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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2019

or

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

For the transition period from _____ to _____

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)

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

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

77084-4947
(Zip Code)

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.001 par value per share	RNET	NASDAQ

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 every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company 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.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

At July 31, 2019, there were outstanding 19,968,783 shares of the registrant's Common Stock.

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Glossary

The table below sets forth a number of terms commonly used in our current and periodic reports filed with the Securities and Exchange Commission and is provided as a reference for the readers of our filings.

Adjusted EBITDA	A non-GAAP measure. 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 sales of property, plant and equipment, net of retirements, change in fair value of earn-outs and contingent consideration, stock-based compensation, acquisition costs, executive departure costs, restructuring charges, the GX dispute, the GX dispute Phase II costs and non-recurring items. A reconciliation of Adjusted EBITDA to Net Income can be found in Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations
AI	Artificial Intelligence
Apps	Software Applications
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
Auto-Comm	Automation Communications Engineering Corp., acquired in 2018, provides additional Systems Integration solutions
AVI	Adaptive Video Intelligence
BOP	Blow-out preventer
BGAN	Broadband Global Access Networks
CIEB	Costs and estimated earnings in excess of billings on uncompleted contracts
Cyphre®	Cyphre Security Solutions, acquired in 2017, provides cybersecurity solutions with advanced enterprise data protection
DTS	Data Technology Solutions, acquired in 2017, increases solutions offerings in managed communications, IT, and disaster relief
ECS	Enhanced Cyber Security
EDS	Emergency disconnect sequence
EPC	Engineering, Procurement and Construction
ESS	Energy Satellite Services, acquired in 2017, increases solutions offerings in SCADA and IoT
Exchange Act	United States Securities Exchange Act of 1934, as Amended
FASB	Financial Accounting Standards Board
FCC	Federal Communications Commission
GAAP	Generally Accepted Accounting Principles in the United States
GX	Inmarsat plc’s Global Express satellite bandwidth service
HTS	High Throughput Satellite, providing greater bandwidth than traditional satellites
Intelic	Intelic soluções em Informática SA, acquired in 2018, provides machine learning and real-time predictive analytics
IoT	Internet-of-Things
IP	Internet Protocol
KPI	Key performance indicators
LIBOR	London Interbank Offered Rate
LoRA	Long Range Access
LOS	Line-of-Sight microwave transmission
MCS	Managed Communications Services
MPLS	Multiprotocol Label Switching
NASDAQ	NASDAQ Global Select Market, where RigNet’s common shares are listed for trading

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Nessco	Nessco Group Holdings LTD, acquired in 2012, provides Systems Integration solutions
NOC	Network Operations Center
NPT	Non-productive time
OPEC	Organization of Petroleum Exporting Countries
OTT	Software, IoT and other advanced solutions delivered Over-the-Top of the network layer
PUC	Public Utility Commission
ROP	Rate of penetration
SaaS	Software as a Service
SAB	Staff Accounting Bulletin
SAFCON	Safety Controls, Inc., acquired in 2018, provides additional safety, security, and maintenance service solutions for the oil and gas industry
Satellite bandwidth – Ka band	Bandwidth typically operating in a frequency range of 27 – 40 gigahertz
Satellite bandwidth – Ku band	Bandwidth typically operating in a frequency range of 12 – 18 gigahertz
Satellite bandwidth – C band	Bandwidth typically operating in a frequency range of 4 – 8 gigahertz
Satellite bandwidth – L band	Bandwidth typically operating in a frequency range of 1 – 2 gigahertz
SCADA	Supervisory Control and Data Acquisition
SEC	United States Securities and Exchange Commission
SI	Systems Integration
SOC	Security Operations Center
TECNOR	Orgtec S.A.P.I. de C.V., d.b.a. TECNOR, acquired in March 2016, increases solutions offerings in Mexico
The Tax Act	The Tax Cuts and Jobs Act
VMS	Video Management System
VSAT	Very Small Aperture Terminal satellite receivers
WiMax	Worldwide Interoperability for Microwave Access wireless broadband communication standard

PART I – FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

**RIGNET, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)**

	June 30, 2019	December 31, 2018
(in thousands, except share amounts)		
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 10,879	\$ 21,711
Restricted cash	41	41
Accounts receivable, net	67,863	67,450
Costs and estimated earnings in excess of billings on uncompleted contracts (CIEB)	8,739	7,138
Prepaid expenses and other current assets	7,197	6,767
Total current assets	94,719	103,107
Property, plant and equipment, net	63,247	63,585
Restricted cash	1,522	1,544
Goodwill	46,670	46,631
Intangibles, net	29,522	33,733
Right-of-use lease asset	3,899	—
Deferred tax and other assets	4,794	10,325
TOTAL ASSETS	\$ 244,373	\$ 258,925
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 27,916	\$ 20,568
Accrued expenses	15,802	16,374
Current maturities of long-term debt	10,783	4,942
Income taxes payable	1,369	2,431
GX dispute accrual	5,000	50,765
Deferred revenue and other current liabilities	10,079	5,863
Total current liabilities	70,949	100,943
Long-term debt	100,274	72,085
Deferred revenue	250	318
Deferred tax liability	678	652
Right-of-use lease liability – long-term portion	4,842	—
Other liabilities	22,048	28,943
Total liabilities	199,041	202,941
Commitments and contingencies (Note 11)		
Equity:		
Stockholders' equity		
Preferred stock – \$0.001 par value; 10,000,000 shares authorized; no shares issued or outstanding at June 30, 2019 or December 31, 2018	—	—
Common stock – \$0.001 par value; 190,000,000 shares authorized; 19,968,783 and 19,464,847 shares issued and outstanding at June 30, 2019 and December 31, 2018, respectively	20	19
Treasury stock – 200,980 and 91,567 shares at June 30, 2019 and December 31, 2018, respectively, at cost	(2,676)	(1,270)
Additional paid-in capital	181,577	172,946
Accumulated deficit	(114,656)	(96,517)
Accumulated other comprehensive loss	(18,918)	(19,254)
Total stockholders' equity	45,347	55,924
Non-redeemable, non-controlling interest	(15)	60
Total equity	45,332	55,984
TOTAL LIABILITIES AND EQUITY	\$ 244,373	\$ 258,925

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

RIGNET, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Unaudited)

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
	(in thousands, except per share amounts)			
Revenue	\$ 60,332	\$ 60,007	\$ 117,842	\$ 113,840
Expenses:				
Cost of revenue (excluding depreciation and amortization)	36,519	36,246	72,975	69,927
Depreciation and amortization	7,679	8,356	16,591	16,343
Change in fair value of earn-out/contingent consideration	1,284	2,778	1,284	2,800
Selling and marketing	2,952	4,189	6,745	7,138
General and administrative	14,458	12,768	30,928	26,432
Total expenses	62,892	64,337	128,523	122,640
Operating loss	(2,560)	(4,330)	(10,681)	(8,800)
Other income (expense):				
Interest expense	(1,269)	(1,007)	(2,507)	(1,966)
Other income (expense), net	(93)	112	(21)	618
Loss before income taxes	(3,922)	(5,225)	(13,209)	(10,148)
Income tax benefit (expense)	(2,204)	926	(4,870)	323
Net loss	(6,126)	(4,299)	(18,079)	(9,825)
Less: Net income attributable to non-redeemable, non-controlling interest	30	30	60	60
Net loss attributable to RigNet, Inc. stockholders	\$ (6,156)	\$ (4,329)	\$ (18,139)	\$ (9,885)
COMPREHENSIVE LOSS				
Net loss	\$ (6,126)	\$ (4,299)	\$ (18,079)	\$ (9,825)
Foreign currency translation	178	(2,192)	336	(592)
Comprehensive loss	(5,948)	(6,491)	(17,743)	(10,417)
Less: Comprehensive income attributable to non-controlling interest	30	30	60	60
Comprehensive loss attributable to RigNet, Inc. stockholders	\$ (5,978)	\$ (6,521)	\$ (17,803)	\$ (10,477)
LOSS PER SHARE – BASIC AND DILUTED				
Net loss attributable to RigNet, Inc. common stockholders	\$ (6,156)	\$ (4,329)	\$ (18,139)	\$ (9,885)
Net loss per share attributable to RigNet, Inc. common stockholders, basic	\$ (0.32)	\$ (0.23)	\$ (0.95)	\$ (0.54)
Net loss per share attributable to RigNet, Inc. common stockholders, diluted	\$ (0.32)	\$ (0.23)	\$ (0.95)	\$ (0.54)
Weighted average shares outstanding, basic	19,082	18,639	19,016	18,394
Weighted average shares outstanding, diluted	19,082	18,639	19,016	18,394

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

RIGNET, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended June 30,	
	2019	2018
	(in thousands)	
Cash flows from operating activities:		
Net loss	\$ (18,079)	\$ (9,825)
Adjustments to reconcile net loss to net cash provided by operations:		
Depreciation and amortization	16,591	16,343
Stock-based compensation	5,628	3,282
Amortization of deferred financing costs	153	102
Deferred taxes	4,838	66
Change in fair value of earn-out/contingent consideration	1,284	2,800
Accretion of discount of contingent consideration payable for acquisitions	183	287
(Gain) loss on sales of property, plant and equipment, net of retirements	11	(32)
Changes in operating assets and liabilities, net of effect of acquisition:		
Accounts receivable, net	(488)	(12,458)
Costs and estimated earnings in excess of billings on uncompleted contracts (CIEB)	(1,644)	(430)
Prepaid expenses and other assets	(6)	(2,157)
Accounts payable	7,564	4,140
Accrued expenses	(1,574)	(2,948)
GX Dispute payment	(45,000)	—
Deferred revenue	1,334	4,134
Other liabilities	(2,052)	(1,975)
Net cash provided by (used in) operating activities	(31,257)	1,329
Cash flows from investing activities:		
Acquisitions (net of cash acquired)	—	(5,082)
Capital expenditures	(11,868)	(12,701)
Proceeds from sales of property, plant and equipment	112	170
Net cash used in investing activities	(11,756)	(17,613)
Cash flows from financing activities:		
Issuance of common stock upon the exercise of stock options and the vesting of restricted stock	4	57
Stock withheld to cover employee taxes on stock-based compensation	(1,406)	(1,130)
Subsidiary distributions to non-controlling interest	(135)	(66)
Proceeds from borrowings	40,000	2,500
Repayments of long-term debt	(6,083)	(2,572)
Payment of financing fees	(486)	—
Net cash provided by (used in) financing activities	31,894	(1,211)
Net change in cash and cash equivalents	(11,119)	(17,495)
Cash and cash equivalents including restricted cash:		
Balance, January 1,	23,296	36,141
Changes in foreign currency translation	265	1,308
Balance, June 30,	\$ 12,442	\$ 19,954
Supplemental disclosures:		
Income taxes paid	\$ 3,371	\$ 2,262
Interest paid	\$ 2,075	\$ 1,419
Property, plant and equipment acquired under capital leases	\$ 446	\$ —
Non-cash investing – capital expenditures accrued	\$ 1,917	\$ 2,180
Non-cash investing and financing – issuance of common stock for the Intelie earn-out	\$ 3,000	\$ —
Non-cash investing – contingent consideration for acquisitions	\$ —	\$ 7,600
Non-cash investing and financing – stock for acquisitions	\$ —	\$ 11,436
Liabilities assumed in acquisitions	\$ —	\$ 5,513
	June 30,	June 30,
	2019	2018
Cash and cash equivalents	\$ 10,879	\$ 18,366
Restricted cash – current portion	41	42
Restricted cash – long-term portion	1,522	1,546
Cash and cash equivalents including restricted cash	\$ 12,442	\$ 19,954

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

RIGNET, INC.
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
(Unaudited)

	Common Stock		Treasury Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity	Non-Redeemable, Non-Controlling Interest	Total Equity
	Shares	Amount	Shares	Amount						
	(dollars and shares in thousands)									
Balance, March 31, 2018	19,104	\$ 19	80	\$ (1,096)	\$ 165,625	\$ (39,620)	\$ (13,206)	\$ 111,722	\$ 42	\$111,764
Issuance of common stock upon the exercise of stock options	7	—	—	—	45	—	—	45	—	45
Issuance of common stock upon the vesting of Restricted Stock Units, net of share cancellations	(10)	—	—	—	—	—	—	—	—	—
Issuance of common stock upon the acquisition of Intelie	259	—	—	—	4,096	—	—	4,096	—	4,096
Stock withheld to cover employee taxes on stock-based compensation	—	—	10	(150)	—	—	—	(150)	—	(150)
Stock-based compensation	—	—	—	—	837	—	—	837	—	837
Cumulative effect adjustment from implementation of ASU 2016-16	—	—	—	—	—	—	—	—	—	—
Foreign currency translation	—	—	—	—	—	—	(2,192)	(2,192)	—	(2,192)
Non-controlling owner distributions	—	—	—	—	—	—	—	—	—	—
Net income (loss)	—	—	—	—	—	(4,329)	—	(4,329)	30	(4,299)
Balance, June 30, 2018	19,360	\$ 19	90	\$ (1,246)	\$ 170,603	\$ (43,949)	\$ (15,398)	\$ 110,029	\$ 72	\$110,101
Balance, March 31, 2019	19,711	\$ 20	198	\$ (2,677)	\$ 177,404	\$ (108,500)	\$ (19,096)	\$ 47,151	\$ (45)	\$ 47,106
Issuance of common stock upon the exercise of stock options	1	—	—	—	3	—	—	3	—	3
Issuance of common stock upon the vesting of Restricted Stock Units, net of share cancellations	49	—	—	—	—	—	—	—	—	—
Issuance of common stock upon the Intelie earn-out	208	—	—	—	3,000	—	—	3,000	—	3,000
Stock withheld to cover employee taxes on stock-based compensation	—	—	3	1	—	—	—	1	—	1
Stock-based compensation	—	—	—	—	1,170	—	—	1,170	—	1,170
Foreign currency translation	—	—	—	—	—	—	178	178	—	178
Non-controlling owner distributions	—	—	—	—	—	—	—	—	—	—
Net income (loss)	—	—	—	—	—	(6,156)	—	(6,156)	30	(6,126)
Balance, June 30, 2019	19,969	\$ 20	201	\$ (2,676)	\$ 181,577	\$ (114,656)	\$ (18,918)	\$ 45,347	\$ (15)	\$ 45,332

	Common Stock		Treasury Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity	Non-Redeemable, Non-Controlling Interest	Total Equity
	Shares	Amount	Shares	Amount						
	(dollars and shares in thousands)									
Balance, January 1, 2018	18,233	\$ 18	6	\$ (116)	\$ 155,829	\$ (33,726)	\$ (14,806)	\$ 107,199	\$ 78	\$107,277
Issuance of common stock upon the exercise of stock options	8	—	—	—	57	—	—	57	—	57
Issuance of common stock upon the vesting of Restricted Stock Units, net of share cancellations	330	—	—	—	—	—	—	—	—	—
Issuance of common stock for acquisitions	789	1	—	—	11,435	—	—	11,436	—	11,436
Stock withheld to cover employee taxes on stock-based compensation	—	—	84	(1,130)	—	—	—	(1,130)	—	(1,130)
Stock-based compensation	—	—	—	—	3,282	—	—	3,282	—	3,282
Cumulative effect adjustment from implementation of ASU 2016-16	—	—	—	—	—	(338)	—	(338)	—	(338)
Foreign currency translation	—	—	—	—	—	—	(592)	(592)	—	(592)
Non-controlling owner distributions	—	—	—	—	—	—	—	—	(66)	(66)
Net income (loss)	—	—	—	—	—	(9,885)	—	(9,885)	60	(9,825)
Balance, June 30, 2018	19,360	\$ 19	90	\$ (1,246)	\$ 170,603	\$ (43,949)	\$ (15,398)	\$ 110,029	\$ 72	\$110,101
Balance, January 1, 2019	19,465	\$ 19	92	\$ (1,270)	\$ 172,946	\$ (96,517)	\$ (19,254)	\$ 55,924	\$ 60	\$ 55,984

Issuance of common stock upon the exercise of stock options	1	—	—	—	3	—	—	3	—	3
Issuance of common stock upon the vesting of Restricted Stock Units, net of share cancellations	295	1	—	—	—	—	—	1	—	1
Issuance of common stock for the Intelic earn-out	208	—	—	—	3,000	—	—	3,000	—	3,000
Stock withheld to cover employee taxes on stock-based compensation	—	—	109	(1,406)	—	—	—	(1,406)	—	(1,406)
Stock-based compensation	—	—	—	—	5,628	—	—	5,628	—	5,628
Foreign currency translation	—	—	—	—	—	—	336	336	—	336
Non-controlling owner distributions	—	—	—	—	—	—	—	—	(135)	(135)
Net income (loss)	—	—	—	—	—	(18,139)	—	(18,139)	60	(18,079)
Balance, June 30, 2019	19,969	\$ 20	201	\$ (2,676)	\$ 181,577	\$ (114,656)	\$ (18,918)	\$ 45,347	\$ (15)	\$ 45,332

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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, 2018 included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 15, 2019.

Significant Accounting Policies

In addition to the accounting policies described below, please refer to RigNet's Annual Report on Form 10-K for fiscal year 2018 for information regarding the Company's accounting policies.

Revenue Recognition – Revenue from Contracts with Customers

Revenue is recognized to depict the transfer of promised goods or services in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services.

Revenue Recognition – Managed Communications Services (MCS) and Applications and Internet-of-Things (Apps & IoT)

MCS and Apps & IoT customers are primarily served under fixed-price contracts, either on a monthly or day rate basis or for equipment sales and consulting services. Contracts are generally in the form of Master Service Agreements, or MSAs, with specific services being provided under individual service orders. Offshore contracts generally have a term of up to three years with renewal options. Land-based contracts 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 permit early termination 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).

Performance Obligations Satisfied Over Time – The delivery of service represents the single performance obligation under MCS and Apps & IoT contracts. Revenue for contracts is generally recognized over time as service is transferred to the customer and the Company expects to be entitled to the agreed monthly or day rate in exchange for those services.

Performance Obligations Satisfied at a Point in Time – The delivery of equipment represents the single performance obligation under equipment sale contracts. Revenue for equipment sales is generally recognized upon delivery of equipment to customers.

Revenue Recognition – Systems Integration

Revenues related to long-term, fixed-price Systems Integration contracts for customized network solutions are recognized based on the percentage of completion for the contract. 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.

Performance Obligations Satisfied Over Time – The delivery of a Systems Integration solution represents the single performance obligation under Systems Integration contracts. 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.

The Company reviews all material contracts on a monthly basis and revises the estimates as appropriate for developments such as providing services, 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 Costs and estimated earnings in excess of billings on uncompleted contracts (CIEB).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Systems Integration contracts are billed in accordance with the terms of the contract which are typically either based on milestones or specified time intervals. As of June 30, 2019 and December 31, 2018, the amount of CIEB related to Systems Integration projects was \$8.7 million and \$7.1 million, respectively. Under long-term contracts, amounts recorded in CIEB may not be realized or paid within a one-year period. As of June 30, 2019 and December 31, 2018, \$1.4 million and none, respectively, of amounts billed to customers in excess of revenue recognized to date were classified as a current liability, under deferred revenue.

Variable Consideration – Systems Integration - The Company records revenue on contracts relating to certain probable claims and unapproved change orders by including in revenue an amount less than or equal to the amount of costs incurred to date relating to these probable claims and unapproved change orders, thus recognizing no profit until such time as claims are finalized or change orders are approved. The amount of unapproved change orders and claim revenues is included in the Company's Consolidated Balance Sheets as part of CIEB. No material unapproved change orders or claims revenue were included in CIEB as of June 30, 2019 and December 31, 2018. As new facts become known, an adjustment to the estimated recovery is made and reflected in the current period.

Backlog—As of June 30, 2019, we have backlog for our percentage of completion projects of \$37.1 million, which will be recognized over the remaining contract term for each contract. Percentage of completion contract terms are typically one to three years.

Leases

Effective with adoption of Accounting Standards Update No. 2016-02 (ASU 2016-02), Leases (the new lease standard) on January 1, 2019, we determine if an arrangement is a lease at inception. Operating leases right of use assets and liabilities are included in right to use lease asset, deferred revenue and other current liabilities, and right to use lease liability – long-term portion on our condensed consolidated balance sheets. Finance leases are included in property, plant and equipment; current maturities of long-term debt; and long-term debt on our condensed consolidated balance sheets.

Operating lease right to use assets and liabilities are recognized based on the present value of the future minimum lease payments over the lease term. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of future payments. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term.

