less: Comprehensive income attributable to non-controlling interest	54	8	94	90
Comprehensive income attributable to RigNet, Inc. stockholders	**$ 3,375**	**$ 1,519**	**$ 2,519**	**$ 5,044**
INCOME PER SHARE BASIC AND DILUTED				
Net income attributable to RigNet, Inc. common stockholders	$ 4,861	$ 2,853	$ 8,596	$ 5,265
Net income per share attributable to RigNet, Inc. common stockholders, basic	$ 0.30	$ 0.18	$ 0.54	$ 0.34
Net income per share attributable to RigNet, Inc. common stockholders, diluted	$ 0.28	$ 0.17	$ 0.50	$ 0.31
Weighted average shares outstanding, basic	15,963	15,566	15,861	15,515
Weighted average shares outstanding, diluted	17,480	16,977	17,362	16,939

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

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RIGNET, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended June 30, 2013	2012
	(in thousands)	
Cash flows from operating activities:		
Net income	$ 8,690	$ 5,355
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	10,218	7,734
Stock-based compensation	1,530	1,282
Amortization of deferred financing costs	29	27
Deferred taxes	(552)	(414)
(Gain) loss on sales of property and equipment, net of retirements	74	(51)
Changes in operating assets and liabilities, net of effect of acquisition:		
Accounts receivable	(7,639)	1,810
Prepaid expenses and other assets	(3,301)	(1,556)
Accounts payable	2,444	282
Accrued expenses	(1,212)	(2,432)
Deferred revenue	(2,572)	(119)
Other liabilities	1,764	1,876
Net cash provided by operating activities	**9,473**	**13,794**
Cash flows from investing activities:		
Additional payment for acquisition of Nessco	(85)	
Capital expenditures	(15,153)	(10,676)
Proceeds from sales of property and equipment	55	171
Decrease in restricted cash	644	
Net cash used in investing activities	**(14,539)**	**(10,505)**
Cash flows from financing activities:		
Proceeds from issuance of common stock	1,168	395
Repurchase of restricted shares from employees		(89)
Subsidiary distributions to non-controlling interest	(103)	(89)
Repayments of long-term debt	(4,743)	(4,392)
Payments of financing fees	(69)	
Net cash used in financing activities	**(3,747)**	**(4,175)**
Net decrease in cash and cash equivalents	**(8,813)**	**(886)**
Cash and cash equivalents:		
Balance, January 1,	59,744	53,106
Changes in foreign currency translation	(2,330)	(221)
Balance, June 30,	**$ 48,601**	**$ 51,999**
Supplemental disclosures:		

Income taxes paid	$	5,938	$	4,122
Interest paid	$	888	$	302
Non-cash investing capital expenditures accrued	$	1,860	$	2,382

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

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RIGNET, INC.

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

(Unaudited)

	Common Stock		Additional Paid-In	Accumulated	Accumulated Other Comprehensive Income	Total Stockholders	Non-Redeemable, Non-Controlling	
	Shares	Amount	Capital	Deficit	(Loss)	Equity	Interest	Total Equity
					(in thousands)			
Balance, January 1, 2012	**15,441**	**$ 15**	**$ 116,740**	**$ (32,922)**	**$ (610)**	**$ 83,223**	**$ 162**	**$ 83,385**
Issuance of common stock upon the exercise of stock options	74	1	394			**395**		**395**
Issuance of restricted common stock,net of share repurchase from employees and share cancellations	103		(89)			**(89)**		**(89)**
Stock-based compensation			1,282			**1,282**		**1,282**
Foreign currency translation					(221)	**(221)**		**(221)**
Non-controlling owner distributions							(89)	**(89)**
Net income				5,265		**5,265**	90	**5,355**
Balance, June 30, 2012	**15,618**	**$ 16**	**$ 118,327**	**$ (27,657)**	**$ (831)**	**$ 89,855**	**$ 163**	**$ 90,018**
Balance, January 1, 2013	**15,702**	**$ 16**	**$ 120,050**	**$ (21,040)**	**$ 2,829**	**$ 101,855**	**$ 117**	**$ 101,972**
Issuance of common stock upon the exercise of stock options and warrants	215		1,168			**1,168**		**1,168**
Issuance of restricted common stock, net of share cancellations	84							
Stock-based compensation			1,530			**1,530**		**1,530**
Foreign currency translation					(6,077)	**(6,077)**		**(6,077)**
Non-controlling owner distributions							(103)	**(103)**
Net income				8,596		**8,596**	94	**8,690**
Balance, June 30, 2013	**16,001**	**$ 16**	**$ 122,748**	**$ (12,444)**	**$ (3,248)**	**$ 107,072**	**$ 108**	**$ 107,180**

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

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Note 1 Basis of Presentation

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

Significant Accounting Policies

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

Recently Issued Accounting Pronouncements

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

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

In July 2013, the FASB issued Accounting Standards Update No. 2013-11 (ASU 2013-11), Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit when a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. This update defines the criteria as to when an unrecognized tax benefit should be presented as a liability and when it should be netted against a deferred tax asset on the face of the balance sheet. ASU 2013-11 is effective for fiscal years beginning after December 15, 2013. The Company will adopt ASU 2013-11 as of January 1, 2014. The Company does not expect the adoption of ASU 2013-11 to have a significant impact to the Company s consolidated financial statements.

