

# RIGNET, INC.

## FORM 10-K (Annual Report)

Filed 03/07/13 for the Period Ending 12/31/12

Address	1880 S. DAIRY ASHFORD, SUITE 300 HOUSTON, TX 77077
Telephone	281-674-0100
CIK	0001162112
Symbol	RNET
SIC Code	4899 - Communications Services, Not Elsewhere Classified
Industry	Communications Services
Sector	Services
Fiscal Year	12/31

---

---

**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, 2012

or

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

Commission file number 001-35003

---

**RigNet, Inc.**

(Exact name of registrant as specified in its charter)

---

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**76-0677208**  
(I.R.S. Employer  
Identification No.)

**1880 S. Dairy Ashford, Suite 300**  
**Houston, Texas**  
(Address of principal executive offices)

**77077-4760**  
(Zip Code)

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

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

Title of each class  
**Common Stock, \$0.001 par value**

Name of each exchange on which registered  
**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, 2012, 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 \$267.2 million. For purposes of this calculation, only executives and directors are deemed to be affiliates of the registrant. At March 1, 2013, 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 2013 Annual Meeting of Stockholders to be filed with the Commission within 120 days of December 31, 2012 are incorporated herein by reference in Part III of this Annual Report.

---

---

## Table of Contents

### TABLE OF CONTENTS

		<u>Page</u>
	<b>PART I</b>	
Item 1	Business	3
Item 1A	Risk Factors	14
Item 1B	Unresolved Staff Comments	27
Item 2	Properties	27
Item 3	Legal Proceedings	27
Item 4	Mine Safety Disclosures	27
	<b>PART II</b>	
Item 5	Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	28
Item 6	Selected Financial Data	29
Item 7	Management’s Discussion and Analysis of Financial Condition and Results of Operations	33
Item 7A	Qualitative and Quantitative Disclosures about Market Risk	45
Item 8	Financial Statements and Supplementary Data	45
Item 9	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	45
Item 9A	Controls and Procedures	45
Item 9B	Other Information	48
	<b>PART III</b>	
Item 10	Directors, Executive Officers and Corporate Governance	49
Item 11	Executive Compensation	49
Item 12	Security Ownership of Certain Beneficial Owners and Management <sup>6</sup> and Related Stockholder Matters	49
Item 13	Certain Relationships and Related Transactions, and Director Independence	49
Item 14	Principal Accounting Fees and Services	49
	<b>PART IV</b>	
Item 15	Exhibits and Financial Statement Schedules	49

**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, 2012, 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 year ended December 31, 2012, our revenue generated from countries outside of the U.S. represented 77.2% 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 remote video conferencing, WAN acceleration and WiFi hotspots, 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;
- systems integration services to design, assemble, install and commission turnkey solutions for customer telecommunications systems;
- 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.

---

## Table of Contents

We believe we have lower capital expenditures than other remote communications providers because we do not own or operate any satellites, 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 providers to meet the needs of our customers for end-to-end IP-based communications. We generally 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 and solution 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 remote 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 as a 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 maintain safety standards; 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

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. Our business operations are divided into three reportable segments: Americas, Europe/Africa and Middle East/Asia Pacific. For financial information about our reportable segments, see Note 13 — “Segment Information” in our consolidated financial statements included in this Annual Report on Form 10-K.

- **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.

---

## Table of Contents

- **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. Our Europe/Africa segment also provides system integration services for both onshore and offshore customers in the oil and gas industry including drilling rigs and production facilities.
- **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.

As of December 31, 2012, we were serving approximately 237 jack up, semi-submersible and drillship rigs which we approximate to be a 30.5% market share of such rigs based on an IHS-Petrodata RigBase Current Activity report as of January 1, 2013. Additionally, as of December 31, 2012, we were serving approximately 282 onshore drilling rigs in the Continental U.S. We had approximately a 16.5% market share for onshore drilling rigs based on Baker Hughes North America Rotary Rig Count report for December 31, 2012. As of December 31, 2012, we were also serving approximately 575 other sites, which include production and completion facilities, international onshore rigs, energy support vessels and related remote support offices and supply bases.

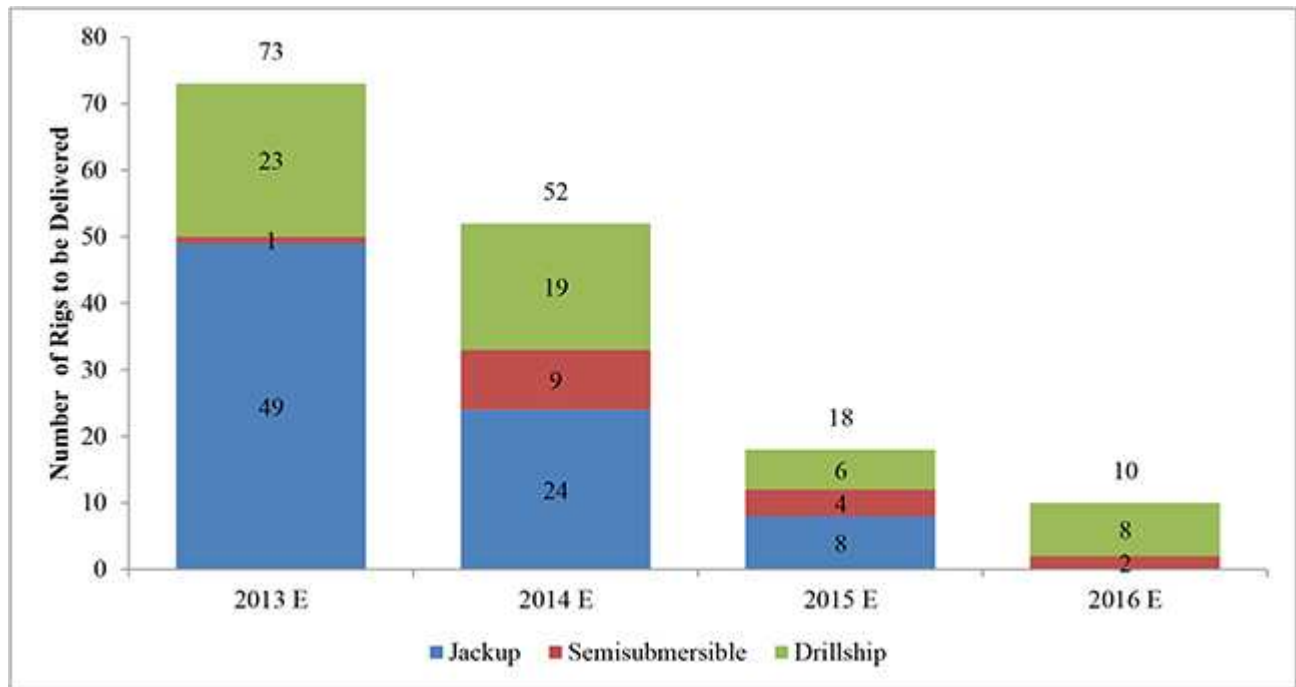
### Our Strategy

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 January 1, 2013, are scheduled to be delivered between 2013 and 2016.

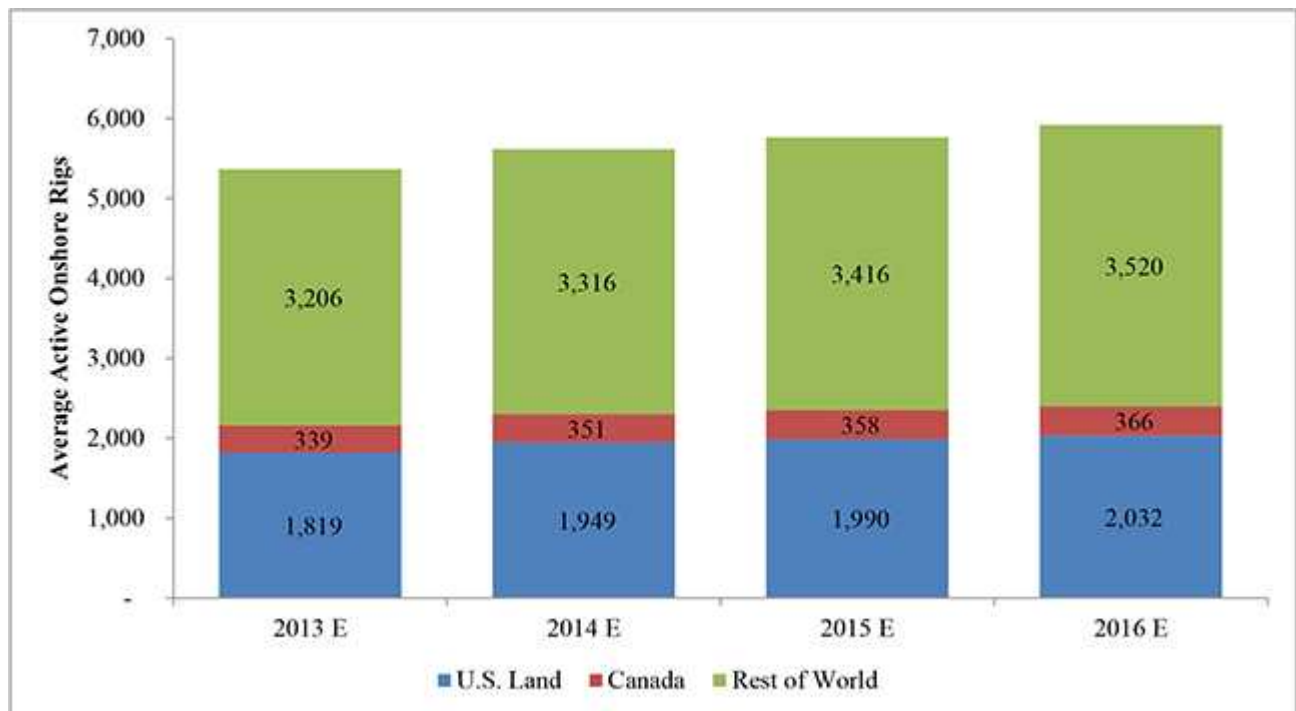
**Fixed and Floating Rigs Scheduled for Delivery**



Source: IHS-Petrodata RigBase Current Activity data as of January 1, 2013.

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 3.3% between 2013 and 2016 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**



Source: Spears & Associates Outlook.



---

## Table of Contents

**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 advanced products such as real-time functionality, videoconferencing, software acceleration technology, WiFi hotspots and media. These products will be further supported by our newly-acquired systems integration solutions and other services designed to meet the infrastructure needs of our customers.

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 capture new business opportunities and 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 2012, we expanded our services to include systems integration solutions through the acquisition of Nessco Group Holdings Ltd. (Nessco), an Aberdeen-based international leader in the field of telecommunications systems integration for the oil and gas industry. We believe Nessco will provide us with increased visibility of existing and future planned offshore fixed and floating 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;
- customized systems integration solutions provided by expert systems engineers;
- 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 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 remote communications partners that can match the breadth of their global operations and speed of deployment.

---

## Table of Contents

***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 31, 2012, 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, 2012, our onshore services were 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 as we grow, 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 and increasingly remote 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, 2012, we leased capacity from 27 satellites, and are co-located in 23 teleports and 19 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.

***Customized systems integration solutions provided by expert systems engineers:*** Through the acquisition of Nessco, we now provide customized systems integration solutions. As the demand for additional telecommunications products and systems continues to increase with each new technological advance, the need for well-designed, efficient and reliable network infrastructures becomes increasingly vital to remote communications customers. Our systems integration solutions are custom designed, built and tested by expert engineers based on the customer's specifications and requirements, as well as international industry standards and best practices. These services provide customers with improved system reliability, operational efficiency and cost savings. For those customers requiring reliable remote communications services and customized solutions for their network infrastructures, RigNet provides a one-stop-shop to satisfy these demands.

---

## Table of Contents

***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, as well as leading oil and gas companies, oilfield services firms and engineering and construction companies. In most 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.

### 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.

### *Systems Integration*

As the demand for additional telecommunications products and systems continues to increase with each new technological advance, the need for well-designed, efficient and reliable network infrastructures becomes increasingly vital to our customers. Our systems integration solutions are custom designed, engineered and built based on the customer's specifications and requirements, as well as international industry standards and best practices. Each systems integration project includes consultancy services, design, engineering, project management, procurement, testing, installation, commissioning and after-sales service. These services provide our customers with improved system reliability, operational efficiency and cost savings.

Our systems integration services are provided out of our custom built, 3,000 square foot facilities in Aberdeen, Scotland. This facility has been specifically designed to facilitate the end-to-end process of systems mechanical fabrication, build and assembly through to final System Integration Testing (SIT) and Factory Acceptance Testing (FAT). The workshops are fully provisioned with all the tools, equipment and the skilled engineers and technicians necessary to complete all operations in house, maintaining total control of both of the engineering and quality of all the processes involved in the completion of each project.

### *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.

---

## Table of Contents

We also offer 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 can also be 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.

### *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. As of December 31, 2012, 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.

---

## Table of Contents

### 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 11.6% of our total revenue for 2012.

### 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 and ownership change. 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. onshore operations, we also face competition from: wireless network providers; 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.

---

## Table of Contents

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. 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, 2012, we had approximately 375 full time employees consisting of 36 employees in sales and marketing, 115 employees in finance and administration, 205 employees in operations and technical support and 19 employees in management. We believe our employee relations are good.

### Geographic Information

See Note 13—“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. We have since 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 Communications LLC (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.

In 2012, we expanded our services to include systems integration solutions through the acquisition of Nessco, an Aberdeen-based international leader in the field of telecommunications systems integration for the oil and gas industry.

#### *Principal Executive Offices*

Our principal executive offices are located at 1880 S. Dairy Ashford, Suite 300, Houston, Texas 77077. Our main telephone number is +1 (281) 674-0100.

#### *Company Website*

The Company’s internet website is [www.rig.net](http://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.

---

## Table of Contents

### *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;
- 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," "could," "should," "would," "may," "expect," "plan," "project," "intend," "anticipate," "believe," "estimate," "predict," "potential," "pursue," "target," "continue," the negative of such terms or other comparable terminology that convey uncertainty of future events or outcomes. All of these types of statements, other than statements of historical fact included in this 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.

---

## Table of Contents

### **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.

*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;
- 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.

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 and systems integration solutions 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 and systems integration solutions 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.



---

## Table of Contents

***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.

***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 communications 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, some remote communications providers are exploring the use of Ka-band satellite service, compared to our use of the Ku-band and C-band satellite space segment today. When this Ka-band service is made available, which is expected to be in late 2013 and early 2014, we may have to adapt to its use, contracting with 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. This represents just one example of a technological change that could impact our business.

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.

---

## Table of Contents

***Our information systems and network are protected by certain security measures, and in the event that the security measures are not adequate, our systems may be damaged which could harm our business.***

We have in place layered security systems designed to protect against intentional or unintentional disruption, failure, misappropriation or corruption of our network and information systems. A problem of this type might be caused by events such as computer hacking, computer viruses, worms and other destructive or disruptive software, “cyber-attacks” and other malicious activity, as well as natural disasters, power outages, terrorist attacks and similar events. Such events could have an adverse impact on us and our customers, including degradation of service, service disruption, excessive call volume to call centers and damage to our plant, equipment and data. In addition, our future results could be adversely affected due to the theft, destruction, loss, misappropriation or release of confidential customer data or intellectual property. Operational or business delays may result from the disruption of network or information systems and the subsequent remediation activities. Moreover, these events may create negative publicity resulting in reputation or brand damage with customers. We have expended, and expect to continue to spend in the future, amounts we consider appropriate to protect our network and information systems; however, there can be no assurance that these efforts will prevent any of the problems identified above.

***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.

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

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

***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 from call out work 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.

---

## Table of Contents

***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.

***Changes in the Operations Agreement of SOIL could negatively affect financial results we recognize from our SOIL Operations.***

The North Sea consortium of companies who collectively oversee SOIL have contracted with us to operate this private extranet for them. This North Sea consortium of companies may find alternatives to the SOIL service that could cause them to terminate or not renew the current SOIL service with us. If the consortium of companies choose to eliminate the SOIL service, find an alternative communications solution, or if they contract with another provider to manage SOIL operations, our business would be harmed. New capital investments may be required to improve and expand the SOIL services in such areas as video and hosting services to avoid a drop in our SOIL revenues and enhance our ability to expand the SOIL services geographically.

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

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

***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 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, maintenance, repair 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 ;

## Table of Contents

- lack of communication service alternatives;
- providing access to faulty equipment;
- human error;
- natural disasters;
- unexpected equipment failure;
- power loss;
- labor strikes or work stoppages;
- unauthorized access or security risks; and
- sabotage or other intentional acts of vandalism.

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 certain risks, including 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. 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.

Additionally, we 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.

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

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) breach of contract claims; and (v) damage to our reputation, which could negatively affect our ability to retain existing customers or to gain new 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 five years; and our Vice President of Business Services, 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.

---

## Table of Contents

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.

***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, 2012, Noble Corporation and Enscopl represented approximately 11.6% and 6.1%, respectively, of our consolidated revenue. Similarly, for the year ended December 31, 2011, these two significant customers, Noble Corporation and Enscopl, represented approximately 12.0% and 5.9%, respectively, of our consolidated revenue. If a material customer terminates or significantly reduces its business with us, our business, financial condition and results of operations would be materially harmed.

***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. To the extent that changes in climate cause more turbulent weather, any increase in unfavorable weather conditions could impair satellite connectivity, cause more sites to be shut down and generally cause activities to be limited so that our business may be harmed.

***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.

***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.

---

## Table of Contents

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.

***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.

***Our intellectual property rights are valuable, and any failure or inability to sufficiently protect them could harm our business and our operating results.***

We own, and maintain certain intellectual property assets, including copyrights and trademarks, trade secrets, and rights to certain domain names, which we believe are collectively among our most valuable assets. We seek to protect our intellectual property assets through the laws of the U.S. and other countries of the world, and through contractual provisions. However, the efforts we have taken to protect our intellectual property and proprietary rights might not be sufficient or effective at stopping unauthorized use of those rights. Protection of the distinctive elements of RigNet might not always be available under copyright law or trademark law, or we might not discover or determine the full extent of any unauthorized use of our copyrights and trademarks in order to protect our rights. In addition, effective trademark, patent, copyright, and trade secret protection might not be available or cost-effective in every country in which our products and services are distributed. With respect to maintaining our trade secrets, we have entered into confidentiality agreements with most of our employees and contractors, and confidentiality agreements with many of the parties with whom we conduct business in order to limit access to and disclosure of our proprietary information. However, these agreements might be breached and our trade secrets might be compromised by outside parties or by our employees, which could cause us to lose any competitive advantage provided by maintaining our trade secrets. If we are unable to protect our proprietary rights from unauthorized use, the value of our intellectual property assets may be reduced. In addition, protecting our intellectual property and other proprietary rights is expensive and time consuming. Any increase in the unauthorized use of our intellectual property could make it more expensive to do business and consequently harm our operating results.

---

## Table of Contents

### *We may be subject to a variety of regulatory actions that may affect our ability to operate.*

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 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 over 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;
- 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.

---

## Table of Contents

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.

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.

***We are subject to the U.S. Foreign Corrupt Practices Act and U.S. Export Control Laws that have stringent compliance standards for us.***

We are subject to a number of applicable export control laws and regulations of the United States as well as comparable laws of 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. If our customers move their sites into countries subject to certain sanctions, we may not be able to serve them, in which case, our revenues will be adversely impacted and we may have additional costs incurred as well. 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.

***Many of our contracts are governed by the laws of countries that may make them difficult or expensive to interpret or enforce.***

Many of our contracts are governed by the laws of countries other than the U. S., 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. In addition, having to pursue arbitration or litigation in some countries may be more difficult or expensive than pursuing litigation in the United States.

***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.



---

## Table of Contents

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 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 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.

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.

***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. Further, we will continue to pursue organic growth opportunities in targeted adjacent upstream energy segments and other remote communications market adjacencies, as well as, expanding our competitive market position through strategic acquisitions.

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. In the event that our employees become involved with due diligence on acquisitions or with the integration of new companies acquired, the increased demands on our employees could detract from and be harmful to our existing business. 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.

---

## Table of Contents

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

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

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

Acquisitions involve numerous risks, including problems integrating the purchased operations, technologies or products, unanticipated costs and other liabilities, diversion of management's attention from our core business, adverse effects on existing business relationships with current and/or prospective partners, customers and/or suppliers, risks associated with entering markets and business lines in which we have no or limited prior experience and potential loss of key employees. We may not be able to successfully integrate any businesses, assets, products, technologies or personnel that we might acquire in the future without a significant expenditure of operating, financial and management resources, if at all. The integration process could divert management time from focusing on operating our business, result in a decline in employee morale and cause retention issues to arise from changes in compensation, reporting relationships, future prospects or the direction of the business.

Acquisitions may also require us to record goodwill, non-amortizable intangible assets that will be subject to impairment testing on a regular basis and potential periodic impairment charges, incur amortization expenses related to certain intangible assets and incur large and immediate write-offs and restructuring and other related expenses, all of which could harm our operating results and financial condition. In addition, we may acquire companies that have insufficient internal financial controls, which could impair our ability to integrate the acquired company and adversely impact our financial reporting. If we fail in our integration efforts with respect to any of our acquisitions and are unable to efficiently operate as a combined organization, our business, financial condition and results of operations may be materially harmed.

### ***Growth in strategic initiatives, emergence into new or adjacent market segments or the addition of strategic acquisitions may result in reduced consolidated financial margins.***

As we continue to pursue organic growth opportunities in targeted adjacent upstream energy segments and other remote communications market adjacencies, as well as, expanding our competitive market position through strategic acquisitions, financial margins for these new operations may be less than our current operations. The consolidation of these financial margins could result in reduced margins on a consolidated level.

### ***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;

---

## Table of Contents

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

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

***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.

---

## Table of Contents

***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, 2012, 31.9% 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, 2013, funds associated with Cubera Secondary (GP) AS, or Cubera, owned in the aggregate shares representing approximately 25.8% of our outstanding voting power. Additionally, as of March 1, 2013, funds affiliated with Altira Group LLC, or Altira, owned in the aggregate shares representing approximately 13.6% of our outstanding voting power. As a result, these stockholders could together potentially 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 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.

---

## Table of Contents

*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.

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

From time to time we acquire companies with a component of the purchase consideration being delayed and the payment thereof contingent on certain performance or other factors (the “contingent purchase price”). The accounting principles generally accepted in the United States require that we estimate the amount of the contingent purchase price at the time we complete the acquisition. Each subsequent reporting period (until the contingent purchase price is either paid or no longer potentially payable), we are required to re-evaluate the estimated amount of remaining contingent purchase price that is likely to be paid. If the revised estimate of the future contingent purchase price is higher than the amount accrued, then the difference must be accrued and charged to the statement of income in that period. If the revised estimate of the future contingent purchase price is lower than the amount accrued, then the accrual is reduced and the difference is credited to income for the period. Because some of these payments would not be deductible for tax purposes, it is possible that the expense (or income) would not be tax-effected on our income statements. These adjustments, if required, could be material to our future results of operations.