Recently Issued Accounting Pronouncements

In March 2016, the FASB issued Accounting Standards Update No. 2016-02 (ASU 2016-02), Leases. This ASU is effective for annual reporting periods beginning after December 15, 2018. This ASU introduces a new lessee model that generally brings leases on to the balance sheet. The Company adopted this ASU as of the first quarter 2019, and it required right-of-use liabilities on the consolidated balance sheet of \$6.5 million as of March 31, 2019, of which \$5.8 million were long-term and \$0.7 million were current, with no related impact on the Company's Condensed Consolidated Statement of Equity or Comprehensive Loss. The Company elected the package of practical expedients permitted under the transition guidance within the new standard which, among other things, allows companies to carry forward their historical lease classification and to not record leases with an initial term of less than 12 months. The Company has used the optional transition method permitted under Accounting Standards Update No. 2018-11 (ASU 2018-11). Accordingly, prior year amounts have not been adjusted and continue to be reflected in accordance with Company's historical accounting. The Company's credit agreement excludes the impact of ASU 2016-02.

In June 2018, the FASB issued Accounting Standards Update No. 2018-07 (ASU 2018-07), which expands the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. The ASU is effective for annual and interim reporting periods beginning after December 15, 2018. The adoption of this ASU did not have any material impact on the Company's condensed consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13 (ASU 2018-13), which eliminates disclosures, modifies existing disclosures and adds new Fair Value disclosure requirements to Topic 820 for the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. The ASU is effective for annual and interim reporting periods beginning after December 15, 2019. The Company is currently in the process of evaluating the impact the adoption of this ASU will have on the Company's condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

In August 2018, the FASB issued ASU No. 2018-15 (ASU 2018-15), which provides guidance on implementation costs incurred in a cloud computing arrangement that is a service contract. The ASU is effective for annual and interim reporting periods beginning after December 15, 2019. The Company is currently in the process of evaluating the impact the adoption of this ASU will have on the Company's condensed consolidated financial statements.

Note 2 – Business Combinations

Auto-Comm and SAFCON

On April 18, 2018, RigNet completed the separate acquisitions of Automation Communications Engineering Corp. (Auto-Comm) and Safety Controls, Inc. (SAFCON) for an aggregate purchase price of \$6.7 million. Of this aggregate purchase price RigNet paid \$2.2 million in cash and \$4.1 million in stock in April 2018. In September 2018, the Company paid \$0.3 million in cash for a working capital adjustment.

Auto-Comm provides a broad range of communications services, for both onshore and offshore remote locations, to the oil and gas industry. Auto-Comm brings over 30 years of systems integration experience in engineering and design, installation, testing, and maintenance. SAFCON offers a diverse set of safety, security, and maintenance services to the oil and gas industry. Auto-Comm and SAFCON have developed strong relationships with major energy companies that complement the relationships that RigNet has established over the years. Auto-Comm and SAFCON are based in Louisiana.

The assets and liabilities of Auto-Comm and SAFCON 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 goodwill of \$1.4 million arising from the acquisitions consists largely of growth prospects, synergies and other benefits that the Company believes will result from combining the operations of the Company, Auto-Comm and SAFCON, as well as other intangible assets that do not qualify for separate recognition, such as assembled workforce in place at the date of acquisition. The goodwill recognized is expected to be nondeductible for income tax purposes. The acquisitions of Auto-Comm and SAFCON, including goodwill, are included in the Company's condensed consolidated financial statements as of the acquisition date and are primarily reflected in the Systems Integration segment.

	<u>Weighted Average Estimated Useful Life (Years)</u>	<u>Fair Market Values</u> (in thousands)
Current assets		\$ 4,947
Property and equipment		132
Trade name	7	\$ 540
Customer relationships	7	<u>980</u>
Total identifiable intangible assets		1,520
Goodwill		1,387
Current liabilities		(1,006)
Deferred tax liability		<u>(319)</u>
Total purchase price		<u>\$ 6,661</u>

Intelie

On March 23, 2018, RigNet completed its acquisition of Intelie™ Soluções Em Informática S.A (Intelie), for an estimated aggregate purchase price of \$18.1 million. Of this aggregate purchase price, RigNet paid R\$10.6 million (BRL) (or approximately \$3.2 million) in cash, \$7.3 million in stock and expects to pay \$7.6 million worth of RigNet stock as contingent consideration earn-out, estimated as of the date of acquisition. The initial estimate of the earn-out payable was preliminary and remains subject to change based on the achievement of certain post-closing performance targets under the acquisition agreement. The maximum earn-out is \$17.0 million payable in stock. Intelie is a real-time, predictive analytics company that combines an operational understanding with a machine learning approach. Intelie facilitates innovation via Intelie Pipes™, a distributed query language with a complex event processor to aggregate

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

and normalize real-time data from a myriad of data sources. This technology enables the Intelie LIVETM platform to solve data integration, data quality, data governance and monitoring problems. Intelie LIVE is an operational intelligence platform that empowers clients to make timely, data-driven decisions in mission-critical real-time operations, including drilling, and longer-term, data-intensive projects, such as well planning. Intelie LIVE has broad applicability across many industry verticals. Intelie is based in Brazil.

The assets and liabilities of Intelie 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 earn-out for Intelie is measured at fair value in each reporting period, based on level 3 inputs, with any change to fair value recorded in the Condensed Consolidated Statements of Comprehensive Loss. As of June 30, 2019, the fair value of the earn-out was \$7.9 million with \$4.4 million in deferred revenue and other current liabilities and \$3.5 million in other long-term liabilities. During the six months ended June 30, 2019, RigNet recognized accreted interest expense on the Intelie earn-out of \$0.1 million with corresponding increases to other liabilities. Portions of the earn-out are payable in RigNet stock on the first, second and third anniversary of the closing of the acquisition based on certain post-closing performance targets under the acquisition agreement. On April 29, 2019, the agreement was amended to clarify the calculation of certain contingent consideration, but did not change the amount or form of consideration that could be paid pursuant to the purchase agreement. In May 2019, the Company issued 208,356 shares of its common stock, with an aggregate value of \$3.0 million, as payment for the portion of the earn-out earned as of the first anniversary of the closing of the acquisition.

The goodwill of \$10.7 million arising from the acquisition consists largely of growth prospects, synergies and other benefits that the Company believes will result from combining the operations of the Company and Intelie, 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 Intelie, including goodwill, is included in the Company's condensed consolidated financial statements as of the acquisition date and is reflected in the Apps & IoT segment.

	<u>Weighted Average Estimated Useful Life (Years)</u>	<u>Fair Market Values</u>
		(in thousands)
Current assets		\$ 589
Property and equipment		73
Trade name	7	\$2,300
Technology	7	8,400
Customer relationships	7	<u>320</u>
Total identifiable intangible assets		11,020
Goodwill		10,744
Current liabilities		(460)
Deferred tax liability		<u>(3,825)</u>
Total purchase price		<u>\$18,141(a)</u>

(a) Includes \$7.6 million in contingent consideration earn-out estimated as of the date of acquisition.

Actual and Pro Forma Impact of the 2018 Acquisitions

The 2018 acquisitions of Auto-Comm, SAFCON and Intelie contributed revenue and net income of \$6.1 million and \$0.8 million, respectively, for the three months ended June 30, 2018. The 2018 acquisitions of Auto-Comm, SAFCON and Intelie contributed revenue and net income of \$6.2 million and \$0.8 million, respectively, for the six months ended June 30, 2018.

The following table represents supplemental pro forma information as if the 2018 acquisitions of Auto-Comm, SAFCON and Intelie had occurred on January 1, 2018.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	Three Months Ended June 30, 2018	Six Months Ended June 30, 2018
	(in thousands, except per share amounts)	
Revenue	\$ 60,547	\$ 118,297
Expenses	64,784	127,593
Net loss	<u>\$ (4,237)</u>	<u>\$ (9,296)</u>
Net loss attributable to RigNet, Inc. common stockholders	<u>\$ (4,267)</u>	<u>\$ (9,356)</u>
Net loss per share attributable to RigNet, Inc. common stockholders:		
Basic	<u>\$ (0.23)</u>	<u>\$ (0.51)</u>
Diluted	<u>\$ (0.23)</u>	<u>\$ (0.51)</u>

The Company incurred acquisition-related costs of \$0.1 million and \$0.3 million in the three months ended June 30, 2019 and 2018, respectively, and \$0.4 million and \$1.1 million in the six months ended June 30, 2019 and 2018, respectively, reported in general and administrative costs.

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 resulting in interest rate risk (see Note 6 – Long-Term Debt). The Company presently does not use financial instruments to hedge interest rate risk, but evaluates this on a regular basis and may utilize financial instruments 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, the British Pound Sterling and the Brazilian Real are the currencies that could materially impact the Company's financial position and results of operations. The Company presently does not hedge these risks, but evaluates financial risk on a regular basis and may utilize financial instruments in the future if deemed necessary. Foreign currency translations are reported as accumulated other comprehensive income (loss) in the Company's condensed consolidated financial statements.

Credit and Customer Concentration Risk

Credit risk, with respect to accounts receivable, is due to the limited number of customers concentrated in the oil and gas, maritime, pipeline, engineering and construction industries. 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 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. Although no one customer comprised over 10% of our revenue for the six months ended June 30, 2019, our top 5 customers generated 24.2% of the Company's revenue for the six months ended June 30, 2019.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 2019 or 2018. 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 resulted from prior acquisitions as the consideration paid for the acquired 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 acquired \$1.4 million of goodwill in the Systems Integration segment from the Auto-Comm and SAFCON acquisitions completed on April 18, 2018 (see Note 2 – Business Combinations).

The Company acquired \$10.7 million of goodwill in the Apps & IoT segment from the Intelie acquisition completed on March 23, 2018 (see Note 2 – Business Combinations).

The Company performs its annual impairment test as of July 31st of each year. In connection with the July 31, 2018 impairment test, the most recent annual test performed prior to June 30, 2019, the fair values of the Company's reporting units were in excess of their carrying values and no impairment was noted.

MCS had \$22.4 million of goodwill as of June 30, 2019, and fair value exceeded carrying value by 34.7% as of the July 31, 2018 annual impairment test. Apps & IoT had \$22.9 million of goodwill as of June 30, 2019, and fair value exceeded carrying value by 48.1% as of the July 31, 2018 annual impairment test. Systems Integration had \$1.4 million of goodwill as of June 30, 2019, and fair value exceeded carrying value by 126.5% as of the July 31, 2018 annual impairment test. Any future downturn in our business could adversely impact the key assumptions in our impairment test. 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.

No impairment indicators have been identified in any reporting unit as of June 30, 2019.

As of June 30, 2019 and December 31, 2018, goodwill was \$46.7 million and \$46.6 million, respectively. Goodwill increases or decreases in value due to the effect of foreign currency translation, increases with acquisitions, and decreases in the event an impairment is recognized.

Intangibles

Intangibles consist of customer relationships, covenants-not-to-compete, brand name, licenses, technology and backlog acquired as part of the Company's acquisitions. Intangibles also include internal-use software. The Company's intangibles have useful lives ranging from 5.0 to 20.0 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 in any reporting unit as of June 30, 2019.

As of June 30, 2019 and December 31, 2018, intangibles were \$29.5 million and \$33.7 million, respectively. During the three months ended June 30, 2019 and 2018, the Company recognized amortization expense of \$2.4 million and \$2.5 million, respectively. During the six months ended June 30, 2019 and 2018, the Company recognized amortization expense of \$4.9 million and \$4.6 million, respectively.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The following table sets forth expected amortization expense of intangibles for the remainder of 2019 and the following years (in thousands):

2019	3,059
2020	6,160
2021	5,752
2022	5,472
2023	4,828
Thereafter	4,251
	<u>\$29,522</u>

Note 5 – Restricted Cash

As of June 30, 2019 and December 31, 2018, the Company had restricted cash of \$0.1 million and \$1.5 million, in current and long-term assets, respectively. The restricted cash in long-term assets was primarily used to collateralize a performance bond in the MCS segment (see Note 6 – Long-Term Debt).

Note 6 – Long-Term Debt

As of June 30, 2019 and December 31, 2018, the following credit facilities and long-term debt arrangements with financial institutions were in place:

	<u>June 30,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
	(in thousands)	
Term Loan	\$ 7,500	\$ 10,000
Term-Out Loan	28,500	—
Revolving credit facility (RCF)	75,150	67,150
Unamortized deferred financing costs	(647)	(315)
Finance lease	554	192
	<u>111,057</u>	<u>77,027</u>
Less: Current maturities of long-term debt	(10,619)	(4,831)
Current maturities of finance lease	(164)	(111)
	<u>\$100,274</u>	<u>\$ 72,085</u>

Credit Agreement

The Company and certain of its subsidiaries are party to a third amended and restated credit agreement, dated as of November 6, 2017, with four participating financial institutions (as amended from time to time, the Credit Agreement), which provides for a \$15.0 million term loan (Term Loan), a \$30.0 million term-out facility (Term-Out Loan) and an \$85.0 million revolving credit facility (RCF). The RCF and Term-Out Loan mature on April 6, 2021. The Term Loan matures on December 31, 2020.

On February 13, 2019, the Company entered into the first amendment to Credit Agreement to refinance \$30.0 million of outstanding draws under the existing \$85.0 million RCF with the new \$30.0 million Term-Out Loan.

On June 7, 2019, the Company entered into a second amendment to the Credit Agreement (Second Amendment), which (i) permits the Company to exclude up to \$5.0 million in legal and related costs for the GX Dispute (see Note 11 – Commitments and Contingencies) from the calculation of Consolidated EBITDA (as defined under the Credit Agreement), (ii) permits the Company to exclude from the calculation of Consolidated Funded Indebtedness up to \$30.0 million of undrawn surety bonds and (iii) revises the threshold of proceeds from asset dispositions above which the Company must prepay on the Term Out Loan to \$5.0 million. Consolidated EBITDA and Consolidated Funded Indebtedness are non-GAAP metrics defined in the Credit Agreement.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The Credit Agreement required a \$45.0 million reserve (Specified Reserve) under the RCF that was released and made available for borrowing for payment of monetary damages from the GX dispute. The RCF contains a sub-limit of up to \$25.0 million for commercial and stand-by letters of credit and performance bonds issued by the parties under the Credit Agreement. The facilities under the credit agreement are secured by substantially all the assets of the Company.

Under the Credit Agreement, the Term Loan, Term-Out Loan and the RCF bear interest at a rate of LIBOR plus a margin ranging from 1.75% to 3.00% based on a consolidated leverage ratio defined in the Credit Agreement. Interest on the Term Loan, Term-Out Loan and RCF is payable monthly. Principal installments of \$1.25 million and \$1.5 million under the Term Loan and Term-Out Loan, respectively, are due quarterly. The weighted average interest rate for the three months ended June 30, 2019 and 2018 were 5.3% and 4.8%, respectively. The weighted average interest rate for the six months ended June 30, 2019 and 2018 were 5.3% and 4.5%, respectively, with an interest rate of 5.2% at June 30, 2019.

Term Loan

As of June 30, 2019, the Term Loan had an outstanding principal balance of \$7.5 million, excluding the impact of unamortized deferred financing costs.

Term-Out Loan

As of June 30, 2019, the Term-Out Loan had an outstanding principal balance of \$28.5 million.

RCF

As of June 30, 2019, \$75.2 million in draws remain outstanding under the RCF. During the quarter ended June 30, 2019, the Company borrowed \$40 million under the RCF in connection with the initial payment of the GX Dispute settlement.

Covenants and Restrictions

The Company's Credit Agreement contains certain covenants and restrictions, including restricting the payment of cash dividends under default, and maintaining certain financial covenants such as a consolidated fixed charge coverage ratio of not less than 1.25 to 1.00. Additionally, the Credit Agreement requires a consolidated leverage ratio, as defined in the Credit Agreement, of less than or equal to 2.75 to 1.00. The consolidated leverage ratio increases to 3.25 to 1.00 for four quarters starting in the 2nd quarter of 2019. The consolidated leverage ratio then decreases to 3.00 to 1.00 for three quarters, and then decreases to 2.75 to 1.00 for all remaining quarters. If any default occurs related to these covenants that is not cured or waived, the unpaid principal and any accrued interest can be declared immediately due and payable. The facilities under the Credit Agreement are secured by substantially all the assets of the Company.

In April 2019, the Company determined that in periods beginning at least as early as March 31, 2014, it had incurred and not appropriately included certain surety bonds or other similar instruments in its consolidated leverage ratio calculation as defined by the Credit Agreement. As a result, on May 6, 2019, the Company entered into a Consent and Waiver (Consent) to the Credit Agreement with the financial institutions party thereto under which the Company is permitted to exclude certain incurred surety bonds and other similar instruments from the calculation of Consolidated Funded Indebtedness (as defined in the credit agreement) for the period ended June 30, 2019. In addition, the Consent waived all specified violations for all prior periods.

On June 7, 2019, the Company entered into a second amendment to the third amended and restated credit agreement (Credit Agreement), which permits the Company to exclude up to \$5.0 million in legal and related costs for the GX Dispute from the calculation of Consolidated EBITDA, permits the Company to exclude from the calculation of Consolidated Funded Indebtedness up to \$30.0 million of undrawn surety bonds and revises the threshold of proceeds from asset dispositions above which the Company must prepay on the Term Out Loan to \$5.0 million. Consolidated EBITDA and Consolidated Funded Indebtedness are non-GAAP metrics defined in the Credit Agreement.

We believe we have accurately calculated and reported our required debt covenant calculations for the June 30, 2019 reporting period and are in compliance with the required covenant ratios.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Performance Bonds, Surety Bonds and Other Similar Instruments

As of June 30, 2019, there were \$30.4 million of performance bonds, surety bonds and similar instruments outstanding of which \$1.6 million is issued by the parties under the Credit Agreement. As of June 30, 2019, there were \$0.1 million outstanding standby letters of credit and bank guarantees.

In June 2016, the Company secured a performance bond facility with a lender in the amount of \$1.5 million for its MCS segment. This facility has a maturity date of June 2021. The Company maintains restricted cash on a dollar for dollar basis to secure this facility.

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 2019 and the following years (in thousands):

2019	5,411
2020	10,814
2021	94,677
2022	116
2023	39
Total debt, including current maturities	<u>\$111,057</u>

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.

The Company's non-financial assets, such as goodwill, intangibles and property, plant 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.

The earn-out for Intelie is measured at fair value in each reporting period, based on level 3 inputs, with any change to fair value recorded in the Condensed Consolidated Statements of Comprehensive Loss. As of June 30, 2019, the fair value of the earn-out was \$7.9 million with \$4.4 million in deferred revenue and other current liabilities and \$3.5 million in other long-term liabilities. During the three and six months ended June 30, 2019, RigNet recognized accreted interest expense on the Intelie earn-out of \$0.1 million, and \$0.1 million, respectively, with corresponding increases to other liabilities. During the three and six months ended June 30, 2018, RigNet recognized accreted interest expense on the Intelie earn-out of \$0.1 million, and \$0.1 million, respectively. During the three and six months ended June 30, 2019, RigNet recognized an increase in the fair value of the earn-out of \$1.3 million and \$1.3 million, respectively. During the three and six months ended June 30, 2018, RigNet recognized an increase in the fair value of the earn-out of \$2.8 million and \$2.8 million, respectively. The earn-out is payable in RigNet stock in portions on the first, second and third anniversary of the March 23, 2018 closing of the acquisition based on certain post-closing performance targets under the acquisition agreement. In May 2019, the Company issued 208,356 shares of its common stock, with an aggregate value of \$3.0 million, as payment for the portion of the earn-out earned as of the first anniversary of the closing of the acquisition.

The contingent consideration for Cyphre, a cybersecurity company acquired in May 2017, is measured at fair value in each reporting period, based on level 3 inputs, with any change to fair value recorded in the Condensed Consolidated Statements of Comprehensive Loss. As of June 30, 2019, the fair value of the contingent consideration was \$3.5 million, of which \$0.3 million is in other current liabilities and \$3.2 million is in other long-term liabilities. During the three and six months ended June 30, 2019, RigNet recognized

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

accrued interest expense on the Cyphre contingent consideration of \$0.1 million, and \$0.1 million, respectively, with corresponding increases to other liabilities. During the three and six months ended June 30, 2018, RigNet recognized accrued interest expense on the Cyphre contingent consideration of \$0.1 million, and \$0.1 million, respectively.

