RigNet, Inc.
Form 10-Q
August 04, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2015

or

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

Commission file number 001-35003

RigNet, Inc.

(Exact name of registrant as specified in its charter)

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

(281) 674-0100

Registrant s telephone number, including area code

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

Large accelerated filer x	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 Exchange Act). Yes ¨ No x

At July 31, 2015, there were outstanding 17,692,909 shares of the registrant s Common Stock.

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PART I FINANCIAL INFORMATION

Item 1. *Condensed Consolidated Financial Statements*

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	June 30, 2015	December 31, 2014
	(in thousands, except share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 61,524	$ 66,576
Restricted cash	781	1,200
Accounts receivable, net	71,130	74,625
Costs and estimated earnings in excess of billings on uncompleted contracts	18,392	13,831
Prepaid expenses and other current assets	7,298	7,422
Total current assets	**159,125**	**163,654**
Property, plant and equipment, net	74,862	76,195
Goodwill	30,171	30,128
Intangibles, net	21,624	21,051
Deferred tax and other assets	8,720	8,809
TOTAL ASSETS	**$ 294,502**	**$ 299,837**
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 12,779	$ 13,560
Accrued expenses	14,431	23,230
Current maturities of long-term debt	8,413	8,405
Income taxes payable	3,617	4,978
Deferred revenue	5,097	4,780
Total current liabilities	**44,337**	**54,953**
Long-term debt	73,461	77,706
Deferred revenue	458	516
Deferred tax liability	347	228
Other liabilities	27,947	24,343
Total liabilities	**146,550**	**157,746**
Commitments and contingencies (Note 12)		
Equity:		
Stockholders equity		

Preferred stock - $0.001 par value; 10,000,000 shares authorized; no shares issued or outstanding at June 30, 2015 or December 31, 2014		
Common stock - $0.001 par value; 190,000,000 shares authorized; 17,692,909 and 17,629,830 shares issued and outstanding at June 30, 2015 and December 31, 2014, respectively	18	18
Additional paid-in capital	139,841	137,662
Retained earnings	15,941	10,931
Accumulated other comprehensive (loss)	(8,010)	(6,682)
Total stockholders equity	**147,790**	**141,929**
Non-redeemable, non-controlling interest	162	162
Total equity	**147,952**	**142,091**
TOTAL LIABILITIES AND EQUITY	**$ 294,502**	**$ 299,837**

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

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RIGNET, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
	(in thousands, except per share amounts)			
Revenue	**$ 75,106**	**$ 80,656**	**$ 152,756**	**$ 155,699**
Expenses:				
Cost of revenue (excluding depreciation and amortization)	39,736	45,656	83,669	92,177
Depreciation and amortization	8,211	7,280	16,307	14,077
Selling and marketing	1,668	1,764	3,491	3,293
General and administrative	16,388	16,154	37,734	30,997
Total expenses	**66,003**	**70,854**	**141,201**	**140,544**
Operating income	**9,103**	**9,802**	**11,555**	**15,155**
Other income (expense):				
Interest expense	(508)	(565)	(1,019)	(1,046)
Other income (expense) net	160	(51)	(409)	600
Income before income taxes	8,755	9,186	10,127	14,709
Income tax expense	(2,635)	(3,438)	(4,949)	(6,653)
Net income	**6,120**	**5,748**	**5,178**	**8,056**
Less: Net income attributable to Non-redeemable, non-controlling interest	81	81	168	194
Net income attributable to RigNet, Inc. stockholders	**$ 6,039**	**$ 5,667**	**$ 5,010**	**$ 7,862**
COMPREHENSIVE INCOME				
Net income	$ 6,120	$ 5,748	$ 5,178	$ 8,056
Foreign currency translation	3,255	841	(1,328)	1,853
Comprehensive income	**9,375**	**6,589**	**3,850**	**9,909**
Less: Comprehensive income attributable to non-controlling interest	81	81	168	194
Comprehensive income attributable to RigNet, Inc. stockholders	**$ 9,294**	**$ 6,508**	**$ 3,682**	**$ 9,715**
INCOME PER SHARE - BASIC AND DILUTED				