Note 2 Business Combination

On July 5, 2012, RigNet acquired 100% of Nessco Group Holdings Ltd. (Nessco), an Aberdeen-based international company operating in the field of telecommunications systems integration for the oil and gas industry, for an aggregate purchase price of $42.6 million, net of cash acquired of $6.0 million. The purchase price includes $2.2 million of payments made under a $2.5 million contingent consideration arrangement, based on the collection of specific third-party receivables. As the collection period of these receivables has lapsed, no further payments will be made related to this contingent consideration arrangement. This acquisition broadens and strengthens RigNet s communications offerings to the oil and gas industry, allowing the Company to provide its services over the life of the field from drilling through production, both offshore and onshore, around the globe.

The assets and liabilities of Nessco have been recorded at their estimated fair values at the date of acquisition. The excess of the purchase price over the estimated fair values of the underlying net tangible and identifiable intangible assets and liabilities has been recorded as goodwill.

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The goodwill of $19.7 million arising from the acquisition consists largely of the synergies and other benefits that the Company believes will result from combining the operations of the Company and Nessco, as well as, other intangible assets that do not qualify for separate recognition, such as assembled workforce in place at the date of acquisition. None of the goodwill recognized is expected to be deductible for income tax purposes. The acquisition of Nessco, including goodwill, is included in the Company s condensed consolidated financial statements as of the acquisition date and is reflected in the Europe /Africa reporting segment.

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

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

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

For the three and six months ended June 30, 2013, Nessco contributed $12.1 million and $28.9 million of revenue, respectively, and $1.5 million and $2.6 million of net income, respectively, which are included in the condensed consolidated financial statements.

Note 3 Business and Credit Concentrations

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

Interest Rate Risk

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

Foreign Currency Risk

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

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Credit Risk

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

Liquidity Risk

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

Note 4 Goodwill and Intangibles

Goodwill

Goodwill relates to the acquisitions of LandTel Communications LLC (LandTel), OilCamp AS (OilCamp), and Nessco as the consideration paid exceeded the fair value of acquired identifiable net tangible and intangible assets. Goodwill is reviewed for impairment annually with additional evaluations being performed when events or circumstances indicate that the carrying value of these assets may not be recoverable. The Company performs its annual impairment test on July 31st, with the most recent test being performed as of July 31, 2012. This 2012 test resulted in no impairment as the fair value of each reporting unit substantially exceeds the carrying value plus goodwill of that reporting unit. No impairment indicators have been identified through June 30, 2013. As of June 30, 2013 and December 31, 2012, goodwill was $32.9 million and $34.5 million, respectively. Goodwill increases or decreases in value due to the effect of foreign currency translation.

Intangibles

Intangibles consist of customer relationships (acquired as part of the LandTel, OilCamp and Nessco acquisitions), as well as trade name, covenant not-to-compete and backlog (acquired as part of the Nessco acquisition) and internal-use software. The Company s intangibles have useful lives ranging from 1.7 to 9.0 years and are amortized on a straight-line basis. Impairment testing is performed when events or circumstances indicate that the carrying value of the assets may not be recoverable. No impairment indicators have been identified as of June 30, 2013. During the three months ended June 30, 2013 and 2012, the Company recognized amortization expense of $1.0 million and $0.3 million, respectively. During the six months ended June 30, 2013 and 2012, the Company recognized amortization expense of $2.1 million and $0.6 million, respectively.

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

2013	$ 2,022
2014	3,430
2015	3,253
2016	3,100
2017	3,100
Thereafter	3,429
	$ 18,334

Note 5 Restricted Cash

As of June 30, 2013, the Company had restricted cash of $0.9 million and $1.3 million, in current and long-term assets, respectively. As of December 31, 2012, the Company had restricted cash of $1.0 million and $1.8 million, in current and long-term assets, respectively. This restricted cash is being used to collateralize outstanding performance bonds for Nessco s systems integration projects which were in effect prior to RigNet acquiring Nessco (see Note 6 Long-Term Debt).

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Note 6 Long-Term Debt

As of June 30, 2013 and December 31, 2012, the following credit facilities and long-term debt arrangements with financial institutions were in place:

	June 30, 2013	December 31, 2012
	(in thousands)	
Term loan, net of unamortized deferred financing costs	$ 56,452	$ 61,184
Equipment notes	58	109
	56,510	61,293
Less: Current maturities of long-term debt	(9,387)	(9,422)
	$ 47,123	$ 51,871

Term Loan

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

Interest is payable monthly along with quarterly principal installments of $2.4 million, with the balance due July 31, 2017. The weighted average interest rate for the three and six months ended June 30, 2013 was 2.8% and 2.9%, respectively, with an interest rate of 2.7% at June 30, 2013.

The Term Loan is secured by substantially all the assets of the Company. As of June 30, 2013, the Term Loan had outstanding principal of $56.9 million.

Revolving Loans

Under the amended and restated credit agreement dated July 2, 2012, the Company secured a $10.0 million revolving credit facility which, subject to a borrowing base calculation based upon eligible receivables, can be used for working capital, performance bonds and letters of credit. As of June 30, 2013, no draws have been made on the facility.