### **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 29,174 square feet of office space. The term of this lease runs through September 12, 2015. We also own a custom built, 3,000 square foot facility in Aberdeen, Scotland through which we provide, among other services, our systems integration solutions and that serves as one of our regional offices.

We have other regional offices under lease in Lafayette, Louisiana; 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.

**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)**

	<u>High</u>	<u>Low</u>
<b>Year Ended December 31, 2012</b>		
Fourth Quarter	\$20.65	\$17.35
Third Quarter	\$19.30	\$16.90
Second Quarter	\$18.48	\$15.20
First Quarter	\$18.13	\$15.81
<b>Year Ended December 31, 2011</b>		
Fourth Quarter	\$16.74	\$14.52
Third Quarter	\$17.50	\$13.37
Second Quarter	\$20.08	\$15.50
First Quarter	\$18.82	\$13.22
<b>Year Ended December 31, 2010</b>		
Fourth Quarter (From December 15, 2010)	\$13.70	\$12.55

There were approximately 45 holders of RigNet’s common stock on record as of March 1, 2013.

**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**

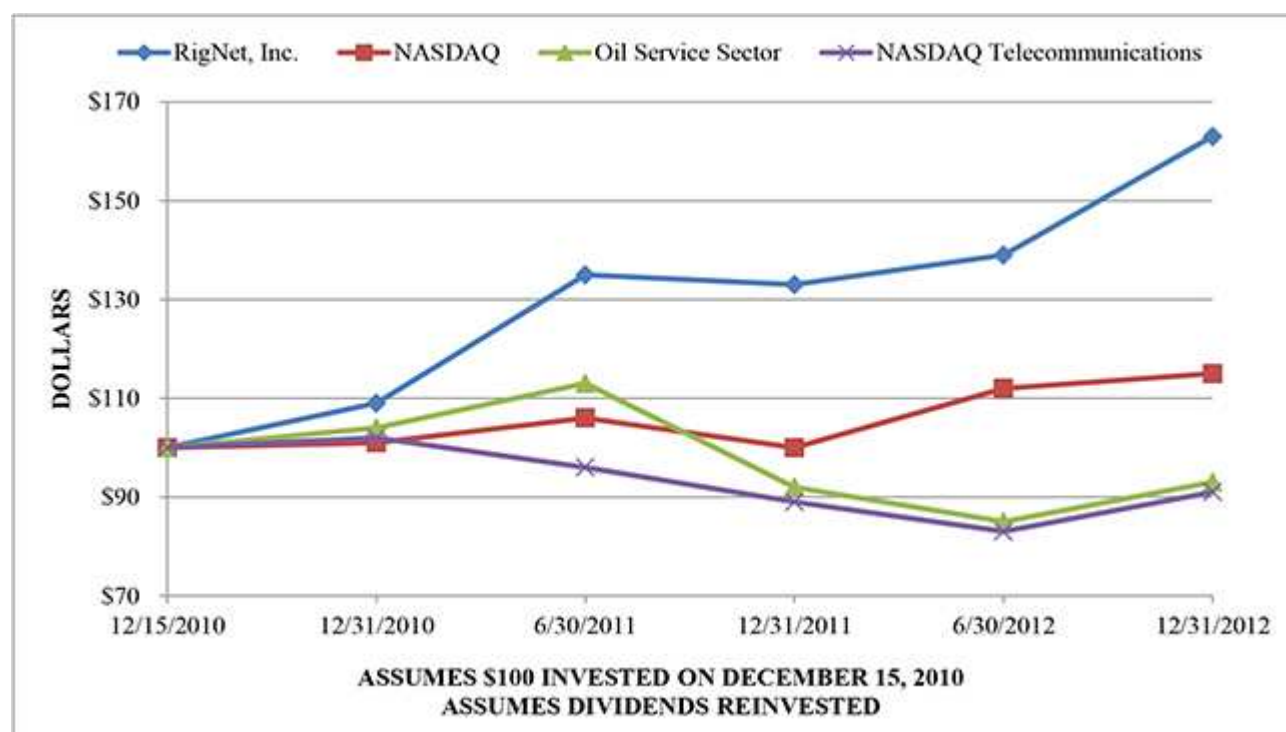
See the information incorporated by reference under Item 12. “Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters” of this Annual Report on Form 10-K regarding securities authorized for issuance under the Company’s equity compensation plans, which information 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, 2012, 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



	12/15/2010	12/31/2010	6/30/2011	12/31/2011	6/30/2012	12/31/2012
RigNet, Inc. <sup>(1)</sup>	\$ 100	\$ 109	\$ 135	\$ 133	\$ 139	\$ 163
NASDAQ	\$ 100	\$ 101	\$ 106	\$ 100	\$ 112	\$ 115
Oil Service Sector	\$ 100	\$ 104	\$ 113	\$ 92	\$ 85	\$ 93
NASDAQ Telecommunications	\$ 100	\$ 102	\$ 96	\$ 89	\$ 83	\$ 91

(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.

## Table of Contents

During 2006, the Company acquired 100% of OilCamp AS (OilCamp), as well as a 75.0% controlling interest in 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%).

Additionally, in 2012 the Company acquired 100% of Nessco. As a result of these transactions, 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.

	Year Ended December 31,				
	2012	2011	2010	2009	2008
(in thousands, except per share amounts)					
<b>Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)</b>					
<b>Data:</b>					
Revenue	\$161,669	\$109,355	\$ 92,921	\$ 80,936	\$89,909
Expenses:					
Cost of revenue (excluding depreciation and amortization)	81,071	48,645	42,479	35,165	39,294
Depreciation and amortization	17,534	14,584	14,983	12,554	10,519
Impairment of goodwill	—	—	—	2,898	—
Selling and marketing	3,081	2,276	2,103	2,187	2,605
General and administrative	37,184	26,960	20,756	16,444	21,277
Total expenses	<u>138,870</u>	<u>92,465</u>	<u>80,321</u>	<u>69,248</u>	<u>73,695</u>
Operating income	22,799	16,890	12,600	11,688	16,214
Interest expense	(1,552)	(1,249)	(1,618)	(5,146)	(2,464)
Other income (expense), net	(493)	613	(399)	304	27
Change in fair value of preferred stock derivatives	—	—	(17,190)	(21,009)	2,461
Income (loss) before income taxes	20,754	16,254	(6,607)	(14,163)	16,238
Income tax expense	(8,733)	(6,502)	(8,669)	(5,457)	(5,882)
Net income (loss)	12,021	9,752	(15,276)	(19,620)	10,356
Less: Net income (loss) attributable to:					
Non-redeemable, non-controlling interest	139	234	292	292	235
Redeemable, non-controlling interest	—	—	25	10	1,715
Net income (loss) attributable to RigNet, Inc. stockholders	<u>\$ 11,882</u>	<u>\$ 9,518</u>	<u>\$(15,593)</u>	<u>\$(19,922)</u>	<u>\$ 8,406</u>
Net income (loss) attributable to RigNet, Inc. common stockholders	<u>\$ 11,882</u>	<u>\$ 9,518</u>	<u>\$(18,807)</u>	<u>\$(22,118)</u>	<u>\$(4,190)</u>
Net income (loss) per share attributable to RigNet, Inc. common stockholders:					
Basic	<u>\$ 0.76</u>	<u>\$ 0.62</u>	<u>\$ (3.38)</u>	<u>\$ (4.16)</u>	<u>\$ (0.79)</u>
Diluted	<u>\$ 0.70</u>	<u>\$ 0.57</u>	<u>\$ (3.38)</u>	<u>\$ (4.16)</u>	<u>\$ (0.79)</u>
Weighted average shares outstanding:					
Basic	<u>15,591</u>	<u>15,387</u>	<u>5,571</u>	<u>5,312</u>	<u>5,301</u>
Diluted	<u>17,017</u>	<u>16,814</u>	<u>5,571</u>	<u>5,312</u>	<u>5,301</u>
<b>Other Non-GAAP Data:</b>					
Gross Profit (excluding depreciation and amortization)	\$ 80,598	\$ 60,710	\$ 50,442	\$ 45,771	\$50,615
Adjusted EBITDA	\$ 43,583	\$ 33,456	\$ 29,740	\$ 29,093	\$30,409



## Table of Contents

	December 31,				
	2012	2011	2010	2009	2008
	(in thousands, except per share amounts)				
<b>Consolidated Balance Sheets Data:</b>					
Cash and cash equivalents	\$ 59,744	\$ 53,106	\$ 50,435	\$11,379	\$15,376
Restricted cash—current portion	987	—	2,500	2,500	775
Restricted cash—long-term portion	1,809	—	7,500	7,500	—
Total assets	215,932	140,922	129,785	88,810	89,517
Current maturities of long-term debt	9,422	8,735	8,655	8,664	5,753
Long-term debt	51,871	14,785	23,484	21,022	18,322
Long-term deferred revenue	302	457	325	348	1,516
Preferred stock derivatives	—	—	—	30,446	8,413
Preferred stock	—	—	—	17,333	16,257

## Non-GAAP Financial Measures

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 gross profit to Gross Profit (excluding depreciation and amortization) for each of the periods presented. Gross profit is the most comparable GAAP measure to Gross Profit (excluding depreciation and amortization). Gross Profit (excluding depreciation and amortization) should not be considered as an alternative to gross profit, operating income (loss) or any other measure of financial performance calculated and presented in accordance with GAAP. Our Gross Profit (excluding depreciation and amortization) may not be comparable to similarly titled measures of other companies because other companies may not calculate Gross Profit (excluding depreciation and amortization) or similarly titled measures in the same manner as we do. We prepare Gross Profit (excluding depreciation and amortization) 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.

	Year Ended December 31,				
	2012	2011	2010	2009	2008
	(in thousands)				
<b>Reconciliation of Gross Profit to Gross Profit (excluding depreciation and amortization):</b>					
Gross profit	\$63,964	\$46,890	\$36,053	\$33,130	\$40,313
Depreciation and amortization related to cost of revenue	16,634	13,820	14,389	12,641	10,302
Gross Profit (excluding depreciation and amortization)	<u>\$80,598</u>	<u>\$60,710</u>	<u>\$50,442</u>	<u>\$45,771</u>	<u>\$50,615</u>

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

## Table of Contents

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

- Securities analysts use Adjusted EBITDA as a supplemental measure to evaluate the overall operating performance of companies, and we understand our investor and analyst presentations include Adjusted EBITDA;
- By comparing our Adjusted EBITDA in different periods, our investors may evaluate our operating results without the additional variations caused by items that we do not consider indicative of our core operating performance and which are not necessarily comparable from year to year; and
- Adjusted EBITDA is an integral component of the financial ratio covenants of our debt agreement.

Our management uses Adjusted EBITDA:

- To indicate profit contribution;
- For planning purposes, including the preparation of our annual operating budget and as a key element of annual incentive programs;
- To allocate resources to enhance the financial performance of our business; and
- In communications with our Board of Directors concerning our financial performance.

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

- Adjusted EBITDA does not reflect our cash expenditures or future requirements for capital expenditures or other contractual commitments;
- Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- Adjusted EBITDA does not reflect interest expense;
- Adjusted EBITDA does not reflect cash requirements for income taxes;
- Adjusted EBITDA does not reflect the stock based compensation component of employee compensation;
- 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.

	Year Ended December 31,				
	2012	2011	2010	2009	2008
	(in thousands)				
<b>Reconciliation of Net Income (Loss) to Adjusted EBITDA:</b>					
Net income (loss)	\$12,021	\$ 9,752	\$(15,276)	\$(19,620)	\$10,356
Interest expense	1,552	1,249	1,618	5,146	2,464
Depreciation and amortization	17,534	14,584	14,983	12,554	10,519
Impairment of goodwill	—	—	—	2,898	—
(Gain) loss on sales of property and equipment, net of retirements	(131)	(165)	294	111	(92)
Change in fair value of preferred stock derivatives	—	—	17,190	21,009	(2,461)
Stock-based compensation	2,502	1,534	437	277	231
Nessco acquisition/IPO costs	1,372	—	1,825	1,261	3,510
Income tax expense	8,733	6,502	8,669	5,457	5,882
<b>Adjusted EBITDA (non-GAAP measure)</b>	<b><u>\$43,583</u></b>	<b><u>\$33,456</u></b>	<b><u>\$ 29,740</u></b>	<b><u>\$ 29,093</u></b>	<b><u>\$30,409</u></b>

---

## Table of Contents

### 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.

#### 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 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 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). In the year ended December 31, 2012, our largest customer, who has been our customer for over five years, provided approximately 11.6% of our total revenue. In the year ended December 31, 2011, this same customer provided approximately 12.0% of our total revenue.

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 Nesso 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.

---

## Table of Contents

- **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. Our Europe/Africa segment also provides system integration services for both onshore and offshore customers in the oil and gas industry including drilling rigs and production facilities.
- **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, materials and supplies for 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. 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, 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—General**

All revenue, excluding systems integration contracts, 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.

#### **Revenue Recognition—Systems Integration Solutions**

Revenues related to long-term systems integration contracts for customized network solutions are recognized using the percentage-of-completion method. At any point, RigNet has numerous contracts in progress, all of which are at various stages of completion. Accounting for revenues and profits on long-term contracts requires estimates of total estimated contract costs and estimates of progress toward completion to determine the extent of revenue and profit recognition. Progress towards completion on fixed price contracts is measured based on the ratio of costs incurred to total estimated contract costs (the cost-to-cost method). These estimates may be revised as additional information becomes available or as specific project circumstances change.

---

## Table of Contents

We review all of our material contracts on a monthly basis and revise the estimates as appropriate for developments such as, providing services and purchasing third-party materials and equipment at costs differing from those previously estimated and incurring or expecting to incur schedule issues. Changes in estimated final contract revenues and costs can either increase or decrease the final estimated contract profit or loss. Profits are recorded in the period in which a change in estimate is recognized, based on progress achieved through the period of change. Anticipated losses on contracts are recorded in full in the period in which they become evident. Revenue recognized in excess of amounts billed is classified as a current asset under prepaid expenses and other current assets. Amounts billed to clients in excess of revenue recognized to date are classified as a current liability under deferred revenue. Under long-term contracts, amounts recorded in work in process may not be realized or paid, respectively, within a one-year period. The full amount of contracts in process and billings in excess of costs and estimated earnings on uncompleted contracts is included in current assets and current liabilities on the consolidated balance sheet, respectively.

### *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 consists of (i) telecommunication and computer equipment, (ii) furniture and other, (iii) building and (iv) land. All property and equipment, excluding land, is depreciated and 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 ten 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, 2012, 2011 and 2010, 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 (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 our initial public offering completed on December 20, 2010 (IPO), we 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 our most recent forecast and our 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, our 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.

### *Goodwill*

Goodwill relates to the acquisitions of LandTel, OilCamp and Nessco 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.

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.

---

## Table of Contents

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.

We recorded no goodwill impairments in 2012, 2011 or 2010. As of July 31, 2012, 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, 2012. 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.

### ***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, 2012 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.

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

The fair value of each restricted stock on the grant date is equal to the market price of RigNet's common stock on the date of grant.

---

## Table of Contents

Additionally, in connection with RigNet's acquisition of LandTel, LandTel issued share appreciation rights (SARs) to certain employees. The value of these SARs was based on the value of the LandTel subsidiary only and was classified as a liability award by the Company. We recorded expense for these awards based on the fair value of the awards at each balance sheet date, through December 31, 2011. In 2012, all outstanding SARs were settled in cash upon exercise by holders. We have not issued nor do we currently have plans to issue any additional SARs or any other awards which would be classified as a liability awards or settled in cash.

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 2012 or 2011 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.

## Table of Contents

### Results of Operations

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

	Year Ended December 31,			Percentage Change	
	2012	2011	2010	2011 to 2012	2010 to 2011
	(in thousands, except percentages)				
Revenue	\$161,669	\$109,355	\$ 92,921	47.8%	17.7%
Expenses:					
Cost of revenue (excluding depreciation and amortization)	81,071	48,645	42,479	66.7%	14.5%
Depreciation and amortization	17,534	14,584	14,983	20.2%	(2.7)%
Selling and marketing	3,081	2,276	2,103	35.4%	8.2%
General and administrative	37,184	26,960	20,756	37.9%	29.9%
Total expenses	138,870	92,465	80,321	50.2%	15.1%
Operating income	22,799	16,890	12,600	35.0%	34.0%
Other income (expense), net	(2,045)	(636)	(19,207)	221.5%	(96.7)%
Income (loss) before income taxes	20,754	16,254	(6,607)	27.7%	(346.0)%
Income tax expense	(8,733)	(6,502)	(8,669)	34.3%	(25.0)%
Net income (loss)	12,021	9,752	(15,276)	23.3%	(163.8)%
Less: Net income (loss) attributable to non-controlling interests	139	234	317	(40.6)%	(26.2)%
Net income (loss) attributable to RigNet, Inc. stockholders	\$ 11,882	\$ 9,518	\$(15,593)	24.8%	(161.0)%
<b>Other Non-GAAP Data:</b>					
Gross Profit (excluding depreciation and amortization)	\$ 80,598	\$ 60,710	\$ 50,442	32.8%	20.4%
Adjusted EBITDA	\$ 43,583	\$ 33,456	\$ 29,740	30.3%	12.5%



## Table of Contents

Our business operations are managed through three reportable operating segments: Americas, Europe/Africa and Middle East/Asia Pacific (MEAP). The following represents selected financial operating results for our segments:

	Year Ended December 31,			Percentage Change	
	2012	2011	2010	2011 to 2012	2010 to 2011
	(in thousands, except percentages)				
<b>Americas:</b>					
Revenue	\$49,881	\$41,517	\$31,857	20.1%	30.3%
Cost of revenue (excluding depreciation and amortization)	22,598	20,484	15,861	10.3%	29.1%
Gross Profit (non-GAAP measure)	27,283	21,033	15,996	29.7%	31.5%
Depreciation and amortization	7,409	6,743	7,096	9.9%	(5.0)%
Selling, general and administrative	7,385	7,894	4,944	(6.4)%	59.7%
Americas operating income	<u>\$12,489</u>	<u>\$ 6,396</u>	<u>\$ 3,956</u>	<u>95.3%</u>	<u>61.7%</u>
<b>Europe/Africa:</b>					
Revenue	\$65,205	\$34,371	\$31,490	89.7%	9.1%
Cost of revenue (excluding depreciation and amortization)	37,385	13,168	12,545	183.9%	5.0%
Gross Profit (non-GAAP measure)	27,820	21,203	18,945	31.2%	11.9%
Depreciation and amortization	5,073	3,053	3,080	66.2%	(0.9)%
Selling, general and administrative	7,559	5,411	3,279	39.7%	65.0%
Europe/Africa operating income	<u>\$15,188</u>	<u>\$12,739</u>	<u>\$12,586</u>	<u>19.2%</u>	<u>1.2%</u>
<b>Middle East/Asia Pacific:</b>					
Revenue	\$46,583	\$33,784	\$29,900	37.9%	13.0%
Cost of revenue (excluding depreciation and amortization)	17,113	12,335	11,470	38.7%	7.5%
Gross Profit (non-GAAP measure)	29,470	21,449	18,430	37.4%	16.4%
Depreciation and amortization	5,010	4,968	4,940	0.8%	0.6%
Selling, general and administrative	4,331	3,558	3,553	21.7%	0.1%
Middle East/Asia Pacific operating income	<u>\$20,129</u>	<u>\$12,923</u>	<u>\$ 9,937</u>	<u>55.8%</u>	<u>30.0%</u>

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

### Years Ended December 31, 2012 and 2011

**Revenue.** Revenue increased by \$52.3 million, or 47.8%, to \$161.7 million for the year ended December 31, 2012 from \$109.4 million for the year ended December 31, 2011. This increase includes \$23.4 million of revenue contributed by Nessco during the year ended December 31, 2012 and is included in the Europe/Africa segment. Exclusive of Nessco, revenue increased in each of our reportable segments. Americas revenue increased \$8.4 million, or 20.1%, Europe/Africa revenue increased \$7.4 million, or 21.5% and MEAP revenue increased \$12.8 million, or 37.9%. The increases are primarily due to increases in unit counts and increased revenue-per-unit resulting from bandwidth upgrades and additional value-added services provided.

**Cost of Revenue.** Costs increased by \$32.5 million, or 66.7%, to \$81.1 million for the year ended December 31, 2012 from \$48.6 million for the year ended December 31, 2011. This increase includes \$20.1 million of costs incurred by Nessco during the year ended December 31, 2012. Exclusive of Nessco, cost of revenue increased by \$12.4 million primarily due to incremental satellite charges and capacity required to serve the increased unit counts.

Gross Profit (excluding depreciation and amortization) increased by \$19.9 million, or 32.8%, to \$80.6 million for the year ended December 31, 2012 from \$60.7 million for the year ended December 31, 2011. This increase includes \$3.3 million of Gross Profit (excluding depreciation and amortization) contributed by Nessco during the year ended December 31, 2012. Excluding Nessco, Gross Profit (excluding depreciation and amortization) as a percentage of revenue increased to 55.9%, for the year ended December 31, 2012 compared to 55.5% for the year ended December 31, 2011. This increase is primarily attributable to efficiencies in our management of bandwidth capacity.

## Table of Contents

**Depreciation and Amortization.** Depreciation and amortization expenses increased by \$2.9 million, or 20.2%, to \$17.5 million for the year ended December 31, 2012 from \$14.6 million for the year ended December 31, 2011. The increase resulted from the increased equipment, building and intangibles related to the Nessco acquisition completed in 2012. Additionally, depreciation expense increased due to increased acquisitions of rig-based telecommunication equipment, which were acquired in conjunction with growth initiatives during 2012 and 2011.

**Selling and Marketing.** Selling and marketing expenses increased by \$0.8 million, or 35.4%, to \$3.1 million for the year ended December 31, 2012 from \$2.3 million for the year ended December 31, 2011.

**General and Administrative.** General and administrative expenses increased by \$10.2 million, or 37.9%, to \$37.2 million for the year ended December 31, 2012 from \$27.0 million for the year ended December 31, 2011. This increase includes \$2.4 million of costs contributed by Nessco during the year ended December 31, 2012. Exclusive of Nessco, general and administrative expenses increased \$7.8 million during 2012. This increase was primarily due to increases in (i) technical personnel to support growth initiatives, (ii) costs related to the Nessco acquisition, (iii) costs related to legal entity restructuring activities designed to allow more efficient and better optimization of our global cash and (iv) other professional fees related to efforts to strengthen our internal control over financial reporting.

**Other Income (Expense).** Other income (expense) netted to an expense \$2.0 million for the year ended December 31, 2012 from a net expense of \$0.6 million for the year ended December 31, 2011. This is an increased expense of \$1.4 million, or 221.5% for 2012. This increased expense is primarily due to increase interest expense resulting from our July 2012 amendment to our term loan agreement which increased the principal balance of our long-term debt by \$47.2 million.