The earn-out for Orgtec S.A.P.I. de C.V., d.b.a. TECNOR (TECNOR), acquired in February 2016, was measured at fair value, based on level 3 inputs, with any change to fair value recorded in the Condensed Consolidated Statements of Comprehensive Loss in each reporting period. The fair value of the earn-out of \$8.0 million was paid in July 2018. During the three and six months ended June 30, 2018, RigNet recognized accrued interest expense on the TECNOR earn-out liability of \$0.1 million with corresponding increases to other liabilities.

Note 8 – Income Taxes

The Company's effective income tax rate was (56.2%) and (36.9%) for the three and six months ended June 30, 2019, respectively. The Company's effective income tax rate was 17.7% and 3.2% for the three and six months ended June 30, 2018, 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.

The Company received an IRS notice informing us of an audit of the Company's 2016 income tax return. It is unclear if the audit and the appeals process, if necessary, will be completed within the next twelve months. The Company is in the early stages of the audit and is unable to quantify any potential settlement or outcome of the audit at this time.

The Company received a notice informing us of an audit of the Company's 2016-2017 income tax returns in Singapore. It is unclear if the audit and the appeals process, if necessary, will be completed within the next twelve months. The Company is in the early stages of the audit and is unable to quantify any potential settlement or outcome of the audit at this time.

The Company believes that it is reasonably possible that a decrease of up to \$2.6 million in unrecognized tax benefits, including related interest and penalties, may be necessary within the coming year due to lapse in statute of limitations.

Note 9 – Stock-Based Compensation

During the six months ended June 30, 2019, the Company granted a total of 592,663 stock-based awards to certain officers and employees of the Company under the 2010 Omnibus Incentive Plan (2010 Plan). Of these, the Company granted the following stock-based awards associated with the long term incentive plan (LTIP): (i) 190,588 restricted stock units (RSUs) to certain officers and employees that generally vest over a three year period of continued employment, with 33% of the RSUs vesting on each of the first three anniversaries of the grant date, (ii) 22,189 RSUs to certain officers and employees that generally vest over a four year period of continued employment, with 25% of the RSUs vesting on each of the first four anniversaries of the grant date, (iii) 60,361 performance share units (PSUs) to certain officers and employees that generally cliff vest on the third anniversary of the grant date and are subject to continued employment and certain performance based targets and (iv) 86,772 RSUs to outside directors that vest in 2020. The ultimate number of PSUs issued is based on a multiple determined by certain performance-based targets. The fair value of RSUs and PSUs 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, net of forfeitures.

Additionally, the Company granted 232,753 unrestricted stock grants associated with payment of the Company's 2018 short term incentive plan to certain officers and employees that vested immediately.

During the six months ended June 30, 2019, the Company also granted 28,923 options to purchase our common stock with an exercise price of \$15.06 to certain officers and employees of the Company as part of the LTIP under the 2010 Plan. Options granted have a contractual term of seven years and vest over a three-year period of continued employment, with 33% of the options vesting on each of the first three 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, 2019, were as follows:

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	Six Months Ended June 30, 2019
Expected volatility	49%
Expected term (in years)	7
Risk-free interest rate	2.5%
Dividend yield	—

Based on these assumptions, the weighted average grant date fair value of stock options granted during the six months ended June 30, 2019 was \$7.94 per option.

During the six months ended June 30, 2019, 22,712 RSUs and 4,377 stock options were forfeited.

Stock-based compensation expense related to the Company's stock-based compensation plans for the three and six months ended June 30, 2019 was \$1.2 million and \$5.6 million, respectively. Stock-based compensation expense related to the Company's stock-based compensation plans for the three and six months ended June 30, 2018 was \$0.8 million and \$3.3 million, respectively. As of June 30, 2019, there was \$5.5 million of total unrecognized compensation cost related to unvested options, RSUs and restricted stock expected to vest. This cost is expected to be recognized over a remaining weighted-average period of 1.9 years.

Note 10 – Earnings (loss) per Share

Basic earnings (loss) per share (EPS) are computed by dividing net loss attributable to RigNet common stockholders by the weighted average number of basic shares outstanding during the period. Basic shares equal the total of the common shares outstanding, but excludes the dilutive effect of common shares that could potentially be issued due to the exercise of stock options or vesting of restricted stock, RSUs or PSUs. Diluted EPS is computed by dividing loss attributable to RigNet common stockholders by the weighted average number of diluted shares outstanding during the period. Diluted shares equal the total of the basic shares outstanding and all potentially issuable shares, other than antidilutive shares, if any. 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 and six months ended June 30, 2019, there were approximately 348,197 and 489,747 potentially issuable shares excluded from the Company's calculation of diluted EPS that were excluded because the Company incurred a loss in the period and to include them would have been anti-dilutive.

For the three and six months ended June 30, 2018, there were approximately 580,410 and 636,460 potentially issuable shares excluded from the Company's calculation of diluted EPS that were excluded because the Company incurred a loss in the period and to include them would have been anti-dilutive.

Note 11 – Commitments and Contingencies***Global Xpress (GX) Dispute***

Inmarsat plc (Inmarsat), a satellite telecommunications company, filed arbitration with the International Centre for Dispute Resolution tribunal (the panel) in October 2016 concerning a January 2014 take-or-pay agreement to purchase up to \$65.0 million, under certain conditions, of GX capacity from Inmarsat over several years.

In June 2019, the Company announced that it reached a settlement with Inmarsat that concludes the GX dispute. Pursuant to the settlement the Company paid \$45.0 million in June 2019 and paid \$5.0 million in July 2019 and will pay \$0.8 million in the third quarter of 2020. The Company had an accrued liability of \$5.8 million as of June 30, 2019.

The Company incurred GX dispute Phase II costs of \$2.2 million and \$4.4 million for the three and six months ended June 30, 2019, respectively. The Company incurred legal expenses of \$0.8 million and \$1.4 million in connection with the GX dispute for the three and six months ended June 30, 2018, respectively.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS***Other 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.

Sales Tax Audit

The Company is undergoing a routine sales tax audit from a state where the Company has operations. The audit can cover up to a four-year period. The Company is in the early stages of the audit, and does not have any estimates of further exposure, if any, for the tax years under review.

Operating Leases

The Company adopted the new lease accounting standard effective with the first quarter of 2019 and has used the optional transition method permitted under ASU 2018-11. Accordingly, prior year amounts have not been adjusted and continue to be reflected in accordance with Company's historical accounting.

The Company's leasing activities primarily consist of leases of real-estate including office space under lease agreements expiring on various dates through 2025. For the three months and six months ended June 30, 2019, the Company recognized expense under operating leases, which approximates cash paid and includes short-term leases, of \$0.7 million and \$1.4 million, respectively. For the three months and six months ended June 30, 2018, the Company recognized expense under operating leases, which approximates cash paid and includes short-term leases, of \$0.7 million and \$1.4 million, respectively.

As of June 30, 2019, future undiscounted minimum lease obligation maturities for the remainder of 2019 and future years were as follows (in thousands):

2019	\$ 939
2020	1,387
2021	896
2022	817
2023	802
Thereafter	1,269
Total lease payments	<u>\$6,110</u>
Less present value discount	(503)
Amounts recognized in Balance Sheet	<u>\$5,607</u>
Amounts recognized in Balance Sheet	
Deferred revenue and other current liabilities	765
Right-of-use lease liability – long-term portion	4,842
Total right to use lease liability	<u>\$5,607</u>

Operating lease right-of-use assets for leases were \$3.9 million as of June 30, 2019.

The right-of-use assets and liabilities for leases were discounted at a weighted-average discount rate of 5.3%. The weighted-average remaining lease term as of June 30, 2019 was 4.8 years.

As of December 31, 2018, future undiscounted minimum lease obligation maturities for 2019 and future years were as follows (in thousands):

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2019	1,822
2020	1,115
2021	780
2022	692
2023	659
Thereafter	1,044
	<u>\$6,112</u>

Commercial Commitments

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

As of June 30, 2019, the Company had the following commercial commitments related to satellite and network services for the remainder of 2019 and the future years thereafter (in thousands):

2019	7,540
2020	7,614
2021	1,088
2022	169
	<u>\$16,411</u>

Note 12 – 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. Managed Services was renamed Managed Communications Services (MCS).

RigNet considers its business to consist of the following segments:

- **Managed Communications Services (MCS).** The MCS segment provides remote communications, telephony and technology services for offshore and onshore drilling rigs and production facilities, support vessels, and other remote sites.
- **Applications and Internet-of-Things (Apps & IoT).** The Apps & IoT segment provides applications over-the-top of the network layer including Software as a Service (SaaS) offerings such as cybersecurity, applications for safety and workforce productivity such as weather monitoring primarily in the North Sea (MetOcean), a real-time machine learning and AI data platform (Intelie Pipes and Intelie LIVE) and certain other value-added services such as Adaptive Video Intelligence (AVI). This segment also includes the private machine-to-machine IoT data networks including Supervisory Control and Data Acquisition (SCADA) provided primarily for pipelines.
- **Systems Integration.** The Systems Integration segment provides design and implementation services for customer telecommunications systems. Solutions are delivered based on the customer's specifications, adhering to international industry standards and best practices. Project services may include consulting, design, engineering, project management, procurement, testing, installation, commissioning and maintenance.

Corporate and Eliminations primarily represents unallocated executive and support activities, interest expense, income taxes and eliminations.

The Company's business segment information as of and for the three months ended June 30, 2019 and 2018, is presented below.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Three Months Ended June 30, 2019

	Managed Communication Services	Applications and Internet-of-Things	Systems Integration	Corporate and Eliminations	Consolidated Total
	(in thousands)				
Revenue	\$ 41,205	\$ 8,005	\$ 11,122	\$ —	\$ 60,332
Cost of revenue (excluding depreciation and amortization)	25,019	4,387	7,113	—	36,519
Depreciation and amortization	5,059	1,226	639	755	7,679
Change in fair value of earn-out/contingent consideration	—	—	—	1,284	1,284
Selling, general and administrative	3,346	835	570	12,659	17,410
Operating income (loss)	\$ 7,781	\$ 1,557	\$ 2,800	\$ (14,698)	\$ (2,560)
Capital expenditures	3,689	403	—	481	4,573

Three Months Ended June 30, 2018

	Managed Communication Services	Applications and Internet-of-Things	Systems Integration	Corporate and Eliminations	Consolidated Total
	(in thousands)				
Revenue	\$ 41,712	\$ 6,576	\$ 11,719	\$ —	\$ 60,007
Cost of revenue (excluding depreciation and amortization)	25,307	3,165	7,774	—	36,246
Depreciation and amortization	5,645	836	665	1,210	8,356
Change in fair value of earn-out/contingent consideration	—	—	—	2,778	2,778
Selling, general and administrative	5,023	430	557	10,947	16,957
Operating income (loss)	\$ 5,737	\$ 2,145	\$ 2,723	\$ (14,935)	\$ (4,330)
Capital expenditures	6,462	134	—	—	6,596

Six Months Ended June 30, 2019

	Managed Communications Services	Applications and Internet-of-Things	Systems Integration	Corporate and Eliminations	Consolidated Total
	(in thousands)				
Revenue	\$ 83,538	\$ 16,020	\$ 18,284	\$ —	\$ 117,842
Cost of revenue (excluding depreciation and amortization)	52,004	8,884	12,087	—	72,975
Depreciation and amortization	11,323	2,457	1,301	1,510	16,591
Change in fair value of earn-out/contingent consideration	—	—	—	1,284	1,284
Selling, general and administrative	7,143	1,400	1,694	27,436	37,673
Operating income (loss)	\$ 13,068	\$ 3,279	\$ 3,202	\$ (30,230)	\$ (10,681)
Total assets	159,874	45,281	24,747	14,471	244,373
Capital expenditures	10,325	836	—	501	11,662

Six Months Ended June 30, 2018

	Managed Communications Services	Applications and Internet-of-Things	Systems Integration	Corporate and Eliminations	Consolidated Total
	(in thousands)				
Revenue	\$ 83,762	\$ 11,912	\$ 18,166	\$ —	\$ 113,840
Cost of revenue (excluding depreciation and amortization)	51,052	6,250	12,625	—	69,927
Depreciation and amortization	11,371	1,683	1,317	1,972	16,343
Change in fair value of earn-out/contingent consideration	—	—	—	2,800	2,800
Selling, general and administrative	9,238	784	880	22,668	33,570
Operating income (loss)	\$ 12,101	\$ 3,195	\$ 3,344	\$ (27,440)	\$ (8,800)
Total assets	146,592	48,922	25,880	31,459	252,853
Capital expenditures	12,296	268	—	645	13,209

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The following table presents revenue earned from the Company's domestic and international operations for the three and six months ended June 30, 2019 and 2018. Revenue is based on the location where services are provided or goods are sold. Due to the mobile nature of RigNet's customer base and the services provided, the Company works closely with its customers to ensure rig or vessel moves are monitored to ensure location of service information is properly reflected.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
	(in thousands)			
Domestic	\$28,881	\$16,006	\$ 53,508	\$ 33,634
International	31,451	44,001	64,334	80,206
Total	\$60,332	\$60,007	\$117,842	\$113,840

The following table presents goodwill, right-of-use lease assets and long-lived assets, net of accumulated depreciation, for the Company's domestic and international operations as of June 30, 2019 and December 31, 2018.

	June 30,	December 31,
	2019	2018
	(in thousands)	
Domestic	\$ 77,420	\$ 73,615
International	65,918	70,334
Total	\$143,338	\$ 143,949

Note 13 – Related Party

The Company has a reseller arrangement with Darktrace, which is an artificial intelligence company in cybersecurity that is partially owned by Kohlberg Kravis Roberts & Co. L.P. (KKR). KKR is a significant stockholder of the Company. Under the arrangement, the Company will sell Darktrace's cybersecurity audit services with the Company's cybersecurity offerings. In the three and six months ended June 30, 2019, the Company purchased \$0.1 million from Darktrace in the ordinary course of business.

Vissim AS is now a vendor following a competitive request for quote from RigNet in the ordinary course of business. A customer specified Vissim AS by name as a provider for an SI project. Vissim AS is 24% owned by AVANT Venture Capital AS. AVANT Venture Capital is owned by and has as its chairman of its board one of our board members. In the three and six months ended June 30, 2019, the Company purchased \$0.6 million from Vissim AS in the ordinary course of business.

Note 14 – Restructuring Costs – Cost Reduction Plans

During the six months ended June 30, 2019, the Company incurred a net pre-tax restructuring expense of \$0.6 million reported as general and administrative expense in the Corporate segment associated with the reduction of 25 employees.

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

Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the accompanying unaudited condensed consolidated financial statements as of June 30, 2019 and for the three and six months ended June 30, 2019 and 2018 included elsewhere herein, and with our Annual Report on Form 10-K for the year ended December 31, 2018. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under "Risk Factors" in Item 1A of our Annual Report and elsewhere in this quarterly report. See "Forward-Looking Statements" below.

Forward-Looking Statements

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

- new regulations, delays in drilling permits or other changes in the oil and gas industry;
- competition and competitive factors in the markets in which we operate;
- demand for our services and solutions;
- the advantages of our services compared to others;
- changes in technology and 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 and liquidity needs and expectations regarding cash flow from operations, capital expenditures and borrowing availability under our Revolving Credit Facility;
- our expectations regarding the deductibility of goodwill for tax purposes;
- our business and corporate development strategy, including statements concerning our ability to pursue, consummate and integrate merger and acquisition opportunities successfully;
- the amount and timing of contingent consideration payments arising from our acquisitions;
- our ability to manage and grow our business and execute our business strategy, including developing and marketing additional Apps & IoT solutions, expanding our market share, increasing secondary and tertiary customer penetration at remote sites, enhancing systems integration and extending our presence into complementary remote communication segments through organic growth and strategic acquisitions;
- our ability to develop and market additional products and services;
- our cost reduction, restructuring activities and related expenses;
- the buildout and upgrade of our Gulf of Mexico microwave network; and
- our financial performance, including our ability to expand Adjusted EBITDA through our operational leverage.

In some cases, forward-looking statements can be identified by terminology such as "may," "could," "should," "would," "expect," "plan," "project," "intend," "will," "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 Quarterly Report on Form 10-Q, are forward-looking statements.

The forward-looking statements contained in this Quarterly Report on Form 10-Q are largely based on Company expectations, which reflect estimates and assumptions made by Company management. These estimates and assumptions reflect management's best judgment based on currently known market conditions and other factors. Although the Company believes such estimates and assumptions to be reasonable, they are inherently uncertain and involve a number of risks and uncertainties beyond its control. In addition, management's assumptions may prove to be inaccurate. The Company cautions that the forward-looking statements contained in this Quarterly Report on Form 10-Q are not guarantees of future performance, and it cannot assure any reader that such statements will be realized or the forward-looking statements or events will occur. Future results may differ materially from those anticipated or

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implied in forward-looking statements due to factors listed in the “Risk Factors” section of our Annual Report on Form 10-K for the year ended December 31, 2018 and elsewhere in this Quarterly Report on Form 10-Q. If one or more of these factors materialize, or if any underlying assumptions prove incorrect, our actual future results, performance or achievements may vary materially from any projected 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.

Our Operations

We are the leading provider of ultra-secure, intelligent networking solutions and specialized applications. Customers use our private networks to manage information flows and execute mission-critical operations primarily in remote areas where conventional telecommunications infrastructure is either unreliable or unavailable. We provide our clients what is often the sole means of communications for their remote operations. On top of and vertically integrated into these networks we provide services ranging from fully-managed voice, data, and video to more advanced services including: cyber security threat detection and prevention; applications to improve crew welfare, safety or workforce productivity; and a real-time AI-backed data analytics platform to enhance customer decision making and business performance.

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. Managed Services was renamed Managed Communications Services (MCS). We report our operations through the following reportable segments:

- **Managed Communications Services (MCS).** Our MCS segment provides remote communications, telephony and technology services for offshore and onshore drilling rigs and production facilities, support vessels, and other remote sites.
- **Applications and Internet-of-Things (Apps & IoT).** Our Apps & IoT segment provides applications over-the-top of the network layer including Software as a Service (SaaS) offerings such as cybersecurity, applications for safety and workforce productivity such as weather monitoring primarily in the North Sea (MetOcean), a real-time machine learning and AI data platform (Intelie Pipes and Intelie LIVE) and certain other value-added services such as Adaptive Video Intelligence (AVI). This segment also includes the private machine-to-machine IoT data networks including Supervisory Control and Data Acquisition (SCADA) provided primarily for pipelines.
- **Systems Integration.** Our Systems Integration segment provides design and implementation services for customer telecommunications systems. Solutions are delivered based on the customer’s specifications, adhering to international industry standards and best practices. Project services may include consulting, design, engineering, project management, procurement, testing, installation, commissioning and maintenance.

Customers in our MCS and Apps & IoT segments are primarily served under fixed-price contracts, either on a monthly or day rate basis or for equipment sales. Our contracts are generally in the form of Master Service Agreements, or MSAs, with specific services being provided under individual service orders. Offshore contracts generally have a term of up to three years with renewal options. Land-based contracts 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 permit early termination 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). Systems Integration customers are served primarily under fixed-price, long-term contracts.

Cost of revenue consists primarily of satellite charges, voice and data termination costs, network operations expenses, internet connectivity fees, equipment purchases 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 contracted satellites. Direct service labor consists of field technicians, our Network Operations Center (NOC) employees, and other employees who directly provide services to customers. Network operations expenses consist primarily of costs associated with the operation of our NOC, which is maintained 24 hours a day, seven days a week. Depreciation and amortization are recognized on all property, plant and equipment either installed at a customer’s site or held at our corporate and regional offices, as well as intangibles arising from acquisitions and internal use software. Selling and marketing expenses consist primarily of salaries and commissions, travel costs and marketing communications. General and administrative expenses consist of expenses associated with our management, finance, contract, support and administrative functions.

Profitability generally increases or decreases at an MCS site as we add or lose customers and value-added services. Assumptions used in developing the 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.

Recent Developments

On June 24, 2019, we announced that we reached a settlement with Inmarsat that concludes the GX dispute. Pursuant to the settlement we paid \$45.0 million in June 2019 and paid \$5.0 million in July 2019 and will pay \$0.8 million in the third quarter of 2020. We have an accrued liability of \$5.8 million as of June 30, 2019. As previously disclosed, Inmarsat plc (Inmarsat), a satellite telecommunications company, filed arbitration with the International Centre for Dispute Resolution tribunal (the panel) in October 2016 concerning a January 2014 take-or-pay agreement to purchase up to \$65.0 million, under certain conditions, of GX capacity from Inmarsat over several years. We incurred GX dispute Phase II costs of \$2.2 million and \$4.4 million for the three and six months ended June 30, 2019, respectively. We incurred legal expenses of \$0.8 million and \$1.4 million in connection with the GX dispute for the three and six months ended June 30, 2018, respectively.