Performance Bonds

Prior to acquisition, NesscoInvsat Limited, had performance bonds for Nessco s systems integration projects which are currently outstanding and require the Company to maintain restricted cash balances to collateralize these bonds. As of June 30, 2013, the Company had restricted cash of $0.9 million and $1.3 million, in current and long-term assets, respectively, to satisfy this requirement.

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

Covenants and Restrictions

The Company s Term Loan contains certain covenants and restrictions, including restricting the payment of cash dividends under default and maintaining certain financial covenants such as a ratio of funded debt to Adjusted EBITDA, a non-GAAP financial measure as defined in the agreement, and a fixed charge coverage ratio. If any default occurs related to these covenants, the unpaid principal and any accrued interest shall be declared immediately due and payable. As of June 30, 2013 and December 31, 2012, the Company believes it was in compliance with all covenants.

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Debt Maturities

The following table sets forth the aggregate principal maturities of long-term debt, net of deferred financing cost amortization, for the remainder of 2013 and the following years (in thousands):

2013	$ 4,718
2014	9,343
2015	9,370
2016	9,398
2017	23,681
Total debt, including current maturities	$ 56,510

Note 7 Fair Value Disclosures

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

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

Restricted Cash Reported amounts approximate fair value.

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

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

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

Note 8 Income Taxes

The Company s effective income tax rate was 34.2% and 40.3% for the three months ended June 30, 2013 and 2012, respectively. The Company s effective income tax rate was 36.8% and 43.2% for the six months ended June 30, 2013 and 2012, respectively. The Company s effective tax rates are affected by factors including fluctuations in income across jurisdictions with varying tax rates, changes in valuation allowances related to operating in a loss jurisdiction for which a benefit cannot be claimed, and changes in income tax reserves, including related penalties and interest. The variance in the effective tax rate between the reporting periods was primarily impacted by tax planning implemented as part of a strategic legal entity restructuring completed on December 31, 2012.

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

The Company and the Internal Revenue Service agreed to close an audit of the Company s 2010 income tax return in March of 2013. The final settlement did not have a material impact on the Company s financial position or results of operations for the six months ended June 30, 2013.

Note 9 Stock-Based Compensation

During the six months ended June 30, 2013, the Company granted 101,286 shares of restricted stock to certain directors, officers and employees of the Company under the 2010 Omnibus Incentive Plan (2010 Plan). Restricted shares have no exercise price and are considered issued and outstanding common stock. Restricted shares issued to officers and employees, totaling 84,166 shares, vest over a four year period of continued employment. Restricted shares issued to directors, totaling 17,120 shares, vest after a one year period of continued service.

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During the six months ended June 30, 2013, the Company also granted 227,475 stock options to certain officers and employees of the Company under the 2010 Plan. Options granted during this period have an exercise price of $19.96, a contractual term of ten years and vest over a four year period of continued employment, with 25% of shares vesting on each of the first four anniversaries of the grant date.

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

The fair value of each stock option award is estimated on the grant date using a Black-Scholes option valuation model, which uses certain assumptions as of the date of grant. The assumptions used for the stock option grants made during the three months ended June 30, 2013 and 2012, were as follows:

	Six Months Ended June 30,	
	2013	**2012**
Expected volatility	50%	50%
Expected term (in years)	7	7
Risk-free interest rate	1.3%	2.8%
Dividend yield		

Based on these assumptions, the weighted average grant date fair value of stock options granted during the six months ended June 30, 2013 and 2012 was $11.11 and $9.45 per option, respectively.

Stock-based compensation expense related to the Company s stock-based compensation plans for the six months ended June 30, 2013 and 2012 was $1.5 million and $1.3 million, respectively. As of June 30, 2013, there was $6.9 million of total unrecognized compensation cost related to unvested options and restricted stock expected to vest. This cost is expected to be recognized over a remaining weighted-average period of 2.7 years.

Note 10 Related Party Transactions

One of the Company s directors is the president and chief executive officer of a drilling corporation which is also a customer of the Company. Revenue recognized for the three months ended June 30, 2013 and 2012 was $0.4 million and $0.1 million, respectively. Revenue recognized for the six months ended June 30, 2013 and 2012 was $0.9 million and $0.2 million, respectively. All revenue relates to services performed by the Company in the ordinary course of business.

Note 11 Income per Share

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

For the three months ended June 30, 2013 and 2012, 1,516,867 and 1,410,882 shares of unexercised or unvested securities, respectively, were included in the diluted earnings per share computation due to the dilutive effect. For the six months ended June 30, 2013 and 2012, 1,500,596 and 1,423,923 shares of unexercised or unvested securities, respectively, were included in the diluted earnings per share computation due to the dilutive effect.

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Note 12 Commitments and Contingencies

Litigation

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

Regulatory Matter

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

The Company incurred legal expenses of $0.9 million in connection with the investigation as of June 30, 2013. The Company may continue to incur significant legal fees and related expenses and the investigations may involve management time in the future in order to cooperate with OFAC and BIS. The Company cannot predict the ultimate outcome of the investigation, the total costs to be incurred in completing the investigation, the potential impact on personnel, the effect of implementing any further measures that may be necessary to ensure full compliance with applicable laws or to what extent, if at all, the Company could be subject to fines, sanctions or other penalties.