Net income attributable to RigNet, Inc. common stockholders	$ 6,039	$ 5,667	$ 5,010	$ 7,862
Net income per share attributable to RigNet, Inc. common stockholders, basic	$ 0.35	$ 0.32	$ 0.29	$ 0.45
Net income per share attributable to RigNet, Inc. common stockholders, diluted	$ 0.34	$ 0.31	$ 0.28	$ 0.44
Weighted average shares outstanding, basic	17,499	17,490	17,482	17,379
Weighted average shares outstanding, diluted	17,893	18,108	17,857	18,029

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

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RIGNET, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
	(in thousands)	
Cash flows from operating activities:		
Net income	$ 5,178	$ 8,056
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	16,307	14,077
Stock-based compensation	1,982	2,343
Amortization of deferred financing costs	87	96
Deferred taxes	202	(380)
Gain on sales of property, plant and equipment, net of retirements	(13)	(83)
Changes in operating assets and liabilities, net of effect of acquisition:		
Accounts receivable	2,954	(18,852)
Costs and estimated earnings in excess of billings on uncompleted contracts	(4,561)	(2,320)
Prepaid expenses and other assets	(161)	11,511
Accounts payable	(2,519)	(11,978)
Accrued expenses	(9,939)	5,970
Deferred revenue	314	188
Other liabilities	3,604	1,412
Net cash provided by operating activities	**13,435**	**10,040**
Cash flows from investing activities:		
Acquisitions, net of cash acquired		(23,260)
Capital expenditures	(14,331)	(15,753)
Proceeds from sales of property, plant and equipment	21	733
Decrease in restricted cash	419	405
Net cash used in investing activities	**(13,891)**	**(37,875)**
Cash flows from financing activities:		
Proceeds from issuance of common stock	105	1,409
Subsidiary distributions to non-controlling interest	(168)	(149)
Proceeds from borrowings		30,000
Repayments of long-term debt	(4,324)	(4,335)
Excess tax benefits from stock-based compensation	92	647
Net cash provided by (used in) financing activities	**(4,295)**	**27,572**
Net decrease in cash and cash equivalents	**(4,751)**	**(263)**

Cash and cash equivalents:				
Balance, January 1,		66,576		59,822
Changes in foreign currency translation		(301)		1,448
Balance, June 30,	**$**	**61,524**	**$**	**61,007**
Supplemental disclosures:				
Income taxes paid	$	5,455	$	7,207
Interest paid	$	940	$	950
Non-cash investing - capital expenditures accrued	$	4,221	$	5,471
Liabilities assumed - Inmarsat s Enterprise Energy business unit acquisition	$		$	11,795

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

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RIGNET, INC.

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

(Unaudited)

	Common Stock		Additional Paid-In	Retained Earnings (Accumulated	Accumulated Other Comprehensive Income	Total Stockholders	Non-Redeemable, Non-Controlling	Total
	Shares	Amount	Capital	Deficit)	(Loss)	Equity	Interest	Equity
				(in thousands)				
Balance, January 1, 2014	**17,237**	**$ 17**	**$ 128,932**	**$ (4,704)**	**$ 435**	**$ 124,680**	**$ 108**	**$ 124,788**
Issuance of common stock upon the exercise of stock options and warrants	320	1	1,408			**1,409**		**1,409**
Issuance of restricted common stock, net of share cancellations	61							
Stock-based compensation			2,343			**2,343**		**2,343**
Excess tax benefits from stock-based compensation			647			**647**		**647**
Foreign currency translation					1,853	**1,853**		**1,853**
Non-controlling owner distributions							(149)	**(149)**
Net income				7,862		**7,862**	194	**8,056**
Balance, June 30, 2014	**17,618**	**$ 18**	**$ 133,330**	**$ 3,158**	**$ 2,288**	**$ 138,794**	**$ 153**	**$ 138,947**
Balance, January 1, 2015	**17,630**	**$ 18**	**$ 137,662**	**$ 10,931**	**$ (6,682)**	**$ 141,929**	**$ 162**	**$ 142,091**
Issuance of common stock upon the exercise of stock options	5		105			**105**		**105**
Issuance of restricted common stock, net of share cancellations	58							
Stock-based compensation			1,982			**1,982**		**1,982**
			92			**92**		**92**