**Income Tax Expense.** Our effective income tax rate was 42.1% and 40.0% for the years ended December 31, 2012 and 2011, respectively. Our effective tax rates are affected by factors including fluctuations in income across international jurisdictions with varying tax rates, 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 14 — “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, 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 \$9.7 million, or 30.3%, increase in Americas revenue resulting from increases in deepwater contract orders, increased unit counts, increased bandwidth requirements for existing units and the continued growth of the U.S. land-based drilling market along with our widening geographic footprint in this market. Additionally, Europe/Africa revenues increased \$2.9 million, or 9.1%, and MEAP revenue increased \$3.9 million, or 13.0%. Both the Europe/Africa and MEAP changes are primarily due to increases in deepwater contract orders, increased unit counts and increased bandwidth requirements for existing units.

**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 (excluding depreciation and amortization) 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 (excluding depreciation and amortization) 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 (excluding depreciation and amortization) as a percentage of revenue for Europe/Africa, to 61.7% in 2011 from 60.2% in 2010, and MEAP, to 63.5% in 2011 from 61.6% in 2010. This increase is primarily attributable to efficiencies in our management of bandwidth capacity.

**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 and OilCamp 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.

---

## Table of Contents

**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) 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 14—"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, 2012, we had working capital of \$64.8 million, including cash and cash equivalents of \$59.7 million, current restricted cash of \$1.0 million, accounts receivable of \$40.0 million and other current assets of \$6.2 million, offset by \$11.8 million in accounts payable, \$8.7 million in accrued expenses, \$9.4 million in current maturities of long-term debt, \$5.5 million in tax related liabilities and \$6.8 million in deferred revenue.

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

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

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

## Table of Contents

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.

	Year Ended December 31,		
	2012	2011	2010
		(in thousands)	
<b>Consolidated Statements of Cash Flows Data:</b>			
Cash and cash equivalents, January 1,	\$ 53,106	\$50,435	\$ 11,379
Net cash provided by operating activities	32,255	16,592	19,896
Net cash used in investing activities	(66,763)	(8,996)	(13,449)
Net cash provided by (used in) financing activities	37,707	(4,310)	33,480
Changes in foreign currency translation	3,439	(615)	(871)
Cash and cash equivalents, December 31,	<u>\$ 59,744</u>	<u>\$53,106</u>	<u>\$ 50,435</u>

Currently, the Norwegian kroner and the British pound sterling are the currencies that could materially impact our liquidity. Our historical experience with exchange rates for these currencies has been relatively stable and, consequently, we do not 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, 2012, 2011 and 2010, 68.1%, 79.5% and 77.5% of our revenue was denominated in U.S. dollars, respectively.

### Operating Activities

Net cash provided by operating activities was \$32.3 million for the year ended December 31, 2012 compared to \$16.6 million for the year ended December 31, 2011. The increase in cash provided by operating activities during 2012 of \$15.7 million was primarily due to the increased profitability of our core operations, changes in our tax liabilities and the timing of collections of our accounts receivable. 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.

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 \$66.8 million, \$9.0 million and \$13.4 million in the years ended December 31, 2012, 2011 and 2010, respectively. Of these amounts \$21.9 million, \$19.2 million, and \$13.5 million, respectively, were for capital expenditures. The continued growth in capital expenditures of \$2.7 million and \$5.7 million for the years ended December 31, 2012 and 2011, 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.

For the year ended December 31, 2012, net cash used by investing activities also included cash used of \$42.6 million for the acquisition of Nessco and an increase in restricted cash of \$2.7 million related to Nessco performance bonds. 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.

### Financing Activities

Net cash provided by (used in) financing activities was \$37.7 million, \$(4.3) million and \$33.5 million in the years ended December 31, 2012, 2011 and 2010, respectively. Cash provided by financing activities during the year ended December 31, 2012 was attributable to the \$47.2 million increase in the principal balance of our long term debt. This inflow was partially offset by \$9.2 million of principal payments on our long-term debt. 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.

## Table of Contents

### Term Loan

The Company has a term loan (Term Loan) with two participating financial institutions. In July 2012, the Company amended its Term Loan, increasing the principal balance by \$47.2 million and extending the maturity of the loan from May 2014 to July 2017.

Additionally, the amended Term Loan bears an interest rate of LIBOR plus a margin ranging from 2.25% to 3.50%, based on a ratio of funded debt to Adjusted EBITDA, a non-GAAP financial measure as defined in the agreement. Interest is payable monthly along with quarterly principal installments of \$2.4 million, with the balance due July 31, 2017. The weighted average interest rate for the year ended December 31, 2012 was 3.3%, with an interest rate of 3.5% at December 31, 2012.

The Term Loan is secured by substantially all the assets of the Company. As of December 31, 2012, the Term Loan had outstanding principal of \$61.7 million.

Our term loan agreement imposes certain restrictions including our ability to obtain additional debt financing and on our payment of cash dividends. It also requires us to maintain certain financial covenants such as a funded debt to Adjusted EBITDA ratio of less than or equal to 2.0 to 1.0 and a fixed charge coverage ratio of not less than 1.5 to 1.0. At December 31, 2012, our Adjusted EBITDA exceeded the minimum levels required by the: (i) fixed charge coverage ratio by \$28.3 million (or 54.6% of our Adjusted EBITDA for the trailing twelve months) and (ii) funded debt to Adjusted EBITDA ratio by \$27.4 million (or 52.8% of our Adjusted EBITDA for the trailing twelve months).

### Off-Balance Sheet Arrangements

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

### Contractual Obligations and Commercial Commitments

At December 31, 2012, we had contractual obligations and commercial commitments as follows:

	<u>Total</u>	<u>2013</u>	<u>2014 - 2015</u>	<u>2016 - 2017</u>	<u>2018 and Beyond</u>
			(in thousands)		
<b>Contractual Obligations:</b>					
Debt obligations					
Term loan	\$ 61,184	\$ 9,339	\$18,750	\$33,095	\$ —
Equipment notes	109	83	26	—	—
Interest (1)	6,300	1,970	2,955	1,375	—
Operating leases	3,628	2,186	1,288	154	—
<b>Commercial Commitments:</b>					
Satellite and network services	36,477	19,714	13,695	3,068	—
	<u>\$107,698</u>	<u>\$33,292</u>	<u>\$36,714</u>	<u>\$37,692</u>	<u>\$ —</u>

(1) Computed on the expected outstanding principle balance through the term of the loan, at the interest rate in effect at December 31, 2012.

As of December 31, 2012, the Company's other noncurrent liabilities in the Consolidated Balance Sheets consist primarily of deferred tax liabilities (\$1.6 million), gross unrecognized tax benefits (\$12.1 million) and the related gross interest and penalties (\$5.9 million). At this time, the Company is unable to make a reasonably reliable estimate of the timing of payments in individual years in connection with these liabilities; therefore, such amounts are not included in the above contractual obligations table.

### 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.

## Table of Contents

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

	Year Ended December 31,		
	2012	2011	2010
		(in thousands)	
Gross profit	\$63,964	\$46,890	\$36,053
Depreciation and amortization related to cost of revenue	16,634	13,820	14,389
Gross Profit (excluding depreciation and amortization)	<u>\$80,598</u>	<u>\$60,710</u>	<u>\$50,442</u>

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 (loss) to Adjusted EBITDA.

	Year Ended December 31,		
	2012	2011	2010
		(in thousands)	
Net income (loss)	\$12,021	\$ 9,752	\$(15,276)
Interest expense	1,552	1,249	1,618
Depreciation and amortization	17,534	14,584	14,983
(Gain) loss on sales of property and equipment, net of retirements	(131)	(165)	294
Change in fair value of preferred stock derivatives	—	—	17,190
Stock-based compensation	2,502	1,534	437
Nessco acquisition/IPO costs	1,372	—	1,825
Income tax expense	8,733	6,502	8,669
Adjusted EBITDA (non-GAAP measure)	<u>\$43,583</u>	<u>\$33,456</u>	<u>\$ 29,740</u>

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

During the year ended December 31, 2012, Adjusted EBITDA increased by \$10.1 million, or 30.3%, from \$33.5 million in 2011 to \$43.6 million in 2012, which resulted primarily from increases in unit counts served and additional demand for our services, partially offset by costs associated with head count additions and other professional fees. 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.

## 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, 2012 and 2011, 31.9% and 20.5%, respectively of our revenues were earned in non-U.S. currencies. At December 31, 2012 and 2011, 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 attributable to us and our total stockholders' equity based on our outstanding long-term debt on and December 31, 2012 and 2011, assuming those liabilities were outstanding for the entire year.

	<u>December 31,</u>	
	<u>2012</u>	<u>2011</u>
	(in thousands)	
<b>Effect on Net Income and Equity—Increase/Decrease:</b>		
1% Decrease/increase in rate	\$ 618	\$236
2% Decrease/increase in rate	\$1,235	\$472
3% Decrease/increase in rate	\$1,853	\$708

### **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, 2012. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of December 31, 2012, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective and 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.

---

## **Table of Contents**

### **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, 2012 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.



**MANAGEMENT’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

The management of 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, 2012, 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, 2012, based on those criteria.

Management included in its assessment of internal control over financial reporting all consolidated entities with the exception of entities related to the Company’s acquisition of Nessco Group Holdings Ltd. (Nessco) in July 2012. Nessco’s financial statements constitute 48% and 30% of net and total assets, respectively, of the consolidated financial statement amounts as of December 31, 2012, and contributed 14% of revenues and a net loss equal to 9% of net income to the consolidated financial statement amounts for the year ended December 31, 2012. Management determined that the internal controls of Nessco would be excluded from the internal control assessment as of December 31, 2012, due to the timing of the closing of the acquisition in July 2012 and as permitted by the rules and regulations of the Securities and Exchange Commission.

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, 2012 which is included in Item 8. Financial Statements and Supplementary Data.

---

## **Table of Contents**

### **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.

**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 2013 Annual Meeting of Stockholders (the “2013 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 2013 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 2013 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 2013 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 2013 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 2013 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 2013 Proxy Statement to be filed with the SEC.

**PART IV**

**Item 15. Exhibits and Financial Statement Schedules**

**(A) Consolidated Financial Statements**

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.
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  
Mark B. Slaughter  
*Chief Executive Officer and President*

March 7, 2013

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.

<u>Name</u>	<u>Title</u>	<u>Date</u>
<u>/s/ MARK B. SLAUGHTER</u> Mark B. Slaughter	Chief Executive Officer, President and Director (Principal Executive Officer)	March 7, 2013
<u>/s/ MARTIN L. JIMMERSON, JR.</u> Martin L. Jimmerson, Jr.	Chief Financial Officer (Principal Financial & Accounting Officer)	March 7, 2013
<u>/s/ JAMES H. BROWNING</u> James H. Browning	Chairman of the Board	March 7, 2013
<u>/s/ DITLEF DE VIBE</u> Ditlef de Vibe	Director	March 7, 2013
<u>/s/ CHARLES L. DAVIS IV</u> Charles L. Davis IV	Director	March 7, 2013
<u>/s/ KEVIN A. NEVEU</u> Kevin A. Neveu	Director	March 7, 2013
<u>/s/ KEVIN J. O'HARA</u> Kevin J. O'Hara	Director	March 7, 2013
<u>/s/ KEITH OLSEN</u> Keith Olsen	Director	March 7, 2013
<u>/s/ BRENT K. WHITTINGTON</u> Brent K. Whittington	Director	March 7, 2013
<u>/s/ KEVIN MULLOY</u> Kevin Mulloy	Director	March 7, 2013

**Table of Contents**

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

	<u>Page</u>
Report of Independent Registered Public Accounting Firm	F-2
Consolidated Balance Sheets	F-4
Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)	F-5
Consolidated Statements of Cash Flows	F-6
Consolidated Statements of Equity	F-7
Notes to the Consolidated Financial Statements	F-8

**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, 2012 and 2011, and the related consolidated statements of income (loss) and comprehensive income (loss), cash flows, and equity for each of the three years in the period ended December 31, 2012. We also have audited the Company’s internal control over financial reporting as of December 31, 2012, 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 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.

As described in management’s report on internal control over financial reporting, management excluded from its assessment the internal control over financial reporting at Nessco Group Holdings Ltd. (“Nessco”), which was acquired on July 5, 2012. Nessco’s financial statements constitute 48% and 30% of net and total assets, respectively, of the consolidated financial statement amounts as of December 31, 2012, and contributed 14% of revenues and a net loss equal to 9% of net income to the consolidated financial statement amounts for the year ended December 31, 2012. Accordingly, our audit did not include the internal control over financial reporting at Nessco.

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 opinion.

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.

---

## Table of Contents

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, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012, 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, 2012, 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, 2013

**Table of Contents**

**RIGNET, INC.  
CONSOLIDATED BALANCE SHEETS**

	December 31,	
	2012	2011
	(in thousands, except share amounts)	
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 59,744	\$ 53,106
Restricted cash	987	—
Accounts receivable, net	40,028	26,350
Prepaid expenses and other current assets	6,214	3,581
<b>Total current assets</b>	<b>106,973</b>	<b>83,037</b>
Property and equipment, net	46,650	32,655
Restricted cash	1,809	—
Goodwill	34,489	13,796
Intangibles, net	21,241	5,849
Deferred tax and other assets	4,770	5,585
<b>TOTAL ASSETS</b>	<b>\$ 215,932</b>	<b>\$ 140,922</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 11,763	\$ 5,459
Accrued expenses	8,686	7,116
Current maturities of long-term debt	9,422	8,735
Income taxes payable	5,520	5,262
Deferred revenue	6,774	1,542
<b>Total current liabilities</b>	<b>42,165</b>	<b>28,114</b>
Long-term debt	51,871	14,785
Deferred revenue	302	457
Deferred tax liability	1,645	48
Other liabilities	17,977	14,133
<b>Total liabilities</b>	<b>113,960</b>	<b>57,537</b>
Commitments and contingencies (Note 10)		
<b>Equity:</b>		
<b>Stockholders' equity</b>		
Preferred stock—\$0.001 par value; 10,000,000 shares authorized; no shares issued or outstanding at December 31, 2012 and 2011	—	—
Common stock—\$0.001 par value; 190,000,000 shares authorized; 15,701,615 and 15,440,801 shares issued and outstanding at December 31, 2012 and 2011, respectively	16	15
Additional paid-in capital	120,050	116,740
Accumulated deficit	(21,040)	(32,922)
Accumulated other comprehensive income (loss)	2,829	(610)
<b>Total stockholders' equity</b>	<b>101,855</b>	<b>83,223</b>
Non-redeemable, non-controlling interest	117	162
<b>Total equity</b>	<b>101,972</b>	<b>83,385</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 215,932</b>	<b>\$ 140,922</b>

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



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

	Year Ended December 31,		
	2012	2011	2010
	(in thousands, except per share amounts)		
<b>Revenue</b>	<b>\$161,669</b>	<b>\$109,355</b>	<b>\$ 92,921</b>
<b>Expenses:</b>			
Cost of revenue (excluding depreciation and amortization)	81,071	48,645	42,479
Depreciation and amortization	17,534	14,584	14,983
Selling and marketing	3,081	2,276	2,103
General and administrative	37,184	26,960	20,756
<b>Total expenses</b>	<b>138,870</b>	<b>92,465</b>	<b>80,321</b>
<b>Operating income</b>	<b>22,799</b>	<b>16,890</b>	<b>12,600</b>
<b>Other income (expense):</b>			
Interest expense	(1,552)	(1,249)	(1,618)
Other income (expense), net	(493)	613	(399)
Change in fair value of preferred stock derivatives	—	—	(17,190)
Income (loss) before income taxes	20,754	16,254	(6,607)
Income tax expense	(8,733)	(6,502)	(8,669)
<b>Net income (loss)</b>	<b>12,021</b>	<b>9,752</b>	<b>(15,276)</b>
Less: Net income (loss) attributable to:			
Non-redeemable, non-controlling interest	139	234	292
Redeemable, non-controlling interest	—	—	25
<b>Net income (loss) attributable to RigNet, Inc. stockholders</b>	<b>\$ 11,882</b>	<b>\$ 9,518</b>	<b>\$(15,593)</b>
<b>COMPREHENSIVE INCOME (LOSS)</b>			
Net income (loss)	\$ 12,021	\$ 9,752	\$(15,276)
Foreign currency translation	3,439	(615)	(936)
<b>Comprehensive income (loss)</b>	<b>15,460</b>	<b>9,137</b>	<b>(16,212)</b>
Less: Comprehensive income (loss) attributable to non-controlling interest	139	234	317
<b>Comprehensive income (loss) attributable to RigNet, Inc. stockholders</b>	<b>\$ 15,321</b>	<b>\$ 8,903</b>	<b>\$(16,529)</b>
<b>INCOME PER SHARE—BASIC AND DILUTED</b>			
Net income (loss) attributable to RigNet, Inc. stockholders	\$ 11,882	\$ 9,518	\$(15,593)
Less: Preferred stock dividends	—	—	3,164
Less: Adjustment to redeemable, non-controlling interest redemption value	—	—	50
Net income attributable to RigNet, Inc. common stockholders	\$ 11,882	\$ 9,518	\$(18,807)
Net income (loss) per share attributable to RigNet, Inc. common stockholders, basic	\$ 0.76	\$ 0.62	\$ (3.38)
Net income (loss) per share attributable to RigNet, Inc. common stockholders, diluted	\$ 0.70	\$ 0.57	\$ (3.38)
Weighted average shares outstanding, basic	15,591	15,387	5,571
Weighted average shares outstanding, diluted	17,017	16,814	5,571

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

**RIGNET, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Year Ended December 31,		
	2012	2011 (in thousands)	2010
<b>Cash flows from operating activities:</b>			
Net income (loss)	\$ 12,021	\$ 9,752	\$(15,276)
Adjustments to reconcile net income (loss) to net cash provided by operations:			
Change in fair value of preferred stock derivatives	—	—	17,190
Depreciation and amortization	17,534	14,584	14,983
Stock-based compensation	2,502	1,534	437
Amortization of deferred financing costs	102	95	147
Deferred taxes	(1,383)	(3,046)	(1,428)
(Gain) loss on sales of property and equipment, net of retirements	(131)	(165)	294
Changes in operating assets and liabilities, net of effect of acquisition:			
Accounts receivable	(877)	(10,297)	(3,243)
Prepaid expenses and other assets	1,133	(312)	655
Accounts payable	(339)	449	933
Accrued expenses	2,537	778	(853)
Deferred revenue	(4,302)	369	(24)
Other liabilities	3,458	2,851	6,081
<b>Net cash provided by operating activities</b>	<b>32,255</b>	<b>16,592</b>	<b>19,896</b>
<b>Cash flows from investing activities:</b>			
Acquisition of Nessco, net of cash acquired	(42,555)	—	—
Capital expenditures	(21,864)	(19,220)	(13,481)
Proceeds from sales of property and equipment	355	224	32
(Increase) decrease in restricted cash	(2,699)	10,000	—
<b>Net cash used in investing activities</b>	<b>(66,763)</b>	<b>(8,996)</b>	<b>(13,449)</b>
<b>Cash flows from financing activities:</b>			
Proceeds from issuance of common stock, net of cash issuance costs	897	4,638	36,398
Repurchase of restricted shares from employees	(88)	—	—
Payment of stock appreciation rights	(500)	—	—
Payment of preferred stock dividends	—	—	(197)
Subsidiary distributions to non-controlling interest	(184)	(234)	(271)
Redemption of redeemable, non-controlling interest	—	—	(4,651)
Proceeds from borrowings	47,238	75	11,067
Repayments of long-term debt	(9,164)	(8,789)	(8,811)
Payments of financing fees	(492)	—	(55)
<b>Net cash provided by (used in) financing activities</b>	<b>37,707</b>	<b>(4,310)</b>	<b>33,480</b>
<b>Net increase in cash and cash equivalents</b>	<b>3,199</b>	<b>3,286</b>	<b>39,927</b>
<b>Cash and cash equivalents:</b>			
Balance, January 1,	53,106	50,435	11,379
Changes in foreign currency translation	3,439	(615)	(871)
<b>Balance, December 31,</b>	<b>\$ 59,744</b>	<b>\$ 53,106</b>	<b>\$ 50,435</b>
<b>Supplemental disclosures:</b>			
Income taxes paid	\$ 7,660	\$ 5,763	\$ 4,444
Interest paid—other	\$ 1,461	\$ 1,168	\$ 1,547
Non-cash investing—capital expenditures	\$ 1,508	\$ 2,202	\$ 1,162
Liabilities assumed—Nessco acquisition	\$ 19,041	\$ —	\$ —

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

Table of Contents

**RIGNET, INC.**  
**CONSOLIDATED STATEMENTS OF EQUITY**

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss) (in thousands)	Total Stockholders' Equity	Non-Redeemable, Non-Controlling Interest	Total Equity
	Shares	Amount						
<b>Balance, January 1, 2010</b>	<b>5,318</b>	<b>\$ 5</b>	<b>\$ 9,521</b>	<b>\$ (26,847)</b>	<b>\$ 941</b>	<b>\$ (16,380)</b>	<b>\$ 141</b>	<b>\$ (16,239)</b>
Issuance of common stock upon the exercise of stock options 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)
<b>Balance, December 31, 2010</b>	<b>14,761</b>	<b>15</b>	<b>110,118</b>	<b>(42,440)</b>	<b>5</b>	<b>67,698</b>	<b>162</b>	<b>67,860</b>
Issuance of common stock upon the exercise of stock options and warrants	45	—	73	—	—	73	—	73
Issuance of restricted common stock, net of share cancellations	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
<b>Balance, December 31, 2011</b>	<b>15,441</b>	<b>15</b>	<b>116,740</b>	<b>(32,922)</b>	<b>(610)</b>	<b>83,223</b>	<b>162</b>	<b>83,385</b>
Issuance of common stock upon the exercise of stock options and warrants	144	1	896	—	—	897	—	897
Issuance of restricted common stock, net of share repurchase from employees and share cancellations	117	—	(88)	—	—	(88)	—	(88)
Stock-based compensation	—	—	2,502	—	—	2,502	—	2,502
Foreign currency translation	—	—	—	—	3,439	3,439	—	3,439
Non-controlling owner distributions	—	—	—	—	—	—	(184)	(184)
Net income	—	—	—	11,882	—	11,882	139	12,021
<b>Balance, December 31, 2012</b>	<b>15,702</b>	<b>\$ 16</b>	<b>\$ 120,050</b>	<b>\$ (21,040)</b>	<b>\$ 2,829</b>	<b>\$ 101,855</b>	<b>\$ 117</b>	<b>\$ 101,972</b>

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

**RIGNET, INC.  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**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, 2012, 2011 and 2010, 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 estimates related to the Company's use of the percentage-of-completion method, as well as 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 original 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.

**RIGNET, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(CONTINUED)**

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 a new performance bond facility, entered into on September 14, 2012, to support future performance bonds related to Nessco Group Holdings Ltd. (Nessco) systems integration projects (see Note 7 – “Long-Term Debt”).