Based on the information available at this time and management s understanding of the potential sanctions, the Company currently estimates that it may incur penalties associated with these potential violations within a range of $0.2 million to $1.5 million. The Company has accrued an estimated liability of $0.8 million as management believes this is the most probable outcome. This estimate is based on RigNet s internal investigation and no assurance can be given as to what, if any, penalties OFAC or BIS will impose or whether it will identify or allege additional violations or remedies.

Operating Leases

The Company leases office space under lease agreements expiring on various dates through 2017. For the three months ended June 30, 2013 and 2012, the Company recognized expense under operating leases of $0.6 million and $0.4 million, respectively. For the six months ended June 30, 2013 and 2012, the Company recognized expense under operating leases of $1.3 million and $0.7 million, respectively. As of June 30, 2013, future minimum lease obligations for the remainder of 2013 and future year were as follows (in thousands):

2013	$ 879
2014	790
2015	498
2016	109
2017	45
	$ 2,321

Commercial Commitments

The Company enters into contracts for satellite bandwidth and other network services with certain providers. As of June 30, 2013, the Company had the following commercial commitments related to satellite and network services (in thousands):

2013	$ 13,286
2014	16,897
2015	8,441
2016	2,982
2017	1,128
	$ 42,734

Note 13 Segment Information

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

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

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

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

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

The Company s business segment information as of and for the three and six months ended June 30, 2013 and 2012, is presented below. Prior year information has been recast to conform to the current year presentation.

	Three Months Ended June 30, 2013				
	Americas	Europe/Africa	MEAP	Corporate and Eliminations	Consolidated Total
			(in thousands)		
Revenue	$ 13,141	$ 23,057	$ 15,131	$	$ 51,329
Cost of revenue (excluding depreciation and amortization)	6,149	12,807	5,503	1,468	25,927
Depreciation and amortization	1,848	1,812	1,385	204	5,249

Selling, general and administrative	2,090	1,983	2,915	5,571	12,559
Operating income (loss)	$ 3,054	$ 6,455	$ 5,328	$ (7,243)	$ 7,594
Capital expenditures	2,252	3,600	2,647	38	8,537

	Three Months Ended June 30, 2012				
	Americas	Europe/Africa	MEAP (in thousands)	Corporate and Eliminations	Consolidated Total
Revenue	$ 12,170	$ 9,806	$ 11,264	$	$ 33,240
Cost of revenue (excluding depreciation and amortization)	5,556	4,560	4,109	937	15,162
Depreciation and amortization	1,764	751	1,313	(22)	3,806
Selling, general and administrative	2,087	1,322	1,046	5,134	9,589
Operating income (loss)	$ 2,763	$ 3,173	$ 4,796	$ (6,049)	$ 4,683
Capital expenditures	1,558	1,173	2,054	27	4,812

	Six Months Ended June 30, 2013				
	Americas	Europe/Africa	MEAP (in thousands)	Corporate and Eliminations	Consolidated Total
Revenue	$ 25,556	$ 50,629	$ 27,962	$	$ 104,147
Cost of revenue (excluding depreciation and amortization)	11,430	30,329	10,511	2,779	55,049
Depreciation and amortization	3,642	3,558	2,667	351	10,218
Selling, general and administrative	3,767	4,519	4,032	12,788	25,106
Operating income (loss)	$ 6,717	$ 12,223	$ 10,752	$ (15,918)	$ 13,774
Total assets	94,603	111,711	43,122	(33,846)	215,590
Capital expenditures	4,977	5,054	5,022	131	15,184

	Six Months Ended June 30, 2012				
	Americas	Europe/Africa	MEAP (in thousands)	Corporate and Eliminations	Consolidated Total
Revenue	$ 24,013	$ 19,319	$ 21,118	$	$ 64,450
Cost of revenue (excluding depreciation and amortization)	11,222	8,333	7,930	1,858	29,343
Depreciation and amortization	3,644	1,492	2,614	(16)	7,734
Selling, general and administrative	3,726	2,193	1,996	9,877	17,792
Operating income (loss)	$ 5,421	$ 7,301	$ 8,578	$ (11,719)	$ 9,581
Total assets	91,551	40,482	35,741	(24,797)	142,977
Capital expenditures	4,617	1,948	4,241	27	10,833

During the second quarter of 2013 it was determined that costs related to potential violations of U.S. sanctions regulations are directly attributable to the MEAP segment. Therefore, $1.1 million of costs originally presented in the first quarter within the Corporate segment were reallocated to the MEAP segment in the second quarter, along with an additional $0.5 million of legal costs incurred in the second quarter (see Note 12 Commitments and Contingencies).

The following table presents revenue earned from the Company s domestic and international operations for the three and six months ended June 30, 2013 and 2012. Revenue is based on the location where services are provided or goods are sold. Due to the mobile nature of RigNet s customer base and the services provided, the Company works closely with its customers to ensure rig or vessel moves are closely monitored to ensure location of service information is properly reflected.

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
	(in thousands)			
Domestic	$ 10,184	$ 9,203	$ 17,920	$ 17,940
International	41,145	24,037	86,227	46,510
Total	$ 51,329	$ 33,240	$ 104,147	$ 64,450

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The following table presents long-lived assets for the Company s domestic and international operations as of June 30, 2013 and December 31, 2012.

