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

FORM 10-K/A

AMENDMENT NO. 1

(Mark One)

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

For the fiscal year ended December 31, 2018

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)**	**76-0677208** **(I.R.S. Employer Identification No.)**
15115 Park Row Blvd, Suite 300 **Houston, Texas** **(Address of principal executive offices)**	**77084-4947** **(Zip Code)**

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

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

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

Indicate by check mark whether the registrant has submitted electronically 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 Act). Yes ☐ No ☒

As of June 30, 2018, which was the last business day of the registrant’s most recently completed second fiscal quarter, the aggregate market value of the registrant’s common stock, $0.001 par value per share (the “Common Stock”) held by non-affiliates of the registrant on such date was approximately $148.2 million. For purposes of this calculation, only executives and directors are deemed to be affiliates of the registrant. At February 28, 2019, there were outstanding 19,464,847 shares of the registrant’s Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant’s definitive Proxy Statement for its 2019 Annual Meeting of Stockholders to be filed with the Commission within 120 days of December 31, 2018 are incorporated herein by reference in Part III of this Annual Report.

EXPLANATORY NOTE

In April 2019, our management identified an operational deficiency related to reporting requirements under our Third Amended and Restated Credit Agreement (Credit Agreement). For periods prior to and including December 31, 2018, the definition of "Consolidated Funded Indebtedness" used in our consolidated leverage ratio calculation included "the maximum amount available to be drawn under issued and outstanding letters of credit (including standby and commercial), bankers' acceptances, bank guarantees, surety bonds and similar instruments" and certain restrictions were in place on the incurrence of such instruments. We identified 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 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 we are permitted to exclude certain incurred surety bonds and other similar instruments from the calculation of Consolidated Funded Indebtedness for the period ended March 31, 2019. In addition, the Consent waived all specified violations for all prior periods.

We continue to work with the financial institutions under our Credit Agreement to ensure that the Credit Agreement does not impede our ordinary-course business operations with respect to surety bonds and other similar instruments.

Assessment of Internal Control Over Financial Reporting

In assessing the severity of this deficiency, management considered several circumstances surrounding the deficiency including (i) the fact that surety bonds do not represent an outstanding obligation of the Company, (ii) the fact that these surety bonds do not impact our consolidated balance sheets or the related consolidated statements of comprehensive loss, cash flows, and equity, (iii) the speed and willingness with which the financial institutions waived previous violations and agreed to exclude such surety bonds from our calculation of Consolidated Funded Indebtedness for March 31, 2019, (iv) the high probability that the financial institutions would have waived this violation had it been identified upon first occurrence, (v) the fact that we have never had a claim against a surety bond, and (vi) the very low probability that the financial institutions would have "called" our outstanding debt, or enforced any other rights or remedy under the Credit Agreement.

We acknowledge that we should have disclosed the technical covenant breach when the breach originally occurred and that this omitted disclosure, regardless of circumstances above, could be deemed material. Therefore, our management, including our Chief Executive Officer and Chief Financial Officer, have concluded that, for periods prior to and including December 31, 2018, we had a material weakness in our disclosure controls and procedures.

The material weakness did not result in any misstatement to our consolidated balance sheets or the related consolidated statements of comprehensive loss, cash flows, and equity for the year ended December 31, 2018, or any period prior to this date.

Remediation Efforts

Since identifying this deficiency, we have enhanced our internal controls related to our debt covenant calculations 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 additional personnel to participate in our disclosure committee meetings.

We also believe we have accurately calculated and reported our required debt covenant calculations for the March 31, 2019 reporting period and are in compliance with required covenant ratios.

This Amendment No. 1 on Form 10-K/A (Amendment) amends RigNet, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2018 (Original Filing). The purpose of this Amendment No.1 is to:

- amend our disclosures related to debt covenant compliance and outstanding performance bonds contained in Footnote 6 – Long-Term Debt, to the Consolidated Financial Statements contained in Part IV, Item 15 of the Original Filing and in Part I, Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations of the Original Filing,
- revise the disclosure on the effectiveness of our disclosure controls and procedures and the disclosure on our internal control over financial reporting in Part II, Item 9A of the Original Filing,
- revise the Report of Independent Registered Public Accounting Firm of Deloitte & Touche LLP regarding the effectiveness of our internal control over financial reporting (Internal Control Report) contained on page F-3 of Part IV, Item 15 of the Original Filing, and

- revise the Report of Independent Registered Public Accounting Firm of Deloitte & Touche LLP contained on page F-2 of Part IV, Item 15 of the Original Filing solely to reflect such revision of the Internal Control Report.