On June 7, 2019, we entered into a second amendment to the third amended and restated credit agreement (Credit Agreement), which (i) permits us to exclude up to \$5.0 million in legal and related costs for the GX Dispute from the calculation of Consolidated EBITDA, (ii) permits us to exclude from the calculation of Consolidated Funded Indebtedness up to \$30.0 million of undrawn surety bonds and (iii) revises the threshold of proceeds from asset dispositions above which we must prepay on the Term Out Loan to \$5.0 million. Consolidated EBITDA and Consolidated Funded Indebtedness are non-GAAP metrics defined in the Credit Agreement. On February 13, 2019, we entered into the first amendment to the Credit Agreement with four participating financial institutions. The Credit Agreement provides for a \$15.0 million term loan facility (Term Loan), a \$30.0 million term-out facility (Term-Out Loan) and an \$85.0 million revolving credit facility (RCF). The RCF and Term-Out Loan mature on April 6, 2021. The Term Loan matures on December 31, 2020.

In the U.S. Gulf of Mexico, we have substantially completed the buildout of our 4G LTE and 5G-enabled network, where we are partnered with T-Mobile, and we are already carrying live traffic. Additionally, we purchased an office in Lafayette, Louisiana that will consolidate three separate legacy facilities. We expect to move into the new facility in the third quarter of 2019.

As of June 30, 2019, we have backlog for our percentage of completion projects of \$37.1 million.

Known Trends and Uncertainties

Operating Matters

Uncertainties in the oil and gas industry may continue to impact our profitability. The fundamentals of the oil and gas industry we serve remain challenged into 2019, particularly offshore. Although oil prices and U.S. drilling rig counts increased in 2017 and the first three quarters of 2018 from their 2016 lows, the oil and gas environment continues to be challenged with operators focusing on projects with shorter pay-back periods that generally require less capital investment and lower costs from service providers and drilling contractors. The average price of Brent crude, a key indicator of activity for the oil and gas industry, was \$66.07 per barrel for the six months ending June 30, 2019 compared to an average of \$70.67 for the six months ending June 30, 2018. Brent crude spot prices increased in the first three quarters of 2018 and peaked at \$86.07 on October 4, 2018. From the recent October 4, 2018 high, Brent crude oil prices decreased over 40.0% in the fourth quarter of 2018. In the first half of 2019, Brent crude oil prices recovered to the \$70 per barrel range. Certain analysts are not presently predicting meaningful increases in offshore drilling rig utilization for the remainder of 2019, but are predicting more meaningful improvements in utilization and day rates in 2020 or 2021. As a result, we believe drilling contractors are cautiously optimistic about a gradual demand recovery. The offshore drilling contracting environment remains challenged, with major offshore drilling contractors having experienced significant pressure on day rates, which in turn has had a negative impact on the rates we are able to charge customers. Generally, a prolonged lower oil price environment decreases exploration and development drilling investment, utilization of drilling rigs and the activity of the global oil and gas industry that we serve.

In addition, uncertainties that could impact our profitability include service responsiveness to remote locations, communication network complexities, political and economic instability in certain regions, cyber-attacks, export restrictions, licenses and other trade barriers. These uncertainties may result in the delay of service initiation, which may negatively impact our results of operations. Additional uncertainties that could impact our operating cash flows include the availability and cost of satellite bandwidth, timing of collecting our receivables, and our ability to increase our contracted services through sales and marketing efforts while leveraging the contracted satellite and other communication service costs.

Sales Tax Audit

We are undergoing a routine sales tax audit from a state where we have operations. The audit can cover up to a four-year period. We are in the early stages of the audit and do not have any estimates of further exposure, if any, for the tax years under review.

[Table of Contents](#)**Results of Operations**

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2019	2018	2019	2018
	(in thousands)			
Revenue	\$60,332	\$60,007	\$117,842	\$113,840
Expenses:				
Cost of revenue (excluding depreciation and amortization)	36,519	36,246	72,975	69,927
Depreciation and amortization	7,679	8,356	16,591	16,343
Change in fair value of earn-out/contingent consideration	1,284	2,778	1,284	2,800
Selling and marketing	2,952	4,189	6,745	7,138
General and administrative	14,458	12,768	30,928	26,432
Total expenses	62,892	64,337	128,523	122,640
Operating loss	(2,560)	(4,330)	(10,681)	(8,800)
Other expense, net	(1,362)	(895)	(2,528)	(1,348)
Loss before income taxes	(3,922)	(5,225)	(13,209)	(10,148)
Income tax benefit (expense)	(2,204)	926	(4,870)	323
Net loss	(6,126)	(4,299)	(18,079)	(9,825)
Less: Net income attributable to non-controlling interest	30	30	60	60
Net loss attributable to RigNet, Inc. stockholders	<u>\$ (6,156)</u>	<u>\$ (4,329)</u>	<u>\$ (18,139)</u>	<u>\$ (9,885)</u>
Other Non-GAAP Data:				
Adjusted EBITDA	\$ 9,775	\$ 8,098	\$ 18,161	\$ 15,517

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The following represents selected financial operating results for our segments:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2019	2018	2019	2018
	(in thousands)			
Managed Communications Services:				
Revenue	\$41,205	\$41,712	\$83,538	\$83,762
Cost of revenue (excluding depreciation and amortization)	25,019	25,307	52,004	51,052
Depreciation and amortization	5,059	5,645	11,323	11,371
Selling, general and administrative	3,346	5,023	7,143	9,238
Managed Communication Services operating income	<u>\$ 7,781</u>	<u>\$ 5,737</u>	<u>\$13,068</u>	<u>\$12,101</u>
Applications and Internet-of-Things:				
Revenue	\$ 8,005	\$ 6,576	\$16,020	\$11,912
Cost of revenue (excluding depreciation and amortization)	4,387	3,165	8,884	6,250
Depreciation and amortization	1,226	836	2,457	1,683
Selling, general and administrative	835	430	1,400	784
Applications & Internet-of-Things operating income	<u>\$ 1,557</u>	<u>\$ 2,145</u>	<u>\$ 3,279</u>	<u>\$ 3,195</u>
Systems Integration:				
Revenue	\$11,122	\$11,719	\$18,284	\$18,166
Cost of revenue (excluding depreciation and amortization)	7,113	7,774	12,087	12,625
Depreciation and amortization	639	665	1,301	1,317
Selling, general and administrative	570	557	1,694	880
Systems Integration and Automation operating income	<u>\$ 2,800</u>	<u>\$ 2,723</u>	<u>\$ 3,202</u>	<u>\$ 3,344</u>

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

Three Months Ended June 30, 2019 and 2018

Revenue. Revenue increased by \$0.3 million, or 0.5%, to \$60.3 million for the three months ended June 30, 2019 from \$60.0 million for the three months ended June 30, 2018. Revenue for the Apps & IoT segment increased \$1.4 million, or 21.7%, due to our focus on growth of the application layer and IoT space, which was partially offset by a decrease in Systems Integration revenue of \$0.6 million and a decrease of \$0.5 million in the MCS segment.

Cost of Revenue (excluding depreciation and amortization). Cost of revenue (excluding depreciation and amortization) increased by \$0.3 million, or 0.8%, to \$36.5 million for the three months ended June 30, 2019 from \$36.2 million for the three months ended June 30, 2018. Cost of revenue (excluding depreciation and amortization) increased in the Apps & IoT segment by \$1.2 million as we continue our strategy to grow our application layer and IoT space including Intelie. Cost of revenue (excluding depreciation and amortization) decreased in the MCS segment by \$0.3 million. Cost of revenue (excluding depreciation and amortization) decreased in the Systems Integration segment by \$0.7 million.

Depreciation and Amortization. Depreciation and amortization expense decreased by \$0.7 million to \$7.7 million for the three months ended June 30, 2019 from \$8.4 million for the three months ended June 30, 2018. The decrease is primarily attributable to the intangibles from the July 2012 acquisition of Nessco being fully depreciated.

Selling and Marketing. Selling and marketing expense decreased \$1.2 million to \$3.0 million for the three months ended June 30, 2019 from \$4.2 million for the three months ended June 30, 2018. This decrease was due to cost reductions.

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General and Administrative. General and administrative expenses increased by \$1.7 million to \$14.5 million for the three months ended June 30, 2019 from \$12.8 million for the three months ended June 30, 2018. General and administrative costs increased primarily due to GX dispute legal costs and stock-based compensation.

Income Tax Expense. Our effective income tax rates were (56.2%) and 17.7% for the three months ended June 30, 2019 and 2018, respectively. Our 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.

Six Months Ended June 30, 2019 and 2018

Revenue. Revenue increased by \$4.0 million, or 3.5%, to \$117.8 million for the six months ended June 30, 2019 from \$113.8 million for the six months ended June 30, 2018, driven by growth in the Apps & IoT segment including the 2018 acquisitions of Intelie along with the 2018 acquisitions of Auto-Comm and SAFCON, which is primarily in the Systems Integration Segment. Revenue for the Apps & IoT segment increased \$4.1 million, or 34.5%, due to our focus on growth of the application layer and IoT space, including \$1.8 million from the acquisition of Intelie and \$0.7 million from the acquisition of Auto-Comm and SAFCON. Revenue for the Systems Integration segment increased \$0.1 million, or 0.6%, which included \$2.1 million from the acquisition of Auto-Comm and SAFCON.

Cost of Revenue (excluding depreciation and amortization). Cost of revenue (excluding depreciation and amortization) increased by \$3.0 million, or 4.4%, to \$73.0 million for the six months ended June 30, 2019 from \$69.9 million for the six months ended June 30, 2018. Cost of revenue (excluding depreciation and amortization) increased in the Apps & IoT segment by \$2.6 million as we continue our strategy to grow our application layer and IoT space including Intelie. Cost of revenue (excluding depreciation and amortization) increased in the MCS segment by \$1.0 million as a result of our increased site count during the period. Cost of revenue (excluding depreciation and amortization) decreased in the Systems Integration segment by \$0.5 million.

Depreciation and Amortization. Depreciation and amortization expense increased by \$0.2 million to \$16.6 million for the six months ended June 30, 2019 from \$16.3 million for the six months ended June 30, 2018. The increase is primarily attributable to additions to property, plant and equipment and intangibles from acquisitions and capital expenditures.

Selling and Marketing. Selling and marketing expense decreased \$0.4 million to \$6.7 million for the six months ended June 30, 2019 from \$7.1 million for the six months ended June 30, 2018. This decrease was due to cost reductions.

General and Administrative. General and administrative expenses increased by \$4.5 million to \$30.9 million for the six months ended June 30, 2019 from \$26.4 million for the six months ended June 30, 2018. General and administrative costs increased primarily due to increased stock-based compensation, increased GX dispute legal costs, restructuring costs and expenses attributable to a full period of operations of the 2018 acquisitions of Intelie, Auto-Comm and SAFCON.

Income Tax Expense. Our effective income tax rates were (36.9%) and 3.2% for the six months ended June 30, 2019 and 2018, respectively. Our 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.

Liquidity and Capital Resources

At June 30, 2019, we had working capital, including cash and cash equivalents, of \$23.8 million.

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 in, businesses, products, services or technologies complementary to our current business, through mergers, acquisitions, joint ventures or otherwise, or to pay down outstanding debt.

During the next twelve months, we expect our principal sources of liquidity to be cash flows from operating activities, cash and cash equivalents on hand and availability under our Credit Agreement.

While we believe we have sufficient liquidity and capital resources to meet our current operating requirements and our expansion plans, we may elect to pursue additional expansion opportunities within the next year or we may require additional liquidity for contingent liabilities, which could require additional financing, either debt or equity.

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	Six Months Ended	
	June 30,	
	2019	2018
	(in thousands)	
Condensed Consolidated Statements of Cash Flows Data:		
Cash and cash equivalents including restricted cash, January 1,	\$ 23,296	\$ 36,141
GX Dispute payment	(45,000)	—
Remaining net cash provided by operating activities	13,743	1,329
Net cash provided by (used in) operating activities	<u>(31,257)</u>	<u>1,329</u>
Net cash used in investing activities	(11,756)	(17,613)
Net cash provided by (used in) financing activities	31,894	(1,211)
Changes in foreign currency translation	265	1,308
Cash and cash equivalents including restricted cash, June 30,	<u>\$ 12,442</u>	<u>\$ 19,954</u>

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

Currently, the Norwegian Kroner, the British Pound Sterling and the Brazilian Real are the foreign currencies that could materially impact our liquidity. We presently do not hedge these risks, but evaluate financial risk on a regular basis and may utilize financial instruments in the future if deemed necessary. During the six months ended June 30, 2019 and 2018, 91.4% and 91.5% of our revenue was denominated in U.S. dollars, respectively.

Operating Activities

Net cash used in operating activities was \$31.3 million for the six months ended June 30, 2019 compared to net cash provided by operating activities of \$1.3 million for the six months ended June 30, 2018. The decrease in cash from operating activities of \$32.6 million was primarily due to the payment of \$45.0 million towards the GX dispute settlement, the timing of paying our accounts payable partially offset by the timing of collecting receivables.

Our cash provided by operations is subject to many variables including the volatility of the oil and gas industry, the demand for our services, the cost of satellite bandwidth and 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 our contracted satellite and other communication service costs.

Investing Activities

Net cash used in investing activities was \$11.8 million and \$17.6 million for the six months ended June 30, 2019 and 2018, respectively.

Net cash used in investing activities during the six months ended June 30, 2019 and 2018 included \$11.9 million and \$12.7 million of capital expenditures, respectively. Net Cash used in investing activities during the six months ended June 30, 2018 included \$5.1 million for acquisitions.

Financing Activities

Net cash provided by financing activities was \$31.9 million for the six months ended June 30, 2019. Cash provided by financing activities for the six months ended June 30, 2019 included \$40.0 million in proceeds from borrowings, partially offset by \$6.1 million in principal payments on our long-term debt, \$1.4 million withheld to cover employee taxes on stock-based compensation and \$0.5 million in financing fees related to the consents, waiver and amendment to the Credit Agreement.

Net cash used in financing activities was \$1.2 million for the six months ended June 30, 2018. Cash used in financing activities for the six months ended June 30, 2018 included \$2.6 million in principal payments on our long-term debt and \$1.1 million withheld to cover employee taxes on stock-based compensation.

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Credit Agreement

The Credit Agreement provides for a \$15.0 million Term Loan, a \$30.0 million Term-Out Loan and an \$85.0 million RCF, which includes a \$25.0 million sublimit for the issuance of commercial and standby letters of credit and performance bonds issued by the parties under the Credit Agreement.

On June 7, 2019, we entered into a second amendment to the third amended and restated credit agreement (Credit Agreement), which permits the us to exclude up to \$5.0 million in legal and related costs for the GX Dispute from the calculation of Consolidated EBITDA, permits us to exclude from the calculation of Consolidated Funded Indebtedness up to \$30 million of undrawn surety bonds and revises the threshold of proceeds from asset dispositions above which the Company must prepay on the Term Out Loan to \$5.0 million. Consolidated EBITDA and Consolidated Funded Indebtedness are non-GAAP metrics defined in the Credit Agreement.

Under the Credit Agreement, the Term Loan, the Term-Out Loan and the RCF bear interest at a rate of LIBOR plus a margin ranging from 1.75% to 3.00%, based on a consolidated leverage ratio defined in the Credit Agreement. Interest is payable monthly and principal installments of \$1.25 million and \$1.5 million under the Term Loan and Term-Out Loan, respectively, are due quarterly.

The weighted average interest rate for the three months ended June 30, 2019 and 2018 were 5.3% and 4.8%, respectively. The weighted average interest rate for the six months ended June 30, 2019 and 2018 were 5.3% and 4.5%, respectively, with an interest rate of 5.2% at June 30, 2019. As of June 30, 2019, the outstanding principal amounts were \$7.5 million for the Term Loan, \$28.5 million for the Term-Out Loan and \$75.2 million for the RCF.

The Credit Agreement contains certain covenants and restrictions, including restricting the payment of cash dividends under default, and maintaining certain financial covenants such as a consolidated fixed charge coverage ratio of not less than 1.25 to 1.00. Additionally, the Credit Agreement requires a consolidated leverage ratio, as defined in the Credit Agreement, of less than or equal to 2.75 to 1.00. The consolidated leverage ratio increases to 3.25 to 1.00 for four quarters starting in the 2nd quarter of 2019. The consolidated leverage ratio then decreases to 3.00 to 1.00 for three quarters, and then decreases to 2.75 to 1.00 for all remaining quarters. If any default occurs related to these covenants that was not cured or waived, the unpaid principal and any accrued interest can be declared immediately due and payable. The facilities under the Credit Agreement are secured by substantially all our assets.

In April 2019, we determined that in periods beginning at least as early as March 31, 2014, we had incurred and not appropriately included certain surety bonds or other similar instruments in our consolidated leverage ratio calculation as defined by the credit agreement. As a result, on May 6, 2019, we entered into a Consent and Waiver (Consent) to the credit agreement with the financial institutions party thereto under which we are permitted to exclude certain incurred surety bonds and other similar instruments from the calculation of Consolidated Funded Indebtedness, as defined in the credit agreement, for the period ended June 30, 2019. In addition, the Consent waived all specified violations for all prior periods. The Second Amendment amended the Credit Agreement to permit the Company to exclude from the calculation of Consolidated Funded Indebtedness up to \$30.0 million of undrawn surety bonds, performance bonds and similar instruments.

We believe we have accurately calculated and reported our required debt covenant calculations for the June 30, 2019 reporting period and are in compliance with the required covenant ratios. We expect to remain in compliance with our required debt covenant calculations for the foreseeable future, however, in the event that there are changes in economic conditions we can limit or control our spending through reductions in discretionary capital or other types of controllable expenditures, monetization of assets, or any combination of these alternatives if needed to remain in compliance with such covenants.

Off-Balance Sheet Arrangements

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

Non-GAAP Measure

Adjusted EBITDA should not be considered as an alternative to net loss, operating income (loss), basic or diluted loss per share 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. Net loss is the most comparable GAAP measure to Adjusted EBITDA.

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We define Adjusted EBITDA as net loss plus interest expense; income tax expense (benefit); depreciation and amortization; impairment of goodwill, intangibles, property, plant and equipment; (gain) loss on sales of property, plant and equipment, net of retirements; change in fair value of earn-outs and contingent consideration; stock-based compensation; acquisition costs; executive departure costs; restructuring charges; the GX dispute; GX Dispute Phase II costs and non-recurring items.

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

- Investors and securities analysts use Adjusted EBITDA as a supplemental measure to evaluate the overall operating performance of companies, and we understand our investor and analyst's 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 Consolidated EBITDA, as defined and used in the financial covenant ratios in the Credit 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 impairment of goodwill, intangibles, property, plant and equipment;
- Adjusted EBITDA does not reflect foreign exchange impact of intercompany financing activities;
- Adjusted EBITDA does not reflect (gain) loss on retirement of property, plant and equipment;
- Adjusted EBITDA does not reflect the stock-based compensation component of employee compensation;
- Adjusted EBITDA does not reflect acquisition costs;
- Adjusted EBITDA does not reflect change in fair value of earn-outs and contingent consideration;
- Adjusted EBITDA does not reflect executive departure costs;
- Adjusted EBITDA does not reflect restructuring charges;
- Adjusted EBITDA does not reflect the GX dispute;
- Adjusted EBITDA does not reflect the GX dispute Phase II costs;
- 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.

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2019	2018	2019	2018
	(in thousands)			
Net loss	\$(6,126)	\$(4,299)	\$(18,079)	\$(9,825)
Interest expense	1,269	1,007	2,507	1,966
Depreciation and amortization	7,679	8,356	16,591	16,343
(Gain) loss on sales of property, plant and equipment, net of retirements	18	21	11	(32)
Stock-based compensation	1,170	837	5,628	3,282
Restructuring	—	—	573	—
Change in fair value of earn-out/contingent consideration	1,284	2,778	1,284	2,800
Executive departure costs	—	4	—	161
Acquisition costs	60	320	410	1,145
GX dispute Phase II costs	2,217	—	4,366	—
Income tax expense (benefit)	2,204	(926)	4,870	(323)
Adjusted EBITDA (non-GAAP measure)	<u>\$ 9,775</u>	<u>\$ 8,098</u>	<u>\$ 18,161</u>	<u>\$ 15,517</u>

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

Adjusted EBITDA increased by \$1.7 million to \$9.8 million for the three months ended June 30, 2019, from \$8.1 million for the three months ended June 30, 2018. Adjusted EBITDA increased by \$2.6 million to \$18.2 million for the six months ended June 30, 2019, from \$15.5 million for the six months ended June 30, 2018.

