

RIGNET, INC.

FORM 8-K (Current report filing)

Filed 08/07/17 for the Period Ending 08/07/17

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|-------------|--|
| Address | 15115 PARK ROW BOULEVARD, SUITE 300 HOUSTON, TX 77084 |
| Telephone | 281-674-0100 |
| CIK | 0001162112 |
| Symbol | RNET |
| SIC Code | 4899 - Communications Services, Not Elsewhere Classified |
| Industry | Oil Related Services and Equipment |
| Sector | Energy |
| Fiscal Year | 12/31 |

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 8-K

**CURRENT REPORT
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934**

Date of Report (Date of earliest event reported): August 7, 2017

RigNet, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation)

001-35003
(Commission
file number)

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

15115 Park Row Blvd, Suite 300, Houston, Texas
(Address of principal executive offices)

77084-4947
(zip code)

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

Check the appropriate box below if the Form 8-K is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240-14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240-13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Item 2.02 — Results of Operations and Financial Condition

The following information is disclosed pursuant to Item 2.02—Results of Operations and Financial Condition:

On August 7, 2017, RigNet, Inc. issued a press release announcing its operating results for the three and six months ended June 30, 2017. The press release is attached as Exhibit 99.

In accordance with General Instruction B.2 of Form 8-K, the information in this Current Report on Form 8-K, including the exhibits, shall not be deemed to be “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or otherwise subject to the liabilities of that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, or the Exchange Act except as shall be expressly set forth by specific reference in such filing.

Item 9.01 — Financial Statements and Exhibits

(d) Exhibits

**Exhibit
Number**

Exhibit Description

| | |
|----|---|
| 99 | Press release of RigNet, Inc. dated August 7, 2017, announcing its operating results for the three and six months ended June 30, 2017 |
|----|---|

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

RIGNET, INC.

By: /s/ CHARLES E. SCHNEIDER

Charles E. Schneider
Chief Financial Officer
(Principal Financial Officer)

Date: August 7, 2017



PRESS RELEASE

FOR IMMEDIATE RELEASE

RigNet Announces Second Quarter 2017 Earnings Results

- *Quarterly revenue of \$49.2 million consisting of:*
 - *Managed Services revenue of \$43.1 million,*
 - *Systems Integration and Automation (SI&A) revenue of \$6.1 million*
- *Quarterly GAAP Net Loss attributable to common stockholders of \$4.2 million, \$0.24 per share*
- *Quarterly Adjusted EBITDA of \$6.1 million*
- *Quarterly Unlevered Free Cash Flow of \$1.1 million after capital expenditures of \$4.9 million*

HOUSTON – August 7, 2017 – RigNet, Inc. (NASDAQ: RNET), a leading global provider of customized systems and solutions serving customers with complex data networking and operational requirements, today reported results for the quarter ended June 30, 2017.

Quarterly revenue was \$49.2 million representing an increase of \$1.1 million compared to the prior quarter and a decrease of \$5.7 million compared to the prior year quarter. The revenue increase compared to the prior quarter reflects a \$2.1 million increase in SI&A revenue partially offset by a \$1.0 million decrease in Managed Service revenue. The decrease compared to the prior year quarter reflects a \$7.2 million decrease in Managed Services revenue partially offset by a \$1.4 million increase in SI&A revenue. Revenue continues to be impacted by previously announced reductions in offshore drilling.

GAAP net loss attributable to common stockholders was \$4.2 million, or \$0.24 per share, compared to net loss attributable to common stockholders of \$2.0 million, or \$0.11 per share, in the prior quarter and net loss attributable to common stockholders of \$4.8 million, or \$0.27 per share, in the prior year quarter.

Quarterly Adjusted EBITDA was \$6.1 million compared to \$7.2 million in the prior quarter and \$8.6 million in the prior year quarter. The decrease compared to the prior quarter was due primarily to ongoing operating expenses. The decrease compared to the prior year quarter was due primarily to decreased revenue partially offset by a reduction in ongoing operating expenses.

Capital expenditures were \$4.9 million compared to \$3.2 million in the prior quarter and \$4.7 million in the prior year quarter. Unlevered Free Cash Flow, defined as Adjusted EBITDA less capital expenditures, was \$1.1 million compared to \$4.1 million in the prior quarter and \$4.0 million in the prior year quarter.