As required by Rule 12b-15 promulgated under the Securities Exchange Act of 1934, as amended, we have included the entire text of the Items amended in this Amendment No. 1. However, there have been no changes to the text of such items other than the changes stated in the immediately preceding listing. Other than as described above and the inclusion with this Amendment No. 1 of new certifications by management, a new consent of Deloitte & Touche LLP, our independent registered public accounting firm, and related amendments to the List of Exhibits contained in Part IV, Item 15 of the Original Filing, this Amendment No. 1 speaks only as of the date of the Original Filing and does not amend, supplement or update any information contained in the Original Filing to give effect to any subsequent events. Accordingly, this Amendment No. 1 should be read in conjunction with the Original Filing and our reports filed with the U.S. Securities and Exchange Commission (SEC) subsequent to the Original Filing. The filing of this Amendment shall not be deemed an admission that the Original Filing, when made, included any untrue statements of material fact or omitted to state a material fact necessary to make a statement misleading.

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PART II

Item 7. *Management's Discussion And Analysis Of Financial Condition And Results Of Operations*

General

The following discussion should be read together with our consolidated financial statements and the related notes included elsewhere in this Annual Report on Form 10-K. This discussion contains forward-looking statements about our business and operations. Our future results may differ materially from those we currently anticipate as a result of the factors we describe under "Risk Factors" and elsewhere in this Annual Report on Form 10-K.

Executive Overview

We deliver advanced software, optimized industry solutions, and communications infrastructure that allow our customers to realize the business benefits of digital transformation. With world-class, ultra-secure solutions spanning global IP connectivity, bandwidth-optimized OTT applications, IoT big data enablement, and industry-leading machine learning analytics, RigNet supports the full evolution of digital enablement, empowering businesses to respond faster to high priority issues, mitigate the risk of operational disruption, and maximize their overall financial performance.

Our Operations

We are a global technology company that provides customized data and communications services. 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.

MCS and Apps & IoT customers 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.

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 Communications was renamed Managed Communications Services (MCS).

- ***Managed Communications Services (MCS).*** Our MCS 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.

Corporate and eliminations primarily represents unallocated executive and support activities, interest expense, income taxes, eliminations, the GX dispute and change in fair value of earn-out/contingent consideration.

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 a 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 February 13, 2019, the Company entered into the first amendment to the third amended and restated credit agreement (Updated Credit Agreement) with four participating financial institutions. The Updated Credit Agreement provides for a $15.0 million term loan facility, a $30.0 million term out facility and an $85.0 million revolving credit facility. The revolving credit facility and term out facility mature on April 6, 2021. The term loan facility matures on December 31, 2020.

In January 2019, we announced the appointment of retired Rear Admiral Jamie Barnett as Senior Vice President of Government Services.

We have committed to upgrade our Gulf of Mexico microwave network. In conjunction with a major U.S. carrier, this upgrade will add 4G LTE services and 5G capabilities to the existing network. Additionally, we purchased an office in Lafayette, Louisiana that will consolidate three separate legacy facilities. The Gulf of Mexico LTE network buildout project and the buildout of the Lafayette, Louisiana office will increase capital expenditures into 2019.

In August 2018, we announced the appointment of Lee M. Ahlstrom as Senior Vice President and Chief Financial Officer.

In July 2018, we paid an earn-out of $8.0 million in connection with the March 2016 acquisition of TECNOR. The $2.1 million change in fair value of the earn-out in the year ended December 31, 2018 is primarily related to the second quarter 2018 negotiations with the sellers of TECNOR on the amount of the earn-out. Additionally, we have agreed to pay the sellers of TECNOR up to $1.0 million in either cash or RigNet stock payable in 2019 for the collection of certain accounts receivable balances. As of December 31, 2018, the fair value for the agreement to collect certain accounts receivable was zero.

On April 18, 2018, we 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, we paid $2.6 million in cash and $4.1 million in stock. 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 we have established over the years. Auto-Comm and SAFCON are based in Louisiana.