Item 3. Quantitative and Qualitative 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 presently do not hedge these risks, but evaluate financial risk on a regular basis and may utilize financial instruments in the future if deemed necessary. During the six months ended June 30, 2019 and 2018, 8.6% and 8.5%, respectively, of our revenues were earned in non-U.S. currencies. At June 30, 2019 and 2018, 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 presently do not hedge these risks, but evaluate financial risk on a regular basis and may utilize financial instruments in the future if deemed necessary. The following analysis reflects the annual impacts of potential changes in our interest rate to net loss attributable to us and our total stockholders' equity based on our outstanding long-term debt at June 30, 2019 and December 31, 2018, assuming those liabilities were outstanding for the previous twelve months:

	June 30,	December 31,
	2019	2018
	(in thousands)	
Effect on Net Income (Loss) and Equity – Increase/Decrease:		
1% Decrease/increase in rate	\$ 1,111	\$ 770
2% Decrease/increase in rate	\$ 2,221	\$ 1,541
3% Decrease/increase in rate	\$ 3,332	\$ 2,311

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer (our principal executive officer) and our Chief Financial Officer (our principal financial officer), evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2019. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the Exchange Act), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Based on the evaluation of our disclosure controls and procedures as of June 30, 2019, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

Except for the remediation of the previously reported material weakness noted below, there were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) of the Exchange Act that occurred during the quarter ended June 30, 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Management included in its assessment of internal control over financial reporting all consolidated entities.

Remediation of the Material Weakness

As disclosed in our Quarterly Report on Form 10-Q for the period ended March 31, 2019 and our amended Annual Report on Form 10-K for the year ended December 31, 2018, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of December 31, 2018 or March 31, 2019 due to a material weakness in internal control over financial reporting. Specifically, we did not properly design and operate adequate internal control over monitoring compliance with financial covenants stipulated by the Credit Agreement related to the reporting of surety bonds and other similar instruments.

During the quarter ended June 30, 2019, we undertook remediation measures to design new controls to monitor activities with respect to financial covenants stipulated by the Credit Agreement, and enhanced our internal controls related to our debt covenant calculation by:

- requiring elevated approvals for any instrument which could impact our calculation of Consolidated Funded Indebtedness,
- including additional certifications related to such instruments on our regional financial checklists and SOX sub-certifications, and
- requiring applicable operations personnel to participate in our disclosure committee meetings.

We also believe we have accurately calculated and reported our required debt covenant calculations for the June 30, 2019 reporting period.

Accordingly, our management concluded the previously reported material weakness was remediated as of June 30, 2019.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

In June 2019, the Company announced that it reached a settlement with Inmarsat that concludes the GX dispute. Pursuant to the settlement the Company paid \$45.0 million in June 2019 and paid \$5.0 million in July 2019 and will pay \$0.8 million in the third quarter of 2020. The Company has an accrued liability of \$5.8 million as of June 30, 2019.

As previously disclosed, Inmarsat plc (Inmarsat), a satellite telecommunications company, filed arbitration with the International Centre for Dispute Resolution tribunal (the panel) in October 2016 concerning a January 2014 take-or-pay agreement to purchase up to \$65.0 million, under certain conditions, of GX capacity from Inmarsat over several years.

The Company, in the ordinary course of business, is a claimant or a defendant in various other 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.

Item 1A. Risk Factors

There have been no material changes from the risk factors disclosed in “Part I, Item 1A. Risk Factors” of our Annual Report on Form 10-K for the year ended December 31, 2018.

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

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

The exhibits required to be filed with this Quarterly Report on Form 10-Q are listed in the Exhibit Index attached hereto and are incorporated herein by reference.

INDEX TO EXHIBITS

2.1	Share Purchase Agreement between RigNet, Inc. and the shareholders of Orgtec S.A.P.I. de C.V., d.b.a. TECNOR dated November 3, 2015 (filed as Exhibit 2.2 to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on May 9, 2016, and incorporated herein by reference)
2.2	Share Purchase and Sale Agreement between RigNet, Inc. and the shareholders of Intelie Solucoes Em Informatica S.A. dated January 15, 2018 (filed as Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed with the SEC on January 17, 2018, and incorporated herein by reference)
3.1	Amended and Restated Certificate of Incorporation, as amended (filed as Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on August 8, 2016, and incorporated herein by reference)
3.2	Amendment to Amended and Restated Certificate of Incorporation, effective May 18, 2016. (filed as Exhibit 3.2 to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on August 8, 2016, and incorporated herein by reference)
3.3	Second Amended and Restated Bylaws of the Registrant, as amended (filed as Exhibit 3.3 to the Registrant's Annual Report on Form 10-K filed with the SEC on March 6, 2018, and incorporated herein by reference)
10.1	Consent and Waiver to Third Amended and Restated Credit Agreement dated as of May 6, 2019, among RigNet, Inc., as Borrower, certain subsidiaries of RigNet, Inc. party thereto as Guarantors, Bank of America, N.A., as Admirative Agent, Swingline Lender and L/C Issuer, and the lenders party thereto (filed as Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on May 10, 2019, and incorporated herein by reference)
10.2	Second Amendment to Third Amended and Restated Credit Agreement, dated as of June 7, 2019, among RigNet, Inc., as Borrower, the Subsidiaries of RigNet, Inc. party thereto as Guarantors, Bank of America, N.A., as Administrative Agent, Swingline Lender and L/C Issuer, and the Lenders party thereto. (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on June 13, 2019, and incorporated by reference)
10.3+	RigNet, Inc. 2019 Omnibus Incentive Plan
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.LAB	XBRL Label Linkbase Document
101.PRE	XBRL Presentation Linkbase Document
101.DEF	XBRL Definition Linkbase Document

+ Indicates management contract or compensatory plan.

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 thereunto duly authorized.

Date: August 6, 2019

RIGNET, INC.

By: /s/ LEE M. AHLSTROM

Lee M. Ahlstrom

*Senior Vice President and Chief Financial Officer
(Principal Financial Officer)*

**RIGNET, INC.
OMNIBUS INCENTIVE PLAN**

(As Adopted May 8, 2019)

ARTICLE I

ESTABLISHMENT, PURPOSE AND DURATION

1.1 **Establishment.** The Company hereby establishes an incentive compensation plan, to be known as the “*RigNet, Inc. Omnibus Incentive Plan*”, as set forth in this document. The Plan permits the grant of Incentive Stock Options, Nonqualified Stock Options, SARs, Restricted Stock, RSUs, Performance Stock Awards, Performance Unit Awards, Annual Cash Incentive Awards, Other Stock-Based Awards and Cash-Based Awards. The Plan is effective as of [DATE] (the “*Effective Date*”); provided that the Company’s stockholders approve the adoption of the Plan within twelve (12) months after the date of adoption of the Plan by the Board.

1.2 **Purpose of the Plan.** The Plan is intended to advance the best interests of the Company, its Affiliates and its stockholders by providing those persons who have substantial responsibility for the management and growth of the Company and its Affiliates with additional performance incentives and an opportunity to obtain or increase their proprietary interest in the Company, thereby encouraging them to continue in their employment or affiliation with the Company or its Affiliates.

1.3 **Duration of Plan.** The Plan shall continue indefinitely until it is terminated pursuant to Section 16.1. No Award may be granted under the Plan on or after the tenth (10th) anniversary of the Effective Date. The applicable provisions of the Plan will continue in effect with respect to an Award granted under the Plan for as long as such Award remains outstanding. Notwithstanding the foregoing, no Incentive Stock Option may be granted under the Plan on or after the date that is ten (10) years from the earlier of (a) adoption of the Plan by the Board and (b) the Effective Date.

ARTICLE II

DEFINITIONS

Each word and phrase defined in this Article shall have the meaning set out below throughout the Plan, unless the context in which any such word or phrase appears reasonably requires a broader, narrower or different meaning.

2.1 “*Affiliate*” means any corporation, partnership, limited liability company or association, trust or other entity or organization, which, directly or indirectly, controls, is controlled by, or is under common control with, the Company. For purposes of the preceding sentence, “control” (including, with correlative meanings, the terms “controlled by” and “under common control with”), as used with respect to any entity or organization, shall mean the possession, directly or indirectly, of the power (a) to vote more than fifty percent (50%) of the securities having ordinary voting power for the election of directors or comparable individuals of the controlled entity or organization, or (b) to direct or cause the direction of the management and policies of the controlled entity or organization, whether through the ownership of voting securities or by contract or otherwise.

2.2 “*Annual Cash Incentive Award*” means an Award granted pursuant to Article XI.

2.3 “*Authorized Shares*” shall have the meaning ascribed to that term in Section 4.1(a).

2.4 “*Award*” means, individually or collectively, a grant under the Plan of an Incentive Stock Option, a Nonqualified Stock Option, a SAR, Restricted Stock, a RSU, a Performance Stock Award, a Performance Unit Award, an Annual Cash Incentive Award, an Other Stock-Based Award or a Cash-Based Award, in each case subject to the terms and provisions of the Plan.

2.5 “*Award Agreement*” means an agreement that sets forth the terms and conditions applicable to an Award granted under the Plan.

2.6 “**Beneficial Owner**” shall have the meaning ascribed to such term in Rule 13d-3 of the General Rules and Regulations under the Exchange Act.

2.7 “**Board**” means the board of directors of the Company.

2.8 “**Cash-Based Award**” means an Award granted pursuant to Article XIII.

2.9 “**Change in Control**” means (i) a change in ownership occurring as the result of a person or group acquiring Stock of the Company, which, when combined with the Stock held by such person or group, constitutes more than eighty percent (80%) of the total fair market value or total voting power of the Company; provided the person or group was not considered as owning more than eighty percent (80%) of the value or voting power prior to the acquisition; (ii) a change in effective control of the Company occurring as the result of the replacement of a majority of the members of the Board by directors whose appointment or election is not endorsed by a majority of the members of the Board before the date of the appointment or election; or (iii) a change in the ownership of a substantial portion of the assets of the Company occurring as the result of a person or group acquiring assets from the Company that have a total gross fair market value equal to or more than eighty percent (80%) of the total gross fair market value of all the assets of the Company immediately prior to such acquisition. The determination of whether a Change of Control has occurred will be made in accordance with Code Section 409A and the regulations thereunder.

2.10 “**Code**” means the United States Internal Revenue Code of 1986, as amended from time to time.

2.11 “**Committee**” means (a) in the case of an Award granted to a Director, the Board, and (b) in the case of any other Award granted under the Plan, the Compensation Committee of the Board or, if the Compensation Committee of the Board chooses to delegate its duties, a committee of at least two (2) persons who are members of the Compensation Committee of the Board and are appointed by the Compensation Committee of the Board to administer the Plan. The Board may appoint a special committee consisting of one or more Directors for the purpose of granting certain specified Awards under the Plan. As to Awards, grants or other transactions that are authorized by the Committee and that are intended to be exempt under Rule 16b-3 of the General Rules and Regulations under the Exchange Act, the requirements of Rule 16b-3(d)(1) of the General Rules and Regulations under the Exchange Act with respect to committee action must also be satisfied.

2.12 “**Company**” means RigNet, Inc., a Delaware corporation, or any successor (by reincorporation, merger or otherwise).

2.13 “**Director**” means a director of the Company who is not an Employee.

2.14 “**Disability**” or “**Disabled**” means a determination by the Company’s long-term disability carrier that a Holder is disabled in accordance with the Company’s long-term disability insurance plan, provided the definition of disability applied under such plan complies with the requirements of Treas. Reg. Section 1.409A-3(i)(4), or, in the case of a Holder who is not covered under such plan, a determination made by the Social Security Administration that the Holder is totally disabled.

2.15 “**Dividend Equivalent**” means a payment equivalent in amount to dividends paid to the Company’s stockholders.

2.16 “**Effective Date**” shall have the meaning ascribed to that term in Section 1.1.

2.17 “**Employee**” means (a) a person employed by the Company or any Affiliate as a common law employee, or (b) a person who has agreed to become a common law employee of the Company or any Affiliate and is expected to become such within six (6) months from the date of a determination made for purposes of the Plan.

2.18 “**Exchange Act**” means the Securities Exchange Act of 1934, as amended, or any successor act.

2.19 “**Fair Market Value**” of the Stock as of any particular date means,

(a) if the Stock is traded on a stock exchange,

(i) and if the Stock is traded on that date, the closing sale price of the Stock on that date; or

(ii) and if the Stock is not traded on that date, the closing sale price of the Stock on the last trading date immediately preceding that date;

as reported on the principal securities exchange on which the Stock is traded; or

(b) if the Stock is traded in the over-the-counter market,

(i) and if the Stock is traded on that date, the average between the high bid and low asked price on that date; or

(ii) and if the Stock is not traded on that date, the average between the high bid and low asked price on the last trading date immediately preceding that date;

as reported in such over-the-counter market; provided, however, that (x) if the Stock is not so traded, or (y) if, in the discretion of the Committee, another means of determining the fair market value of a share of Stock at such date shall be necessary or advisable, the Committee may provide for another method or means for determining such fair market value, which method or means shall comply with the requirements of a reasonable valuation method as described under Section 409A.

2.20 "**Fiscal Year**" means the calendar year.

2.21 "**Freestanding SAR**" means a SAR that is granted independently of any Options, as described in Article VI.

2.22 "**Holder**" means a person who has been granted an Award or any person who is entitled to receive shares of Stock or cash under an Award.

2.23 "**Incentive Stock Option**" or "**ISO**" means an option to purchase Stock granted pursuant to Article V that is designated as an incentive stock option and that is intended to satisfy the requirements of section 422 of the Code.

2.24 "**Insider**" shall mean an individual who is, on the relevant date, an officer, a Director, or more than ten percent (10%) Beneficial Owner of any class of the Company's equity securities that is registered pursuant to Section 12 of the Exchange Act, as determined by the Board in accordance with Section 16 of the Exchange Act.

2.25 "**Mature Shares**" means shares of Stock that the Holder has held for at least six (6) months.

2.26 "**Nonqualified Stock Option**" or "**NQSO**" means a "nonqualified stock option" to purchase Stock granted pursuant to Article V that does not satisfy the requirements of section 422 of the Code.

2.27 "**Option**" means an Incentive Stock Option or a Nonqualified Stock Option.

2.28 "**Option Price**" shall have the meaning ascribed to that term in Section 5.4.

2.29 "**Other Stock-Based Award**" means an equity-based or equity-related Award not otherwise described by the terms and provisions of the Plan that is granted pursuant to Article XII.

2.30 "**Parent Corporation**" means any corporation (other than the Company) in an unbroken chain of corporations ending with the Company if, at the time of the action or transaction, each of the corporations other than the Company owns stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in the chain.

2.31 "**Performance Goals**" means one or more of the criteria described in Section 9.2 on which the performance goals applicable to an Award are based.

2.32 “**Performance Stock Award**” means an Award designated as a performance stock award granted to a Holder pursuant to Article IX.

2.33 “**Performance Unit Award**” means an Award designated as a performance unit award granted to a Holder pursuant to Article IX.

2.34 “**Period of Restriction**” means the period during which Restricted Stock is subject to a substantial risk of forfeiture (based on the passage of time, the achievement of Performance Goals, or upon the occurrence of other events as determined by the Committee, in its discretion), as provided in Article VII.

2.35 “**Plan**” means the RigNet, Inc. 2019 Omnibus Incentive Plan, as set forth in this document as it may be amended from time to time.

2.36 “**Restricted Stock**” means shares of restricted Stock issued or granted under the Plan pursuant to Article VII.

2.37 “**Restricted Stock Award**” means an authorization by the Committee to issue or transfer Restricted Stock to a Holder.

2.38 “**RSU**” means a restricted stock unit credited to a Holder’s ledger account maintained by the Company pursuant to Article VIII.

2.39 “**RSU Award**” means an Award granted pursuant to Article VIII.

2.40 “**SAR**” means a stock appreciation right granted under the Plan pursuant to Article VI.

2.41 “**Section 409A**” means section 409A of the Code and the regulations and other guidance promulgated by the United States Department of Treasury and/or the United States Internal Revenue Service under section 409A of the Code, or any successor statute.

2.42 “**Separation from Service**” means, except as otherwise provided in the case of an ISO in the following sentence of this Section 2.42, the termination of the Award recipient’s employment or service relationship with the Company and all Affiliates as determined under Section 409A. “Separation from Service” means, in the case of an ISO, the termination of the Employee’s employment relationship with all of the Company, any Parent Corporation, any Subsidiary Corporation and any parent or subsidiary corporation (within the meaning of section 422(a)(2) of the Code) of any such corporation that issues or assumes an ISO in a transaction to which section 424(a) of the Code applies.

2.43 “**Stock**” means the common stock of the Company, \$0.001 par value per share (or such other par value as may be designated by act of the Company’s stockholders).

2.44 “**Subsidiary Corporation**” means any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company if, at the time of the action or transaction, each of the corporations other than the last corporation in an unbroken chain owns stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in the chain.

2.45 “**Substantial Risk of Forfeiture**” shall have the meaning ascribed to that term in Section 409A.

2.46 “**Tandem SAR**” means a SAR that is granted in connection with a related Option pursuant to Article VI herein, the exercise of which shall require forfeiture of the right to purchase a share of Stock under the related Option (and when a share of Stock is purchased under the Option, the Tandem SAR shall similarly be canceled).

2.47 “**Ten Percent Stockholder**” means an individual, who, at the time the applicable Option is granted, owns stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or any Parent Corporation or Subsidiary Corporation. An individual shall be considered as owning the stock owned, directly or indirectly, by or for his or her brothers and sisters (whether by the whole or half-blood), spouse, ancestors, and lineal descendants; and stock owned, directly or indirectly, by or for a corporation, partnership, estate, or trust, shall be considered as being owned proportionately by or for its stockholders, partners, or beneficiaries.

2.48 “*Third Party Service Provider*” means any consultant, agent, representative, advisor, or independent contractor who renders services to the Company or an Affiliate that (a) are not in connection with the offer and sale of the Company’s securities in a capital raising transaction; and (b) do not directly or indirectly promote or maintain a market for the Company’s securities, or any other person as determined by the Committee.

ARTICLE III

ELIGIBILITY

Except as otherwise specified in this Article III, the persons who are eligible to receive Awards under the Plan are Employees, Directors and Third Party Service Providers; provided, however, that only those persons who are, on the dates of grant, employees of the Company or any Parent Corporation or Subsidiary Corporation are eligible for grants of Incentive Stock Options under the Plan.

ARTICLE IV

GENERAL PROVISIONS RELATING TO AWARDS

4.1 **Authority to Grant Awards.** The Committee may grant Awards to those Employees, Directors and Third Party Service Providers as the Committee shall from time to time determine, under the terms and conditions of the Plan. Subject only to any applicable limitations set out in the Plan, the number of shares of Stock or other value to be covered by any Award to be granted under the Plan shall be as determined by the Committee in its sole discretion.

(a) The aggregate number of shares of Stock with respect to which Awards may be granted under the Plan is 2,175,000 less one share of Stock for every one share of Stock granted under the RigNet, Inc. 2010 Omnibus Incentive Plan after December 31, 2018. Upon effectiveness of the Plan, no further awards will be made under the 2010 Omnibus Incentive Plan. (the “*Authorized Shares*”).

(b) The aggregate number of shares of Stock with respect to which ISOs may be granted under the Plan is equal to the Authorized Shares.

(c) The maximum number of shares of Stock with respect to which ISOs may be granted to an Employee during a Fiscal Year is equal to the Authorized Shares. The maximum number of shares of Stock with respect to which NQSOs may be granted to an Employee during a Fiscal Year is equal to the Authorized Shares. The maximum number of shares of Stock with respect to which SARs may be granted to an Employee during a Fiscal Year is equal to the Authorized Shares. The maximum number of shares of Stock with respect to which Performance Stock Awards may be granted to an Employee during a Fiscal Year is equal to the Authorized Shares. The maximum number of shares of Stock with respect to which Performance Unit Awards payable in shares of Stock may be granted to an Employee during a Fiscal Year is equal to the Authorized Shares. The maximum value of cash with respect to which Performance Unit Awards payable in cash may be granted to an Employee during a Fiscal Year, determined as of the dates of grants of the Performance Unit Awards, is \$3,000,000. The maximum amount that may be paid under Annual Cash Incentive Award(s) granted to an Employee during a Fiscal Year is \$3,000,000.