***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 consists of (i) telecommunication and computer equipment, (ii) furniture and other, (iii) building and (iv) land. All property and equipment, excluding land, is depreciated and 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 ten years. The Company assesses property and equipment for impairment when events indicate the carrying value exceeds fair value. No impairments to property and equipment were recorded for the years ended December 31, 2012, 2011 or 2010. 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), 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 customer relationships acquired as part of the LandTel Communications LLC (LandTel), OilCamp AS (OilCamp) and Nessco acquisitions, as well as brand name, backlog and covenants not to compete acquired as part of the Nessco acquisition. Intangibles also includes internal-use software. The Company’s intangibles have useful lives ranging from twenty months 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, 2012.

**RIGNET, INC.  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(CONTINUED)**

***Goodwill***

Goodwill relates to the acquisitions of LandTel, OilCamp and Nessco 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 31<sup>st</sup>, with the most recent test being performed as of July 31, 2012. This test resulted in no impairment. No additional impairment indicators have been identified through December 31, 2012. As of December 31, 2012 and 2011, goodwill was \$34.5 million and \$13.8 million, respectively. In addition to the impact of acquisitions, goodwill increases or decreases in value due to the effect of foreign currency translation.

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 – General***

All revenue, excluding systems integration contracts, 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.

***Revenue Recognition—Systems Integration Solutions***

Revenues related to long-term, fixed-price systems integration contracts for customized network solutions are recognized using the percentage-of-completion method. At any point, RigNet has numerous contracts in progress, all of which are at various stages of completion. Accounting for revenues and profits on long-term contracts requires estimates of total estimated contract costs and estimates of progress toward completion to determine the extent of revenue and profit recognition. Progress towards completion on fixed price contracts is measured based on the ratio of costs incurred to total estimated contract costs (the cost-to-cost method). These estimates may be revised as additional information becomes available or as specific project circumstances change.

**RIGNET, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(CONTINUED)**

The Company reviews all of our material contracts on a monthly basis and revise the estimates as appropriate for developments such as, providing services and purchasing third-party materials and equipment at costs differing from those previously estimated and incurring or expecting to incur schedule issues. Changes in estimated final contract revenues and costs can either increase or decrease the final estimated contract profit or loss. Profits are recorded in the period in which a change in estimate is recognized, based on progress achieved through the period of change. Anticipated losses on contracts are recorded in full in the period in which they become evident. Revenue recognized in excess of amounts billed is classified as a current asset under prepaid expenses and other current assets. Amounts billed to customers in excess of revenue recognized to date are classified as a current liability under deferred revenue. Under long-term contracts, amounts recorded in work in process may not be realized or paid, respectively, within a one-year period. The full amount of contracts in process and billings in excess of costs and estimated earnings on uncompleted contracts is included in current assets and current liabilities on the consolidated balance sheet, respectively.

***Stock-Based Compensation***

The Company recognizes expense for stock-based compensation based on the fair value of options and restricted stock 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. Fair value of restricted stock on the grant date is equal to the market price of RigNet's common stock on the date of grant. 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 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.

**RIGNET, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(CONTINUED)**

***Recently Issued Accounting Pronouncements***

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

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

In July 2012, the FASB issued Accounting Standards Update No. 2012-02 (ASU 2012-02), Testing Indefinite-Lived Intangible Assets for Impairment. ASU 2012-02 amends the guidance on testing indefinite-lived intangible assets for impairment. The revised guidance permits an entity first to assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test. ASU 2012-02 is effective for impairment tests performed for fiscal years beginning after September 15, 2012. The Company will adopt ASU 2012-02 as of January 1, 2013. The Company does not expect ASU 2012-02 to have any impact on its financial position and results of operations as it is a change in application of the intangibles impairment test only.

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 will adopt ASU 2013-02 as of January 1, 2013. The Company does not expect the adoption of ASU 2013-02 will have to have any impact on its financial position and results of operations.

**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.



**RIGNET, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(CONTINUED)**

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.

RigNet is authorized to issue ten million shares of preferred stock. As of December 31, 2012 and 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 years ended December 31, 2012 or 2011. The assumptions used for warrants issued in the years ended December 31, 2010 were as follows:

	<b>Year Ended December 31, 2010</b>
Expected volatility	47.5%
Expected term (in years)	0.3
Risk-free interest rate	0.2%
Dividend yield	—

**RIGNET, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(CONTINUED)**

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, 2012, 2011 and 2010:

	Number of Underlying Shares <small>(in thousands)</small>	Weighted Average Exercise Price
Outstanding, January 1, 2010	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
Issued	—	\$ —
Exercised	—	\$ —
Outstanding, December 31, 2012	<u>1,534</u>	\$ 4.79

The weighted average remaining life in years of outstanding warrants as of December 31, 2012, 2011 and 2010 was 3.0, 4.0 and 5.0 years, respectively.

**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.

**RIGNET, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(CONTINUED)**

	Year Ended December 31,		
	2012	2011 (in thousands)	2010
Accounts receivable	\$41,835	\$ 28,087	\$18,592
Allowance for doubtful accounts, January 1,	(1,737)	(2,620)	(2,620)
Current year provision for doubtful accounts	(264)	65	—
Write-offs	194	818	—
Allowance for doubtful accounts, December 31,	(1,807)	(1,737)	(2,620)
Accounts receivable, net	<u>\$40,028</u>	<u>\$ 26,350</u>	<u>\$15,972</u>

During 2012, 2011 and 2010, the Company had one significant customer comprising 11.6%, 12.0% and 10.6% of its revenue, respectively.

### *Liquidity Risk*

The Company maintains cash and cash equivalent balances with major financial institutions which, at times, exceed federally insured limits. The Company monitors the financial condition of the financial institutions and has not experienced losses associated with these accounts during 2012, 2011 or 2010. Liquidity risk is managed by continuously monitoring forecasted and actual cash flows and by matching the maturity profiles of financial assets and liabilities (see Note 7—“Long-Term Debt”).

### **Note 4—Acquisitions**

#### *LandTel*

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, 2012, 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 year ended December 31, 2010 (in thousands):

Balance, January 1, 2010	\$ 4,576
Adjustment to redemption value	50
Acquisition of non-controlling interest	(4,651)
Non-controlling owner distributions	—
Net income	25
Balance, December 31, 2010	<u>\$ —</u>

#### *Nessco*

On July 5, 2012, RigNet acquired 100% of 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. 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.

**RIGNET, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(CONTINUED)**

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

The goodwill of \$19.7 million, arising from the acquisition, consists largely of the synergies and other benefits that the Company believes will result from combining the operations of the Company and Nessco, as well as, other intangible assets that do not qualify for separate recognition, such as assembled workforce in place at the date of acquisition. None of the goodwill recognized is expected to be deductible for income tax purposes. The acquisition of Nessco, including goodwill, is included in the Company's 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		\$22,213 (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	<u>11,706</u>
Total identifiable intangible assets		17,326
Goodwill		19,678(b)
Other assets		575
Liabilities		<u>(19,041)</u>
Total purchase price (a)		<u>\$ 48,495</u>

- (a) Includes \$2.1 million of contingent consideration paid between July and December 2012 based on the collection of specific third-party revenue.
- (b) Includes \$0.5 million tax impact related to the contingent consideration.

In connection with the Nessco acquisition, the Company incurred incremental expenses for the year ended December 31, 2012 of \$1.4 million related to legal, accounting and valuation services, which are reflected in general and administrative expenses.

*Actual and Pro Forma Impact of the Nessco Acquisition*

Nessco's revenue and net loss included in the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) for the year ended December 31, 2012 were as follows (in thousands):

	Year Ended December 31, 2012 (in thousands)
Revenue	\$ 23,417
Net loss	\$ (1,246)

**RIGNET, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(CONTINUED)**

As RigNet has a fiscal year ending on December 31 and Nessco has a fiscal year ending on March 31, the unaudited pro forma combined statements of income for year ended December 31, 2011 combines the historical results of RigNet for the year ended December 31, 2011 with the historical results of Nessco for the year ended March 31, 2012.

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

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

	<u>Year Ended December 31,</u>	
	<u>2012</u>	<u>2011</u>
	(in thousands)	
Revenue	\$191,261	\$162,270
Expenses	<u>177,938</u>	<u>153,929</u>
Net income from continuing operations	<u>\$ 13,323</u>	<u>\$ 8,341</u>
Net income from continuing operations attributable to RigNet, Inc. common stockholders	<u>\$ 13,184</u>	<u>\$ 8,107</u>
Net income per share from continuing operations attributable to RigNet, Inc. common stockholders:		
Basic	<u>\$ 0.85</u>	<u>\$ 0.53</u>
Diluted	<u>\$ 0.77</u>	<u>\$ 0.48</u>

**Note 5—Goodwill and Intangibles**

*Goodwill*

Goodwill consists of amounts recognized from the acquisitions of LandTel, included in the Americas reporting segment, and OilCamp and Nessco, included in the Europe/Africa 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 reportable segment, as of and for the years ended December 31, 2012 and 2011 are as follows:

	<u>Americas</u>	<u>Europe/Africa</u> (in thousands)	<u>Total</u>
Balance, January 1, 2011	\$10,893	\$ 2,948	\$13,841
Foreign currency translation	—	(45)	(45)
Balance, December 31, 2011	10,893	2,903	13,796
Nessco acquisition	—	19,678	19,678
Foreign currency translation	—	1,015	1,015
Balance, December 31, 2012	<u>\$10,893</u>	<u>\$ 23,596</u>	<u>\$34,489</u>

**Table of Contents**

**RIGNET, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(CONTINUED)**

**Intangibles**

Intangibles consist of customer relationships acquired as part of the LandTel, OilCamp and Nessco acquisitions, as well as brand name, backlog and covenants not to compete acquired as part of the Nessco acquisition. Intangibles also includes internal-use software. The following table reflects intangibles activities for the years ended December 31, 2012 and 2011:

	Covenant		Customer			Total
	Brand Name	Not To Compete	Backlog	Relation-ships	Software	
	(in thousands, except estimates lives)					
Intangibles acquired	\$ —	\$ —	\$ —	\$ 9,778	\$ 1,375	\$11,153
Accumulated amortization and foreign currency translation, January 1, 2011	—	—	—	(3,886)	(501)	(4,387)
Balance, January 1, 2011	—	—	—	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
Additions	4,353	151	1,116	11,706	135	17,461
Amortization expense	(317)	(46)	(341)	(1,772)	(328)	(2,804)
Foreign currency translation	173	5	38	523	(4)	735
Balance, December 31, 2012	<u>\$4,209</u>	<u>\$ 110</u>	<u>\$ 813</u>	<u>\$15,431</u>	<u>\$ 678</u>	<u>\$21,241</u>
Weighted average estimated lives (years)	7.0	1.7	1.7	7.9	5.0	

The following table sets forth amortization expense for intangibles over the next five years (in thousands):

2013	\$ 4,235
2014	3,577
2015	3,390
2016	3,229
2017	3,229
Thereafter	3,581
	<u>\$21,241</u>

**Note 6—Property and Equipment**

Property and equipment consists of the following:

	Estimated	December 31,	
	Lives (in years)	2012 (in thousands)	2011 (in thousands)
Telecommunication and computer equipment	1 - 5	\$114,000	\$ 88,288
Furniture and other	5 - 7	6,817	5,473
Building	10	4,576	—
Land	—	1,463	—
		126,856	93,761
Less: Accumulated depreciation		(80,206)	(61,106)
		<u>\$ 46,650</u>	<u>\$ 32,655</u>

Depreciation expense associated with property and equipment was \$14.7 million, \$13.4 million and \$13.1 million for the years ended December 31, 2012, 2011 and 2010, respectively.

**RIGNET, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(CONTINUED)**

**Note 7—Long-Term Debt**

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

	December 31,	
	2012	2011
	(in thousands)	
Term loan, net of unamortized deferred financing costs	\$61,184	\$23,454
Equipment notes	109	66
	61,293	23,520
Less: Current maturities of long-term debt	(9,422)	(8,735)
	\$51,871	\$14,785

**Term Loan**

The Company has a term loan (Term Loan) with two participating financial institutions. In July 2012, the Company amended its Term Loan, increasing the principal balance by \$47.2 million and extending the maturity of the loan from May 2014 to July 2017.

Additionally, the amended Term Loan bears an interest rate of LIBOR plus a margin ranging from 2.25% to 3.50%, based on a ratio of funded debt to Adjusted EBITDA, a non-GAAP financial measure as defined in the agreement. Interest is payable monthly along with quarterly principal installments of \$2.4 million, with the balance due July 31, 2017. The weighted average interest rate for the years ended December 31, 2012, 2011 and 2010 were 3.3%, 4.0% and 5.1%, respectively, with an interest rate of 3.5% at December 31, 2012.

The Term Loan is secured by substantially all the assets of the Company. As of December 31, 2012, the Term Loan had outstanding principal of \$61.7 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 December 31, 2012, no draws have been made on the facility.

**Performance Bonds**

On September 14, 2012, NesscoInvsat Limited, a subsidiary of RigNet Inc., secured a performance bond facility with a lender in the amount of £4.0 million. Interest of 1.5% per annum is paid quarterly on the utilized portion of the facility. This facility has a maturity date of June 30, 2017. As of December 31, 2012, the amount available under this facility was £3.5 million. These performance bonds also require the Company to maintain restricted cash balances to collateralize these outstanding performance bonds. 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, to satisfy this requirement.

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

**RIGNET, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(CONTINUED)**

***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. Deferred financing costs are expensed using the effective interest method over the life of the agreement. For the years ended December 31, 2012 and 2011, 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):

2013	\$ 9,422
2014	9,389
2015	9,387
2016	9,410
2017	<u>23,685</u>
Total debt, including current maturities	<u>\$61,293</u>

**Note 8—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, 2012, 2011 and 2010 were \$1.5 million, \$0.6 million and \$0.6 million, respectively, for services performed by the Company in the ordinary course of business.

**Note 9—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 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.
- ***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 based upon unobservable (Level 3) inputs.



**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, 2012, 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:

	<u>Year Ended</u> <u>December 31, 2010</u> (in thousands)
Balance, January 1, 2010	\$ 30,446
Unrealized (gains) losses included in earnings	17,190
Derivative related to preferred stock dividends	2,108
Conversion of preferred stock	(49,744)
Balance, December 31, 2010	<u>\$ —</u>

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 year ended December 31, 2010, was \$(17.2) million.

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.

**RIGNET, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(CONTINUED)**

**Note 10—Commitments and Contingencies**

*Operating Leases*

The Company leases office space under lease agreements expiring on various dates through 2017. The Company recognized expense under operating leases of \$2.1 million, \$1.5 million and \$1.2 million for the years ended December 31, 2012, 2011 and 2010, respectively. As of December 31, 2012, future minimum lease obligations were as follows (in thousands):

2013	\$2,186
2014	790
2015	498
2016	109
2017	45
	<u>\$3,628</u>

*Commercial Commitments*

The Company enters into contracts for satellite bandwidth and other network services with certain providers. As of December 31, 2012, the Company had the following commercial commitments related to satellite and network services (in thousands):

2013	\$19,714
2014	9,295
2015	4,400
2016	2,033
2017	1,035
	<u>\$36,477</u>

*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.

*Taxes*

The Internal Revenue Service (IRS) is in the final stages of performing an audit of the Company's 2010 income tax return. The Company has not received the final assessment from the IRS but expects the audit and, if necessary, the appeals process will be complete within the next twelve months. The Company does not believe that the final settlement will have a material change to our financial position or results of operations for the year ended December 31, 2012. RigNet does not anticipate significant changes in the remaining unrecognized tax benefits within the next twelve months.

**RIGNET, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(CONTINUED)**

**Note 11—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, 2012, the Company granted 130,723 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 95,466 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 35,257 shares, generally either vest immediately or 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, 2012, 51,811 shares of restricted stock have vested, 18,273 shares of restricted stock have been forfeited and 204,749 shares of restricted stock were outstanding.

During the year ended December 31, 2012, the Company also granted 215,563 stock options to certain officers and employees of the Company under the 2010 Plan. Options granted during this period have an exercise price of \$17.08, a contractual term of ten years and vest over a four year period of continued employment, with 25% of 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, 2012, the Company has issued 981,125 options under the 2006 Plan, of which 152,568 options have been exercised, 207,811 options have been returned or forfeited and 620,746 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.

***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, 2012, the Company has issued 130,967 options under the 2001 Plan, of which 102,057 options have been exercised, 22,660 options have been returned and 6,250 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.

**RIGNET, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(CONTINUED)**

**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. Since August 2006, 4,838 SARs have been forfeited. During 2011, share appreciation on the remaining 4,838 SARs 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, the fair value of SARs was less than \$0.1 million.

During 2012, all remaining SARs were exercised and cash totaling \$0.5 million was paid to the employees holding the SARs. No SARs were outstanding as of December 31, 2012. 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.

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, 2012, 2011 and 2010 was \$2.5 million, \$1.5 million and \$0.4 million, respectively, and accordingly, reduced income for each year.

There were no significant modifications to the three stock-based compensation plans during the years ended December 31, 2012, 2011 and 2010. As of December 31, 2012 and 2011, there were \$4.6 million and \$3.0 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 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:

- **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

The assumptions used for grants made in the years ended December 31, 2012, 2011 and 2010 were as follows:

	<u>Year Ended December 31,</u>		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
Expected volatility	50%	50%	58%
Expected term (in years)	7	7	4
Risk-free interest rate	2.8%	2.8%	2.7%
Dividend yield	—	—	—

Based on these assumptions, the weighted average fair value of options granted, per share, for the years ended December 31, 2012, 2011 and 2010 was \$9.45, \$9.73 and \$3.92, respectively.

The fair value of each restricted stock award on the grant date is equal to the market price of RigNet’s stock on the date of grant. The weighted average fair value of restricted stock granted, per share, for the year ended December 31, 2012 and 2011 was \$17.02 and \$18.21, respectively.

**RIGNET, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(CONTINUED)**

The following table summarizes the Company's stock option activity as of and for the years ended December 31, 2012, 2011 and 2010:

	Year Ended December 31,					
	2012		2011		2010	
	Number of	Weighted	Number of	Weighted	Number of	Weighted
Underlying	Average	Underlying	Average	Underlying	Average	
Shares	Exercise	Shares	Exercise	Shares	Exercise	
	Price		Price		Price	
	(in thousands, except per share amounts)					
Balance, January 1,	976	\$ 9.36	810	\$ 7.13	743	\$ 6.79
Granted	216	\$ 17.08	208	\$ 17.99	137	\$ 8.48
Exercised	(144)	\$ 6.22	(14)	\$ 5.54	(17)	\$ 0.57
Forfeited	(31)	\$ 14.88	(28)	\$ 11.35	(53)	\$ 7.85
Expired	—	\$ —	—	\$ —	—	\$ —
Balance, December 31,	<u>1,017</u>	<u>\$ 11.27</u>	<u>976</u>	<u>\$ 9.36</u>	<u>810</u>	<u>\$ 7.13</u>
Exercisable, December 31,	<u>589</u>	<u>\$ 8.21</u>	<u>588</u>	<u>\$ 7.12</u>	<u>416</u>	<u>\$ 6.92</u>

	Year Ended December 31,		
	2012	2011	2010
	(in thousands)		
Intrinsic value of options exercised	\$2,566	\$240	\$197
Fair value of options vested	\$ 738	\$435	\$332

The following table summarizes the Company's restricted stock activity as of and for the years ended December 31, 2012 and 2011:

	Year Ended December 31,	
	2012	2011
	(in thousands)	
Balance, January 1,	135	—
Granted	131	144
Vested	(52)	—
Forfeited	(9)	(9)
Balance, December 31,	<u>205</u>	<u>135</u>

The weighted average remaining contractual term in years for equity awards outstanding as of and for the years ended December 31, 2012, 2011 and 2010 was 7.0 years. At December 31, 2012 equity awards vested and expected to vest totaled 1.1 million with awards available for grant of approximately 2.4 million.

**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, 2012, 2011 and 2010:

	Number of Underlying Shares	Weighted Average Grant Date Fair Value
	(in thousands)	
Unvested equity awards, January 1, 2010	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
Granted	347	\$ 12.48
Vested	(192)	\$ 8.67
Forfeited	(36)	\$ 10.04
Unvested equity awards, December 31, 2012	<u>638</u>	\$ 11.41

**Note 12—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:

	Year Ended December 31,		
	2012	2011	2010
	(in thousands)		
Net income (loss) attributable to RigNet, Inc. stockholders	\$11,882	\$ 9,518	\$(15,593)
Less: Dividends accrued on preferred stock	—	—	1,056
Less: Derivatives related to preferred stock dividends (See Note 9 - Fair Value Measurements)	—	—	2,108
Less: Adjustment to redeemable, non-controlling interest redemption value (See Note 4—Acquisitions)	—	—	50
Net income (loss) attributable to RigNet, Inc. common stockholders	<u>\$11,882</u>	<u>\$ 9,518</u>	<u>\$(18,807)</u>
Weighted average shares outstanding, basic	15,591	15,387	5,571
Effect of dilutive securities	1,426	1,427	—
Weighted average shares outstanding, diluted	<u>17,017</u>	<u>16,814</u>	<u>5,571</u>

**RIGNET, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(CONTINUED)**

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

**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.

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

- **Americas.** The Americas segment provides remote communications services for offshore and onshore drilling rigs and production facilities, as well as, energy support vessels and other remote sites. The Americas segment services are performed out of the Company's United States and Brazil based offices for onshore and offshore customers and rig sites located on the western side of the Atlantic Ocean primarily in the United States, Mexico and Brazil, and within the Gulf of Mexico.
- **Europe/Africa.** The Europe/Africa segment provides remote communications services for offshore drilling rigs, production facilities, energy support vessels and other remote sites, as well as, systems integration projects. The Europe/Africa segment services are performed out of the Company's Norway and United Kingdom based offices for customers and rig sites located on the eastern side of the Atlantic Ocean primarily off the coasts of the United Kingdom, Norway and West Africa.
- **Middle East/Asia Pacific (MEAP).** The MEAP segment provides remote communications services for onshore and offshore drilling rigs, production facilities, energy support vessels and other remote sites. The MEAP segment services are primarily performed out of the Company's Qatar and Singapore based offices for customers and rig sites located on the eastern side of the Atlantic Ocean primarily around the Indian Ocean in Qatar, Saudi Arabia and India, around the Pacific Ocean near Australia, and within the South China Sea.

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

**Table of Contents**

**RIGNET, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(CONTINUED)**

The Company's business segment information as of and for the years ended December 31, 2012, 2011 and 2010 is presented below. Prior year information has been recast to conform to the current year presentation.