On March 23, 2018, we completed the acquisition of Intelie Soluções Em Informática S.A (Intelie), for an estimated aggregate purchase price of $18.1 million. Of this aggregate purchase price, we paid R$10.6 million (BRL) (or approximately $3.2 million) in cash, $7.3 million in stock and expect 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. 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 and normalize real-time data from a myriad of data sources. This technology enables the Intelie LIVE 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.

As of December 31, 2018, we have backlog for our percentage of completion projects, which includes our SI projects and our LTE buildout project, of $45.5 million. Our backlog does not extend past 2020.

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 since 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, averaged $71.19 per barrel through the year ending December 31, 2018 compared to an average of $54.12 for the year ending December 31, 2017. 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 quarter of 2019 Brent crude oil prices have recovered to over $60 a barrel. As a result, drilling contractors appear 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.

As of the dates and for the periods referenced below, we were billing on the following sites listed in the table below:

	December 31,			Average Count		
Selected Operational Data:	**2018**	**2017**	**2016**	**2018**	**2017**	**2016**
MCS Site Count						
Offshore drilling rigs (1)	184	182	175	188	178	203
Offshore Production	347	304	280	327	302	286
Maritime	181	172	122	180	149	116
Other sites (2)	611	513	344	597	470	351
Total	1,323	1,171	921	1,292	1,098	956

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

In addition, uncertainties that could impact our profitability and operating cash flows include service responsiveness to remote locations, communication network complexities, political and economic instability in certain regions, export restrictions, licenses and other trade barriers, 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. These uncertainties may result in the delay of service initiation, which may negatively impact our results of operations.

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.

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 (GX dispute). Phase I of the arbitration, now concluded, concerned only whether our take or pay obligation ever commenced under the agreement. In December 2018, the panel's Phase I ruling found that a take-or-pay obligation under a January 2014 contract had commenced and that we owed Inmarsat $50.8 million, subject to any offsets from our counterclaims in Phase II of the arbitration. The Phase I ruling is an interim ruling, and we are not required to pay any amounts to Inmarsat until the panel rules on Phase II counterclaims. We currently expect a Phase II ruling in the second half of 2019.

We have an accrued liability of $50.8 million, based on the Phase I interim award amount. While we believe we have strong counterclaims, which will be heard in Phase II and could reduce the ultimate liability, the amount of the final award is not estimable at this time. No assurance can be given as to the ultimate outcome of the GX dispute, and the ultimate outcome may differ from the accrued amount. Based on the information available at this time, the potential final loss could be based on the Phase I ruling less any offsets from our counterclaims in Phase II of the arbitration offset by any potential counterclaims by Inmarsat, including interest and fees. As such, the range of the ultimate liability is currently not estimable.

During the year ended December 31, 2018, we accrued $50.6 million of expense, net of approximately $0.2 million of prior accruals, in the Corporate segment. We have incurred legal expenses of $2.2 million and $1.6 million in connection with the GX dispute for the years ended December 31, 2018 and 2017, respectively. We may continue to incur significant legal fees, related expenses and management time in the future.

Critical Accounting Policies

Certain of our accounting policies require judgment by management in selecting the appropriate assumptions for calculating financial estimates. By their nature, these judgments are subject to an inherent degree of uncertainty. These judgments are based on our historical experience, terms of existing contracts, observance of trends in the industry, information provided by our customers, and information available from other outside sources, as appropriate. Future results may differ from these judgments under different assumptions or conditions. Our accounting policies that require management to apply significant judgment include:

Revenue Recognition—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 we expect to be entitled in exchange for those goods or services.

Revenue Recognition—MCS and 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. 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).

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 we expect 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.

We review all material contracts on a monthly basis and revise 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).

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 December 31, 2018 and 2017, the amount of CIEB related to Systems Integration projects was $7.1 million and $2.4 million, respectively. Under long-term contracts, amounts recorded in CIEB may not be realized or paid, respectively, within a one-year period. As of December 31, 2018 and 2017, none and $0.4 million, respectively, of amounts billed to customers in excess of revenue recognized to date are classified as a current liability, under deferred revenue. All of the billings in excess of costs as of December 31, 2017 were recognized as revenue during the year ended December 31, 2018.