	June 30, 2013	December 31, 2012
	(in thousands)	
Domestic	$ 32,674	$ 28,412
International	71,236	73,968
Total	$ 103,910	$ 102,380

Note 14 Subsequent Events

On August 1, 2013, RigNet reached a strategic deal with Inmarsat plc (Inmarsat), a leading provider of global mobile satellite communications services. The deal includes the purchase of Inmarsat s Energy Broadband business and the appointment of RigNet to become a key distribution partner to deliver Inmarsat s Global Xpress (GX) services to the energy sector worldwide.

RigNet has reached a definitive agreement to acquire Inmarsat s Energy Broadband operations for a total cash consideration of $25.0 million, adding to RigNet s technology solutions, customer base and geographic footprint. Under the terms of the deal, Inmarsat will carve out and sell to RigNet all of its energy broadband assets, which include: microwave and WiMAX networks in the U.S. Gulf of Mexico serving drillers, producers and energy vessel owners; VSAT interests in Russia, the United Kingdom, U.S. and Canada; an M2M SCADA VSAT network in the continental U.S. serving the pipeline industry; a telecommunications systems integration business operating worldwide; and a global L-band MSS retail energy business. The energy carve-out includes assets, employees, contracts and working capital.

In addition, RigNet has agreed, conditioned upon the closing of the acquisition, to become a key distributor of Inmarsat s GX satellite communications network services, which will enable RigNet to offer the next-generation satellite services to existing and new customers in the energy, energy maritime and natural resources industries. RigNet has agreed to purchase, under certain conditions, capacity from the high-throughput GX network during the four years after it becomes operational in 2015. RigNet expects to utilize the GX network capacity across its own business as well as that of the acquired Energy Broadband business.

The overall transaction is subject to customary closing conditions, including regulatory approvals, and is expected to close in or before the first quarter of 2014. RigNet expects to finance the transaction with a new credit facility and existing cash.

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

Management s Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the accompanying unaudited condensed consolidated financial statements as of June 30, 2013 and for the three and six months ended June 30, 2013 and 2012 included elsewhere herein, and with our annual report on Form 10-K for the year ended December 31, 2012. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under Risk Factors in Item 1A of our annual report and elsewhere in this quarterly report. See Forward-Looking Statements below.

Forward-Looking Statements

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

- new regulations, delays in drilling permits or other changes in the drilling industry;
- competition and competitive factors in the markets in which we operate;
- demand for our products and services;
- the advantages of our services compared to others;
- changes in customer preferences and our ability to adapt our product and services offerings;
- our ability to develop and maintain positive relationships with our customers;
- our ability to retain and hire necessary employees and appropriately staff our marketing, sales and distribution efforts;
- our cash needs and expectations regarding cash flow from operations;
- our ability to manage and grow our business and execute our business strategy;
- our strategy;
- our financial performance; and
- the costs associated with being a public company.

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

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

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Our Operations

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

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

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

In connection with the Nessco acquisition in 2012, we evaluated our then current core assets and operations, and organized them into three segments based on geographic location. Accordingly, we operate three reportable business segments based on geographic location, which are managed as distinct business units by our chief operating decision-maker.

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

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

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

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

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

Results of Operations

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	**2012**	**2013**	**2012**
	(in thousands)			
Revenue	$ 51,329	$ 33,240	$ 104,147	$ 64,450
Expenses:				
Cost of revenue (excluding depreciation and amortization)	25,927	15,162	55,049	29,343
Depreciation and amortization	5,249	3,806	10,218	7,734
Selling and marketing	1,029	729	1,816	1,387
General and administrative	11,530	8,860	23,290	16,405
Total expenses	43,735	28,557	90,373	54,869
Operating income	7,594	4,683	13,774	9,581
Other income (expense), net	(127)	110	(20)	(151)
Income before income taxes	7,467	4,793	13,754	9,430
Income tax expense	(2,552)	(1,932)	(5,064)	(4,075)
Net income	4,915	2,861	8,690	5,355
Less: Net income attributable to non-controlling interests	54	8	94	90
Net income attributable to RigNet, Inc. stockholders	$ 4,861	$ 2,853	$ 8,596	$ 5,265
Other Non-GAAP Data:				
Gross Profit (excluding depreciation and amortization)	$ 25,402	$ 18,078	$ 49,098	$ 35,107
Adjusted EBITDA	$ 13,902	$ 10,090	$ 26,523	$ 19,373

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The following represents selected financial operating results for our segments:

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
	(in thousands)			
Americas:				
Revenue	$ 13,141	$ 12,170	$ 25,556	$ 24,013
Cost of revenue (excluding depreciation and amortization)	6,149	5,556	11,430	11,222
Gross Profit (non-GAAP measure)	6,992	6,614	14,126	12,791
Depreciation and amortization	1,848	1,764	3,642	3,644
Selling, general and administrative	2,090	2,087	3,767	3,726
Americas operating income	$ 3,054	$ 2,763	$ 6,717	$ 5,421
Europe/Africa:				
Revenue	$ 23,057	$ 9,806	$ 50,629	$ 19,319
Cost of revenue (excluding depreciation and amortization)	12,807	4,560	30,329	8,333
Gross Profit (non-GAAP measure)	10,250	5,246	20,300	10,986
Depreciation and amortization	1,812	751	3,558	1,492
Selling, general and administrative	1,983	1,322	4,519	2,193
Europe/Africa operating income	$ 6,455	$ 3,173	$ 12,223	$ 7,301
Middle East/Asia Pacific:				
Revenue	$ 15,131	$ 11,264	$ 27,962	$ 21,118
Cost of revenue (excluding depreciation and amortization)	5,503	4,109	10,511	7,930
Gross Profit (non-GAAP measure)	9,628	7,155	17,451	13,188
Depreciation and amortization	1,385	1,313	2,667	2,614
Selling, general and administrative	2,915	1,046	4,032	1,996
Middle East/Asia Pacific operating income	$ 5,328	$ 4,796	$ 10,752	$ 8,578