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In the quarter ended June 30, 2017, the Company recorded \$1.9 million in acquisition costs, and a gain of \$0.8 million for the change in fair value of an earn-out. In the quarter ended June 30, 2016, the Company recorded restructuring charges of \$1.1 million, \$0.4 million of impairment of intangible assets, \$0.2 million of CEO search costs and ERP implementation costs of \$0.6 million. The restructuring charges and acquisition costs are added back to net loss in our non-GAAP measures below.

Steven E. Pickett, chief executive officer and president, commented, “Our recent acquisition of Cyphre, in conjunction with our acquisitions of substantially all of the assets of DTS and ESS, have helped advance our stated strategies to build and grow our over-the-top portfolio and to diversify our revenue stream. These acquisitions also demonstrate our commitment to expand the RigNet value proposition to our customers while increasing RigNet’s addressable market. Furthermore, during the second quarter, our team expanded RigNet’s core market position by increasing the number of sites we serve by 5% quarter over quarter while delivering \$1.1m in Unlevered Free Cash Flow.”

A conference call for investors will be held at 11:00 a.m. Eastern Time (10:00 a.m. Central Time) on Tuesday, August 8, 2017, to discuss RigNet’s second quarter 2017 results. The call may be accessed live over the telephone by dialing +1 (877) 845-0777, or, for international callers, +1 (760) 298-5090. Interested parties may also listen to a simultaneous webcast of the conference call by logging onto RigNet’s website at www.rig.net in the *Investors – Webcasts and Presentations* section. A replay of the conference call webcast will also be available on our website for approximately thirty days following the call.

Non-GAAP Financial Measures

This press release contains the following non-GAAP measures: Adjusted EBITDA and Unlevered Free Cash Flow. Adjusted EBITDA and Unlevered Free Cash Flow are financial measures that are not calculated in accordance with generally accepted accounting principles, or GAAP. We refer you to the Company’s most recent 10-K filings for the year ended December 31, 2016 for a more detailed discussion of the uses and limitations of our non-GAAP financial measures.

We define Adjusted EBITDA as net income (loss) plus interest expense, income tax expense (benefit), depreciation and amortization, impairment of goodwill, intangibles, property, plant and equipment, foreign exchange impact of intercompany financing activities, (gain) loss on retirement of property, plant and equipment, change in fair value of earn-outs, stock-based compensation, merger/acquisition costs, executive departure costs, restructuring charges and non-recurring items.

We define Unlevered Free Cash Flow as Adjusted EBITDA less capital expenditures. Unlevered Free Cash Flow 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.

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About RigNet

RigNet (NASDAQ:RNET) is a leading global specialized provider of customized systems and solutions serving customers with complex data networking and operational requirements. RigNet provides solutions ranging from fully-managed voice and data networks to more advanced applications that include video conferencing, crew welfare, asset monitoring and real-time data services. RigNet is based in Houston, Texas and has operations around the globe.

For more information on RigNet, please visit www.rig.net. RigNet is a registered trademark of RigNet, Inc.

Forward Looking Statements

This press release includes “forward-looking statements” within the meaning of the safe harbor provisions of the United States Private Securities Litigation Reform Act of 1995 – that is, statements related to the future, not past, events. Forward-looking statements are based on the current expectations and include any statement that does not directly relate to a current or historical fact. In this context, forward-looking statements often address our expected future business and financial performance, and often contain words such as “anticipate,” “believe,” “intend,” “expect,” “plan” or other similar words. These forward-looking statements involve certain risks and uncertainties that ultimately may not prove to be accurate. Actual results and future events could differ materially from those anticipated in such statements. For further discussion of risks and uncertainties, individuals should refer to RigNet’s SEC filings. RigNet undertakes no obligation and does not intend to update these forward-looking statements to reflect events or circumstances occurring after this press release. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this press release. All forward-looking statements are qualified in their entirety by this cautionary statement.