(d) The aggregate dollar value of shares of Stock that may be granted under the Plan to any director in any Fiscal Year shall be no more than \$300,000; provided, however, that with respect to any Chairman or Vice Chairman of the board, that dollar limit shall be \$400,000.

(e) Each of the foregoing numerical limits stated in this Section 4.2 shall be subject to adjustment in accordance with the provisions of Section 4.5.

4.2 Shares That Count Against Limit.

- (a) If shares of Stock are withheld from payment of an Award to satisfy tax obligations with respect to the Award, such shares of Stock will count against the aggregate number of shares of Stock with respect to which Awards may be granted under the Plan.
- (b) If shares of Stock are tendered in payment of the Option Price of an Option, such shares of Stock will count against the aggregate number of shares of Stock with respect to which Awards may be granted under the Plan.
- (c) To the extent that any outstanding Award is forfeited or cancelled for any reason or is settled in cash in lieu of shares of Stock, the shares of Stock allocable to such portion of the Award may again be subject to an Award granted under the Plan.
- (d) When a SAR is settled in shares of Stock, the number of shares of Stock subject to the SAR under the SAR Award Agreement will be counted against the aggregate number of shares of Stock with respect to which Awards may be granted under the Plan as one share for every share subject to the SAR, regardless of the number of shares used to settle the SAR upon exercise.
- (e) The maximum number of shares of Stock available for issuance under the Plan shall not be reduced to reflect any dividends or Dividend Equivalents that are reinvested into additional shares of Stock or credited as additional Restricted Stock, Restricted Stock Units, Performance Shares, or other Stock-Based Awards.

4.3 Non-Transferability. Except as specified in the applicable Award Agreements or in domestic relations court orders, an Award shall not be transferable by the Holder other than by will or under the laws of descent and distribution, and shall be exercisable, during the Holder's lifetime, only by him or her. Any attempted assignment of an Award in violation of this Section shall be null and void. In the discretion of the Committee, any attempt to transfer an Award other than under the terms of the Plan and the applicable Award Agreement may terminate the Award.

4.4 Requirements of Law. The Company shall not be required to sell or issue any shares of Stock under any Award if issuing those shares of Stock would constitute or result in a violation by the Holder or the Company of any provision of any law, statute or regulation of any governmental authority. Specifically, in connection with any applicable statute or regulation relating to the registration of securities, upon exercise of any Option or pursuant to any other Award, the Company shall not be required to issue any shares of Stock unless the Committee has received evidence satisfactory to it to the effect that the Holder will not transfer the shares of Stock except in accordance with applicable law, including receipt of an opinion of counsel satisfactory to the Company to the effect that any proposed transfer complies with applicable law. The determination by the Committee on this matter shall be final, binding and conclusive. The Company may, but shall in no event be obligated to, register any shares of Stock covered by the Plan pursuant to applicable securities laws of any country or any political subdivision. In the event the shares of Stock issuable on exercise of an Option or pursuant to any other Award are not registered, the Company may imprint on the certificate evidencing the shares of Stock any legend that counsel for the Company considers necessary or advisable to comply with applicable law, or, should the shares of Stock be represented by book or electronic entry rather than a certificate, the Company may take such steps to restrict transfer of the shares of Stock as counsel for the Company considers necessary or advisable to comply with applicable law. The Company shall not be obligated to take any other affirmative action in order to cause or enable the exercise of an Option or any other Award, or the issuance of shares of Stock pursuant thereto, to comply with any law or regulation of any governmental authority.

4.5 Changes in the Company's Capital Structure.

- (a) The existence of outstanding Awards shall not affect in any way the right or power of the Company or its stockholders to make or authorize any or all adjustments, recapitalizations, reorganizations or other changes in the Company's capital structure or its business, any merger or consolidation of the Company, any issue of bonds, debentures, preferred or prior preference shares ahead of or affecting the Stock or Stock rights, the dissolution or liquidation of the Company, any sale or transfer of all or any part of its assets or business or any other corporate act or proceeding, whether of a similar character or otherwise.

(b) If the Company shall effect a subdivision or consolidation of Stock or other capital readjustment, the payment of a Stock dividend, or other increase or reduction of the number of shares of Stock outstanding, without receiving compensation therefor in money, services or property, then (i) the number, class or series and per share price of Stock subject to outstanding Awards under the Plan shall be appropriately adjusted in such a manner as to entitle a Holder to receive upon exercise of an Award, for the same aggregate cash consideration, the equivalent total number and class or series of Stock the Holder would have received had the Holder exercised his or her Award in full immediately prior to the event requiring the adjustment; and (ii) the number and class or series of Stock then reserved to be issued under the Plan shall be adjusted by substituting for the total number and class or series of Stock then reserved, that number and class or series of Stock that would have been received by the owner of an equal number of outstanding shares of Stock of each class or series of Stock as the result of the event requiring the adjustment.

(c) If while unexercised Awards remain outstanding under the Plan a Change in Control occurs, then, except as otherwise provided in an Award Agreement or another agreement between the Holder and the Company (provided that such exceptions shall not apply in the case of a reincorporation merger), or as a result of the Committee's effectuation of one or more of the alternatives described below, there shall be no acceleration of the time at which any Award then outstanding may be exercised, and no later than ten (10) days after the approval by the stockholders of the Company of such Change in Control, the Committee, acting in its sole and absolute discretion without the consent or approval of any Holder, shall act to effect one or more of the following alternatives, which may vary among individual Holders and which may vary among Awards held by any individual Holder (provided that, with respect to a reincorporation merger in which Holders of the Company's ordinary shares will receive one ordinary share of the successor corporation for each ordinary share of the Company, none of such alternatives shall apply and, without Committee action, each Award shall automatically convert into a similar award of the successor corporation exercisable for the same number of ordinary shares of the successor as the Award was exercisable for ordinary shares of Stock of the Company):

(1) accelerate the time at which some or all of the Awards then outstanding may be exercised so that such Awards may be exercised in full for a limited period of time on or before a specified date (before or after such Change in Control) fixed by the Committee, after which specified date all such Awards that remain unexercised and all rights of Holders thereunder shall terminate;

(2) require the mandatory surrender to the Company by all or selected Holders of some or all of the then outstanding Awards held by such Holders (irrespective of whether such Awards are then exercisable under the provisions of the Plan or the applicable Award Agreement evidencing such Award) as of a date, before or after such Change in Control, specified by the Committee, in which event the Committee shall thereupon cancel such Award and the Company shall pay to each such Holder an amount of cash per share equal to the excess, if any, of the per share price offered to stockholders of the Company in connection with such Change in Control over the exercise prices under such Award for such shares;

(3) with respect to all or selected Holders, have some or all of their then outstanding Awards (whether vested or unvested) assumed or have a new award of a similar nature substituted for some or all of their then outstanding Awards under the Plan (whether vested or unvested) by an entity which is a party to the transaction resulting in such Change in Control and which is then employing such Holder or which is affiliated or associated with such Holder in the same or a substantially similar manner as the Company prior to the Change in Control, or a parent or subsidiary of such entity, provided that (A) such assumption or substitution is on a basis where the excess of the aggregate fair market value of the Stock subject to the Award immediately after the assumption or substitution over the aggregate exercise price of such Stock is equal to the excess of the aggregate fair market value of all Stock subject to the Award immediately before such assumption or substitution over the aggregate exercise price of such Stock; and (B) the assumed rights under such existing Award or the substituted rights under such new Award, as the case may be, will have the same terms and conditions as the rights under the existing Award assumed or substituted for, as the case may be;

(4) provide that the number and class or series of Stock covered by an Award (whether vested or unvested) theretofore granted shall be adjusted so that such Award when

exercised shall thereafter cover the number and class or series of Stock or other securities or property (including, without limitation, cash) to which the Holder would have been entitled pursuant to the terms of the agreement or plan relating to such Change in Control if, immediately prior to such Change in Control, the Holder had been the holder of record of the number of shares of Stock then covered by such Award; or

(5) make such adjustments to Awards then outstanding as the Committee deems appropriate to reflect such Change in Control (provided, however, that the Committee may determine in its sole and absolute discretion that no such adjustment is necessary to reflect such Change in Control).

Any adjustment effected by the Committee under Section 4.5 shall be designed to provide the Holder with the intrinsic value of his or her Award, as determined prior to the Change in Control, or, if applicable, equalize the Fair Market Value of the Award before and after the Change in Control.

In effecting one or more of the alternatives set out in paragraphs (3), (4) or (5) immediately above, and except as otherwise may be provided in an Award Agreement, the Committee, in its sole and absolute discretion and without the consent or approval of any Holder, may accelerate the time at which some or all Awards then outstanding may be exercised.

(d) In the event of changes in the outstanding Stock by reason of recapitalizations, reorganizations, mergers, consolidations, combinations, exchanges or other relevant changes in capitalization occurring after the date of the grant of any Award and not otherwise provided for by this Section 4.5, any outstanding Award and any Award Agreement evidencing such Award shall be subject to adjustment by the Committee in its sole and absolute discretion as to the number and price of Stock or other consideration subject to such Award. In the event of any such change in the outstanding Stock, the aggregate number of shares of Stock available under the Plan may be appropriately adjusted by the Committee, whose determination shall be conclusive.

(e) After a merger of one or more corporations into the Company or after a consolidation of the Company and one or more corporations in which the Company shall be the surviving corporation, each Holder shall be entitled to have his or her Restricted Stock appropriately adjusted based on the manner in which the shares of Stock were adjusted under the terms of the agreement of merger or consolidation.

(f) The issuance by the Company of stock of any class or series, or securities convertible into, or exchangeable for, stock of any class or series, for cash or property, or for labor or services either upon direct sale or upon the exercise of rights or warrants to subscribe for them, or upon conversion or exchange of stock or obligations of the Company convertible into, or exchangeable for, stock or other securities, shall not affect, and no adjustment by reason of such issuance shall be made with respect to, the number, class or series, or price of shares of Stock then subject to outstanding Awards.

4.6 Election Under Section 83(b) of the Code. No Holder shall exercise the election permitted under section 83(b) of the Code with respect to any Award without the prior written approval of the General Counsel or the Chief Financial Officer of the Company. Any Holder who makes an election under section 83(b) of the Code with respect to any Award without the prior written approval of the General Counsel or the Chief Financial Officer of the Company may, in the discretion of the Committee, forfeit any or all Awards granted to him or her under the Plan.

4.7 Forfeiture for Cause. Notwithstanding any other provision of the Plan or an Award Agreement, if the Committee finds by a majority vote that a Holder, before or after his or her Separation from Service (a) committed a felony or a crime involving moral turpitude or committed any other act or omission involving fraud, embezzlement or any other act of dishonesty in the course of his or her employment by the Company or an Affiliate which conduct damaged the Company or an Affiliate; (b) substantially and repeatedly failed to perform duties of the office held by the Holder as reasonably directed by the Company or an Affiliate; (c) committed gross negligence or willful misconduct with respect to the Company or an Affiliate; (d) committed a material breach of any employment agreement between the Holder and the Company or an Affiliate that is not cured within ten (10) days after receipt of written notice thereof from the Company or the Affiliate, as applicable; (e) failed, within ten (10) days after receipt by the Holder of written notice thereof from the Company or an Affiliate, to correct, cease or otherwise alter any failure to comply with instructions or other action or omission which the Board reasonably believes does or may materially or adversely affect the Company's or an Affiliate's business or operations; (f) committed misconduct which is of

such a serious or substantial nature that a reasonable likelihood exists that such misconduct will materially injure the reputation of the Company or an Affiliate; (g) harassed or discriminated against the Company's or an Affiliate's employees, customers or vendors in violation of the Company's policies with respect to such matters; (h) misappropriated funds or assets of the Company or an Affiliate for personal use or willfully violated the Company policies or standards of business conduct as determined in good faith by the Board; (i) failed, due to some action or inaction on the part of the Holder, to have immigration status that permits the Holder to maintain full-time employment with the Company or an Affiliate in the United States in compliance with all applicable immigration law; (j) disclosed trade secrets of the Company or an Affiliate, then as of the date the Committee makes its finding, any Awards awarded to the Holder that have not been exercised by the Holder (including all Awards that have not yet vested) will be forfeited to the Company. The findings and decision of the Committee or the Board, if applicable, with respect to such matter, including those regarding the acts of the Holder and the damage done to the Company, will be final for all purposes. No decision of the Committee, however, will affect the finality of the discharge of the individual by the Company or an Affiliate.

4.8 Forfeiture Events. The Committee may specify in an Award Agreement that the Holder's rights, payments, and benefits with respect to an Award shall be subject to reduction, cancellation, forfeiture, or recoupment upon the occurrence of certain specified events, in addition to any otherwise applicable vesting or performance conditions of an Award. Such events may include, but shall not be limited to, Separation from Service for cause, Separation from Service for any other reason, violation of material policies of the Company and its Affiliates, breach of noncompetition, confidentiality, or other restrictive covenants that may apply to the Holder, or other conduct by the Holder that is detrimental to the business or reputation of the Company and its Affiliates.

4.9 Award Agreements. Each Award shall be embodied in a written Award Agreement that shall be subject to the terms and conditions of the Plan. The Award Agreement shall be signed by an executive officer of the Company, other than the Holder, on behalf of the Company, and may be signed by the Holder to the extent required by the Committee. The Award Agreement may specify the effect of a change in control of the Company on the Award. The Award Agreement may contain any other provisions that the Committee in its discretion shall deem advisable which are not inconsistent with the terms and provisions of the Plan.

4.10 Amendments of Award Agreements. The terms of any outstanding Award under the Plan may be amended from time to time by the Committee in its discretion in any manner that it deems appropriate and that is consistent with the terms of the Plan or necessary to implement the requirements of the Plan. However, no such amendment shall adversely affect in a material manner any right of a Holder without his or her written consent. Except as specified in Section 4.5(b), the Committee may not directly or indirectly lower the exercise price of a previously granted Option or the grant price of a previously granted SAR.

4.11 Rights as Stockholder. A Holder shall not have any rights as a stockholder with respect to Stock covered by an Option, a SAR, an RSU, a Performance Unit, or an Other Stock-Based Award payable in Stock until the date, if any, such Stock is issued by the Company; and, except as otherwise provided in Section 4.5, no adjustment for dividends, or otherwise, shall be made if the record date therefor is prior to the date of issuance of such Stock.

4.12 Issuance of Shares of Stock. Shares of Stock, when issued, may be represented by a certificate or by book or electronic entry.

4.13 Restrictions on Stock Received. The Committee may impose such conditions and/or restrictions on any shares of Stock issued pursuant to an Award as it may deem advisable or desirable. These restrictions may include, but shall not be limited to, a requirement that the Holder hold the shares of Stock for a specified period of time.

4.14 Compliance With Section 409A. Awards shall be designed, granted and administered in such a manner that they are either exempt from the application of, or comply with, the requirements of Section 409A. The Plan and each Award Agreement under the Plan that is intended to comply the requirements of Section 409A shall be construed and interpreted in accordance with such intent. If the Committee determines that an Award, Award Agreement, payment, distribution, deferral election, transaction, or any other action or arrangement contemplated by the provisions of the Plan would, if undertaken, cause a Holder to become subject to additional taxes under Section 409A, then unless the Committee specifically provides otherwise, such Award, Award Agreement, payment, distribution, deferral election, transaction or other action or arrangement shall not be given effect to the extent it causes such result and the related provisions of the Plan and/or Award Agreement will be deemed modified, or, if necessary, suspended in order to comply with the requirements of Section 409A to the extent determined appropriate by the Committee, in each case without the consent of or notice to the Holder. The exercisability of an Option or a SAR shall not be extended to the extent that such extension would subject the Holder to additional taxes under Section 409A.

Although the Company will use its best efforts to avoid the imposition of taxation, interest and penalties under Section 409A, the tax treatment of the benefits provided under the Plan is not warranted or guaranteed. Neither the Company, its Affiliates nor their respective directors, officers, employees or advisers shall be held liable for any taxes, interest, penalties or other monetary amounts owed by a Holder (or any other individual claiming a benefit through Holder) as a result of the Plan.

4.15 Date of Grant. The date on which an option or SAR is granted shall be the date the Company completes the corporate action constituting an offer of stock for sale to a Holder under the terms and conditions of the Option or SAR; provided that such corporate action shall not be considered complete until the date on which the *maximum* number of shares that can be purchased under the Option and the minimum Option price are fixed or determinable. If the corporate action contemplates an immediate offer of stock for sale to a class of individuals, then the date of the granting of an Option is the time or date of that corporate action, if the offer is to be made immediately. If the corporate action contemplates a particular date on which the offer is to be made, then the date of grant is the contemplated date of the offer.

4.16 Source of Shares Deliverable Under Awards. Any shares of Stock delivered pursuant to an Award may consist, in whole or in part, of authorized and unissued shares of Stock or of treasury shares of Stock.

ARTICLE V

OPTIONS

5.1 Authority to Grant Options. Subject to the terms and provisions of the Plan, the Committee, at any time, and from time to time, may grant Options under the Plan to eligible persons in such number and upon such terms as the Committee shall determine; provided that ISOs may be granted only to eligible Employees of the Company or of any Parent Corporation or Subsidiary Corporation (as permitted by section 422 of the Code and the regulations thereunder).

5.2 Type of Options Available. Options granted under the Plan may be NQSOs or ISOs.

5.3 Option Agreement. Each Option grant under the Plan shall be evidenced by an Award Agreement that shall specify (a) whether the Option is intended to be an ISO or an NQSO, (b) the Option Price, (c) the duration of the Option, (d) the number of shares of Stock to which the Option pertains, (e) the exercise restrictions, if any, applicable to the Option, and (f) such other provisions as the Committee shall determine that are not inconsistent with the terms and provisions of the Plan. Notwithstanding the designation of an Option as an ISO in the applicable Award Agreement for such Option, to the extent the limitations of Section 5.11 of the Plan are exceeded with respect to the Option, the portion of the Option in excess of the limitation shall be treated as a NQSO. An Option granted under the Plan may not be granted with any Dividend Equivalents rights.

5.4 Option Price. The price at which shares of Stock may be purchased under an Option (the "*Option Price*") shall not be less than one hundred percent (100%) of the Fair Market Value of the shares of Stock on the date the Option is granted; provided, however, if the Option is an ISO granted to a Ten Percent Stockholder, the Option Price must not be less than one hundred ten percent (110%) of the Fair Market Value of the shares of Stock on the date the ISO is granted. Subject to the limitations set forth in the preceding sentences of this Section 5.4, the Committee shall determine the Option Price for each grant of an Option under the Plan.

5.5 Duration of Option. An Option shall not be exercisable after the earlier of (a) the general term of the Option specified in the applicable Award Agreement (which shall not exceed ten years, or, in the case of a Ten Percent Stockholder, no ISO shall be exercisable later than the fifth (5th) anniversary of the date of its grant), or (b) the period of time specified in the applicable Award Agreement that follows the Holder's Separation from Service.

5.6 Amount Exercisable. Each Option may be exercised at the time, in the manner and subject to the conditions the Committee specifies in the Award Agreement in its sole discretion.

5.7 Exercise of Option.

(a) *General Method of Exercise.* Subject to the terms and provisions of the Plan and the applicable Award Agreement, Options may be exercised in whole or in part from time to time by the delivery of written notice in the manner designated by the Committee. Except in the case of exercise by a third party broker or through a net exercise as provided below, in order for the notice to be effective the notice must be accompanied by payment of the

Option Price by any combination of the following in accordance with the applicable Award Agreement: (v) cash, certified check, bank draft or postal or express money order for an amount equal to the Option Price under the Option; (w) Mature Shares with a Fair Market Value on the date of exercise equal to the Option Price under the Option; (x) an election to make a cashless exercise through a registered broker-dealer; (y) an election to affect a net exercise directing the Company to reduce the number of shares of Stock that will be delivered pursuant to the exercise of the Option; or (z) except as specified below, any other form of payment which is acceptable to the Committee. If Mature Shares are used for payment by the Holder, the aggregate Fair Market Value of the shares of Stock tendered must be equal to or less than the aggregate Option Price of the shares of Stock being purchased upon exercise of the Option, and any difference must be paid by cash, certified check, bank draft or postal or express money order payable to the order of the Company.