Excess tax benefits from stock-based compensation								
Foreign currency translation					(1,328)	**(1,328)**		**(1,328)**
Non-controlling owner distributions							**(168)**	**(168)**
Net income (loss)				5,010		**5,010**	**168**	**5,178**
Balance, June 30, 2015	**17,693**	**$ 18**	**$ 139,841**	**$ 15,941**	**$ (8,010)**	**$ 147,790**	**$ 162**	**$ 147,952**

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

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Note 1 Basis of Presentation

The interim unaudited condensed consolidated financial statements of RigNet, Inc. (the Company or RigNet) include all adjustments which, in the opinion of management, are necessary for a fair presentation of the Company s financial position and results of operations. All such adjustments are of a normal recurring nature. These financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and Rule 10-01 of Regulation S-X. The preparation of these financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying footnotes. Estimates and assumptions about future events and their effects cannot be perceived with certainty. Estimates may change as new events occur, as more experience is acquired, as additional information becomes available and as the Company s operating environment changes. Actual results could differ from estimates. These interim financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2014 included in the Company s Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 2, 2015.

Significant Accounting Policies

Please refer to RigNet s Annual Report on Form 10-K for fiscal year 2014 for information regarding the Company s accounting policies.

Recently Issued Accounting Pronouncements

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

In May 2014, the FASB issued Accounting Standards Update No. 2014-09 (ASU 2014-09), Revenue from Contracts with Customers (Topic 606). The core principle of this amendment is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The pronouncement initially was effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period and is to be applied retrospectively, with early application initially not permitted. In July 2015, the FASB decided to defer for one year the effective date of the new revenue standard ASU 2014-09. The FASB also decided to permit entities to early adopt the standard. The Company does not expect the adoption of ASU 2014-09 to have a significant impact on the Company s condensed consolidated financial statements.

In April 2015, the FASB issued Accounting Standards Update No. 2015-03 (ASU 2015-03), Interest - Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs (Topic 835), which requires that debt issuance costs related to a recognized debt liability be presented on the balance sheet as a direct deduction from the carrying amount of the related debt liability, consistent with debt discounts. ASU 2015-03 is effective for annual and interim periods for fiscal years beginning after December 15, 2015. Early application is permitted. The Company will adopt ASU 2015-03 as of January 1, 2016. The Company does not expect the adoption of ASU 2015-03 to have a significant impact on the Company s condensed consolidated financial statements

Note 2 Business Combinations

Inmarsat s Enterprise Energy Business Unit

On January 31, 2014, RigNet closed the acquisition of Inmarsat Plc s Enterprise Energy business unit for an aggregate purchase price of $26.1 million, including $12.9 million of working capital. Of this aggregate purchase price, RigNet paid $23.3 million to Inmarsat on January 31, 2014 and an additional $2.8 million on July 31, 2014. Under the terms of the deal, Inmarsat sold to RigNet substantially all of its energy broadband assets, which include: microwave and WiMAX networks in the U.S. Gulf of Mexico and the North Sea serving drillers, producers and energy vessel owners; VSAT interests in the United Kingdom, U.S. and Canada; an M2M SCADA VSAT network in the continental U.S. serving the pipeline industry; a telecommunications systems integration business operating worldwide; and a global L-band MSS retail energy business.

The assets and liabilities of Inmarsat s Enterprise Energy business unit have been recorded at their estimated fair values at the date of acquisition.