Investor contact

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| | Three Months Ended | | | Six Months Ended | |
|--|--------------------|-------------------|-------------------|-------------------|-------------------|
| | June 30, 2017 | March 31, 2017 | June 30, 2016 | June 30, 2017 | June 30, 2016 |
| (in thousands) | | | | | |
| Unaudited Consolidated Statements of Comprehensive Income Data: | | | | | |
| Revenue | \$49,162 | \$ 48,072 | \$54,911 | \$ 97,234 | \$117,252 |
| Expenses: | | | | | |
| Cost of revenue (excluding depreciation and amortization) | 33,038 | 29,875 | 33,276 | 62,913 | 69,552 |
| Depreciation and amortization | 7,552 | 7,316 | 9,013 | 14,868 | 17,256 |
| Impairment of intangible assets | — | — | 397 | — | 397 |
| Selling and marketing | 2,132 | 1,436 | 1,943 | 3,568 | 3,835 |
| General and administrative | 9,878 | 10,512 | 13,576 | 20,390 | 28,917 |
| Total expenses | 52,600 | 49,139 | 58,205 | 101,739 | 119,957 |
| Operating income (loss) | (3,438) | (1,067) | (3,294) | (4,505) | (2,705) |
| Other income (expense), net | (873) | (506) | (328) | (1,379) | (1,282) |
| Income (loss) before income taxes | (4,311) | (1,573) | (3,622) | (5,884) | (3,987) |
| Income tax benefit (expense) | 101 | (414) | (1,234) | (313) | (2,136) |
| Net loss | <u>\$ (4,210)</u> | <u>\$ (1,987)</u> | <u>\$ (4,856)</u> | <u>\$ (6,197)</u> | <u>\$ (6,123)</u> |
| Loss Per Share - Basic and Diluted | | | | | |
| Net loss attributable to RigNet, Inc. common stockholders | \$ (4,249) | \$ (2,026) | \$ (4,751) | \$ (6,275) | \$ (6,084) |
| Net loss per share attributable to RigNet, Inc. common stockholders, basic | \$ (0.24) | \$ (0.11) | \$ (0.27) | \$ (0.35) | \$ (0.35) |
| Net loss per share attributable to RigNet, Inc. common stockholders, diluted | \$ (0.24) | \$ (0.11) | \$ (0.27) | \$ (0.35) | \$ (0.35) |
| Weighted average shares outstanding, basic | 17,985 | 17,873 | 17,634 | 17,929 | 17,624 |
| Weighted average shares outstanding, diluted | 17,985 | 17,873 | 17,634 | 17,929 | 17,624 |
| Unaudited Non-GAAP Data: | | | | | |
| Adjusted EBITDA | \$ 6,053 | \$ 7,225 | \$ 8,624 | \$ 13,278 | \$ 19,290 |
| <i>Unlevered Free Cash Flow</i> | \$ 1,142 | \$ 4,065 | \$ 3,954 | \$ 5,207 | \$ 9,715 |

| | Three Months Ended | | | Six Months Ended | |
|--|--------------------|-------------------|------------------|------------------|------------------|
| | June 30, 2017 | March 31, 2017 | June 30, 2016 | June 30, 2017 | June 30, 2016 |
| | (in thousands) | | | | |
| Reconciliation of Net Loss to Adjusted EBITDA and Unlevered Free Cash Flow: | | | | | |
| Net loss | \$ (4,210) | \$ (1,987) | \$ (4,856) | \$ (6,197) | \$ (6,123) |
| Interest expense | 613 | 619 | 643 | 1,232 | 1,311 |
| Depreciation and amortization | 7,552 | 7,316 | 9,013 | 14,868 | 17,256 |
| Impairment of intangible assets | — | — | 397 | — | 397 |
| (Gain) loss on sales of property, plant and equipment, net of retirements | 13 | 37 | (134) | 50 | (150) |
| Stock-based compensation | 1,116 | 826 | 1,128 | 1,942 | 1,842 |
| Restructuring costs | — | — | 1,129 | — | 497 |
| Change in fair value of earn-out/contingent consideration | (846) | — | — | (846) | — |
| Executive departure costs | — | — | — | — | 1,884 |
| Acquisition costs | 1,916 | — | 70 | 1,916 | 240 |
| Income tax expense (benefit) | (101) | 414 | 1,234 | 313 | 2,136 |
| Adjusted EBITDA (non-GAAP measure) | <u>\$ 6,053</u> | <u>\$ 7,225</u> | <u>\$ 8,624</u> | <u>\$ 13,278</u> | <u>\$ 19,290</u> |
| Adjusted EBITDA (non-GAAP measure) | \$ 6,053 | \$ 7,225 | \$ 8,624 | \$ 13,278 | \$ 19,290 |
| Capital expenditures | <u>4,911</u> | <u>3,160</u> | <u>4,670</u> | <u>8,071</u> | <u>9,575</u> |
| Unlevered Free Cash Flow (non-GAAP measure) | <u>\$ 1,142</u> | <u>\$ 4,065</u> | <u>\$ 3,954</u> | <u>\$ 5,207</u> | <u>\$ 9,715</u> |