If, at the time of receipt by the Company or its delegate of such written notice, (i) the Company has unrestricted surplus in an amount not less than the Option Price of such shares of Stock; (ii) all accrued cumulative preferential dividends and other current preferential dividends on all outstanding shares of preferred stock of the Company have been fully paid; (iii) the acquisition by the Company of its own shares of Stock for the purpose of enabling such Holder to exercise such Option is otherwise permitted by applicable law, does not require any vote or consent of any stockholder of the Company and does not violate the terms of any agreement to which the Company is a party or by which it is bound, and (iv) there shall have been adopted, and there shall be in full force and effect, a resolution of the Board authorizing the acquisition by the Company of its own shares of stock for such purpose, then such Holder may deliver to the Company, in payment of the Option Price of the shares of Stock with respect to which such Option is exercised, (x) certificates registered in the name of such Holder that represent a number of shares of stock legally and beneficially owned by such Holder and having a Fair Market Value on the date of receipt by the Company or its delegate of such written notice that is not greater than the Option Price of the shares of Stock with respect to which such Option is to be exercised, such certificates to be accompanied by stock powers duly endorsed in blank by the record holder of the shares of Stock represented by such certificates, with the signature of such record holder guaranteed by a national banking association, and (y) if the Option Price of the shares of Stock with respect to which such Option is to be exercised exceeds such Fair Market Value, a cashier's check drawn on a national banking association and payable to the order of the Company, in an amount, in United States dollars, equal to the amount of such excess. Notwithstanding the provisions of the immediately preceding sentence, the Committee, in its sole discretion, may refuse to accept shares of Stock in payment of the Option Price of the shares of Stock with respect to which such Option is to be exercised and, in that event, any certificates representing shares of Stock that were received by the Company or its delegate with such written notice shall be returned to such Holder, together with notice by the Company or its delegate to such Holder of the refusal of the Committee to accept such shares of Stock. If, at the expiration of seven (7) business days after the delivery to such Holder of such written notice from the Company or its delegate, such Holder shall not have delivered to the Company or its delegate a cashier's check drawn on a national banking association and payable to the order of the Company in an amount, in United States dollars, equal to the Option Price of the shares of Stock with respect to which such Option is to be exercised, such written notice from the Holder to the Company or its delegate shall be ineffective to exercise such Option.

(b) *Issuance of Shares.* Subject to Section 4.3 and Section 5.7(c), as promptly as practicable after receipt of written notification and payment, in the form required by Section 5.7(a), of an amount of money necessary to satisfy any withholding tax liability that *may* result from the exercise of such Option, the Company shall deliver to the Holder certificates for the number of shares with respect to which the Option has been exercised, issued in the Holder's name. Delivery of the shares shall be deemed effected for all purposes when a stock transfer agent of the Company shall have deposited the certificates in the United States mail, addressed to the Holder, at the address specified by the Holder or shall have transferred to the account designated by the Holder to which the shares of Stock represented by book or electronic entry are to be delivered.

(c) *Cashless Exercise and Net Exercise.* The Committee may permit a Holder to elect to pay the Option Price and any applicable tax withholding resulting from such exercise by (i) authorizing a third-party broker to sell all or a portion of the shares of Stock acquired upon exercise of the Option and remit to the Company a sufficient portion of the sale proceeds to pay the Option Price and any applicable federal, state, local and foreign tax withholding resulting from such exercise; or (ii) directing the Company to reduce the number of shares of Stock that will be delivered pursuant to the exercise of the Option.

(d) *Limitations on Exercise Alternatives.* Except in the event the Option Price is paid pursuant to Section 5.7(c), the Committee shall not permit a Holder to pay such Holder's Option Price upon the exercise of an Option by using shares of Stock other than Mature Shares. An Option may not be exercised for a fraction of a share of Stock.

5.8 Transferability—Incentive Stock Options. Notwithstanding anything in the Plan or an Award Agreement to the contrary, no ISO granted under the Plan may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution, and all ISOs granted to an Employee under this Article V shall be exercisable during his or her lifetime only by such Employee.

5.9 Notification of Disqualifying Disposition. If any Employee shall make any disposition of shares of Stock issued pursuant to the exercise of an ISO under the circumstances described in section 421(b) of the Code (relating to certain disqualifying dispositions), such Employee shall notify the Company of such disposition within ten (10) days thereof.

5.10 No Rights as Stockholder. A Holder of an Option shall not have any rights as a stockholder with respect to Stock covered by an Option until the date a stock certificate for such Stock is issued by the Company; and, except as otherwise provided in Section 4.5, no adjustment for dividends, or otherwise, shall be made if the record date therefor is prior to the date of issuance of such certificate.

5.11 \$100,000 Limitation on ISOs. To the extent that the aggregate Fair Market Value of shares of Stock with respect to which ISOs first become exercisable by a Holder in any calendar year exceeds \$100,000, taking into account both shares of Stock subject to ISOs under the Plan and Stock subject to ISOs under all other plans of the Company, such Options shall be treated as NQSOs. For this purpose, the “Fair Market Value” of the shares of Stock subject to Options shall be determined as of the date the Options were awarded. In reducing the number of Options treated as ISOs to meet the \$100,000 limit, the most recently granted Options shall be reduced first. To the extent a reduction of simultaneously granted Options is necessary to meet the \$100,000 limit, the Committee may, in the manner and to the extent permitted by law, designate which shares of Stock are to be treated as shares acquired pursuant to the exercise of an ISO.

5.12 Separation from Service. Each Award Agreement shall set forth the extent to which the Holder of an Option shall have the right to exercise the Option following the Holder’s Separation from Service. Such provisions shall be determined in the sole discretion of the Committee, need not be uniform among all Options issued pursuant to the Award Agreement or the Plan, and may reflect distinctions based on the reasons for termination.

ARTICLE VI

STOCK APPRECIATION RIGHTS

6.1 Authority to Grant SAR Awards. Subject to the terms and provisions of the Plan, the Committee, at any time, and from time to time, may grant SARs under the Plan to eligible persons in such number and upon such terms as the Committee shall determine. Subject to the terms and conditions of the Plan, the Committee shall have complete discretion in determining the number of SARs granted to each Holder and, consistent with the provisions of the Plan, in determining the terms and conditions pertaining to such SARs.

6.2 Type of Stock Appreciation Rights Available. The Committee may grant Freestanding SARs, Tandem SARs, or any combination of these forms of SARs.

6.3 General Terms. Subject to the terms and conditions of the Plan, a SAR granted under the Plan shall confer on the recipient a right to receive, upon exercise thereof, an amount equal to the excess of (a) the Fair Market Value of one share of the Stock on the date of exercise, over (b) the grant price of the SAR, which shall not be less than one hundred percent (100%) of the Fair Market Value of one share of the Stock on the date of grant of the SAR. The grant price of Tandem SARs shall be equal to the Option Price of the related Option. A SAR granted under the Plan may not be granted with any Dividend Equivalent rights.

6.4 SAR Agreement. Each Award of SARs granted under the Plan shall be evidenced by an Award Agreement that shall specify (a) the grant price of the SAR, (b) the term of the SAR, (c) the vesting and termination provisions of the SAR, and (d) such other provisions as the Committee shall determine that are not inconsistent with the terms and provisions of the Plan. The Committee may impose such additional conditions or restrictions on the exercise of any SAR as it may deem appropriate.

6.5 Term of SAR. The term of a SAR granted under the Plan shall be determined by the Committee, in its sole discretion; provided that no SAR shall be exercisable on or after the tenth (10th) anniversary date of its grant. Notwithstanding any other provision of this Plan to the contrary, with respect to a Tandem SAR granted in connection with an ISO: (a) the Tandem SAR will expire no later than the expiration of the underlying ISO; (b) the value of the payout with respect to the Tandem SAR

may be for no more than one hundred percent (100%) of the excess of the Fair Market Value of the shares of Stock subject to the underlying ISO at the time the Tandem SAR is exercised over the Option Price of the underlying ISO; and (c) the Tandem SAR may be exercised only when the Fair Market Value of the shares of Stock subject to the ISO exceeds the Option Price of the ISO.

6.6 Exercise of Freestanding SARs. Subject to the terms and provisions of the Plan and the applicable Award Agreement, Freestanding SARs may be exercised in whole or in part from time to time by the delivery of written notice in the manner designated by the Committee stating (a) that the Holder wishes to exercise such SAR on the date such notice is so delivered, (b) the number of shares of Stock with respect to which the SAR is to be exercised, and (c) the address to which the payment due under such SAR should be delivered. In accordance with applicable law, a Freestanding SAR may be exercised upon whatever additional terms and conditions the Committee, in its sole discretion, imposes.

6.7 Exercise of Tandem SARs. Subject to the terms and provisions of the Plan and the applicable Award Agreement, Tandem SARs may be exercised for all or part of the shares of Stock subject to the related Option upon the surrender of the right to exercise the equivalent portion of the related Option and by the delivery of written notice in the manner designated by the Committee stating (a) that the Holder wishes to exercise such SAR on the date such notice is so delivered, (b) the number of shares of Stock with respect to which the SAR is to be exercised, and (c) the address to which the payment due under such SAR should be delivered. A Tandem SAR may be exercised only with respect to the shares of Stock for which its related Option is then exercisable. In accordance with applicable law, a Tandem SAR may be exercised upon whatever additional terms and conditions the Committee, in its sole discretion, imposes.

6.8 Payment of SAR Amount. Upon the exercise of a SAR, a Holder shall be entitled to receive payment from the Company in an amount determined by multiplying the excess of the Fair Market Value of a share of Stock on the date of exercise over the grant price of the SAR by the number of shares of Stock with respect to which the SAR is exercised. At the discretion of the Committee, the payment upon SAR exercise may be in cash, in Stock of equivalent value, in some combination thereof or in any other manner approved by the Committee in its sole discretion. The Committee's determination regarding the form of SAR payout shall be set forth in the Award Agreement pertaining to the grant of the SAR.

6.9 Separation from Service. Each Award Agreement shall set forth the extent to which the Holder of a SAR shall have the right to exercise the SAR following the Holder's Separation from Service. Such provisions shall be determined in the sole discretion of the Committee, may be included in the Award Agreement entered into with the Holder, need not be uniform among all SARs issued pursuant to the Plan, and may reflect distinctions based on the reasons for termination or severance.

6.10 Nontransferability of SARs. Except as otherwise provided in a Holder's Award Agreement, no SAR granted under the Plan may be sold, transferred, pledged, assigned or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. Further, except as otherwise provided in a Holder's Award Agreement, all SARs granted to a Holder under the Plan shall be exercisable during his or her lifetime only by the Holder, and after that time, by the Holder's heirs or estate. Any attempted assignment of a SAR in violation of this Section 6.10 shall be null and void.

6.11 No Rights as Stockholder. A grantee of a SAR award, as such, shall have no rights as a stockholder.

6.12 Restrictions on Stock Received. The Committee may impose such conditions and/or restrictions on any shares of Stock received upon exercise of a SAR granted pursuant to the Plan as it may deem advisable or desirable. These restrictions may include, but shall not be limited to, a requirement that the Holder hold the shares of Stock received upon exercise of a SAR for a specified period of time.

ARTICLE VII

RESTRICTED STOCK AWARDS

7.1 Restricted Stock Awards. Subject to the terms and provisions of the Plan, the Committee, at any time, and from time to time, may make Awards of Restricted Stock under the Plan to eligible persons in such number and upon such terms as the Committee shall determine. The amount of, the vesting, forfeiture and the transferability restrictions applicable to any Restricted Stock Award shall be determined by the Committee in its sole discretion. If the Committee imposes vesting, forfeiture or transferability restrictions on a Holder's rights with respect to Restricted Stock, the Committee may issue such instructions to the Company's share transfer agent in connection therewith as it deems appropriate. The Committee may also cause the certificate for shares of Stock issued pursuant to a Restricted Stock Award to be imprinted with any legend which counsel for the

Company considers advisable with respect to the restrictions or, should the shares of Stock be represented by book or electronic entry rather than a certificate, the Company may take such steps to restrict transfer of the shares of Stock as counsel for the Company considers necessary or advisable to comply with applicable law.

7.2 Restricted Stock Award Agreement. Each Restricted Stock Award shall be evidenced by an Award Agreement that contains any vesting, forfeiture and transferability restrictions and other provisions not inconsistent with the Plan as the Committee may specify.

7.3 Holder's Rights as Stockholder. Subject to the terms and conditions of the Plan, each recipient of a Restricted Stock Award shall have all the rights of a stockholder with respect to the shares of Restricted Stock included in the Restricted Stock Award during the Period of Restriction established for the Restricted Stock Award. Dividends paid with respect to Restricted Stock in cash or property other than shares of Stock or rights to acquire shares of Stock shall be paid to the recipient of the Restricted Stock Award currently. Dividends paid in shares of Stock or rights to acquire shares of Stock shall be added to and become a part of the Restricted Stock. During the Period of Restriction, certificates representing the Restricted Stock shall be registered in the Holder's name and bear a restrictive legend to the effect that ownership of such Restricted Stock, and the enjoyment of all rights appurtenant thereto, are subject to the restrictions, terms, and conditions provided in the Plan and the applicable Award Agreement. Such certificates shall be deposited by the recipient with the Secretary of the Company or such other officer or agent of the Company as may be designated by the Committee, together with all stock powers or other instruments of assignment, each endorsed in blank, which will permit transfer to the Company of all or any portion of the Restricted Stock which shall be forfeited in accordance with the Plan and the applicable Award Agreement.

ARTICLE VIII

RESTRICTED STOCK UNIT AWARDS

8.1 Authority to Grant RSU Awards. Subject to the terms and provisions of the Plan, the Committee, at any time, and from time to time, may grant RSU Awards under the Plan to eligible persons in such amounts and upon such terms as the Committee shall determine. The amount of, the vesting, forfeiture and the transferability restrictions applicable to any RSU Award shall be determined by the Committee in its sole discretion. The Committee shall maintain a bookkeeping ledger account, which reflects the number of RSUs credited under the Plan for the benefit of a Holder.

8.2 RSU Award. An RSU Award shall be similar in nature to a Restricted Stock Award except that no shares of Stock are actually transferred to the Holder until a later date specified in the applicable Award Agreement. Each RSU shall have a value equal to the Fair Market Value of a share of Stock.

8.3 RSU Award Agreement. Each RSU Award shall be evidenced by an Award Agreement that contains any Substantial Risk of Forfeiture, transferability and forfeiture restrictions, form and time of payment provisions and other provisions not inconsistent with the Plan as the Committee may specify.

8.4 Dividend Equivalents. An Award Agreement for an RSU Award may specify that the Holder shall be entitled to the payment of Dividend Equivalents under the Award.

8.5 Form of Payment Under RSU Award. Payment under an RSU Award shall be made in cash, shares of Stock or any combination thereof, as specified in the applicable Award Agreement.

8.6 Time of Payment Under RSU Award. A Holder's payment under an RSU Award shall be made at such time as is specified in the applicable Award Agreement. The Award Agreement shall specify that the payment will be made (a) by a date that is no later than the date that is two and one-half (2 1/2) months after the end of the Fiscal Year in which the RSU Award payment is no longer subject to a Substantial Risk of Forfeiture, or (b) as otherwise designated by the Committee.

8.7 Holder's Rights as Stockholder. Each recipient of an RSU Award shall have no rights of a stockholder with respect to the Holder's RSUs. A Holder shall have no voting rights with respect to any RSU Awards.

ARTICLE IX

PERFORMANCE STOCK AWARDS AND PERFORMANCE UNIT AWARDS

9.1 Authority to Grant Performance Stock Awards and Performance Unit Awards. Subject to the terms and provisions of the Plan, the Committee, at any time, and from time to time, may grant Performance Stock Awards and Performance Unit Awards under the Plan to eligible persons in such amounts and upon such terms as the Committee shall determine. The amount of, the vesting, forfeiture and the transferability restrictions applicable to any Performance Stock Award or Performance Unit Award shall be based upon the attainment of such Performance Goals as the Committee may determine; provided, however, that (a) the performance period for any Performance Stock Award or Performance Unit Award shall not be less than one (1) year, and (b) the Performance Goals must be established in writing by the Committee not later than ninety (90) days after the beginning of the performance period (but in no event after the outcome is substantially certain). If the Committee imposes vesting or transferability restrictions on a Holder's rights with respect to Performance Stock Award or Performance Unit Awards, the Committee may issue such instructions to the Company's share transfer agent in connection therewith as it deems appropriate. The Committee may also cause the certificate for shares of Stock issued pursuant to a Performance Stock Award or Performance Unit Award to be imprinted with any legend which counsel for the Company considers advisable with respect to the restrictions or, should the shares of Stock be represented by book or electronic entry rather than a certificate, the Company may take such steps to restrict transfer of the shares of Stock as counsel for the Company considers necessary or advisable to comply with applicable law.

9.2 Performance Goals. The Performance Goals upon which the payment or vesting of an Award may be based on one or more of the following business criteria that apply to the Holder, one or more business units or subsidiaries of the Company, or the Company as a whole: earnings, earnings before interest and taxes, earnings before interest, taxes, depreciation, and amortization, earnings before any one of, or combination of two or more of, interest, taxes, depreciation, amortization and/or any other financial adjustment to earnings set forth in the Company's audited financial statements that is allowed under generally accepted accounting principles, adjusted earnings before interest, taxes, depreciation and amortization, net earnings, earnings per share, earnings per share growth, economic value added, economic value, operating profits, net operating profit, net profits, profit return, gross margin, profit margins, profit before tax, operating margin, cash return on capitalization, operating expense, operating expense as a percentage of revenue, revenue, increase in revenue, revenue ratios (including per employee or per customer), net revenue, billings, net income, stock price, market share, return on equity, return on assets, return on capital, return on capital compared to cost of capital, return on capital employed, return on invested capital, debt to capital ratio, total stockholder return, stockholder return, stockholder value, growth in stockholder value relative to a pre-determined index, financial return ratio, operating income, cash flow, net cash flow, cash flow from operations, free cash flow, cash value added performance, cost reductions, cost ratios (per employee or per customer), proceeds from dispositions, project completion time and budget goals, net cash flow before financing activities, customer growth, total market value, or people value added. The Committee may select one criterion or multiple criteria for measuring performance. Goals may be based on subjective performance criteria, provided the subjective criteria are bona fide and relate to the performance of the Holder or of the group that includes the Holder. Goals may also be based on performance relative to a peer group of companies. Unless otherwise stated, such a Performance Goal need not be based upon an increase or positive result under a particular business criterion and could include, for example, maintaining the status quo or limiting economic losses (measured, in each case, by reference to specific business criteria). Prior to the payment of any compensation based on the achievement of Performance Goals, the Committee must certify in writing that applicable Performance Goals and any of the material terms thereof were, in fact, satisfied. Subject to the foregoing provisions, the terms, conditions and limitations applicable to any Performance Stock or Performance Unit Awards made pursuant to the Plan shall be determined by the Committee.

9.3 Written Agreement. Each Performance Stock Award or Performance Unit Award shall be evidenced by an Award Agreement that contains any vesting, transferability restrictions and other provisions not inconsistent with the Plan as the Committee may specify.

9.4 Form of Payment Under Performance Unit Award. Payment under a Performance Unit Award shall be made in cash, shares of Stock or any combination thereof, as specified in the applicable Award Agreement.

9.5 Time of Payment Under Performance Unit Award. A Holder's payment under a Performance Unit Award shall be made at such time as is specified in the applicable Award Agreement. The Award Agreement shall specify that the payment will be made (a) by a date that is no later than the date that is two and one-half (2 1/2) months after the end of the calendar year in which the Performance Unit Award payment is no longer subject to a Substantial Risk of Forfeiture, or (b) as otherwise designated by the Committee.

9.6 Holder's Rights as Stockholder With Respect to a Performance Stock Award. Subject to the terms and conditions of the Plan, each Holder of a Performance Stock Award shall have all the rights of a stockholder with respect to the shares of Stock issued to the Holder pursuant to the Award during any period in which such issued shares of Stock are subject to forfeiture and restrictions on transfer, including without limitation, the right to vote such shares of Stock.

9.7 Dividend Equivalents. An Award Agreement for a Performance Unit Award may specify that the Holder shall be entitled to the payment of Dividend Equivalents under the Award.

ARTICLE X

DIRECTOR AWARDS

All Awards to Directors shall be determined by the Board.

ARTICLE XI

ANNUAL CASH INCENTIVE AWARDS

11.1 Authority to Grant Annual Cash Incentive Awards. Subject to the terms and provisions of the Plan, the Committee, at any time, and from time to time, may grant Annual Cash Incentive Awards under the Plan upon such terms as the Committee shall determine. Subject to the following provisions in this Article XI, the amount of any Annual Cash Incentive Awards shall be based on the attainment of such Performance Goals as the Committee may determine and the term, conditions and limitations applicable to any Annual Cash Incentive Awards made pursuant to the Plan shall be determined by the Committee.