	<u>Americas</u>	<u>Europe/Africa</u>	<u>MEAP</u> (in thousands)	<u>Corporate and Eliminations</u>	<u>Consolidated Total</u>
<b>2012</b>					
Revenue	\$49,881	\$ 65,205	\$46,583	\$ —	\$ 161,669
Cost of revenue (excluding depreciation and amortization)	22,598	37,385	17,113	3,975	81,071
Depreciation and amortization	7,409	5,073	5,010	42	17,534
Selling, general and administrative	7,385	7,559	4,331	20,990	40,265
Operating income (loss)	<u>\$12,489</u>	<u>\$ 15,188</u>	<u>\$20,129</u>	<u>\$ (25,007)</u>	<u>\$ 22,799</u>
Total assets	88,152	115,649	42,157	(30,026)	215,932
Capital expenditures	9,122	3,623	8,197	141	21,083
<b>2011</b>					
Revenue	\$41,517	\$ 34,371	\$33,784	\$ (317)	\$ 109,355
Cost of revenue (excluding depreciation and amortization)	20,484	13,168	12,335	2,658	48,645
Depreciation and amortization	6,743	3,053	4,968	(180)	14,584
Selling, general and administrative	7,894	5,411	3,558	12,373	29,236
Operating income (loss)	<u>\$ 6,396</u>	<u>\$ 12,739</u>	<u>\$12,923</u>	<u>\$ (15,168)</u>	<u>\$ 16,890</u>
Total assets	86,155	33,215	34,311	(12,759)	140,922
Capital expenditures	10,505	3,734	5,281	247	19,767
<b>2010</b>					
Revenue	\$31,857	\$ 31,490	\$29,900	\$ (326)	\$ 92,921
Cost of revenue (excluding depreciation and amortization)	15,861	12,545	11,470	2,603	42,479
Depreciation and amortization	7,096	3,080	4,940	(133)	14,983
Selling, general and administrative	4,944	3,279	3,553	11,083	22,859
Operating income (loss)	<u>\$ 3,956</u>	<u>\$ 12,586</u>	<u>\$ 9,937</u>	<u>\$ (13,879)</u>	<u>\$ 12,600</u>
Total assets	80,163	26,643	18,372	4,607	129,785
Capital expenditures	6,479	2,448	4,083	81	13,091

The following table presents revenue earned from both our domestic and international operations for the years ended December 31, 2012, 2011 and 2010. Revenue is based on the location where services are provided or goods are sold. Due to the mobile nature of our customer base and the services we render, we work closely with our customers to ensure rig or vessel moves are closely monitored to ensure location of service information is properly reflected.

	<u>Year Ended December 31,</u>		
	<u>2012</u>	<u>2011</u> (in thousands)	<u>2010</u>
Domestic	\$ 36,937	\$ 35,023	\$25,957
International	124,732	74,332	66,964
Total	<u>\$ 161,669</u>	<u>\$109,355</u>	<u>\$92,921</u>



**RIGNET, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(CONTINUED)**

The following table presents long-lived assets for both our domestic and international operations as of December 31, 2012 and 2011.

	<u>December 31,</u>	
	<u>2012</u>	<u>2011</u>
	(in thousands)	
Domestic	\$ 28,412	\$26,580
International	73,968	25,720
<b>Total</b>	<b><u>\$102,380</u></b>	<b><u>\$52,300</u></b>

**Note 14—Income Taxes**

***Income Tax Expense***

The components of the income tax expense are:

	<u>Year Ended December 31,</u>		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
	(in thousands)		
<b>Current:</b>			
Federal	\$ 14	\$ (137)	\$ —
State	275	98	9
Foreign	6,564	5,994	3,727
<b>Total current</b>	<b><u>6,853</u></b>	<b><u>5,955</u></b>	<b><u>3,736</u></b>
<b>Deferred:</b>			
Federal	2,371	1,220	3,046
State	—	(60)	157
Foreign	(491)	(613)	1,730
<b>Total deferred</b>	<b><u>1,880</u></b>	<b><u>547</u></b>	<b><u>4,933</u></b>
<b>Income tax expense</b>	<b><u>\$8,733</u></b>	<b><u>\$6,502</u></b>	<b><u>\$8,669</u></b>

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

	<u>Year Ended December 31,</u>		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
	(in thousands)		
<b>Income (loss) before income taxes:</b>			
United States	\$ (5,936)	\$ (5,799)	\$ (25,314)
Foreign	26,690	22,053	18,707
	<b><u>\$20,754</u></b>	<b><u>\$16,254</u></b>	<b><u>\$ (6,607)</u></b>

**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:

	Year Ended December 31,		
	2012	2011 (in thousands)	2010
United States statutory federal income tax rate	\$ 7,264	\$5,689	\$(2,312)
Non-deductible expenses	596	491	910
Non-deductible financial expenses	—	—	6,016
U.S. tax on foreign earnings, net of tax credits	(4,235)	(32)	5,376
Changes in valuation allowances	4,679	1,004	(2,927)
Tax credits	(39)	(137)	(1,081)
State taxes	334	38	(163)
Effect of operating in foreign jurisdictions	(599)	(984)	(1,471)
Non-controlling interest in U.S. subsidiary	—	—	(95)
Changes in prior year estimates	(283)	(253)	(88)
Changes in uncertain tax benefits	1,023	735	4,918
Revisions of deferred tax accounts	(144)	(143)	(517)
Other	137	(94)	103
Income tax expense	<u>\$ 8,733</u>	<u>\$6,502</u>	<u>\$ 8,669</u>

***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:

	December 31,	
	2012	2011 (in thousands)
<b>Deferred tax assets:</b>		
Net operating loss carryforwards	\$ 173	\$ 98
Federal, state and foreign tax credits	9,052	7,368
Depreciation and amortization	5,899	6,365
Allowance for doubtful accounts	657	759
Accruals not currently deductible	186	335
Stock-based compensation	391	438
Other	17	43
Valuation allowance	(10,571)	(5,769)
Total deferred tax assets	<u>5,804</u>	<u>9,637</u>
<b>Deferred tax liabilities:</b>		
Depreciation and amortization	(4,113)	(565)
Tax on foreign earnings	(564)	(5,001)
Other	(48)	(33)
Total deferred tax liabilities	<u>(4,725)</u>	<u>(5,599)</u>
Net deferred tax assets	<u>\$ 1,079</u>	<u>\$ 4,038</u>

**RIGNET, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(CONTINUED)**

At December 31, 2012, on an as filed basis, the Company had a federal net operating loss carry forward of \$1.0 million which will expire in varying amounts beginning in 2029, state net operating loss carry forwards of approximately \$1.4 million which will expire in varying amounts beginning in 2024, and foreign net operating losses of \$0.2 million of which can be carried forward for an unlimited period. As of December 31, 2012, the Company, on an as filed basis, has U.S. domestic foreign tax credit carry forwards of \$2.9 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.

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, 2012, a valuation allowance of \$10.6 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 \$0.6 million have been provided on the Qatar subsidiary for which the undistributed earnings as of December 31, 2012, were no longer considered permanently reinvested due to non-controlling ownership issues. In December of 2012, the Company restructured its foreign legal entities. This restructuring provides the Company with a vehicle whereby cash may be moved amongst the foreign entities efficiently. Therefore, all other foreign subsidiaries' undistributed earnings are considered permanently reinvested and the Company removed any deferred tax liability previously recognized. As of December 31, 2012, the Company has not recognized \$10.8 million in U.S. federal deferred taxes, net of foreign tax credits.

Because the Company has asserted that all foreign undistributed earnings, excluding Qatar's earnings, are permanently reinvested, no provision is recorded for the deferred tax liability related to other comprehensive income.

During 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.

The Company has elected to include income tax related interest and penalties as a component of income tax expense. As of December 31, 2012, no amount has been included in the income tax payable accounts. In 2011, the Company included \$0.1 million in the income tax payable account. The amount included in income tax expense not related to uncertain tax benefits for the year ending December 31, 2012, is \$(0.1) 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, 2012, 2011 and 2010, the Company's uncertain tax benefits totaling \$18.0 million, \$14.1 million and \$11.3 million, respectively, are reported as other liabilities in the consolidated balance sheets. Changes in the Company's gross unrecognized tax benefits are as follows:

	Year Ended December 31,		
	2012	2011	2010
	(in thousands)		
Balance, January 1,	\$10,730	\$ 9,110	\$ 7,110
Additions for the current year tax	1,863	1,548	1,394
Additions related to prior years	386	2,884	2,453
Reductions related to settlements with taxing authorities	—	(1,664)	—
Reductions related to lapses in statute of limitations	(130)	(173)	—
Reductions related to prior years	(686)	(975)	(1,847)
Balance, December 31,	<u>\$12,163</u>	<u>\$10,730</u>	<u>\$ 9,110</u>

**RIGNET, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(CONTINUED)**

As of December 31, 2012, the Company's gross unrecognized tax benefits which would impact the annual effective tax rate upon recognition were \$12.1 million. In addition, as of December 31, 2012, the Company has recorded related assets, net of a valuation allowance of \$4.1 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, 2012, 2011 and 2010, the Company has accrued penalties and interest of approximately \$5.9 million, \$4.6 million and \$3.5 million, respectively. The Company has recognized \$1.2 million, \$1.1 million and \$1.6 million of interest and penalties in income tax expense for the years ended December 31, 2012, 2011 and 2010, 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 2002.

The Internal Revenue Service (IRS) is in the final stages of performing an audit of the Company's 2010 income tax return. The Company has not received the final assessment from the IRS but expects the audit and, if necessary, the appeals process will be complete within the next twelve months. The Company does not believe that the final settlement will have a material change to our financial position or results of operations for the year ended December 31, 2012. RigNet does not anticipate significant changes in the remaining unrecognized tax benefits within the next twelve months.

**Note 15 – Supplemental Quarterly Financial Information (Unaudited)**

Summarized quarterly supplemental consolidated financial information for 2012 and 2011 are as follows:

	2012 Quarter Ended			
	March 31	June 30	September 30	December 31
	(in thousands, except per share data)			
Revenue	\$31,210	\$33,240	\$ 47,939	\$ 49,280
Operating income	\$ 4,898	\$ 4,683	\$ 6,933	\$ 6,285
Net income	\$ 2,494	\$ 2,861	\$ 3,173	\$ 3,493
Net income attributable to RigNet, Inc. common stockholders	\$ 2,412	\$ 2,853	\$ 3,238	\$ 3,379
Net income per share attributable to RigNet, Inc. common stockholders, basic	<u>\$ 0.16</u>	<u>\$ 0.18</u>	<u>\$ 0.21</u>	<u>\$ 0.22</u>
Net income per share attributable to RigNet, Inc. common stockholders, diluted	<u>\$ 0.14</u>	<u>\$ 0.17</u>	<u>\$ 0.19</u>	<u>\$ 0.20</u>
Weighted average shares outstanding, basic	<u>15,464</u>	<u>15,566</u>	<u>15,647</u>	<u>15,680</u>
Weighted average shares outstanding, diluted	<u>16,948</u>	<u>16,977</u>	<u>17,104</u>	<u>17,151</u>

**RIGNET, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(CONTINUED)**

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

## Table of Contents

### 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 June 20, 2005 among the Registrant and the holders of our preferred stock party thereto (filed as Exhibit 4.2 to the Registrant's Registration Statement on Form S-1 [File No. 333-169723], as amended, and incorporated herein by reference)
- 10.1+ 2006 Long-Term Incentive Plan (filed as Exhibit 10.1 to the Registrant's Registration Statement on Form S-1 [File No. 333-169723], as amended, and incorporated herein by reference)
- 10.2+ 2010 Omnibus Incentive Plan (filed as Exhibit 10.2 to the Registrant's Registration Statement on Form S-1 [File No. 333-169723], as amended, and incorporated herein by reference)
- 10.3+ Form of Option Award Agreement under the 2006 Plan (filed as Exhibit 10.3 to the Registrant's Registration Statement on Form S-1 [File No. 333-169723], as amended, and incorporated herein by reference)
- 10.4+ Form of Incentive Stock Option Award Agreement under the 2010 Plan (filed as Exhibit 10.4 to the Registrant's Registration Statement on Form S-1 [File No. 333-169723], as amended, and incorporated herein by reference)
- 10.5+ Form of Nonqualified Stock Option Award Agreement under the 2010 Plan (filed as Exhibit 10.5 to the Registrant's Registration Statement on Form S-1 [File No. 333-169723], as amended, and incorporated herein by reference)
- 10.6 Form of Indemnification Agreement entered into with each director and executive officer (filed as Exhibit 10.6 to the Registrant's Registration Statement on Form S-1 [File No. 333-169723], as amended, and incorporated herein by reference)
- 10.7+ Employment Agreement between the Registrant and Mark Slaughter dated February 20, 2012 (filed as Exhibit 10.7 to the Registrant's annual report on Form 10-K for the period ended December 31, 2011, and incorporated herein by reference)
- 10.8+ Employment Agreement between the Registrant and Martin Jimmerson dated August 15, 2007, as amended (filed as Exhibit 10.8 to the Registrant's Registration Statement on Form S-1 [File No. 333-169723], as amended, and incorporated herein by reference)
- 10.9+ Employment Agreement between the Registrant and Jim Crenshaw dated December 28, 2012
- 10.10+ Employment Agreement between the Registrant and Morten Hansen dated February 8, 2013
- 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 (filed as Exhibit 10.1 to the Registrant's Registration Statement on Form S-1 [File No. 333-169723], as amended, and incorporated herein by reference)
- 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 (filed as Exhibit 10.12 to the Registrant's Registration Statement on Form S-1 [File No. 333-169723], as amended, and incorporated herein by reference)
- 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 (filed as Exhibit 10.13 to the Registrant's Registration Statement on Form S-1 [File No. 333-169723], as amended, and incorporated herein by reference)
- 10.14 Employment Agreement between the Registrant and William Sutton dated May 18, 2010, as amended (filed as Exhibit 10.14 to the Registrant's Registration Statement on Form S-1 [File No. 333-169723], as amended, and incorporated herein by reference)
- 10.15 Employment Agreement between the Registrant and Hector Maytorena dated May 18, 2010, as amended (filed as Exhibit 10.15 to the Registrant's Registration Statement on Form S-1 [File No. 333-169723], as amended, and incorporated herein by reference)
- 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 (filed as Exhibit 10.16 to the Registrant's Registration Statement on Form S-1 [File No. 333-169723], as amended, and incorporated herein by reference)
- 10.17 First Amended and Restated Credit Agreement, dated as of July 2, 2012 by and among RigNet, Inc. and Bank of America, N.A., among others (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on July 2, 2012, and incorporated herein by reference)
- 10.18 Lease Agreement between RigNet Inc., a Texas corporation, and KWI Ashford Westchase Buildings, L.P. dated as of June 17, 2003, as amended

---

## Table of Contents

10.19	Pledge and Assignment Over Accounts between Nessco Invsat, Ltd. And Clydesdale Bank PLC dated September 28, 2012
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, 2013
99.2	Consent of Spears & Associates, Inc. dated March 5, 2013

+ Indicates management contract or compensatory plan.



December 28, 2012

**Via e-mail: jimcrenshaw@rocketmail.com**

James R. "Jim" Crenshaw  
9611 Sotherloch Lake Dr.  
Spring, Texas 77379

**RE: Offer of Employment**

Dear Jim:

I am pleased to confirm our offer for you to join RigNet as **Vice President & General Manager—Western Hemisphere**, based in Houston and reporting directly to Mark Slaughter, CEO and President. This position will commence with a monthly salary of **\$16,666.67**, which equates to **\$200,000.00** on an annual basis. In addition, you will be a participant in the Company's Management Incentive Program ("MIP") with an annual target payout of **50% of your base salary**, settled in cash. You will also be recommended to the RigNet Board of Directors for participation in the Company's Long-Term Incentive Program ("LTIP") for next year. Your 2013 LTIP recommendation will be targeted at **100% of your base salary**. Please note that these LTIP awards have been historically awarded annually and in a combination of restricted stock and stock options.

Copies of the MIP and LTIP will be provided once you have joined the Company. The MIP provides you with the potential for an annual cash bonus tied to the financial performance of the Western Hemisphere and RigNet overall, relative to annual budget targets, with some potential subjective adjustments to the bonus based on the degree of achievement of assigned personal objectives. Under the LTIP, stock options are currently awarded with a strike price "at the money", vest in equal amounts over four years and have a ten-year life. Restricted stock has restrictions lapse in equal amounts over four years.

You will be eligible for the Company's standard benefits programs as well as **224 hours of vacation** per year. You will also be eligible for **business class travel** on long-haul international flights, longer than eight (8) hours, that are scheduled well in advance. Any other travel policy exceptions must be approved in advance and in writing by the CEO & President.

In conjunction with your acceptance, you will be provided a **sign-on advance** of **\$30,000.00**, vesting over a year in equal monthly amounts. In addition, you will be recommended to the board for a **one-time restricted stock award** valued at **\$40,000.00**, in addition to your participation in the LTIP. This one-time restricted stock award recommendation would be proposed for consideration at the next regularly scheduled meeting of the Compensation Committee and Board of Directors after your start date and would be subject to the same four-year period for the lapsing of restrictions.

This offer is contingent upon a satisfactory background check and your successful completion of our pre-employment drug screen. Your employment with us is for no set period of time and may be terminated by either you or us, with or without cause, at any time, with or without notice. As a condition of employment, you will be required to sign the attached Arbitration Agreement, Drug & Alcohol Policy, Confidentiality Agreement, and Invention Assignment Agreement.

1880 SOUTH DAIRY ASHFORD, SUITE 300 HOUSTON, TEXAS 77077 PHONE 281.674.0100 FAX 281.674.0101 <http://www.rig.net>



You have also asked that this offer letter include the exit economics related to your later departure from the Company under standard exit scenarios. Should the Company terminate your employment without "Cause" at any time; or should you terminate your employment for "Good Reason" within two years following a "Change in Control", each of these terms as defined in the Annex I to this letter, (attached to this letter and incorporated by reference) the Company shall pay you the following severance benefits, in exchange for your execution and delivery of our standard release:

- One year of your annual base salary and bonus at target, paid in a lump sum;
- Benefits coverage under COBRA for a period of up to **twelve (12) months**. Such coverage shall be included in and part of your maximum COBRA entitlement and you will be responsible for employee's portion of premiums; and
- \$20,000 in outplacement services at a provider of your choosing.

Please indicate your acceptance by signing and returning a copy of this letter. This offer of employment is valid until January 7, 2012.

Sincerely,  
RigNet, Inc.



David N. Barbee  
Director, Global Human Resources

/s/ James R. Crenshaw

Acceptance: James R. Crenshaw

Dec 28<sup>th</sup> 2012

Date

Anticipated Start Date: To Be Discussed

### **Annex I—Defined Terms**

The terms "**you**" and "**your**" refer to James Crenshaw, as identified in the letter of December 17, 2012.

The terms "**Company**" "**us**" and "**our**" shall mean RigNet, Inc., its subsidiaries and affiliates.

"**Cause**" is defined as any of the following: (i) your plea of guilty or nolo contendere, or conviction of a felony or a misdemeanor involving moral turpitude; (ii) any act by you of fraud or dishonesty with respect to any aspect of our business including, but not limited to, falsification of our records; (iii) your failure to perform your duties (other than by reason of an illness or a disability); (iv) your engagement in misconduct that is materially injurious to the Company (monetarily or otherwise); (v) your breach any confidentiality, noncompetition or non-solicitation obligations to the Company; your commencement of employment with an unrelated employer; (vii) material violation by you of any of the Company's written policies, including but not limited to any harassment and/or non-discrimination policies; (viii) your gross negligence in the performance of your duties.

"**Good Reason**" means (i) a material adverse change in your position, authority, duties or responsibilities, (ii) a reduction in your base salary or the taking of any action by us that would materially diminish your annual bonus opportunities, (iii) the relocation of the principal executive offices by more than 50 miles from where such offices are located on the first day of your employment or your being based at any office other than our principal executive or hemisphere management offices, except for travel reasonably required in the performance of your duties, (iv) a material breach of the agreement by us, or (v) the failure of a successor to us to assume the agreement.

A "**Change of Control**" shall have the same meaning as defined in Section 409A of the Internal Revenue Code.

\*\*\*



February 8, 2013

Morten Hansen  
Via email: [Morten.Hansen@rig.net](mailto:Morten.Hansen@rig.net)

**PERSONAL & CONFIDENTIAL**

**RE: Promotion to Vice President—Business Services**

Morten,

This letter confirms that in conjunction with your new position as Vice President Business Services, effective February 11, 2013, you will be eligible for the following terms and conditions of employment.

Your annual salary will continue to be \$180,000 USD and will be reviewed as part of the April 1, 2013, merit process and you will continue to participate in the Company's Management Incentive Program ("MIP") with a target payout of **45% of your base salary**. You will also continue to be eligible for long-term incentive program grants at levels commensurate with your position.

Should the Company terminate your employment without "Cause" at any time; or should you terminate your employment for "Good Reason" within two years following a "Change in Control", each of these terms as defined in the Annex I to this letter, (attached to this letter and incorporated by reference) the Company shall pay you the following severance benefits, in exchange for executing our standard release:

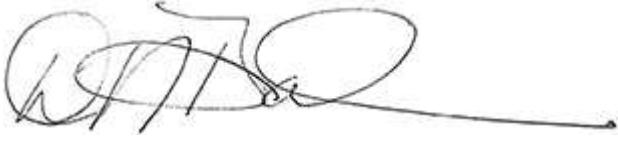
- **One year of your annual base salary, paid in a lump sum;**
- **Your annual bonus calculated by the level of achievement of the Company's financial targets under the MIP (or any successor to such plan), with no further subjective adjustment, pro-rated for your time of active employment in the year, and paid when active employees receive their bonus payments;**
- **Benefits coverage under COBRA for a period of up to twelve (12) months. Such coverage shall be included in and part of your maximum COBRA entitlement and you will be responsible for employee's portion of premiums; and**
- **\$20,000 in outplacement services at a provider of your choosing.**

1880 SOUTH DAIRY ASHFORD, SUITE 300 HOUSTON, TEXAS 77077 PHONE 281.674.0100 FAX 281.674.0101 <http://www.rig.net>

---

Please indicate your acceptance by signing and returning a copy of this letter. This offer is valid until February 15, 2013.

Sincerely,  
RigNet, Inc.

A handwritten signature in black ink, appearing to read 'D. Barbee', with a long horizontal line extending to the right.

David N. Barbee  
Director, Global Human Resources

/s/ Morten Hansen  
Acceptance: Morten Hansen

2-8-2013

Assignment Letter  
Page 2

---

**Annex I — Defined Terms**

The terms “you and “your” refer to Morten Hansen, as identified in the letter of January 30, 2013.

The terms “Company” “us” and “our” shall mean RigNet, Inc., its subsidiaries and affiliates.