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	Weighted Average Estimated Useful Life (Years)	Fair Market Values	
		(in thousands)	
Current assets			$ 23,871
Property, plant and equipment			8,381
Identifiable intangible assets:			
Backlog	2	$ 1,800	
Licenses	7	2,000	
Customer relationships	7	240	
Total identifiable intangible assets			4,040
Other assets			760
Liabilities			(10,969)
Total purchase price			$ 26,083

RigNet financed the transaction with the credit facility announced on October 3, 2013 (see Note 6 Long-Term Debt) and existing cash on hand.

For the three and six months ended June 30, 2014, RigNet spent $0.6 million and $2.9 million, respectively, on acquisition-related costs, which are reported as general and administrative expense in our Condensed Consolidated Statements of Comprehensive Income.

Actual and Pro Forma Impact of the Inmarsat s Enterprise Energy Business Unit Acquisition

Inmarsat s Enterprise Energy business unit revenue and net income included in the Condensed Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2014 are presented in the following table. These amounts represent operations commencing immediately after the acquisition, February 1, 2014, through the end of the periods indicated (in thousands):

	Three Months Ended June 30, 2014	Six Months Ended June 30, 2014
Revenue	$ 19,192	$ 32,910
Net Income	$ 926	$ 1,147

For the three and six months ended June 30, 2014, RigNet s supplemental pro forma revenue were $80.7 million and $161.4 million, respectively, calculated as if the Inmarsat s Enterprise Energy business unit acquisition had occurred on January 1, 2013.

RigNet has not disclosed supplemental pro-forma earnings for the three and six months ended June 30, 2014 as there is no practicable method to calculate pro-forma earnings. After making every reasonable effort, RigNet was unable to retrospectively allocate indirect costs, including over-head, to the assets that were purchased in the asset carve out. To do so would require RigNet to make assumptions about the intentions of the management of Inmarsat s Enterprise Energy business unit prior to the acquisition which cannot be independently substantiated. Such retrospective application requires significant estimates of amounts, and it is impossible to distinguish objectively information about those estimates.

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.

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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 resulting in interest rate risk (see Note 6 Long-Term Debt). The Company does not currently use financial instruments to hedge these interest rate 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 Australian dollar, the Norwegian kroner and the British pound sterling are the currencies that could materially impact the Company s financial position and results of operations. The Company s historical experience with exchange rates for these currencies has been relatively stable, and, consequently, the Company typically does not use financial instruments to hedge this risk, but evaluates it on a continual basis and may put financial instruments in place in the future if deemed necessary. Foreign currency translations are reported as accumulated other comprehensive income in the Company s condensed consolidated financial statements.

Credit Risk

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

Liquidity Risk

The Company maintains cash and cash equivalent balances with major financial institutions which, at times, exceed federally insured limits. The Company monitors the financial condition of the financial institutions and has not experienced losses associated with these accounts during 2015 or 2014. Liquidity risk is managed by continuously monitoring forecasted and actual cash flows and by matching the maturity profiles of financial assets and liabilities (see Note 6 Long-Term Debt).

Note 4 Goodwill and Intangibles

Goodwill

Goodwill relates to the acquisitions of LandTel Communications LLC (LandTel), OilCamp AS (OilCamp), and Nessco Group Holdings Ltd. (Nessco) as the consideration paid for these businesses exceeded the fair value of acquired identifiable net tangible and intangible assets. Goodwill is reviewed for impairment at least annually with additional evaluations being performed when events or circumstances indicate that the carrying value of these assets may not be recoverable. The Company performs its annual impairment test on July 31st, with the most recent annual test being performed as of July 31, 2014. The July 2014 annual test resulted in no impairment as the fair value of each reporting unit exceeded the carrying value plus goodwill of that reporting unit. Additionally, the Company performs additional impairment testing upon the occurrence of certain triggering events that may indicate a potential impairment. During December 2014, the Company identified a triggering event associated with the significant decline in oil prices and global oil and gas activity for which an impairment test was performed as of December 31, 2014.

This circumstance resulted in a reduction in the Company s cash flow projections during the revision of internal forecasts. Specifically the TSI segment was impacted by declining contracted backlog, which reduced the estimated fair value of the TSI reporting unit below its carrying value. In December 2014, the Company recognized a $2.7 million impairment of goodwill within the TSI reporting unit as a result of such test. As of June 30, 2015 and December 31, 2014, goodwill was $30.2 million and $30.1 million, respectively. Goodwill increases or decreases in value due to the effect of foreign currency translation.