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

Three Months Ended June 30, 2013 and 2012

Revenue. Revenue increased by $18.1 million, or 54.4%, to $51.3 million for the three months ended June 30, 2013 from $33.2 million for the three months ended June 30, 2012. This increase includes $12.1 million of revenue contributed by Nessco during the three months ended June 30, 2013 and is included in the Europe/Africa segment. Exclusive of Nessco, the revenue increased in each of our reportable segments. Americas revenue increased $0.9 million, or 8.0%, Europe/Africa revenue increased $1.2 million, or 12.2% and MEAP revenue increased $3.8 million, or 34.3%. These increases are primarily due to increases in unit counts and increased revenue-per-unit resulting from bandwidth upgrades and additional value-added services provided.

Cost of Revenue. Costs increased by $10.7 million to $25.9 million for the three months ended June 30, 2013 from $15.2 million for the three months ended June 30, 2012. This increase includes $8.3 million of costs incurred by Nessco during the three months ended June 30, 2013. Exclusive of Nessco, cost of revenue increased by $2.4 million, primarily due to incremental network services and capacity required to serve the increased unit counts and bandwidth upgrades.

Gross Profit (excluding depreciation and amortization) increased by $7.3 million, or 40.5%, to $25.4 million for the three months ended June 30, 2013 from $18.1 million for the three months ended June 30, 2012. This increase includes $3.7 million of Gross Profit (excluding depreciation and amortization) contributed by Nessco during the three months ended June 30, 2013. Excluding Nessco, Gross Profit (excluding depreciation and amortization) as a percentage of revenue increased to 55.2%, for the three months ended June 30, 2013 compared to 54.4% for the three months ended June 30, 2012. This increase is primarily attributable to efficiencies in our management of bandwidth capacity.

Depreciation and Amortization. Depreciation and amortization expense increased by $1.4 million to $5.2 million for the three months ended June 30, 2013 from $3.8 million for the three months ended June 30, 2012. Amortization expense increased $0.8 million due to the intangible assets purchased in the Nessco acquisition. Additionally, the continued increase in our capital expenditures, which support our growing operations, contributed to the increase.

Selling and Marketing. Selling and marketing expenses increased by $0.3 million, or 41.2%, to $1.0 million for the three months ended June 30, 2013 from $0.7 million for the three months ended June 30, 2012.

General and Administrative. General and administrative expenses increased by $2.6 million to $11.5 million for the three months ended June 30, 2013 from $8.9 million for the three months ended June 30, 2012. This increase includes $1.0 million of costs incurred by Nessco during the three months ended June 30, 2013. Excluding Nessco, general and administrative costs increased $1.6 million primarily due to increased compensation resulting from headcount additions, increased stock-based compensation, increased other professional fees and legal costs accrued related to potential violations of U.S. sanctions regulations. Additionally, during the second quarter of 2013 it was determined that all costs related to this regulatory matter are directly attributable to our MEAP segment. Therefore, $1.1 million of costs originally presented in the first quarter within our Corporate segment were reallocated to our MEAP segment in the second quarter, along with an additional $0.5 million of legal costs incurred in the second quarter (see Regulatory Matter section below).

Income Tax Expense. Our effective income tax rate was 34.2% and 40.3% for the three months ended June 30, 2013 and 2012, respectively. Our effective tax rates are affected by factors including fluctuations in income across jurisdictions with varying tax rates, changes in valuation allowances related to operating in a loss jurisdiction for which a benefit cannot be claimed, and changes in income tax reserves, including related penalties and interest.

Six Months Ended June 30, 2013 and 2012

Revenue. Revenue increased by $39.6 million, or 54.5%, to $104.1 million for the six months ended June 30, 2013 from $64.5 million for the six months ended June 30, 2012. This increase includes $28.9 million of revenue contributed by Nessco during the six months ended June 30, 2013 and is included in the Europe/Africa segment. Exclusive of Nessco, the revenue increased in each of our reportable segments. Americas revenue increased $1.6 million, or 6.4%, Europe/Africa revenue increased $2.5 million, or 12.6% and MEAP revenue increased $6.9 million, or 32.4%. These increases are primarily due to increases in unit counts and increased revenue-per-unit resulting from bandwidth upgrades and additional value-added services provided.

Cost of Revenue. Costs increased by $25.7 million to $55.0 million for the six months ended June 30, 2013 from $29.3 million for the six months ended June 30, 2012. This increase includes $21.2 million of costs incurred by Nessco during the six months ended June 30, 2013. Exclusive of Nessco, cost of revenue increased by $4.5 million, primarily due to incremental network services and capacity required to serve the increased unit counts and bandwidth upgrades.