“Cause” is defined as any of the following: (i) your plea of guilty or nolo contendere, or conviction of a felony or a misdemeanor involving moral turpitude; (ii) any act by you of fraud or dishonesty with respect to any aspect of our business including, but not limited to, falsification of our records; (iii) your failure to perform your duties (other than by reason of an illness or a disability); (iv) your engagement in misconduct that is materially injurious to the Company (monetarily or otherwise); (v) your breach any confidentiality, noncompetition or non-solicitation obligations to the Company; your commencement of employment with an unrelated employer; (vii) material violation by you of any of the Company’s written policies, including but not limited to any harassment and/or non-discrimination policies; (viii) your gross negligence in the performance of your duties.

“Good Reason” means (i) a material adverse change in your position, authority, duties or responsibilities, (ii) a reduction in your base salary or the taking of any action by us that would materially diminish your annual bonus opportunities, (iii) the relocation of the principal executive offices by more than 50 miles from where such offices are located on the first day of your employment or your being based at any office other than our principal executive or hemisphere management offices, except for travel reasonably required in the performance of your duties, (iv) a material breach of the agreement by us, or (v) the failure of a successor to us to assume the agreement.

A “Change of Control” shall have the same meaning as defined in Section 409A of the Internal Revenue Code.

\*\*\*

**EIGHTH AMENDMENT TO LEASE**

This eighth amendment to Lease (“Amendment”), dated for reference purposes only \_\_\_\_\_, 2012 is attached to and becomes a part of that Lease between KWI Ashford Westchase Buildings, L.P., a Delaware limited partnership, (hereinafter called “Landlord”) and Rignet, Inc., (hereinafter called “Tenant”).

**W I T N E S S E T H**

WHEREAS, under that certain lease agreement (the “Lease”) dated June 17, 2003, Landlord leased to Tenant and Tenant leased from Landlord office space consisting of approximately 3,638 rentable square feet in the office building known as Ashford Crossing II located at 1880 South Dairy Ashford, Houston, Texas (“Leased Premises”) for a term of Forty-one (41) months ending December 31, 2006 and was amended by First Amendment to Lease dated September 19, 2003 wherein Tenant expanded by an additional 1,432 rentable square feet for a total of 5,070 rentable square feet; and, was amended by Second Amendment to Lease dated October 3, 2005 wherein Tenant expanded by an additional 2,363 rentable square feet known as Suite 570; and, was amended by Third Amendment to Lease dated January 13, 2006 wherein Tenant relocated to Suite 300 and expanded by 4,339 rentable square feet; and, was amended by Fourth Amendment to Lease dated March 7, 2006 wherein Tenant expanded by an additional 928 rentable square feet known as Suite 140 and 355 rentable square feet for a total of 13,055 rentable square feet, and, was amended by Fifth Amendment to Lease dated June 19, 2006 wherein Tenant amortized additional improvements into the Base Rent and, was amended by Sixth Amendment to Lease dated November 5, 2009 wherein Tenant expanded by an additional 2,151 rentable square feet for a total of 15,206 rentable square feet; and, was amended by Seventh Amendment to Lease dated December 10, 2010 wherein Tenant expanded by an additional 4,299 rentable square feet for a total of 19,505 rentable square feet.

WHEREAS, Landlord and Tenant desire to amend said Lease as set forth herein; and,

NOW, THEREFORE, IT IS MUTUALLY COVENANTED AND AGREED AS FOLLOWS:

- (1) **LEASED PREMISES**. Effective February 1, 2013, or upon substantial completion of the Premises, whichever is later, the Premises specified in Section 1.02 of the Lease and Paragraph 1 of the Seventh Amendment to Lease, consisting of approximately 19,505 rentable square feet known as Suite 300, (“Existing Office Space”) shall be expanded by approximately 9,669 rentable square feet, (“Eighth Amendment Expansion Area”) for a total of approximately 29,174 rentable square feet (“Combined Lease Premises”), as shown on Exhibit A attached hereto.
- (2) **BASE RENTAL**. Effective February 1, 2013, the Base Rental for the Combined Lease Premises shall be as follows:

02/01/13 through 11/30/13	\$44,976.58 per month	29,174 RSF
12/01/13 through 01/31/14	\$23,096.08 per month	29,174 RSF
02/01/14 through 08/31/15	\$46,192.17 per month	29,174 RSF
09/01/15 through 09/12/15	\$18,223.76 per month	29,174 RSF

- 
- (3) **OPERATING EXPENSE BASE**. The Expense Stop specified in Section 1.12 of the Lease for the Eighth Amendment Expansion Area shall be the actual operating expenses for Calendar year 2013 (“Base Year 2013”) grossed up to reflect 95% occupancy. The treatment of operating expenses for the Existing Office Space consisting of 19,505 rentable square feet will remain as described in the existing Lease Agreement.
- (4) **LEASEHOLD IMPROVEMENTS**. The Eighth Amendment Expansion Area consisting of approximately 9,669 rentable square feet shall be tendered in an “as-is” condition. Landlord does not warrant or represent the condition of existing leasehold improvements.
- Notwithstanding the foregoing, Landlord, at Landlord’s sole cost, will provide and install Tenant with new building standard carpet and paint throughout the Eighth Amendment Expansion Area.
- (5) **PARKING**. Tenant shall be entitled to seventeen (17) additional unreserved/uncovered parking spaces for a total of fifty-five (55) and thirteen (13) additional reserved/covered parking spaces, consisting of five (5) garage spaces and eight (8) carports for a total of thirty-one (31) reserved/covered spaces at no charge for the term of the Lease.
- (6) **TERMINATION OPTION**. Tenant shall no longer have a Termination Option.
- (7) **RENEWAL**. Tenant shall have an option to renew this lease for one (1) additional term not to exceed sixty (60) months with written notification to Landlord no earlier than twelve (12) nor later than six (6) months prior to lease expiration. Should Tenant desire to renew the lease such renewal rate shall be based upon the then prevailing rates, terms, conditions and concessions offered by other similar office buildings in the Westchase West submarket of Houston, Harris County, Texas. Both parties agree to use best faith efforts to reach an agreement in a timely fashion.
- (8) **CONFIDENTIALITY**. Tenant shall not, at any time either during or subsequent to the negotiations of a Lease and/or Lease Amendment between Landlord and Tenant, disclose to any person or entity any of the contents of the negotiations between Landlord and Tenant, if a Lease and/or Lease Amendment is entered into between Landlord and Tenant, any terms of the Lease.
- (9) **NO BROKERS**. Tenant warrants that it has had no dealings with any real estate broker or agent in connection with the negotiation of this Amendment except MRIO, Inc. (on behalf of the Landlord) and Avison Young—Texas, LLC (on behalf of the Tenant), and that it knows of no other real estate brokers or agents who are or might be entitled to a commission in connection with this Amendment. Tenant agrees to indemnify and hold harmless Landlord from and against any liability or claim arising in respect to any other brokers or agents claiming a commission in connection with this Amendment through Tenant. Landlord agrees to pay Tenant’s broker a commission based on a separate agreement.
- (10) **AUTHORITY**. Tenant and each person signing this Amendment on behalf of Tenant represents to Landlord as follows: (i) Tenant is a duly formed and validly existing corporation under the laws of the State of Delaware, (ii) Tenant has and is qualified to do business in Texas, (iii) Tenant has the full right and authority to enter into this Amendment, and (iv) each person signing on behalf of Tenant was and continues to be authorized to do so.

- (11) **DEFINED TERMS**. All terms not otherwise defined herein shall have the same meaning assigned to them in the Lease.
- (12) **RATIFICATION OF LEASE**. Except as amended hereby, the Lease shall remain in full force and effect in accordance with the terms and is hereby ratified. In the Event of a conflict between the Lease and this Amendment, this Amendment shall control.
- (13) **NO REPRESENTATIONS**. Landlord and Landlord's agents have made no representations or promises, express or implied, in connection with this Amendment except as expressly set forth herein.
- (14) **ENTIRE AGREEMENT**. This Amendment together with the Lease contains all of the agreements of the parties hereto with respect to any matter covered or mentioned in this Amendment or the Lease, and no prior agreement, understanding or representation pertaining to any such matter shall be effective for any purpose.

IN WITNESS WHEREOF, the parties have executed this Amendment as of the date first above written. Except as specifically herein amended, all other terms and conditions of the Lease shall remain in full force and effect.

**LANDLORD:**

KWI Ashford Westchase Buildings, L.P., a  
Delaware limited partnership

KWI ASHFORD WESTCHASE BUILDINGS  
LP, a Delaware limited partnership

By: KWI Ashford Westchase General Partner, L.L.C.,  
a Delaware limited liability company,  
its General Partner

By: Kennedy Wilson Austin Inc., Its Agent

**TENANT :**

Rignet, Inc.

By: /s/ Martin Jimmerson  
CFO



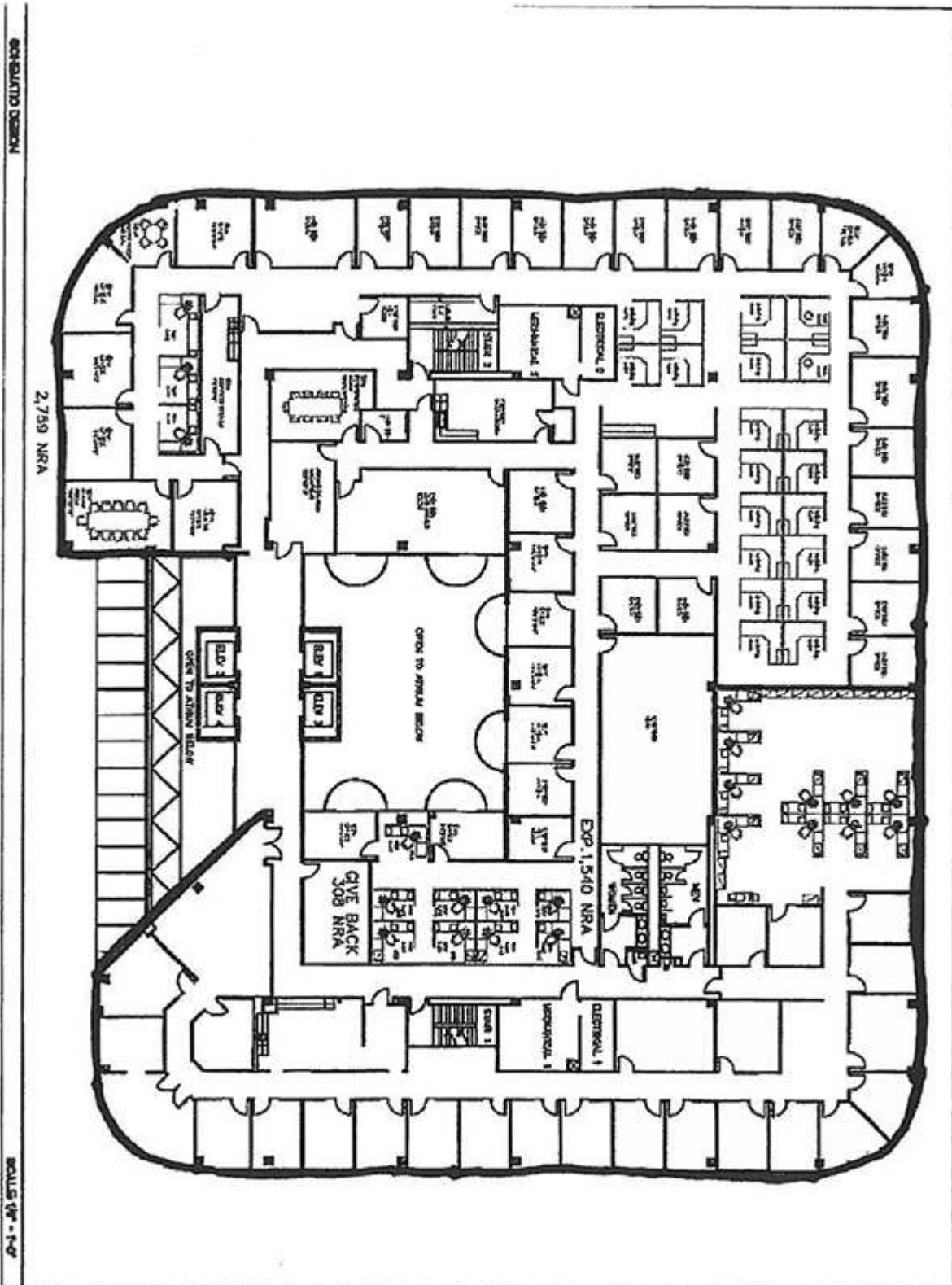
By: /s/ Jeff Bomer  
Jeff Bomer, Vice President

Date: 9/25/12



EXHIBIT A

Combined Lease Premises—29,174 NRA



ROLLS DESIGN

ROLLS DESIGN

**SD-1**  
150K 03

**SCHEMATIC**

DATE: 11/11/11  
DRAWN BY: [Name]  
CHECKED BY: [Name]  
APPROVED BY: [Name]

**RIGNET**  
1880 DAIRY ASHFORD  
LEVEL 03

**CDI**  
Douglas + Pyle

DATE: 11/11/11  
DRAWN BY: [Name]  
CHECKED BY: [Name]  
APPROVED BY: [Name]

September 11, 2012

RigNet, Inc.  
1880 S. Dairy Ashford, Suite 300  
Houston, Texas 77077

**RE: Lease Agreement dated June 17, 2003, and as amended, By and between KWI Ashford Westchase Buildings, L.P., as Landlord, and RigNet, Inc., as Tenant (“Lease”), located at 1880 S. Dairy Ashford, Houston, Harris County, Texas 77077 (“Leased Premises”)**

Your company has requested to temporarily use space #530 and #540 for temporary general office space. The Landlord has agreed to allow your company to do this per the terms this letter. This letter will serve as the agreement between the parties as to the responsibilities regarding the temporary use of this space.

Whereas, the Lease is hereby amended to the extent necessary to allow Tenant the temporary right to use space #530 and #540, as shown on Exhibit “A”, commencing September , 2012 through January 31, 2013 or upon substantial completion of improvements in Suite 301. It is agreed and understood that the right to use space #530 and #540 is temporary will be terminated upon commencement of Tenant’s expansion into Suite 301. Landlord agrees to reimburse Tenant for any reasonable costs involved with the installation and or removal of any temporary cabling/wiring for Tenant’s use while using #530 and #540. Upon termination of use of the temporary space, Tenant agrees to remove all contents of space #530 and #540 and/or restore this area to original condition.

Tenant shall pay Landlord a fee in advance of the first day of the period of the term of this Agreement at the rate of **\$0.00**. Tenant shall pay the required fee to Landlord without the need for any billing or other notices from Landlord. Checks shall be made payable to Landlord and shall be delivered to Landlord at the following address:

KWI Ashford Westchase Buildings, L.P.  
1880 South Dairy Ashford, Suite 570  
Houston, TX 77077

Tenant agrees to carry any and all necessary insurance for the use of the additional space to protect Tenant and Landlord from any injury and/or damage in sufficient amounts as it currently carries for its operations as required by the terms of the Lease. It is understood and agreed that Landlord should be named as additional insured for any additional insurance.

1880 South Dairy Ashford Suite 570 Houston Texas 77077 tel: 713-334-1144 fax: 713-334-1177 www.kennedywilson.com

It is further agreed and understood that Landlord shall have no liability for any damage, defect, or disrepair space #530 and #540. Additionally, Landlord shall have no liability for any damage or injury to any person and /or property of Tenant using this area in and around space #530 and #540. Tenant is reminded to adequately insure all cost, expense, loss, damage and liability, which might result from any damage or injury to any person and/or property using space #530 and #540.

Tenant hereby agrees to indemnify Landlord for and hold Landlord harmless from and against, any and all fines, suites, claims, demands, liabilities and actions (including reasonable costs and expenses of defending ay suites or claims) resulting or alleged to result from any breach, violation, or non-performance of any covenant or condition of the Lease, this agreement, and/or from the use of occupancy of space #530 and #540 and the surrounding areas of space #530 and #540 by Tenant or Tenant's agents, representatives, customers, employees, licensees, sub-lessees, or invitees for any damage to person or property resulting from any act or omission of any person or entity, including Landlord's own negligence.

It is agreed and understood that Landlord is not making and specifically disclaims any warranties or representations of any kind or character, express or implied, with respect to the Leased Premises and space #530 and #540, including but not limited to, warranties and representations as to the matters of suitability or fitness for a particular purpose. Tenant has not relied upon and will not rely upon, either directly or indirectly, any representation or warranty of Landlord or any agent of Landlord and understand that Landlord is not responsible for any repairs to space #530 and #540

If this letter agreement constitutes the agreement between Landlord and Tenant, as to the matters discussed above, please show your acceptance by executing your signature in the space provided below and in the counterpart original of this letter.

Respectfully,

Sheri W. Brown, Property Manager  
Kennedy Wilson  
As agent for  
KWI Ashford Westchase Buildings, L.P.

APPROVED AS TO FORM AND SUBSTANCE:

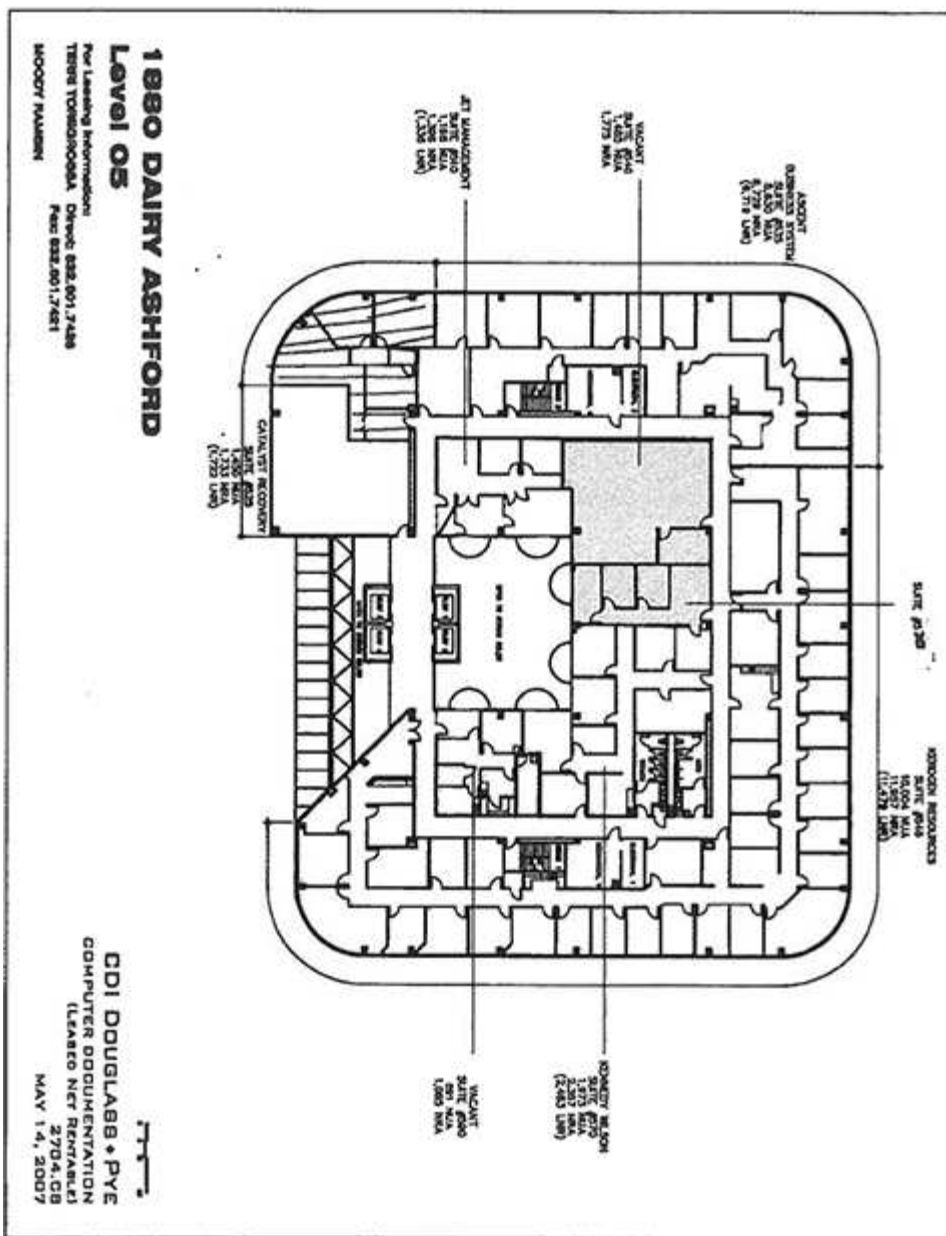
TENANT  
RigNet, Inc.

By: /s/ Martin Jimmerson

Its: CFO

Date: 9/25/12

EXHIBIT "A"



1880 South Dairy Ashford Suite 570 Houston Texas 77077 tel: 713-334-1144 fax: 713-334-1177 www.kennedywilson.com

Certified a true copy of the original  
at Aberdeen on 28/9/2012 by  
/s/ K. Knarles  
Solicitor

---

**NESSCOINVSAT LIMITED**

**as Chargor**

**in favour of**

**CLYDESDALE BANK PLC**

**as Lender**

**PLEDGE AND ASSIGNATION OVER ACCOUNT(S)**



---

## TABLE OF CONTENTS

1.	Definitions and interpretation	1
	1.1 <b>Definitions</b>	1
	1.2 <b>Interpretation</b>	3
2.	Payment obligation	5
	2.1 <b>Covenant to pay</b>	5
	2.2 <b>Interest</b>	5
3.	Pledge and assignation	6
4.	Protection of Pledge	6
	4.1 <b>Continuing security</b>	6
	4.3 <b>Waiver of defences</b>	7
	4.4 <b>No waiver</b>	8
	4.5 <b>No prejudice</b>	8
	4.6 <b>New accounts</b>	8
5.	Perfection of security	9
6.	Operation of Charged Accounts	10
7.	Enforcement	10
	7.1 <b>Enforceable</b>	10
	7.2 <b>Enforcement</b>	11
	7.3 <b>Preservation of rights conferred by law</b>	11
	7.4 <b>Appropriation</b>	12
	7.5 <b>Application of proceeds</b>	12
	7.6 <b>Monies on suspense account</b>	13
	7.8 <b>Third parties</b>	13
	7.9 <b>Delegation</b>	13
8.	Power of attorney	14
	8.1 <b>Appointment</b>	14
	8.2 <b>Ratification</b>	14
	8.3 <b>Exercise of power</b>	14
9.	Representations, warranties and undertakings	14
	9.1 <b>Representations and warranties</b>	14
	9.2 <b>Repetition of representations and warranties</b>	16
	9.3 <b>Undertakings</b>	16
10.	Discharge	16
11.	Miscellaneous	17
12.	Costs and expenses	19
13.	Severance	20
14.	Notices	20
15.	Governing law and jurisdiction	21
16.	Consent to registration	22
	Schedule	

---

**THIS PLEDGE AND ASSIGNATION OVER ACCOUNT(S) is granted by:**

- (1) **NESSCOINVSAT LIMITED**, a company incorporated and registered in England and Wales with company number 03673679 whose registered office is at 10 Orange Street, London, WC2H 7DQ (the **Chargor**);  
in favour of
- (2) **CLYDESDALE BANK PLC**, a company incorporated and registered in Scotland with company number SC001111 whose registered office is at 30 St Vincent Place, Glasgow, G1 2HL (the **Lender**).