| | June 30, 2017 | December 31, 2016 |
|---|------------------|----------------------|
| | | (in thousands) |
| Unaudited Consolidated Balance Sheet Data: | | |
| Cash and cash equivalents | \$ 42,699 | \$ 57,152 |
| Restricted cash - current portion | 41 | 139 |
| Restricted cash - long-term portion | 1,500 | 1,514 |
| Total assets | 222,705 | 230,972 |
| Current maturities of long-term debt | 8,546 | 8,478 |
| Long-term debt | 38,570 | 52,990 |

| | Six Months Ended June 30, | |
|--|------------------------------|------------------|
| | 2017 | 2016 |
| | (in thousands) | |
| Unaudited Consolidated Statements of Cash Flows Data: | | |
| Cash and cash equivalents, January 1, | \$ 57,152 | \$ 60,468 |
| Net cash provided by operating activities | 9,283 | 18,440 |
| Net cash used in investing activities | (11,063) | (15,343) |
| Net cash used in financing activities | (13,845) | (3,859) |
| Changes in foreign currency translation | 1,172 | (250) |
| Cash and cash equivalents, June 30, | <u>\$ 42,699</u> | <u>\$ 59,456</u> |

| | 2nd Quarter 2017 | 1st Quarter 2017 | 4th Quarter 2016 | 3rd Quarter 2016 | 2nd Quarter 2016 |
|-----------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Selected Operational Data: | | | | | |
| Offshore drilling rigs (1) | 173 | 173 | 175 | 194 | 211 |
| Offshore Production | 296 | 290 | 280 | 287 | 287 |
| Maritime | 134 | 124 | 122 | 128 | 105 |
| International Land | 112 | 104 | 104 | 101 | 99 |
| Other sites (2) | 336 | 304 | 240 | 238 | 236 |
| Total | 1,051 | 995 | 921 | 948 | 938 |

(1) Includes jack up, semi-submersible and drillship rigs

(2) Includes U.S. onshore drilling and production sites, completion sites, man-camps, remote offices, and supply bases and offshore-related supply bases, shore offices, tender rigs and platform rigs

| | Three Months Ended | | | Six Months Ended | |
|---|--------------------|-------------------|------------------|------------------|------------------|
| | June 30, 2017 | March 31, 2017 | June 30, 2016 | June 30, 2017 | June 30, 2016 |
| (in thousands) | | | | | |
| Managed Services | | | | | |
| Revenue | \$43,055 | \$ 44,094 | \$50,219 | \$87,149 | \$104,640 |
| Cost of revenue | 27,544 | 26,802 | 29,682 | 54,346 | 60,682 |
| Depreciation and amortization | 6,229 | 6,031 | 7,585 | 12,260 | 14,774 |
| Selling, general and administrative | 5,272 | 4,956 | 7,635 | 10,237 | 15,530 |
| Operating income | <u>\$ 4,010</u> | <u>\$ 6,305</u> | <u>\$ 5,317</u> | <u>\$10,306</u> | <u>\$ 13,654</u> |
| Adjusted EBITDA (non-GAAP measure) | <u>\$10,319</u> | <u>\$ 12,448</u> | <u>\$14,587</u> | <u>\$22,767</u> | <u>\$ 28,764</u> |
| Systems Integration and Automation | | | | | |
| Revenue | \$ 6,107 | \$ 3,978 | \$ 4,692 | \$10,085 | \$ 12,612 |
| Cost of revenue | 5,494 | 3,073 | 3,594 | 8,567 | 8,870 |
| Depreciation and amortization | 611 | 587 | 9 | 1,198 | 38 |
| Selling, general and administrative | 422 | 470 | 721 | 892 | 1,642 |
| Operating income (loss) | <u>\$ (420)</u> | <u>\$ (152)</u> | <u>\$ 368</u> | <u>\$ (572)</u> | <u>\$ 2,062</u> |
| Adjusted EBITDA (non-GAAP measure) | <u>\$ 192</u> | <u>\$ 435</u> | <u>\$ 80</u> | <u>\$ 627</u> | <u>\$ 1,734</u> |

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