Gross Profit (excluding depreciation and amortization) increased by $14.0 million, or 40.3%, to $49.1 million for the six months ended June 30, 2013 from $35.1 million for the six months ended June 30, 2012. This increase includes $7.7 million of Gross Profit (excluding depreciation and amortization) contributed by Nessco during the six months ended June 30, 2013. Excluding Nessco, Gross Profit (excluding depreciation and amortization) as a percentage of revenue increased to 55.0%, for the six months ended June 30, 2013 compared to 54.5% for the six months ended June 30, 2012. This increase is primarily attributable to efficiencies in our management of bandwidth capacity.

Depreciation and Amortization. Depreciation and amortization expense increased by $2.5 million to $10.2 million for the six months ended June 30, 2013 from $7.7 million for the six months ended June 30, 2012. Amortization expense increased $1.5 million due to the intangible assets purchased in the Nessco acquisition. Additionally, the continued increase in our capital expenditures, which support our growing operations, contributed to the increase.

Selling and Marketing. Selling and marketing expenses increased by $0.4 million, or 42.9%, to $1.8 million for the six months ended June 30, 2013 from $1.4 million for the six months ended June 30, 2012.

General and Administrative. General and administrative expenses increased by $6.9 million to $23.3 million for the six months ended June 30, 2013 from $16.4 million for the six months ended June 30, 2012. This increase includes $2.1 million of costs incurred by Nessco during the six months ended June 30, 2013. Excluding Nessco, general and administrative costs increased $4.8 million primarily due to increased compensation resulting from headcount additions and increased stock-based compensation, increased other professional fees and a contingent liability, and related legal costs, accrued related to potential violations of U.S. sanctions regulations (see Regulatory Matter section below).

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Income Tax Expense. Our effective income tax rate was 36.8% and 43.2% for the six months ended June 30, 2013 and 2012, respectively. Our effective tax rates are affected by factors including fluctuations in income across jurisdictions with varying tax rates, changes in valuation allowances related to operating in a loss jurisdiction for which a benefit cannot be claimed, and changes in income tax reserves, including related penalties and interest.

Liquidity and Capital Resources

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

At June 30, 2013, we had working capital of $65.0 million, including cash and cash equivalents of $48.6 million, current restricted cash of $0.9 million, accounts receivable of $46.3 million and other current assets of $9.0 million, offset by $14.0 million in accounts payable, $8.5 million in accrued expenses, $9.4 million in current maturities of long-term debt, $4.2 million in tax related liabilities and $3.7 million in deferred revenue.

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

During the next twelve months, we expect our principal sources of liquidity to be cash flows from operating activities, availability under our undrawn credit facility, as well as financing activities related to our anticipated acquisition of Inmarsat s energy retail business. In forecasting our cash flows we have considered factors including contracted services related to long-term deepwater drilling programs, U.S. Land rig count trends, projected oil and natural gas prices, contracted and available satellite bandwidth and the additional operations acquired from Nessco.

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

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

	Six Months Ended June 30,	
	2013	2012
	(in thousands)	
Condensed Consolidated Statements of Cash Flows Data:		
Cash and cash equivalents, January 1,	$ 59,744	$ 53,106
Net cash provided by operating activities	9,473	13,794
Net cash used in investing activities	(14,539)	(10,505)
Net cash used in financing activities	(3,747)	(4,175)
Changes in foreign currency translation	(2,330)	(221)
Cash and cash equivalents, June 30,	$ 48,601	$ 51,999

Currently, the Norwegian kroner and the British pound sterling are the currencies that could materially impact our liquidity. Our historical experience with exchange rates for these currencies has been relatively stable and, consequently, we do not typically hedge these risks, but evaluate these risks on a continual basis and may put financial instruments in place in the future if deemed necessary. During the six months ended June 30, 2013 and 2012, 59.8% and 78.7% of our revenue was denominated in U.S. dollars, respectively. This increase in non-U.S. dollar denominated revenue resulted from the addition of Nessco operations which are primarily denominated in British pounds sterling.

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Operating Activities

Net cash provided by operating activities was $9.5 million for the six months ended June 30, 2013 compared to $13.8 million for the six months ended June 30, 2012. The decrease in cash provided by operating activities during 2013 of $4.3 million was primarily due to the increased deferred revenue related to systems integration projects accounted for under the percentage-of-completion method and the timing of collections of our accounts receivable, offset by the increased profitability of our core operations.

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

Investing Activities

Net cash used in investing activities was $14.5 million and $10.5 million for the six months ended June 30, 2013 and 2012, respectively. Net cash used during the six months ended June 30, 2013 includes capital expenditures of $15.2 million. We expect capital expenditures to continue to increase during 2013 primarily resulting from growth opportunities arising from increasing demand for our services.

Financing Activities

Net cash used in financing activities was $3.7 million and $4.2 million in the six months ended June 30, 2013 and 2012, respectively. Cash used by financing activities during these periods include $4.7 million and $4.4 million of principal payments on our long-term debt, respectively.

Term Loan

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

Interest is payable monthly along with quarterly principal installments of $2.4 million, with the balance due July 31, 2017. The weighted average interest rate for the three and six months ended June 30, 2013 was 2.8% and 2.9%, respectively, with an interest rate of 2.7% at June 30, 2013.

The Term Loan is secured by substantially all the assets of the Company. As of June 30, 2013, the Term Loan had outstanding principal of $56.9 million.