**BACKGROUND**

- (A) The Lender has agreed to provide the Chargor with certain financial facilities.
- (B) It is a condition of those facilities being made available that the Chargor is to grant a pledge and assignation over accounts in favour of the Lender in the form of this Pledge.

**AGREED TERMS**

**1. Definitions and interpretation**

The definitions and rules of interpretation in this clause 1 apply in this Pledge.

**1.1 Definitions**

In this Pledge:

**Act** means the Insolvency Act 1986.

**Business Day** means a day (other than a Saturday or a Sunday) on which commercial banks are open for general business in Edinburgh.

**Charged Accounts** means the account in the name of the Chargor with the Lender, account number 30082932, sort code 82-60-11, and includes:

- (a) any account into which all or part of a credit balance from a Charged Account is transferred; and
- (b) any account which is a successor to a Charged Account on any re-numbering or re-designation of accounts and any account into which all or part of a balance from a Charged Account is transferred for investment or administrative purposes.

<b>Derivatives Transactions</b>	means any derivatives transactions entered into by an Obligor with the Lender in connection with protections against or benefit from any fluctuation in any rate or price.
<b>Facility Letter</b>	means the facility letter from the Lender to the Obligors dated 25 September 2012 relating to business card, guarantee and open credit facilities.
<b>Finance Documents</b>	means the Facility Letter, this Pledge and any document ancillary or supplemental thereto (including any counter-indemnity).
<b>Guarantee Release Date</b>	means the date upon which the Lender's liability under a Guarantee is irrevocably discharged in full to the Lender's satisfaction.
<b>Guarantees</b>	means the guarantees listed in the Schedule and <b>Guarantee</b> means any one of them.
<b>Obligor</b>	means the Chargor, Nessco Group Holdings Limited a company incorporated in Scotland under company number SC340634 and each other entity which is a "Borrower" as defined in the Finance Documents from time to time.
<b>Party</b>	means a party to this Pledge, and <b>Parties</b> shall be construed accordingly.
<b>Pledge</b>	means this pledge and assignation over account(s).
<b>Receiver</b>	means any receiver or administrative receiver appointed in respect of the Secured Assets under this Pledge (whether by the Lender or the Court).
<b>Secured Assets</b>	means all right, title and interest of the Chargor in and to the Charged Accounts, the monies standing to the credit of the Charged Accounts (which for the avoidance of doubt shall be no less than £1,830,714 at the date of this Pledge) and the Guarantees and other debts represented thereby.
<b>Secured Obligations</b>	means all present and future obligations and liabilities (whether actual or contingent, whether owed jointly or severally, as principal or surety or in any other capacity whatsoever) of each Obligor to the Lender under or pursuant to the Finance Documents or any Derivatives Transaction, except for any obligation or liability which, if it were so included, would result in this Pledge contravening any law.



- 
- Security** means a mortgage, charge, pledge, lien, assignment or assignation or other security interest whatsoever securing any obligation of any person or any other agreement or arrangement having similar effect.
- Subsidiary** means a subsidiary within the meaning of section 1159 of the Companies Act 2006 or a subsidiary undertaking within the meaning of section 1162 of the Companies Act 2006.
- Tax** means all forms of taxation and statutory, governmental, state, federal, provincial, local, government or municipal charges, duties, imposts, contributions, levies, withholdings or liabilities wherever chargeable and whether of the UK or any other jurisdiction and any penalty, fine, surcharge, interest, charges or costs relating to them.

## 1.2 Interpretation

- 1.2.1 Unless a contrary indication appears, a reference in this Pledge to:
- 1.2.1.1 any of the Parties to this Pledge or any other person shall be construed so as to include its successors in title, permitted assignees and permitted transferees;
  - 1.2.1.2 **assets** includes present and future properties, revenues and rights of every description;
  - 1.2.1.3 this **Pledge**, any **Finance Document** or any other document, agreement or instrument is a reference to this Pledge, that Finance Document or other document, agreement or instrument as amended, novated, supplemented, extended, restated or replaced in whole or in part;
  - 1.2.1.4 **indebtedness** includes any obligation (whether incurred as principal or surety) for the payment or repayment of money, whether present or future, actual or contingent;
  - 1.2.1.5 a **person** includes any person, firm, company, corporation, government, state or agency of a state or any association, trust, joint venture, consortium or partnership (whether or not having separate legal personality);

- 
- 1.2.1.6 a **Receiver** shall include references to joint receivers and any reference to the appointment of a person as receiver shall include a reference to the appointment of two or more persons as joint receivers;
- 1.2.1.7 a **company** includes any company, corporation or other body corporate, wherever and however incorporated or established;
- 1.2.1.8 one gender shall include reference to the other gender;
- 1.2.1.9 a **regulation** includes any regulation, rule, official directive, request or guideline (whether or not having the force of law) of any governmental, intergovernmental or supranational body, agency, department or of any regulatory, self-regulatory or other authority or organisation;
- 1.2.1.10 a provision of law is a reference to that provision as amended or re-enacted;
- 1.2.1.11 **document** includes any agreement, deed, instrument (including negotiable instrument) or other document of any kind;
- 1.2.1.12 a time of day is a reference to London time;
- 1.2.1.13 **writing** or **written** includes faxes but not e-mail;
- 1.2.1.14 any words following the terms **including, include, in particular** , or any similar expression shall be construed as illustrative and shall not limit the sense of the words, description, definition, phrase or term preceding those terms;
- 1.2.1.15 **disposal** includes a sale, transfer, grant, lease or other disposal, whether voluntary or involuntary (and **dispose** shall be construed accordingly);
- 1.2.1.16 the **winding up, dissolution** , or **administration** of a person shall be construed so as to include any equivalent or analogous proceedings under the law of the jurisdiction in which such person is incorporated or established, or any jurisdiction in which such person carries on business including the seeking of liquidation, winding-up, reorganisation, dissolution, administration, arrangement, adjustment, protection or relief of debtors; and
- 1.2.1.17 clauses are to the clauses of this Pledge.

- 1.2.2 Headings and sub-headings of this Pledge are inserted for convenience only and do not affect the interpretation of this Pledge.
- 1.2.3 Unless the context otherwise requires, words in the singular shall include the plural and *vice versa*.
- 1.2.4 Words defined in the Companies Act 1985 (as amended) or the Companies Act 2006, have the same meanings in this Pledge.
- 1.2.5 Any obligation of the Parties not to do something shall include an obligation not knowingly to permit, suffer or allow the same.

## 2. **Payment obligation**

### 2.1 **Covenant to pay**

- 2.1.1 The Chargor undertakes to the Lender, as principal debtor and not just as surety, that it will pay and discharge the Secured Obligations when the same are due and payable in accordance with the terms of the Finance Documents or the terms of the Derivatives Transactions whether by acceleration or otherwise.
- 2.1.2 In satisfaction of the Chargor's obligations under Clause 2.1.1 above, on each date when a sum is due and payable under the Finance Documents or Derivatives Transactions, the Lender will withdraw from the Charged Account an amount equal to the Secured Obligations then due and payable to the Lender under the Finance Documents or Derivatives Transactions and apply such amount in satisfaction of those Secured Obligations then due and payable.

### 2.2 **Interest**

- 2.2.1 The Chargor shall pay interest to the Lender after as well as before judgment or decree or the liquidation or administration of the Chargor, at the annual rate which is 2% above the rate otherwise payable in respect of the Secured Obligations on all sums due from it under this Pledge from the date such amount becomes due until such amount is irrevocably discharged and paid in full.
- 2.2.2 Interest under clause 2.2.1 shall accrue on a daily basis calculated by the Lender upon such terms as the Lender may from time to time determine and shall be compounded on the last Business Day of each month.
- 2.2.3 The Lender shall not be entitled to recover any amount in respect of interest to the extent that default interest is already charged on such amount pursuant to the relevant Finance Document or Derivatives Transactions and itself constitutes a Secured Obligation.

---

3. **Pledge and assignment**

The Chargor pledges and assigns to the Lender all its right, title and interest in and to the Charged Accounts, the monies standing to the credit of the Charged Accounts and the debts represented thereby.

4. **Protection of Pledge**

4.1 **Continuing security**

4.1.1 This Pledge is, and shall at all times be, a continuing security and shall secure the ultimate balance from time to time in respect of the Secured Obligations and will remain in full force and effect until released or discharged by the Lender.

4.1.2 This Pledge will not be considered satisfied or discharged by any intermediate payment, discharge or satisfaction of the whole or any part of the Secured Obligations.

4.2 **No obligation to take other enforcement proceedings**

4.2.1 The Lender shall not be obliged before exercising any of the rights conferred on it by this Pledge or by law:

4.2.1.1 to make any claim or demand for payment and discharge of the Secured Obligations on the Chargor or any other person liable;

4.2.1.2 to resort to any guarantee or enforce any Security, or exercise any right of compensation or set-off or other means of payment, or to obtain or enforce any judgement, decree or order in any court against the Chargor or any other person now or hereafter held by or available to it for payment and discharge of the Secured Obligations;

4.2.1.3 to account for any money or other property received or recovered in consequence of any enforcement or realisation of any agreement relating to the Secured Obligations, guarantee or other means of payment; or

4.2.1.4 to make or file any claim or proof in a winding up, liquidation, administration or other insolvency proceedings of the Chargor or any other person.

4.2.2 For the avoidance of any doubt this Pledge shall operate to secure any new, additional or increased facilities provided by the Lender to the Chargor from time to time.

#### 4.3 Waiver of defences

None of the liabilities and obligations of the Chargor nor any of the rights, powers and discretions conferred upon the Lender by this Pledge or the other Finance Documents or Derivatives Transactions or by law shall be reduced, discharged or otherwise adversely affected by any act, omission or circumstances which, but for this clause 4.3, might operate to release, reduce, discharge, impair or otherwise adversely affect such liabilities, obligations, rights, powers and discretions in whole or in part including (but without limitation) and whether or not known to the Chargor or the Lender:

- 4.3.1 any variation, extension, discharge, compromise, dealing with, exchange or renewal of, any Security or right or remedy which the Lender may now or after the date of this Pledge have from or against the Chargor or any other person in connection with any of the Secured Obligations;
- 4.3.2 any failure, act or omission by the Lender or any other person in taking up, perfecting or enforcing any Security, indemnity, or guarantee from or against the Chargor or any other person in respect of the Secured Obligations;
- 4.3.3 any increase in or waiver or discharge of the Secured Obligations or any termination, amendment, variation, novation, supplement, extension, restatement or replacement of any Finance Document or any other document or agreement relating to the Secured Obligations (in each case, however fundamental and whether or not more onerous) including, without prejudice to the foregoing generality, any change in the purpose of, any extension of or any increase in any facility or the addition of any new facility under any document or Security and any fees, costs and/or expenses associated with any of the foregoing;
- 4.3.4 any grant of time, indulgence, waiver or concession to the Chargor or any other person;
- 4.3.5 any insolvency, bankruptcy, liquidation, administration, winding up, incapacity, limitation, disability, the discharge by operation of law, or any change in the constitution, name or style of the Chargor or any other person;
- 4.3.6 any invalidity, illegality, unenforceability, irregularity or frustration of any actual or purported obligation of, or Security held from, the Chargor or any other person in connection with the Secured Obligations;
- 4.3.7 any incapacity or lack of power, authority or legal personality of or dissolution or change in the members or status of the Chargor or any other person;
- 4.3.8 any claim or enforcement of payment from the Chargor or any other person; or

4.3.9 any other act or omission by the Lender or any other person which but for this provision might operate to exonerate or discharge the Chargor or otherwise reduce, impair, extinguish or affect its liability or obligations under this Pledge or any of the rights, powers or remedies conferred upon the Lender by this Pledge, any Finance Document, any Derivatives Transaction or by law.

**4.4 No waiver**

Failure or delay on the part of the Lender in exercising any right, power or discretion under or pursuant to this Pledge shall not operate as a waiver thereof, nor will any single or partial exercise of any such right, power or discretion preclude any other or further exercise thereof. The rights, powers and discretions contained in this Pledge are in addition to and not in substitution for any right of set-off, compensation, retention, combination of accounts, lien or other right or remedy provided by law.

**4.5 No prejudice**

This Pledge is in addition to and independent of and shall not affect nor be affected by or merge with or in any way prejudice or be prejudiced by any other judgment, Security, right or remedy obtained or held by the Lender from time to time for the discharge and performance by the Chargor of the Secured Obligations and may be enforced independently of any such other Security.

**4.6 New accounts**

4.6.1 At any time after the Lender has received or is deemed to be affected by notice (whether actual or constructive) of the creation of any subsequent Security or other like interest, matter, event or transaction affecting any part of the Secured Assets or the proceeds of realisation, or this Pledge otherwise ceases for any reason whatsoever to be continuing, the Lender may open a new account or accounts for the Chargor in its books.

4.6.2 If the Lender does not open a new account or accounts it shall nevertheless be treated as if it had done so at the time when it received or was deemed to have received such notice or at the time that this Pledge ceased to be continuing whether by termination, calling in or otherwise.

4.6.3 As from that time of opening or deemed opening of a new account or accounts, all payments made to the Lender by or on behalf of the Chargor shall be credited or be treated as having been credited to the new account or accounts and shall not operate to reduce the Secured Obligations nor shall the liability of the Chargor under this Pledge in any manner be reduced or affected by any subsequent transactions, receipts or payments.

#### 4.7 **Non-competition**

Until this Pledge has been discharged, the Chargor will not, after a claim has been made or by virtue of any payment or performance by it of the Secured Obligations:

- 4.7.1 be subrogated to any rights, Security or monies held, received or receivable by the Lender or any Obligor nor be entitled to any right of contribution or indemnity in respect of any payment made or monies received on account of the Secured Obligations;
- 4.7.2 claim, rank, prove or vote as a creditor of any Obligor; or
- 4.7.3 receive, claim or have the benefit of any payment, distribution or Security from or on account of an Obligor, or exercise any right of set-off as against an Obligor,

and the Chargor shall forthwith pay or transfer to the Lender an amount equal to the amount of any dividend, distribution, contribution or benefit (including without limitation any amount set-off) actually received by it in violation of this clause 4.7 and in the meantime shall hold the same in trust for the Lender to the extent required to pay or discharge the Secured Obligations.

#### 5. **Perfection of security**

##### 5.1 **Notice and acknowledgement of assignation**

The execution of this Pledge by the Parties constitutes deemed notice from the Chargor to the Lender, and deemed acknowledgement from the Lender to the Chargor, of the terms of this Pledge.

##### 5.2 **Further assurance**

The Chargor shall, on demand and at its own expense, execute and deliver such documents or do any act or thing which the Lender may reasonably require to:

- 5.2.1 perfect or protect this Pledge and the security created or intended to be created by this Pledge or its priority or any Security in favour of the Lender given or arising pursuant to this Pledge; and/or
- 5.2.2 after the security created by this Pledge has become enforceable pursuant to clause 7.1 ( *Enforceable* ), facilitate the realisation of the Secured Assets.

---

6. **Operation of Charged Accounts**

6.1 **Capital**

The capital amount standing to credit in the Charged Accounts at the date of this Pledge shall be no less than £1,830,714.

6.2 **Interest**

All interest accruing on any amounts from time to time standing to the credit of a Charged Account shall, unless otherwise agreed in writing by the Lender, be credited to that Charged Account.

6.3 **Signing Rights**

The Lender shall have sole signing rights in relation to the operation of the Charged Accounts.

6.4 **Withdrawals and Restriction on withdrawals**

6.4.1 On each date on which the Secured Obligations become due and payable, the Lender will make withdrawals from the Charged Account as provided in clause 2.1.2.

6.4.2 Subject to clause 6.4.3 below, until the Secured Obligations shall have been irrevocably paid or discharged in full, the Chargor shall not, unless otherwise agreed by the Lender in writing, be entitled to withdraw any amount standing to the credit of a Charged Account nor shall any such amount be repayable, notwithstanding the terms on which any monies have been deposited or the terms governing the operation of such account.

6.4.3 On, and at anytime after, each Guarantee Release Date, the Chargor shall be entitled to withdraw the amount corresponding to the value of the relevant Guarantee released, as specified in the Schedule under the heading "Security Value".

6.5 **Restriction on alienation**

The Chargor will not, except in terms of this Pledge, dispose of any interest in any of the Secured Assets or create or permit to subsist any Security over any of the Secured Assets.

7. **Enforcement**

7.1 **Enforceable**

The security created by this Pledge shall be immediately enforceable upon, or at any time after:



- 7.1.1 the Chargor has failed to pay or discharge all or any of the Secured Obligations following a demand for payment by the Lender; or
- 7.1.2 any step is taken (including, without limitation, the making of an application or the giving of any notice) by the Chargor or by any other person to wind up or dissolve the Chargor or to appoint a liquidator (whether provisional, interim or otherwise), trustee, receiver, administrative receiver, administrator or similar officer of the Chargor or any part of its undertaking or assets; or
- 7.1.3 the Chargor requesting the appointment of a Receiver or administrator; or
- 7.1.4 the Chargor breaches any of the provisions of this Pledge and such breach, if capable of remedy, is not remedied by the Chargor within 5 Business Days of such breach occurring.

**7.2 Enforcement**

After the security created by this Pledge has become enforceable in accordance with clause 7.1 (*Enforceable*), the Lender may in its absolute discretion:

- 7.2.1 enforce all or any part of the security created by this Pledge in any manner it sees fit and may without prior notice to the Chargor:
  - 7.2.1.1 exercise a right of set-off, compensation or retention in respect of all or any amounts now or at any time hereafter standing to the credit of any Charged Account against; and/or
  - 7.2.1.2 apply all or any amounts now or at any time hereafter standing to the credit of any Charged Account in satisfaction of,  
  
all or any amounts which now or at any time hereafter be due and payable by the Chargor and/or any Obligor to the Lender in respect of the Secured Obligations;
- 7.2.2 if the amounts referred to in clause 7.2.1 are in different currencies, convert any such amount at its spot rate of exchange for the purposes of exercising the Lender's rights under that clause; and
- 7.2.3 exercise all the rights and powers relating to the Secured Assets and generally act in relation to the Secured Assets in such manner as the Lender may determine as if it were the absolute owner thereof.

**7.3 Preservation of rights conferred by law**

The rights conferred by clause 7.2 (*Enforcement*) shall be in addition to, and independent of, any lien, right of retention, compensation or set-off conferred by law.

#### 7.4 Appropriation

- 7.4.1 In this Pledge, **financial collateral** and **security financial collateral arrangement** has the meaning given to those terms in the Financial Collateral Arrangements (No. 2) Regulations 2003 (SI 2003 No. 3226) (the **Regulations** ).
- 7.4.2 To the extent that the Secured Assets constitute financial collateral and this Pledge and the obligations of the Chargor constitute a security financial collateral arrangement, at any time after this Pledge has become enforceable, the Lender may appropriate all or part of the financial collateral in or towards satisfaction of the Secured Obligations.
- 7.4.3 The Lender must attribute a value to the appropriated financial collateral in a commercially reasonable manner, having taken into account advice obtained from an independent investment or accounting firm of national standing selected by the Lender. In each case the Parties agree that the method of valuation provided for in this Pledge shall constitute a commercially reasonable method or valuation for the purposes of the Regulations.
- 7.4.4 Where the Lender exercises its rights of appropriation and the value of the financial collateral appropriated differs from the amount of the Secured Obligations, as the case may be, either:
- 7.4.4.1 the Lender must account to the Chargor for the amount by which the value of the appropriated financial collateral exceeds the Secured Obligations; or
  - 7.4.4.2 the Chargor will remain liable to the Lender for any amount whereby the value of the appropriated financial collateral is less than the Secured Obligations.

#### 7.5 Application of proceeds

All monies realised by the Lender under this Pledge or otherwise arising from the enforcement of this Pledge shall, subject always to clause 7.6 (*Monies on suspense account*) and clause 10 (*Discharge*), the claims of creditors ranking in priority to or *pari passu* with the claims of the Lender under this Pledge, and the terms of Section 60 of the Act, be applied in the following order of priority:

- 7.5.1 in or towards payment of or provision for all costs and expenses (including legal fees and any fees, costs and expenses arising from any actual or alleged breach by any person of any law or regulation) incurred by the Lender under or in connection with this Pledge;
- 7.5.2 in or towards settlement of or provision for the Secured Obligations in any order or manner which the Lender may determine; and

---

7.5.3 in payment of the surplus (if any) to the Chargor or any other person entitled to it.

**7.6 Monies on suspense account**

All monies received, recovered or realised by the Lender under this Pledge (including the proceeds of any conversion of currency) may in the discretion of the Lender be credited to any interest bearing suspense or impersonal account or accounts maintained with any bank, building society or financial institution as it considers appropriate and may be held in such account for so long as the Lender may think fit pending their application from time to time (as the Lender is entitled to do in its discretion) in or towards the discharge of any of the Secured Obligations provided that if the aggregate of such monies so placed to the credit of such suspense or impersonal account or accounts shall equal or exceed the Secured Obligations, the Lender shall, subject always to clause 10 (*Discharge*), forthwith apply the same towards settlement of the Secured Obligations and save as provided herein, no Party will be entitled to withdraw any amount at any time standing to the credit of any suspense or impersonal account referred to above.

**7.7 Liability of Lender**

The Lender shall not in any circumstances be liable to the Chargor or any other person for any losses, damages, liabilities or expenses arising from or in connection with the application or enforcement of this Pledge or any realisation, appropriation or application of the Secured Assets or from any act, default or omission of the Lender, or its officers, employees or agents in relation to the Secured Assets or otherwise in connection with this Pledge, except to the extent caused by the gross negligence or wilful default of the Lender or its officers, employees or agents.

**7.8 Third parties**

7.8.1 No person dealing with the Lender in relation to the Secured Assets shall be concerned to enquire whether any of the powers exercised or purported to be exercised by him under this Pledge has become exercisable, whether any of the Secured Obligations remains outstanding, or generally as to the propriety or validity of the exercise or purported exercise of any power hereunder.

7.8.2 The receipt or discharge of the Lender shall be an absolute and conclusive discharge to any person dealing with the Lender in relation to the Secured Assets and any such purchaser or third party shall not have any obligation to enquire after or see to the application of any payments made by it to the Lender or at its direction.

**7.9 Delegation**

7.9.1 The Lender may from time to time delegate by power of attorney or otherwise to any person or corporation any of the powers and discretions of the Lender under this Pledge whether arising by statute, the provisions hereof or otherwise upon such terms and for such periods of time as it may think fit and may determine any such delegation.

7.9.2 The Lender will not be liable to the Chargor for any loss or damage arising from any act, default, omission or misconduct of any such delegate and references in this Pledge to the Lender will where the context so admits include references to any delegates so appointed.