Variable Consideration—Systems Integration—We record 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 our Consolidated Balance Sheets as part of CIEB. No material unapproved change orders or claims revenue was included in CIEB as of December 31, 2018 and 2017. As new facts become known, an adjustment to the estimated recovery is made and reflected in the current period.

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

Accounts Receivable

Trade accounts receivable are recognized as customers are billed in accordance with customer contracts. We report an allowance for doubtful accounts for probable credit losses existing in accounts receivable. Management determines the allowance based on a review of currently outstanding receivables and our historical collection experience. Individual receivables and balances which have been outstanding greater than 120 days are reviewed individually. Account balances, when determined to be uncollectible, are charged against the allowance.

Property, Plant and Equipment

Property, plant and equipment consists of (i) telecommunication and computer equipment, (ii) furniture and other office equipment, (iii) leasehold improvements, (iv) building and (v) land. All property, plant and equipment, excluding land, is depreciated and stated at acquisition cost net of accumulated depreciation. Depreciation is provided using the straight-line method over the expected useful lives of the respective assets, which range from one to ten years. We assess the value of property, plant and equipment for impairment when we determine that events and circumstances indicate that the recorded carrying value may not be recoverable. An impairment is determined by comparing estimated future net undiscounted cash flows to the carrying value at the time of the assessment. No impairment to property, plant and equipment was recorded in the years ended December 31, 2018, 2017 or 2016.

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.

Intangibles

Intangibles consist of customer relationships, covenants-not-to-compete, brand name, licenses, developed technology and backlog acquired as part of our acquisitions. Intangibles also include internal-use software. Intangibles have useful lives ranging from 5.0 to 20.0 years and are amortized on a straight-line basis. We assess the value of intangibles for impairment when we determine that events and circumstances indicate that the recorded carrying value may not be recoverable. An impairment is determined by comparing estimated future net undiscounted cash flows to the carrying value at the time of the assessment.

No impairment to intangibles was recorded in the years ended December 31, 2018 or 2017.

In June 2016, we identified a triggering event for a license in Kazakhstan associated with a decline in cash flow projections, which resulted in a $0.4 million impairment of licenses in the Corporate segment, which was the full amount of intangibles within Kazakhstan.

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.

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, as of July 31, with additional evaluations being performed when events or circumstances indicate that the carrying value of these assets may not be recoverable.

The goodwill impairment test is used to identify potential impairment by comparing the fair value of each reporting unit to the book value of the reporting unit, including goodwill. Fair value of the reporting unit is determined using a combination of the reporting unit’s expected present value of future cash flows and a market approach. The present value of future cash flows is estimated using our most recent forecast and our weighted average cost of capital. The market approach uses a market multiple on the reporting unit’s cash generated from operations. Significant estimates for each reporting unit included in our impairment analysis are cash flow forecasts, our weighted average cost of capital, projected income tax rates and market multiples. Changes in these estimates could affect the estimated fair value of our reporting units and result in an impairment of goodwill in a future period. If the fair value of a reporting unit is less than its book value, goodwill of the reporting unit is considered to be impaired. If the book value of the reporting unit’s goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. Any impairment in the value of goodwill is charged to earnings in the period such impairment is determined.

We recorded no goodwill impairments in the years ending December 31, 2018, 2017 or 2016.

MCS had $22.5 million of goodwill as of December 31, 2018, and fair value exceeded carrying value by 34.7% as of the July 31, 2018 annual impairment test. Apps & IoT had $22.8 million of goodwill as of December 31, 2018, 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 December 31, 2018, 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.

While we believe that there appears to be no indication of current or future impairment, historical operating results may not be indicative of future operating results and events and circumstances may occur causing a triggering event in a period as short as three months.

Stock-Based Compensation

We recognize expense for stock-based compensation based on the fair value of options, restricted stock, restricted stock units and performance share units on the grant date of the awards. Fair value of options on the grant date is determined using the Black-Scholes model, which requires judgment in estimating the expected term of the option, risk-free interest rate, expected volatility and dividend yield of the option. Fair value of restricted stock, restricted stock units and performance share units on the grant date is equal to the market price of RigNet's common stock on the date of grant. Our policy is to recognize compensation expense for service-based awards on a straight-line basis over the requisite service period of the entire award. Stock-based compensation expense is based on awards ultimately expected to vest.