Intangibles

Intangibles consist of customer relationships (acquired as part of the LandTel, OilCamp, Nessco and Inmarsat s Enterprise Energy business unit acquisitions), as well as trade name (acquired as part of the Nessco acquisition), backlog (acquired as part of the Nessco and Inmarsat s Enterprise Energy business unit acquisitions), licenses (acquired primarily as part of the Inmarsat s Enterprise

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Energy business unit acquisition) and internal-use software. The Company s intangibles have useful lives ranging from 1.7 to 9.0 years and are amortized on a straight-line basis. Impairment testing is performed when events or circumstances indicate that the carrying value of the assets may not be recoverable. No impairment indicators have been identified as of June 30, 2015. As of June 30, 2015 and December 31, 2014, intangibles were $21.6 million and $21.1 million, respectively. During the three months ended June 30, 2015 and 2014, the Company recognized amortization expense of $1.5 million and $1.2 million, respectively. During the six months ended June 30, 2015 and 2014, the Company recognized amortization expense of $2.8 million and $2.5 million, respectively.

The following table sets forth expected amortization expense of intangibles for the remainder of 2015 and the following years (in thousands):

2015	2,735
2016	5,097
2017	5,022
2018	4,318
2019	3,158
Thereafter	1,294
	$ 21,624

Note 5 Restricted Cash

As of June 30, 2015, the Company had restricted cash of $0.8 million and $0.1 million, in current and long-term assets, respectively. As of December 31, 2014, the Company had restricted cash of $1.2 million and $0.1 million, in current and long-term assets, respectively. This restricted cash is being used to collateralize outstanding performance bonds for Nessco s telecoms systems integration projects which were in effect prior to RigNet acquiring Nessco (see Note 6 Long-Term Debt).

Note 6 Long-Term Debt

As of June 30, 2015 and December 31, 2014, the following credit facilities and long-term debt arrangements with financial institutions were in place:

	June 30, 2015	December 31, 2014
	(in thousands)	
Term loan, net of unamortized deferred financing costs	$ 46,874	$ 51,111
Revolving loan	35,000	35,000
	81,874	86,111
Less: Current maturities of long-term debt	(8,413)	(8,405)
	$ 73,461	$ 77,706

Term Loan

The Company has a term loan (Term Loan) issued under the amended and restated credit agreement with four participating financial institutions. On October 3, 2013, the Company amended its Term Loan, which increased the principal balance to $60.0 million from $54.6 million and extended the maturity of the loan from July 2017 to October 2018.

The amended Term Loan bears an interest rate of LIBOR plus a margin ranging from 1.5% to 2.5% based on a ratio of funded debt to Adjusted EBITDA, a non-GAAP financial measure as defined in the credit agreement. Interest is payable monthly along with quarterly principal installments of $2.1 million, with the balance due October 2018. The weighted average interest rate for the three months ended June 30, 2015 and 2014 were 2.0% and 2.1%, respectively. The weighted average interest rate for the six months ended June 30, 2015 and 2014 were 2.0% and 2.0%, respectively, with an interest rate of 1.9% at June 30, 2015.

The Term Loan is secured by substantially all the assets of the Company. As of June 30, 2015, the Term Loan had an outstanding principal balance of $47.2 million.

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Revolving Loans

Under the amended and restated credit agreement with four participating financial institutions dated October 3, 2013, the Company also secured a $125.0 million revolving credit facility, which includes a $15 million sublimit for the issuance of standby letters of credit. As of June 30, 2015, $35.0 million in draws have been made on the facility and remain outstanding. The revolving credit facility matures in October 2018 with any outstanding borrowings then payable.