8. **Power of attorney**

8.1 **Appointment**

By way of security for the obligations of the Chargor under this Pledge, the Chargor irrevocably appoints the Lender and any person nominated by the Lender, to be its attorney on its behalf or in its name or otherwise, at such times and in such a manner as the attorney may think fit to execute and do all such assurances, acts and things which the Chargor is required to do under this Pledge and generally in its name and on its behalf to exercise all or any of the rights, powers and discretions conferred by or pursuant to this Pledge or by statute on the Lender and to sign, execute, seal and deliver and otherwise perfect any deed, assurance, agreement, instrument or act which it or he may reasonably deem proper in or for the purpose of exercising any such powers, authorities and discretions.

8.2 **Ratification**

The Chargor hereby ratifies and confirms and agrees to ratify and confirm whatever any such attorney appointed under clause 8.1 (*Appointment*) shall do or purport to do in the exercise or purported exercise of all or any of the powers, authorities and discretions referred to in such clause.

8.3 **Exercise of power**

The appointment effected under clause 8.1 (*Appointment*) shall take effect immediately, but the powers conferred shall only become exercisable upon this Pledge becoming enforceable (which upon the appointment of a Receiver shall be deemed to be the case) or if the Chargor does not fulfil any of its obligations under clause 5.2 (*Further Assurance*) within 5 Business Days of notice from the Lender to do so.

9. **Representations, warranties and undertakings**

9.1 **Representations and warranties**

The Chargor represents and warrants to the Lender that:

9.1.1 it is duly incorporated and validly existing under the laws of its place of incorporation or formation;

- 
- 9.1.2 it has the power to own its assets and carry on its business as it is being conducted;
  - 9.1.3 it has the power, capacity and authority to execute, deliver and perform its obligations under this Pledge and the transactions contemplated therein;
  - 9.1.4 the execution, delivery and performance of the obligations in, and transactions contemplated by, this Pledge does not and will not contravene any of its constitutional documents, any agreement or instrument binding on it or its assets, or any applicable law or regulation;
  - 9.1.5 it has taken all necessary action and obtained all required or desirable consents to enable it to execute, deliver and perform its obligations under this Pledge and to make this Pledge admissible in evidence in its jurisdiction of incorporation and any such authorisations are in full force and effect;
  - 9.1.6 its obligations under this Pledge are, subject to any general principles of law limiting obligations and subject to the registration of this Pledge with the Registrar of Companies in Cardiff in accordance with section 860 of the Companies Act 2006, legal, valid, binding and enforceable obligations;
  - 9.1.7 subject to the terms of this Pledge, it is the sole legal and beneficial owner of the credit balance from time to time on each Charged Account which it maintains;
  - 9.1.8 the Secured Assets are free from any Security save for any Security in favour of the Lender;
  - 9.1.9 no event or circumstance is outstanding which constitutes a default under any deed or instrument which is binding on it, or to which its assets are subject, which might have a material adverse effect on its ability to perform its obligations under this Pledge;
  - 9.1.10 subject to general principles of law relative to choice of law and jurisdiction, the choice of Scots law as the governing law of this Pledge will be recognised and enforced in its jurisdiction of incorporation and any judgment obtained in Scotland in relation to this Pledge will be recognised and enforced in that jurisdiction; and
  - 9.1.11 subject to registration of this Pledge with the Registrar of Companies in Cardiff in accordance with section 878 of the Companies Act 2006, under the law of its jurisdiction of incorporation, it is not necessary that this Pledge be filed, recorded or enrolled with any court or other authority in that jurisdiction or that any stamp, registration or similar Tax be paid on or in relation to this Pledge or the transactions contemplated by it.

## 9.2 Repetition of representations and warranties

The representations and warranties set out in clause 9.1 (*Representations and warranties*) shall be given on the date on which the Chargor executes this Pledge and shall be deemed to be repeated on each date on which:

- 9.2.1 the Chargor requests any funds under the Finance Documents;
- 9.2.2 any funds or other financial facilities are made available to the Chargor under the Finance Documents (whether by offset against a new drawing or otherwise); and
- 9.2.3 any payment is made by the Chargor to the Lender under the Finance Documents or Derivatives Transactions by reference to the facts and circumstances then subsisting.

## 9.3 Undertakings

The Chargor undertakes that unless otherwise agreed in writing by the Lender, it shall:

- 9.3.1 provide the Lender with such information relating to the business of the Chargor, its financial condition and the Secured Assets as the Lender may reasonably require from time to time;
- 9.3.2 provide the Lender with such information relating to the Charged Accounts as the Lender may reasonably require from time to time; and
- 9.3.3 comply with all laws, statutes, directives and regulations (including those relating to the environment) and all notices, codes of practice and other requirements having the force of law which are applicable to it and obtain, effect, maintain and comply with all registrations, licenses, consents, authorisations and exemptions required for the efficient conduct of its business where failure to do so would have a material adverse effect on its ability to comply with its obligations under the Finance Documents or Derivatives Transactions.

## 10. Discharge

### 10.1 Discharge

When the Secured Obligations have been irrevocably paid or discharged in full to the satisfaction of the Lender and the Lender has no further obligation to provide credit facilities or other accommodation to the Chargor or, if the Lender so agrees, at any other time, the Lender shall, subject to the provisions of clause 10.3 (*Avoidance of payments*), at the request and cost of the Chargor, execute such documents as may be required to discharge this Pledge and any other Security created over the Secured Assets (or any of them) by this Pledge.

---

## 10.2 Retention of Pledge

Any payment or realisation in respect of the Secured Obligations which, in the reasonable opinion of the Lender, is liable to be avoided or otherwise invalidated or adjusted by law, including any enactment or rule of law relating to insolvency, shall not be regarded as having been irrevocably settled or discharged until the expiry of the period during which it may be challenged on any such ground.

## 10.3 Avoidance of payments

No assurance, security or payment which may be avoided or adjusted under the law, including under any statute relating to bankruptcy or insolvency and no release, settlement or discharge given or made by the Lender on the faith of any such assurance, security or payment, shall prejudice or affect the right of the Lender to recover the Secured Obligations from the Chargor (including any monies which the Lender may be compelled to pay or refund under the provisions of the Act and any costs payable by it pursuant to or otherwise incurred in connection therewith) or to enforce the security contained in this Pledge to the full extent of the Secured Obligations.

## 11. Miscellaneous

### 11.1 Non compliance by Chargor

11.1.1 If the Chargor fails to make any payment or fulfil any obligation due by it under or pursuant to this Pledge, the Lender shall be entitled to do so on its behalf and in its name (or in its own name as it considers expedient) and/or to take such action to remedy or mitigate the consequences of such failure as it considers expedient, and the amount of any such payment and/or the costs incurred in fulfilling such obligation or mitigating the consequences of such failure, shall be repayable by the Chargor on demand, together with interest at 2% per annum over the rate otherwise payable in respect of the Secured Obligations from the date of demand until settlement and shall constitute Secured Obligations.

11.1.2 The Lender shall not be obliged to exercise any rights given to them under clause 11.1.1 above.

### 11.2 Currency conversion

Irrespective of the currency (whether Sterling or otherwise) in which the Secured Obligations or the Secured Assets from time to time are expressed, the Lender shall be entitled at any time and without prior notification to the Chargor to convert any amount into such other currency (whether Sterling or otherwise) as the Lender may from time to time consider appropriate. Any such conversion shall be effected at the spot market rate of the Lender prevailing at the time of such conversion.

---

### 11.3 Payments

- 11.3.1 All sums payable by the Chargor under this Pledge shall be paid in full to the Lender in the currency in which the Secured Obligations are payable:
  - 11.3.1.1 without any set-off, condition or counterclaim whatsoever; and
  - 11.3.1.2 free and clear of any deductions or withholdings whatsoever except as may be required by law or regulation which is binding on the Chargor.
- 11.3.2 If any deduction or withholding is required by any law or regulation in respect of any payment to be made by the Chargor, the amount of the payment due from the Chargor shall be increased to an amount which (after making any deduction or withholding) leaves an amount equal to the payment which would have been due if no deduction or withholding had been required.
- 11.3.3 The Chargor shall promptly deliver or procure delivery to the Lender of all receipts issued to it evidencing each deduction or withholding which it has made.
- 11.3.4 The Chargor shall not and may not direct the application by the Lender of any sums received by the Lender from the Chargor under, or pursuant to, any of the terms of this Pledge.

### 11.4 Set-off

- 11.4.1 The Lender may set-off any matured obligation due from the Chargor to the Lender against any matured obligation owed by the Lender to the Chargor, regardless of the place of payment, booking branch or currency of either obligation. If the obligations are in different currencies, the Lender may convert either obligation at a market rate of exchange in its usual course of business for the purpose of the set-off.
- 11.4.2 The Lender shall not be obliged to exercise any rights given to it under clause 11.4.1 above.

### 11.5 Assignment/Transfer

- 11.5.1 The Lender may at any time (without notice or consent) assign and transfer all or any of its rights and obligations under this Pledge to any person. The Lender shall be entitled to disclose such information concerning the Chargor as the Lender considers appropriate to any actual or proposed direct or indirect successor or to any person to whom information may be required to be disclosed by any applicable law.



11.5.2 The Chargor may not assign, transfer or otherwise deal with any of its rights and obligations under this Pledge or enter into any transaction which would result in any of those rights or obligations passing to another person.

**11.6 Evidence of amounts and certificates**

Any certificate, determination or notification by the Lender as to a rate or any amount payable under this Pledge is (in the absence of manifest error) conclusive evidence of the matter to which it relates and shall contain reasonable details of the basis of determination.

**11.7 Entire Agreement**

This Pledge constitutes the entire agreement and understanding of the Parties and supersedes any previous agreement between the Parties relating to the subject matter of this Pledge.

**11.8 Non-reliance**

Each of the Parties acknowledges and agrees that in entering into this Pledge it does not rely on, and shall have no remedy in respect of, any statement, representation, warranty or undertaking (whether negligently or innocently made) of any person (whether a Party to this Pledge or not) other than as expressly set out in this Pledge.

**11.9 Waivers, amendments and consents**

11.9.1 No amendment or variation of this Pledge shall be effective unless it is in writing and signed by or on behalf of each of the Parties.

11.9.2 Any waiver of any right or consent given under this Pledge is only effective if it is in writing and signed by the waiving or consenting Party, and applies only in the circumstances for which it is given and shall not prevent the Party giving it from subsequently relying on the relevant provision.

**12. Costs and expenses**

12.1 The Chargor shall on a full indemnity basis pay to the Lender on demand the amount of all reasonable and properly incurred costs and expenses (including legal and out-of-pocket expenses and together with any applicable valued added tax) which the Lender incurs in connection with:

12.1.1 the preparation, negotiation, execution and delivery of this Pledge;

12.1.2 any actual or proposed amendment, variation, supplement, waiver or consent under or in connection with this Pledge;

12.1.3 any discharge or release of this Pledge; and

12.1.4 any stamping or registration of this Pledge.

12.2 The Chargor shall on a full indemnity basis pay to the Lender on demand the amount of all properly incurred costs and expenses (including legal and out-of-pocket expenses and together with any applicable valued added tax) which the Lender incurs in connection with the preservation or exercise and enforcement, of any rights under or in connection with, this Pledge or any attempt so to do.

12.3 The Chargor shall indemnify the Lender from and against all properly incurred losses, costs, expenses, claims, demands and liabilities whether in contract, delict, tort or otherwise (together with any applicable value added tax) incurred by the Lender or by any employee, agent or delegate of the Lender in connection with anything done or omitted under this Pledge or any other document relating to it, or in the exercise or attempted or purported exercise of the powers contained in this Pledge or occasioned by any breach by the Chargor of any undertakings or other obligations to the Lender, or in consequence of any payment in respect of the Secured Obligations (whether made by the Chargor or a third person) being declared void or impeached for any reason, save for any losses arising from the gross negligence or wilful misconduct of the Lender.

**13. Severance**

13.1 The provisions of this Pledge shall be severable and distinct from one another and the invalidity, unenforceability or illegality of any provision (or part of a provision) of this Pledge under the laws of any jurisdiction shall not affect the validity, enforceability or legality of the other provisions.

13.2 If any invalid, unenforceable or illegal provision would be valid, enforceable or legal if some part of it were deleted, the provision shall apply with whatever modification is necessary to give effect to the commercial intention of the Parties.

**14. Notices**

14.1 Every notice, request, demand, or other communication under this Pledge shall be:

14.1.1 in writing, signed by or on behalf of the Party giving it and, unless otherwise stated, may be delivered personally or sent by pre-paid first-class letter or fax (confirmed by letter);

14.1.2 in English; and

14.1.3 sent:

14.1.3.1 to the Chargor at:

Address: 10 Orange Street, London, WC2H 7DQ

Fax: such fax number as has been most recently designated for this purpose by the Chargor

Attention: Marty Jimmerson

---

14.1.3.2 to the Lender at:  
Address: 56 Carden Place, Aberdeen, AB10 1UP  
Fax: 01224 649475  
Attention: Sheila McIntyre

or to such substitute address or fax number notified by one Party to the other in accordance with this clause.

14.2 Any notice or other communication given by the Lender shall be deemed to have been received:

14.2.1 if sent by fax, with a confirmation of transmission, on the day on which it is transmitted;

14.2.2 if given by hand, on the day of actual delivery; and

14.2.3 if posted, on the second Business Day following the day on which it was dispatched by pre-paid first-class post,

provided that a notice given as described in clause 14.2.1 or clause 14.2.2 on a day which is not a Business Day (or after normal business hours in the place of receipt) shall be deemed to have been received on the next Business Day.

14.3 Any notice or other communication given to the Lender shall be deemed to have been given only on actual receipt by the Lender and then only if it is expressly marked for the attention of the department or officer identified above (or any substitute department or officer as the Lender shall specify for this purpose).

14.4 For the avoidance of doubt, no notice or communication given under this Pledge shall be validly given if sent by e-mail.

15. **Governing law and jurisdiction**

15.1 This Pledge and any dispute or claim arising out of or in connection with it or its subject matter or formation (including non-contractual disputes or claims) shall be governed by, and construed in accordance with, the laws of Scotland.

15.2 The courts of Scotland have exclusive jurisdiction to settle any dispute or claim that arises out of or in connection with this Pledge or its subject matter or formation (including non-contractual disputes or claims and disputes regarding the existence, validity or termination of this Pledge).

- 
- 15.3 The Parties agree that the courts of Scotland are the most appropriate and convenient courts to settle any dispute or claim and accordingly no Party will argue to the contrary.
- 15.4 Nothing in this clause 15 shall limit the right of the Lender to take proceedings against the Chargor in any other court of competent jurisdiction, nor shall the taking of proceedings in any one or more jurisdictions preclude the taking of proceedings in any other jurisdictions, whether concurrently or not, to the extent permitted by the law of such other jurisdiction.
- 15.5 The Chargor irrevocably consents to any process in any proceedings under clause 15.2 being served on it in accordance with the provisions of this Pledge relating to service of notices. Nothing contained in this Pledge shall affect the right to serve process in any other manner permitted by law.

16. **Consent to registration**

The Chargor consents to the registration of this Pledge and of the certificate referred to in clause 11.6 (*Evidence of amounts and certificates*) above for preservation.

**IN WITNESS WHEREOF** this Pledge consisting of this and the preceding 21 pages is executed as follows:

**Chargor**

Subscribed for and on behalf of **Nesscoinvsat Limited** acting by

John McPherson Director  
John McPherson Name

in the presence of this witness:

Stephen Reilly Witness  
Stephen Reilly Full Name  
Discovery Drive Address  
Arnhall Business Park, Westhill

together at Westhill

on the 28 day of September 2012

---

**Lender**

Subscribed for and on behalf of **Clydesdale Bank PLC** acting by

Sheila Mcintyre	Authorised Signatory
Sheila Mcintyre	Name

in the presence of this witness:

/s/ K. Knarles	Witness
Kirsty Knarles	Full Name
70, Queens Road	Address
Aberdeen	
together at Aberdeen	

on the 28 day of September 2012

**SCHEDULE**

**Guarantees**

<u>Beneficiary</u>	<u>Start Date</u>	<u>Expiry Date</u>	<u>Security Value</u>
HMRC	n/a	n/a	£ 40,000
FTSP Private Ltd	n/a	14/01/2013	£ 200,188
Nexen Petroleum	04/10/2011	30/11/2015	£ 260,022
Woodside Energy Ltd	19/09/2008	31/08/2013	£ 32,775
Woodside Energy Ltd	06/02/2009	31/08/2013	£ 61,188
SNC Lavalin International Inc	19/08/2010	31/12/2014	£ 30,825
Single Buoy Moorings Inc	21/09/2010	12/10/2013	£ 211,061
Single Buoy Moorings Inc	16/02/2011	26/11/2012	£ 64,360
Single Buoy Moorings Inc	29/03/2012	30/09/2015	£ 170,000
Iraq Ministry of Oil	13/06/2011	15/04/2014	£ 298,827
Shell Iraq Petroleum BV	11/11/2011	07/03/2015	£ 243,232
Rosetti Marino Spa	15/05/2012	30/11/2012	£ 59,497
Rosetti Marino Spa	15/05/2012	30/11/2012	£ 42,239

- RigNet, Inc.
- LandTel, Inc.
- LandTel Communications, L.L.C
- RigNet Qatar W.L.L.
- RigNet Sdn. Bhd.
- RigNet Luxembourg Holding
- RigNet Global Holdings
- ComPetro Communications Holdings, LLC
- RigNet Middle East LLC
- ComPetro Communications, Inc.
- RigNet E.H. Holdings, AS
- RigNet Europe AS
- RigNet AS
- OilCamp Limited
- RigNet UK Holdings. Ltd.
- RigNet UK Limited
- RigNet Scotland Ltd.
- Nessco Group Holdings Ltd
- Nessco Invsat Ltd.
- Countryflow Ltd.
- RigNet Pte Ltd
- RigNet Australia Pty Ltd
- Competro Comunicacoes Holdings do Brasil Ltda.
- RigNet Services de Telecomunicacoes Brasil Ltda.
- RigNet Services Nigeria Limited
- RigNet SatCom, Inc.

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in Registration Statement No. 333-171278 on Form S-8 and Registration Statement No. 333-178506 on Form S-3, of our report dated March 7, 2013, relating to the consolidated financial statements of RigNet, Inc. and subsidiaries (the "Company"), and the effectiveness of the Company's internal control over financial reporting, appearing in the Annual Report on Form 10-K of RigNet, Inc. for the year ended December 31, 2012.

/s/ DELOITTE & TOUCHE LLP

Houston, Texas

March 7, 2013



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

I, Mark Slaughter, certify that:

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

By: /s/ MARK SLAUGHTER

Mark Slaughter  
Chief Executive Officer and President

Date: March 7, 2013

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

I, Martin Jimmerson, certify that:

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

By: /s/ MARTIN JIMMERSON

Martin Jimmerson  
Chief Financial Officer

Date: March 7, 2013

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

In connection with the accompanying Annual Report on Form 10-K for the period ended December 31, 2012 filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Mark Slaughter, Chief Executive Officer of RigNet, Inc. (the "Company"), hereby certify, to my knowledge, that:

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

Date: March 7, 2013

/s/ MARK SLAUGHTER

Mark Slaughter  
Chief Executive Officer and President

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

In connection with the accompanying Annual Report on Form 10-K for the period ended December 31, 2012 filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Martin Jimmerson, Chief Financial Officer of RigNet, Inc. (the "Company"), hereby certify, to my knowledge, that:

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

Date: March 7, 2013

/s/ MARTIN JIMMERSON

Martin Jimmerson  
Chief Financial Officer



RigNet, Inc.  
1880 S. Dairy Ashford  
Suite 300  
Houston, TX 77077  
www.rig.net

March 5, 2013

**PRIVATE AND CONFIDENTIAL**

IHS-Petrodata, Inc.  
3200 Wilcrest Dr., Suite 170  
Houston, Texas 77042

Re: Consent to Use of Data

Dear Sir or Madam:

RigNet, Inc. ("RigNet") requests your consent to cite, in its annual report on Form 10-K and any amendments thereto, certain data contained in a *RigBase Current Activity* data download dated January 1, 2013. Furthermore, we also request to cite IHS-Petrodata, Inc. as the source of such data.

If this is acceptable, please indicate your consent to our use of the data by countersigning this letter. Please email or fax the executed consent to Martin Jimmerson at (281) 674-0101 or [marty.jimmerson@rig.net](mailto:marty.jimmerson@rig.net), and return the original executed consent to Martin Jimmerson at 1880 S. Dairy Ashford, Suite 300, Houston, Texas 77077. Please call the undersigned at (281) 674-0118 with any questions you may have. ***Given the urgency of this request, your prompt attention to this matter is greatly appreciated.***

Sincerely,

RigNet, Inc.

/s/ Martin Jimmerson  
Martin Jimmerson  
Chief Financial Officer

***CONSENT GRANTED:***

IHS-Petrodata, Inc.

By: /s/ Paul Large  
Name: Paul Large  
Title: Sr. Director  
Date: March 6, 2013

1880 SOUTH DAIRY ASHFORD, SUITE 300, HOUSTON, TEXAS 77077 PHONE 281.674.0100 FAX 281.674.0101  
<http://www.rig.net>



RigNet, Inc.  
1880 S. Dairy Ashford  
Suite 300  
Houston, TX 77077  
www.rig.net

March 5, 2013

**PRIVATE AND CONFIDENTIAL**

Spears & Associates, Inc.  
8908 S. Yale, Suite 440  
Tulsa, Oklahoma 74137

Re: Consent to Use of Data

Dear Sir or Madam:

RigNet, Inc. ("RigNet") requests your consent to cite in its annual report on form 10-K and any amendments thereto, certain data contained in the December 2012 *Drilling and Production Outlook*. Furthermore, we also request to cite Spears & Associates, Inc. as the source of such data.

If this is acceptable, please indicate your consent to our use of the data by countersigning this letter. Please email or fax the executed consent to Martin Jimmerson at (281) 674-0101 or [marty.jimmerson@rig.net](mailto:marty.jimmerson@rig.net), and return the original executed consent to Martin Jimmerson at 1880 S. Dairy Ashford, Suite 300, Houston, Texas 77077. Please call the undersigned at (281) 674-0118 with any questions you may have. ***Given the urgency of this request, your prompt attention to this matter is greatly appreciated.***

Sincerely,

RigNet, Inc.

/s/ Martin Jimmerson  
\_\_\_\_\_  
Martin Jimmerson  
Chief Financial Officer

***CONSENT GRANTED:***

SPEARS & ASSOCIATES, INC.

By: /s/ John Spears

\_\_\_\_\_  
Name: John Spears  
Title: President

Date: March 5, 2013

1880 SOUTH DAIRY ASHFORD, SUITE 300, HOUSTON, TEXAS 77077 PHONE 281.674.0100 FAX 281.674.0101 <http://www.rig.net>