The Term Loan agreement imposes certain restrictions including our ability to obtain additional debt financing and on our payment of cash dividends. It also requires us to maintain certain financial covenants such as a funded debt to Adjusted EBITDA ratio of less than or equal to 2.5 to 1.0 and a fixed charge coverage ratio of not less than 1.35 to 1.0. At June 30, 2013, our Adjusted EBITDA exceeded the minimum levels required by the: (i) fixed charge coverage ratio by $25.4 million (or 50.0% of our Adjusted EBITDA for the trailing twelve months) and (ii) funded debt to Adjusted EBITDA ratio by $28.1 million (or 55.4% of our Adjusted EBITDA for the trailing twelve months).

Off-Balance Sheet Arrangements

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

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Regulatory Matter

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

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

We incurred legal expenses of $0.9 million in connection with the investigation as of June 30, 2013. We may continue to incur significant legal fees and related expenses, and the investigations may involve management time in the future in order to cooperate with OFAC and BIS. We cannot predict the ultimate outcome of the investigation, the total costs to be incurred in completing the investigation, the potential impact on personnel, the effect of implementing any further measures that may be necessary to ensure full compliance with applicable laws or to what extent, if at all, we could be subject to fines, sanctions or other penalties.

Non-GAAP Measures

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

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

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

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

- Adjusted EBITDA is an integral component of the financial ratio covenants of our debt agreement.

Our management uses Adjusted EBITDA:

- To indicate profit contribution;

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

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

In communications with our Board of Directors concerning our financial performance.

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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 our gross profit to Gross Profit (excluding depreciation and amortization).

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(in thousands)			
Gross profit	$ 20,414	$ 14,476	$ 39,382	$ 27,777
Depreciation and amortization related to cost of revenue	4,988	3,602	9,716	7,330
Gross Profit (excluding depreciation and amortization)	$ 25,402	$ 18,078	$ 49,098	$ 35,107

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012

	(in thousands)			
Net income	$ 4,915	$ 2,861	$ 8,690	$ 5,355
Interest expense	440	129	947	316
Depreciation and amortization	5,249	3,806	10,218	7,734
(Gain) loss on sales of property and equipment, net of retirements	33	(1)	74	(51)
Stock-based compensation	713	701	1,530	1,282
Acquisition costs		662		662
Income tax expense	2,552	1,932	5,064	4,075
Adjusted EBITDA (non-GAAP measure)	$ 13,902	$ 10,090	$ 26,523	$ 19,373

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

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Adjusted EBITDA increased by $3.8 million to $13.9 million for the three months ended June 30, 2013, from $10.1 million for the three months ended June 30, 2012. Adjusted EBITDA increased by $3.8 million to $26.5 million for the six months ended June 30, 2013, from $19.4 million for the six months ended June 30, 2012. These increases resulted from the addition of Nessco operations, as well as organic growth in our core offshore operations partially offset by costs associated with head count additions and one-time costs related to potential violations of U.S. sanctions regulations (see Regulatory Matter section above).

Item 3. *Qualitative and Quantitative Disclosures about Market Risk*

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

Our objective in managing our exposure to foreign currency exchange rate fluctuations is to reduce the impact of adverse fluctuations in earnings and cash flows associated with foreign currency exchange rates. We do not currently use foreign currency forward contracts to hedge our exposure on firm commitments denominated in foreign currencies, but evaluate this on a continual basis and may put financial instruments in place in the future if deemed necessary. During the six months ended June 30, 2013 and 2012, 40.2% and 21.3%, respectively of our revenues were earned in non-U.S. currencies. This increase in non-U.S. dollar denominated revenue resulted from the addition of our Nessco operations which are primarily denominated in British pounds sterling. At June 30, 2013 and 2012, we had no significant outstanding foreign exchange contracts.

Our results of operations and cash flows are subject to fluctuations due to changes in interest rates primarily from our variable interest rate long-term debt. We do not currently use financial instruments to hedge these interest risk exposures, but evaluate this on a continual basis and may put financial instruments in place in the future if deemed necessary. The following analysis reflects the annual impacts of potential changes in our interest rate to net income (loss) attributable to us and our total stockholders equity based on our outstanding long-term debt on June 30, 2013 and December 31, 2012, assuming those liabilities were outstanding for the previous twelve months:

	June 30, 2013	December 31, 2012
	(in thousands)	
Effect on Net Income and Equity Increase/Decrease:		
1% Decrease/increase in rate	$ 565	$ 618
2% Decrease/increase in rate	$ 1,130	$ 1,235
3% Decrease/increase in rate	$ 1,695	$ 1,853

Item 4. *Controls and Procedures*

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2013. The term disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of June 30, 2013, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

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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) of the Exchange Act that occurred during the quarter ended June 30, 2013 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II OTHER INFORMATION

Item 1. ***Legal Proceedings***

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

Item 1A. ***Risk Factors***

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

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

None

Item 3. ***Defaults Upon Senior Securities***

None

Item 4. ***Mine Safety Disclosures***

Not applicable.

Item 5. ***Other Information***

None

Item 6. ***Exhibits***

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INDEX TO EXHIBITS

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

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SIGNATURES

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

	RIGNET, INC.
Date: August 5, 2013	By: /s/ MARTIN L. JIMMERSON, JR. Martin L. Jimmerson, Jr. *Chief Financial Officer* *(Principal Financial & Accounting Officer)*