11.2 Written Agreement. Each Annual Cash Incentive Award shall be evidenced by an Award Agreement that contains any vesting, transferability restrictions and other provisions not inconsistent with the Plan as the Committee may specify.

11.3 Form of Payment Under Annual Cash Incentive Award. Payment under an Annual Cash Incentive Award shall be made in cash.

11.4 Time of Payment Under Annual Cash Incentive Award. A Holder's payment under an Annual Cash Incentive Award shall be made at such time as is specified in the applicable Award Agreement. The Award Agreement shall specify that the payment will be made (a) by a date that is no later than the date that is two and one-half (2 1/2) months after the end of the calendar year in which the Annual Cash Incentive Award payment is no longer subject to a Substantial Risk of Forfeiture, or (b) as otherwise designated by the Committee.

ARTICLE XII

OTHER STOCK-BASED AWARDS

12.1 Authority to Grant Other Stock-Based Awards. Subject to the terms and provisions of the Plan, the Committee, at any time, and from time to time, may grant other types of equity-based or equity-related Awards not otherwise described by the terms and provisions of the Plan (including the grant or offer for sale of unrestricted shares of Stock) under the Plan to eligible persons in such number and upon such terms as the Committee shall determine. Such Awards may involve the transfer of actual shares of Stock to Holders, or payment in cash or otherwise of amounts based on the value of shares of Stock and may include, without limitation, Awards designed to comply with or take advantage of the applicable local laws of jurisdictions other than the United States.

12.2 Value of Other Stock-Based Award. Each Other Stock-Based Award shall be expressed in terms of shares of Stock or units based on shares of Stock, as determined by the Committee.

12.3 Payment of Other Stock-Based Award. Payment, if any, with respect to an Other Stock-Based Award shall be made in accordance with the terms of the Award, in cash, shares of Stock or any combination thereof, as the Committee determines.

12.4 **Separation from Service.** The Committee shall determine the extent to which a Holder's rights with respect to Other Stock-Based Awards shall be affected by the Holder's Separation from Service. Such provisions shall be determined in the sole discretion of the Committee and need not be uniform among all Other Stock-Based Awards issued pursuant to the Plan.

12.5 **Time of Payment of Other Stock-Based Award.** A Holder's payment under an Other Stock-Based Award shall be made at such time as is specified in the applicable Award Agreement. If a payment under the Award Agreement is subject to Section 409A, the Award Agreement shall specify that the payment will be made (a) by a date that is no later than the date that is two and one-half (2 1/2) months after the end of the calendar year in which the Other Stock-Based Award payment is no longer subject to a Substantial Risk of Forfeiture, or (b) as otherwise designated by the Committee.

ARTICLE XIII

CASH-BASED AWARDS

13.1 **Authority to Grant Cash-Based Awards.** Subject to the terms and provisions of the Plan, the Committee, at any time, and from time to time, may grant Cash-Based Awards under the Plan to eligible persons in such amounts and upon such terms as the Committee shall determine.

13.2 **Value of Cash-Based Award.** Each Cash-Based Award shall specify a payment amount or payment range as determined by the Committee.

13.3 **Payment of Cash-Based Award.** Payment, if any, with respect to a Cash-Based Award shall be made in accordance with the terms of the Award, in cash.

13.4 **Time of Payment of Cash-Based Award.** Payment under a Cash-Based Award shall be made at such time as is specified in the applicable Award Agreement. If a payment under the Award Agreement is subject to Section 409A, the Award Agreement shall specify that the payment will be made (a) by a date that is no later than the date that is two and one-half (2 1/2) months after the end of the calendar year in which the Cash-Based Award payment is no longer subject to a Substantial Risk of Forfeiture, or (b) as otherwise designated by the Committee.

13.5 **Separation from Service.** The Committee shall determine the extent to which a Holder's rights with respect to Cash-Based Awards shall be affected by the Holder's Separation from Service. Such provisions shall be determined in the sole discretion of the Committee and need not be uniform among all Cash-Based Awards issued pursuant to the Plan.

ARTICLE XIV

SUBSTITUTION AWARDS

Awards may be granted under the Plan from time to time in substitution for stock options and other awards held by employees of other entities who are about to become Employees, or whose employer is about to become an Affiliate as the result of a merger or consolidation of the Company with another corporation, or the acquisition by the Company of substantially all the assets of another corporation, or the acquisition by the Company of at least fifty percent (50%) of the issued and outstanding stock of another corporation as the result of which such other corporation will become a subsidiary of the Company. The terms and conditions of the substitute Awards so granted may vary from the terms and conditions set forth in the Plan to such extent as the Board at the time of grant may deem appropriate to conform, in whole or in part, to the provisions of the awards in substitution for which they are granted. If shares of Stock are issued under the Plan with respect to an Award granted under this Article such shares of Stock will not count against the aggregate number of shares of Stock with respect to which Awards may be granted under the Plan.

ARTICLE XV

ADMINISTRATION

15.1 **Awards.** The Plan shall be administered by the Committee or, in the absence of the Committee or in the case of awards issued to Directors, the Plan shall be administered by the Board. The members of the Committee (that is not itself the Board) shall serve at the discretion of the Board. The Committee shall have full and exclusive power and authority to administer the Plan and to take all actions that the Plan expressly contemplates or are necessary or appropriate in connection with the administration of the Plan with respect to Awards granted under the Plan.

15.2 Authority of the Committee. The Committee shall have full and exclusive power to interpret and apply the terms and provisions of the Plan and Awards made under the Plan, and to adopt such rules, regulations and guidelines for implementing the Plan as the Committee may deem necessary or proper, all of which powers shall be exercised in the best interests of the Company and in keeping with the objectives of the Plan. A majority of the members of the Committee shall constitute a quorum for the transaction of business relating to the Plan or Awards made under the Plan, and the vote of a majority of those members present at any meeting shall decide any question brought before that meeting. Any decision or determination reduced to writing and signed by a majority of the members shall be as effective as if it had been made by a majority vote at a meeting properly called and held. All questions of interpretation and application of the Plan, or as to Awards granted under the Plan, shall be subject to the determination, which shall be final and binding, of a majority of the whole Committee. No member of the Committee shall be liable for any act or omission of any other member of the Committee or for any act or omission on his or her own part, including but not limited to the exercise of any power or discretion given to him or her under the Plan, except those resulting from his or her own willful misconduct. In carrying out its authority under the Plan, the Committee shall have full and final authority and discretion, including but not limited to the following rights, powers and authorities to (a) determine the persons to whom and the time or times at which Awards will be made; (b) determine the number and exercise price of shares of Stock covered in each Award subject to the terms and provisions of the Plan; (c) determine the terms, provisions and conditions of each Award, which need not be identical and need not match the default terms set forth in the Plan; (d) accelerate the time at which any outstanding Award will vest; (e) prescribe, amend and rescind rules and regulations relating to administration of the Plan; and (f) make all other determinations and take all other actions deemed necessary, appropriate or advisable for the proper administration of the Plan.

The Committee may make an Award to an individual who the Company expects to become an Employee of the Company or any of its Affiliates within six (6) months after the date of grant of the Award, with the Award being subject to and conditioned on the individual actually becoming an Employee within that time period and subject to other terms and conditions as the Committee may establish.

The Committee may correct any defect or supply any omission or reconcile any inconsistency in the Plan or in any Award to a Holder in the manner and to the extent the Committee deems necessary or desirable to further the Plan's objectives. Further, the Committee shall make all other determinations that may be necessary or advisable for the administration of the Plan. As permitted by law and the terms and provisions of the Plan, the Committee may delegate to one or more of its members or to one or more officers of the Company, and/or its Affiliates or to one or more agents or advisors such administrative duties or powers as it may deem advisable, and the Committee or any person to whom it has delegated duties or powers as aforesaid may employ one or more persons to render advice with respect to any responsibility the Committee or such person may have under the Plan. The Committee may, by resolution, authorize one or more officers of the Company to do one or more of the following on the same basis as can the Committee: (a) designate Employees to be recipients of Awards; (b) designate Third Party Service Providers to be recipients of Awards; and (c) determine the size of any such Awards; provided, however, (i) the Committee shall not delegate such responsibilities to any such officer for Awards granted to an Employee that is considered an Insider; (ii) the resolution providing such authorization sets forth the total number of Awards such officer(s) may grant; and (iii) the officer(s) shall report periodically to the Committee regarding the nature and scope of the Awards granted pursuant to the authority delegated. The Committee may employ attorneys, consultants, accountants, agents, and other persons, any of whom may be an Employee, and the Committee, the Company, and its officers and Board shall be entitled to rely upon the advice, opinions, or valuations of any such persons.

15.3 Decisions Binding. All determinations and decisions made by the Committee or the Board, as the case may be, pursuant to the provisions of the Plan and all related orders and resolutions of the Committee or the Board, as the case may be, shall be final, conclusive and binding on all persons, including the Company, its Affiliates, its stockholders, Holders and the estates and beneficiaries of Holders.

15.4 No Liability. Under no circumstances shall the Company, its Affiliates, the Board or the Committee incur liability for any indirect, incidental, consequential or special damages (including lost profits) of any form incurred by any person, whether or not foreseeable and regardless of the form of the act in which such a claim may be brought, with respect to the Plan or the Company's, its Affiliates', the Committee's or the Board's roles in connection with the Plan.

ARTICLE XVI

AMENDMENT OR TERMINATION OF PLAN

16.1 Amendment, Modification, Suspension, and Termination. Subject to Section 16.2, the Board may, at any time and from time to time, alter, amend, modify, suspend, or terminate the Plan and the Committee may, at any time and from time to time, alter, amend, modify, suspend, or terminate any Award Agreement in whole or in part; provided, however, that, without the prior approval of the Company's stockholders and except as provided in Section 4.5, the Committee shall not directly or indirectly lower the Option Price of a previously granted Option or the grant price of a previously granted SAR, cancel a previously granted Option or previously granted SAR for a payment of cash or other property if the aggregate fair market value of such Award is less than the aggregate Option Price of such Award in the case of an Option or the aggregate grant price of such Award in the case of a SAR, and no amendment of the Plan shall be made without stockholder approval if stockholder approval is required by applicable law or stock exchange rules.

16.2 Awards Previously Granted. Notwithstanding any other provision of the Plan to the contrary, no termination, amendment, suspension, or modification of the Plan or an Award Agreement shall adversely affect in any material way any Award previously granted under the Plan, without the written consent of the Holder holding such Award.

ARTICLE XVII

MISCELLANEOUS

17.1 Unfunded Plan/No Establishment of a Trust Fund. Holders shall have no right, title, or interest whatsoever in or to any investments that the Company or any of its Affiliates may make to aid in meeting obligations under the Plan. Nothing contained in the Plan, and no action taken pursuant to its provisions, shall create or be construed to create a trust of any kind, or a fiduciary relationship between the Company and any Holder, beneficiary, legal representative, or any other person. To the extent that any person acquires a right to receive payments from the Company under the Plan, such right shall be no greater than the right of an unsecured general creditor of the Company. All payments to be made hereunder shall be paid from the general funds of the Company and no special or separate fund shall be established and no segregation of assets shall be made to assure payment of such amounts, except as expressly set forth in the Plan. No property shall be set aside nor shall a trust fund of any kind be established to secure the rights of any Holder under the Plan. The Plan is not intended to be subject to the Employee Retirement Income Security Act of 1974, as amended.

17.2 No Employment Obligation. The granting of any Award shall not constitute an employment or service contract, express or implied, and shall not impose upon the Company or any Affiliate any obligation to employ or continue to employ, or to utilize or continue to utilize the services of, any Holder. The right of the Company or any Affiliate to terminate the employment of, or the provision of services by, any person shall not be diminished or affected by reason of the fact that an Award has been granted to him, and nothing in the Plan or an Award Agreement shall interfere with or limit in any way the right of the Company or its Affiliates to terminate any Holder's employment or service relationship at any time or for any reason not prohibited by law.

17.3 Tax Withholding. The Company or any Affiliate shall be entitled to deduct from other compensation payable to each Holder any sums required by federal, state, local or foreign tax law to be withheld with respect to the vesting or exercise of an Award or lapse of restrictions on an Award. In the alternative, the Company may require the Holder (or other person validly exercising the Award) to pay such sums for taxes directly to the Company or any Affiliate in cash or by check within one day after the date of vesting, exercise or lapse of restrictions. In the discretion of the Committee, and with the consent of the Holder, the Company may reduce the number of shares of Stock issued to the Holder upon such Holder's exercise of an Award or the vesting of an Award to satisfy the tax withholding obligations of the Company or an Affiliate.

The Committee may, in its discretion, permit a Holder to satisfy any tax-withholding obligation arising upon the vesting of or payment under an Award by delivering to the Holder a reduced number of shares of Stock in the manner specified herein. If permitted by the Committee and acceptable to the Holder, at the time of vesting of shares under the Award, the Company shall (a) calculate the amount of the Company's or an Affiliate's tax withholding obligation on the assumption that all such shares of Stock vested under the Award are made available for delivery; (b) reduce the number of such shares of Stock made available for delivery so that the Fair Market Value of the shares of Stock withheld on the vesting date approximates the Company's or an Affiliate's tax withholding obligation; and (c) in lieu of the withheld shares of Stock, remit cash to the United States Treasury and/or other applicable governmental authorities, on behalf of the Holder, in the amount of the tax withholding obligation. The

Company shall withhold only whole shares of Stock to satisfy its tax-withholding obligation. Where the Fair Market Value of the withheld shares of Stock does not equal the amount of the tax withholding obligation, the Company shall withhold shares of Stock with a Fair Market Value slightly less than the amount of the tax withholding obligation and the Holder must satisfy the remaining minimum withholding obligation in some other manner permitted under this Section 17.3. The withheld shares of Stock not made available for delivery by the Company shall be retained as treasury shares or will be cancelled and the Holder's right, title and interest in such shares of Stock shall terminate.

The Company shall have no obligation upon vesting or exercise of any Award or lapse of restrictions on an Award until the Company or an Affiliate has received payment sufficient to cover the tax withholding obligation with respect to that vesting, exercise or lapse of restrictions. Neither the Company nor any Affiliate shall be obligated to advise a Holder of the existence of the tax or the amount which it will be required to withhold.

17.4 Indemnification of the Committee. The Company shall indemnify each past, present and future member of the Committee against, and each member of the Committee shall be entitled without further action on his or her part to indemnity from the Company for, all expenses (including attorney's fees, the amount of judgments and the amount of approved settlements made with a view to the curtailment of costs of litigation, other than amounts paid to the Company itself) reasonably incurred by such member in connection with or arising out of any action, suit or proceeding in which such member may be involved by reason of such member being or having been a member of the Committee, whether or not he or she continues to be a member of the Committee at the time of incurring the expenses, including, without limitation, matters as to which such member shall be finally adjudged in any action, suit or proceeding to have been negligent in the performance of such member's duty as a member of the Committee. However, this indemnity shall not include any expenses incurred by any member of the Committee in respect of matters as to which such member shall be finally adjudged in any action, suit or proceeding to have been guilty of willful misconduct in the performance of his or her duty as a member of the Committee. In addition, no right of indemnification under the Plan shall be available to or enforceable by any member of the Committee unless, within sixty (60) days after institution of any action, suit or proceeding, such member shall have offered the Company, in writing, the opportunity to handle and defend same at its own expense. This right of indemnification shall inure to the benefit of the heirs, executors or administrators of each member of the Committee and shall be in addition to all other rights to which a member of the Committee may be entitled as a matter of law, contract or otherwise.

17.5 Gender and Number. If the context requires, words of one gender when used in the Plan shall include the other and words used in the singular or plural shall include the other.

17.6 Severability. In the event any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

17.7 Headings. Headings of Articles and Sections are included for convenience of reference only and do not constitute part of the Plan and shall not be used in construing the terms and provisions of the Plan.

17.8 Other Compensation Plans. The adoption of the Plan shall not affect any other option, incentive or other compensation or benefit plans in effect for the Company or any Affiliate, nor shall the Plan preclude the Company from establishing any other forms of incentive compensation arrangements for Employees, Directors or Third Party Service Providers.

17.9 Retirement and Welfare Plans. Neither Awards made under the Plan nor shares of Stock or cash paid pursuant to such Awards, may be included as "compensation" for purposes of computing the benefits payable to any person under the Company's or any Affiliate's retirement plans (both qualified and non-qualified) or welfare benefit plans unless such other plan expressly provides that such compensation shall be taken into account in computing a participant's benefit.

17.10 Other Awards. The grant of an Award shall not confer upon the Holder the right to receive any future or other Awards under the Plan, whether or not Awards may be granted to similarly situated Holders, or the right to receive future Awards upon the same terms or conditions as previously granted.

17.11 Successors. All obligations of the Company under the Plan with respect to Awards granted hereunder shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business and/or assets of the Company.

17.12 **Law Limitations/Governmental Approvals.** The granting of Awards and the issuance of shares of Stock under the Plan shall be subject to all applicable laws, rules, and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

17.13 **Delivery of Title.** The Company shall have no obligation to issue or deliver evidence of title for shares of Stock issued under the Plan prior to (a) obtaining any approvals from governmental agencies that the Company determines are necessary or advisable, and (b) completion of any registration or other qualification of the Stock under any applicable national or foreign law or ruling of any governmental body that the Company determines to be necessary or advisable.

17.14 **Inability to Obtain Authority.** The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any shares of Stock hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such shares of Stock as to which such requisite authority shall not have been obtained.

17.15 **Investment Representations.** The Committee may require any person receiving Stock pursuant to an Award under the Plan to represent and warrant in writing that the person is acquiring the shares of Stock for investment and without any present intention to sell or distribute such Stock.

17.16 **Persons Residing Outside of the United States.** Notwithstanding any provision of the Plan to the contrary, in order to comply with the laws in other countries in which the Company or any of its Affiliates operates or has employees, the Committee, in its sole discretion, shall have the power and authority to (a) determine which Affiliates shall be covered by the Plan; (b) determine which persons employed outside the United States are eligible to participate in the Plan; (c) amend or vary the terms and provisions of the Plan and the terms and conditions of any Award granted to persons who reside outside the United States; (d) establish subplans and modify exercise procedures and other terms and procedures to the extent such actions may be necessary or advisable—any subplans and modifications to Plan terms and procedures established under this Section 17.16 by the Committee shall be attached to the Plan document as Appendices; and (e) take any action, before or after an Award is made, that it deems advisable to obtain or comply with any necessary local government regulatory exemptions or approvals. Notwithstanding the above, the Committee may not take any actions hereunder, and no Awards shall be granted, that would violate the Exchange Act, the Code, any securities law or governing statute or any other applicable law.

17.17 **Settlement of Disputes.** Any controversy arising out of or relating to the Plan or an Award Agreement shall be resolved solely and exclusively by the state and federal courts in Houston, Texas.

17.18 **No Fractional Shares.** No fractional shares of Stock shall be issued or delivered pursuant to the Plan or any Award. The Committee shall determine whether cash, additional Awards, or other property shall be issued or paid in lieu of fractional shares of Stock or whether such fractional shares or any rights thereto shall be forfeited or otherwise eliminated.

17.19 **Governing Law.** The provisions of the Plan and the rights of all persons claiming thereunder shall be construed, administered and governed under the laws of the State of Delaware, excluding any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of the Plan to the substantive law of another jurisdiction. Unless otherwise provided in the Award Agreement, recipients of an Award under the Plan are deemed to submit to the sole and exclusive jurisdiction and venue of the federal or state courts of the State of Texas to resolve any and all issues that may arise out of or relate to the Plan or any related Award Agreement.

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, Steven E. Pickett, certify that:

- a. I have reviewed this Quarterly Report on Form 10-Q of RigNet, Inc. (the “Registrant”);
- b. 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;
- c. 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;
- d. 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
- e. 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.

Date: August 6, 2019

By: /s/ STEVEN E. PICKETT
Steven E. Pickett
Chief Executive Officer and President

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, Lee Ahlstrom, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q 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.

Date: August 6, 2019

/s/ LEE AHLSTROM

Lee Ahlstrom
Chief Financial Officer

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 Quarterly Report on Form 10-Q for the period ended June 30, 2019 filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Steven E. Pickett, 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: August 6, 2019

/s/ STEVEN E. PICKETT

Steven E. Pickett
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 Quarterly Report on Form 10-Q for the period ended June 30, 2019 filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Lee Ahlstrom, 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: August 6, 2019

/s/ LEE AHLSTROM

Lee Ahlstrom
Chief Financial Officer