The revolving loan bears an interest rate of LIBOR plus a margin ranging from 1.5% to 2.5% based on a ratio of funded debt to Adjusted EBITDA, a non-GAAP financial measure as defined in the credit agreement. The weighted average interest rate for the three months ended June 30, 2015 and 2014 was 2.0% and 2.1%, respectively. The weighted average interest rate for the six months ended June 30, 2015 and 2014 was 1.9% and 2.0%, respectively, with an interest rate of 1.9% at June 30, 2015.

Performance Bonds

On September 14, 2012, NesscoInvsat Limited, a subsidiary of RigNet, secured a performance bond facility with a lender in the amount of £4.0 million, or $6.3 million. This facility has a maturity date of June 30, 2017. As of June 30, 2015, the amount available under this facility was £1.5 million or $2.4 million.

Certain legacy Nessco performance bonds also require the Company to maintain restricted cash balances on a dollar of restricted cash for a dollar of performance bond basis to collateralize outstanding performance bonds. As of June 30, 2015, the Company had restricted cash of $0.8 million and $0.1 million, in current and long-term assets, respectively, to satisfy this requirement. As of December 31, 2014, the Company had restricted cash of $1.2 million and $0.1 million, in current and long-term assets, respectively, to satisfy this requirement.

Covenants and Restrictions

The Company s credit agreement contains certain covenants and restrictions, including restricting the payment of cash dividends upon a 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 credit agreement, and a fixed charge coverage ratio. If any default occurs related to these covenants, the unpaid principal and any accrued interest shall be declared immediately due and payable. As of June 30, 2015 and December 31, 2014, the Company believes it was in compliance with all covenants.

Debt Maturities

The following table sets forth the aggregate principal maturities of long-term debt, net of deferred financing cost amortization, for the remainder of 2015 and the following years (in thousands):

2015	$ 4,204
2016	8,556
2017	8,437
2018	60,677
2019	

Total debt, including current maturities	$ 81,874

Note 7 Fair Value Disclosures

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

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

Restricted Cash Reported amounts approximate fair value.

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

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

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

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Note 8 Income Taxes

The Company s effective income tax rate was 30.1% and 37.4% for the three months ended June 30, 2015 and 2014, respectively. The Company s effective income tax rate was 48.9% and 45.2% for the six months ended June 30, 2015 and 2014, respectively. The Company s effective tax rate is affected by factors including changes in valuation allowances, fluctuations in income across jurisdictions with varying tax rates, and changes in income tax reserves, including related penalties and interest.

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

Note 9 Stock-Based Compensation

During the six months ended June 30, 2015, the Company granted 77,489 shares of restricted stock to certain directors, officers and employees of the Company under the 2010 Omnibus Incentive Plan (2010 Plan). Restricted shares issued to officers and employees, totaling 58,890 shares, vest over a four year period of continued employment, with 25% of the restricted shares vesting on each of the first four anniversaries of the grant date. Restricted shares issued to directors, totaling 18,599 shares, vest in May 2016.

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

During the six months ended June 30, 2015, the Company also granted 178,639 stock options to certain officers and employees of the Company under the 2010 Plan. Options granted during this period have exercise prices of $33.20 to $37.64, a contractual term of ten years and vest over a four year period of continued employment, with 25% of the options vesting on each of the first four anniversaries of the grant date.

The fair value of each stock option award is estimated on the grant date using a Black-Scholes option valuation model, which uses certain assumptions as of the date of grant.

The assumptions used for the stock option grants made during the six months ended June 30, 2015 and 2014, were as follows:

	Six Months Ended June 30,	
	2015	**2014**
Expected volatility	44%	43%
Expected term (in years)	7	7
Risk-free interest rate	1.9%	2.2%
Dividend yield		

Based on these assumptions, the weighted average grant date fair value of stock options granted during the six months ended June 30, 2015 and 2014 was $13.09 and $25.72 per option, respectively.

Stock-based compensation expense related to the Company s stock-based compensation plans for the six months ended June 30, 2015 and 2014 was $2.0 million and $2.3 million, respectively. As of June 30, 2015, there was $8.5 million of total unrecognized compensation cost related to unvested options and restricted stock expected to vest. This cost is expected to be recognized over a remaining weighted-average period of 2.5 years.

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Note 10 Related Party Transactions

One of the Company s former directors, who served on the board until May 2014, is the president and chief executive officer of a drilling corporation which is also a customer of the Company. Revenue recognized from that corporation for the three months ended June 30, 2015 and 2014 was $0.3 million and $0.3 million, respectively. Revenue recognized from that corporation for the six months ended June 30, 2015 and 2014 was $0.6 million and $0.7 million, respectively. All revenue relates to services performed by the Company in the ordinary course of business.

One of the Company s consulting vendors is wholly owned by one of RigNet s significant stockholders. Expense associated with this vendor for the three months ended June 30, 2015 and 2014 was $0.2 million and $0.5 million, respectively. Expense associated with this vendor for the six months ended June 30, 2015 and 2014 was $0.3 million and $0.5 million, respectively. All expenses were incurred by RigNet in the ordinary course of business.

Note 11 Income per Share

Basic earnings per share (EPS) are computed by dividing Net Income attributable to RigNet common stockholders by the number of basic shares outstanding. Basic shares equal the total of the common shares outstanding, weighted for the average days outstanding for the period. Basic shares exclude the dilutive effect of common shares that could potentially be issued due to the exercise of stock options, vesting of restricted stock or exercise of warrants. Diluted EPS is computed by dividing Net Income attributable to RigNet common stockholders by the number of diluted shares outstanding. Diluted shares equal the total of the basic shares outstanding and all potentially issuable shares, other than antidilutive shares, if any, weighted for the average days outstanding for the period. The Company uses the treasury stock method to determine the dilutive effect. In periods when a net loss is reported, all common stock equivalents are excluded from the calculation because they would have an anti-dilutive effect, meaning the loss per share would be reduced. Therefore, in periods when a loss is reported, basic and dilutive loss per share are the same.

For the three months ended June 30, 2015 and 2014, 393,878 and 618,341 shares of unexercised or unvested securities, respectively, were included in the diluted earnings per share computation due to the dilutive effect. For the six months ended June 30, 2015 and 2014, 374,338 and 650,460 shares of unexercised or unvested securities, respectively, were included in the diluted earnings per share computation due to the dilutive effect.

For the three and six months ended June 30, 2015, there were approximately 162,755 and 163,174, respectively, potentially issuable shares excluded from the Company s calculation of diluted EPS due to the antidilutive position of the security. There were no antidilutive shares for the three and six months ended June 30, 2014.

Note 12 Commitments and Contingencies

Litigation

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

Regulatory Matter

In 2013, RigNet s internal compliance program detected potential violations of U.S. sanctions by one of its foreign subsidiaries in connection with certain of its customers rigs that were moved into the territorial waters of countries sanctioned by the United States. The Company estimates that it received total revenue of approximately $0.1 million during the period related to the potential violations. The Company has voluntarily self-reported the potential violations to U.S. Treasury Department s Office of Foreign Assets Control (OFAC) and the U.S Department of Commerce Bureau of Industry and Security (BIS) and retained outside counsel who conducted an investigation of the matter under the supervision of the Company s Audit Committee and submitted a report to OFAC and BIS. The Company continues cooperating with OFAC and BIS with respect to resolution of the matter.

The Company incurred legal expenses of $0.1 million and zero in connection with the investigation for the six months ended June 30, 2015 and 2014, respectively, relating to this investigation. The Company may continue to incur significant legal fees and related expenses and the investigations may involve management time in the future in order to cooperate with OFAC and BIS. The

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Company cannot predict the ultimate outcome of the investigation, the total costs to be incurred in completing the investigation, the potential impact on personnel, the effect of implementing any further measures that may be necessary to ensure full compliance with applicable laws or to what extent, if at all, the Company could be subject to fines, sanctions or other penalties.

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

Operating Leases

The Company leases office space under lease agreements expiring on various dates through 2020. For the three months ended June 30, 2015 and 2014, the Company recognized expense under operating leases of $0.9 million and $0.7 million, respectively. For the six months ended June 30, 2015 and 2014, the Company recognized expense under operating leases of $1.6 million and $1.3 million, respectively.

As of June 30, 2015, future minimum lease obligations for the remainder of 2015 and future years were as follows (in thousands):

2015	$ 1,956
2016	3,090
2017	2,367
2018	1,308
2019	458
Thereafter	271
	$ 9,450

Commercial Commitments

The Company enters into contracts for satellite bandwidth and other network services with certain providers.

As of June 30, 2015, the Company had the following commercial commitments related to satellite and network services for the remainder of 2015 and the four years thereafter (in thousands):

2015	$ 18,065
2016	33,146
2017	22,251
2018	15,217
2019	16,000

$ 104,679

On January 31, 2014, RigNet finalized an agreement with Inmarsat to become a distributor of Inmarsat s Global Xpress (GX) and L-band satellite communications network services. RigNet has agreed, under certain conditions, to purchase up to $65.0 million of capacity from the high-throughput GX network during the five years after it becomes operational. The Company expects to utilize GX and L-band services across RigNet s legacy operations as well as the operations acquired from Inmarsat. The portion of this agreement expected to be committed through 2019 is reflected in the table above.

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Note 13 Segment Information

Segment information is prepared consistent with the components of the enterprise for which separate financial information is available and regularly evaluated by the chief operating decision-maker for the purpose of allocating resources and assessing performance.

Certain operating segments are aggregated into one reportable segment based on similar economic characteristics. Accordingly, RigNet considers its business to consist of three reportable segments:

Eastern Hemisphere. The Eastern Hemisphere 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 Eastern Hemisphere segment services are primarily performed out of the Company s Norway, United Kingdom, Qatar, and Singapore 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, West Africa, around the Indian Ocean in Qatar, Saudi Arabia and India, around the Pacific Ocean near Australia, and within the South China Sea.

Western Hemisphere. The Western Hemisphere 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 Western Hemisphere segment services are primarily 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, Canada, Mexico and Brazil, and within the Gulf of Mexico.

Telecoms Systems Integration (TSI). The TSI segment designs, assembles, installs and commissions turn-key solutions for customer telecommunications systems. TSI segment solutions are custom designed and engineered turn-key solutions based on the customer s specifications, as well as, international industry standards and best practices. TSI projects include consultancy services, design, engineering, project management, procurement, testing, installation, commissioning and after-sales service. The TSI segment services are primarily performed out of the Company s United Kingdom and United States based offices for customers globally.

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

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The Company s business segment information as of and for the three and six months ended June 30, 2015 and 2014, is presented below.

	Three Months Ended June 30, 2015				
	Eastern Hemisphere	Western Hemisphere	Telecoms Systems Integration	Corporate and Eliminations	Consolidated Total
	(in thousands)				
Revenue	$ 38,085	$ 26,654	$ 10,367	$	$ 75,106
Cost of revenue (excluding depreciation and amortization)	18,734	11,714	7,715	1,573	39,736
Depreciation and amortization	3,988	2,964	774	485	8,211
Selling, general and administrative	3,664	4,326	1,356	8,710	18,056
Operating income (loss)	$ 11,699	$ 7,650	$ 522	$ (10,768)	$ 9,103
Capital expenditures	3,681	2,915	166	1,321	8,083

	Three Months Ended June 30, 2014				
	Eastern Hemisphere	Western Hemisphere	Telecoms Systems Integration	Corporate and Eliminations	Consolidated Total
	(in thousands)				
Revenue	$ 39,842	$ 30,053	$ 10,761	$	$ 80,656
Cost of revenue (excluding depreciation and amortization)	19,204	16,572	7,466	2,414	45,656
Depreciation and amortization	3,353	2,682	954	291	7,280
Selling, general and administrative	3,783	4,039	843	9,253	17,918
Operating income (loss)	$ 13,502	$ 6,760	$ 1,498	$ (11,958)	$ 9,802
Capital expenditures	5,668	5,062	367	475	