Taxes

Current income taxes are determined based on the tax laws and rates in effect in the jurisdictions and countries that we operate in and revenue is earned. Deferred income taxes reflect the tax effect of net operating losses, foreign tax credits and the tax effects of temporary differences between the carrying amount of assets and liabilities for financial statement and income tax purposes, as determined under enacted tax laws and rates. Valuation allowances are established when management determines that it is more likely than not that some portion or the entire deferred tax asset will not be realized. The financial effect of changes in tax laws or rates is accounted for in the period of enactment.

From time to time, we engage in transactions in which the tax consequences may be subject to uncertainty. In the normal course of business, we prepare and file tax returns based on interpretation of tax laws and regulations, which are subject to examination by various taxing authorities. Such examinations may result in future tax and interest assessments by these taxing authorities. We evaluate our tax positions and recognize only tax benefits for financial purposes that, more likely than not, will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits of the position.

We have elected to include income tax related interest and penalties as a component of income tax expense.

On December 22, 2017 the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (The Tax Act), making broad and complex changes to the U.S. tax code.

The SEC staff issued SAB 118, which provides guidance on accounting for the tax effects of the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the accounting under ASC 740. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the Tax Act for which the accounting under ASC 740 is complete. To the extent that a company's accounting for certain income tax effects of the Tax Act is incomplete but it is able to determine a reasonable estimate, it must record a provisional estimate in the financial statements. If a company cannot determine a provisional estimate to be included in the financial statements, it should continue to apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the Tax Act.

We have completed the accounting for the income tax effects of the Tax Act based on current regulations and available information. Any additional guidance issued by the IRS could impact our recorded amounts in future periods.

New Accounting Pronouncements

No standard implemented during 2018 or 2017 had a material effect on our financial position, cash flow or results of operations. See our audited consolidated financial statements and the notes thereto included in this Annual Report on Form 10-K for more details regarding our implementation and assessment of new accounting standards.

Results of Operations

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

	Year Ended December 31, 2018	2017	2016	Percentage Change 2017 to 2018	Percentage Change 2016 to 2017
	(in thousands, except percentages)				
Revenue	$238,854	$204,892	$220,623	16.6%	(7.1)%
Expenses:					
Cost of revenue (excluding depreciation and amortization)	146,603	131,166	129,759	11.8%	1.1%
Depreciation and amortization	33,154	30,845	33,556	7.5%	(8.1)%
Impairment of intangibles	—	—	397	*	(100.0)%
Selling and marketing	12,844	8,347	7,172	53.9%	16.4%
Change in fair value of earn-out/contingent consideration	3,543	(320)	(1,279)	(1,207.2)%	(75.0)%
GX dispute	50,612	—	—	*	*
General and administrative	53,193	44,842	53,469	18.6%	(16.1)%
Total expenses	299,949	214,880	223,074	39.6%	(3.7)%
Operating loss	(61,095)	(9,988)	(2,451)	511.7%	307.5%
Other expense, net	(3,965)	(2,737)	(3,021)	44.9%	(9.4)%
Loss before income taxes	(65,060)	(12,725)	(5,472)	411.3%	132.5%
Income tax (expense) benefit	2,746	(3,472)	(5,825)	(179.1)%	(40.4)%
Net loss	(62,314)	(16,197)	(11,297)	284.7%	43.4%
Less: Net income attributable to non-controlling interests	139	(21)	210	(761.9)%	(110.0)%
Net income (loss) attributable to RigNet, Inc. stockholders	$ (62,453)	$ (16,176)	$ (11,507)	286.1%	40.6%
Other Non-GAAP Data:					
Adjusted EBITDA	$ 34,793	$ 29,669	$ 37,181	17.3%	(20.2)%

The following represents selected financial operating results for our segments:

	Year Ended December 31,			Percentage Change	
	2018	2017	2016	2017 to 2018	2016 to 2017
	(in thousands, except percentages)				
Managed Communication Services:					
Revenue	$171,574	$164,238	$192,538	4.5%	(14.7)%
Cost of revenue (excluding depreciation and amortization)	105,101	101,681	112,046	3.4%	(9.3)%
Depreciation and amortization	22,759	23,202	26,581	(1.9)%	(12.7)%
Selling, general and administrative	16,448	16,841	28,422	(2.3)%	(40.7)%
Managed Communication Services operating income	$ 27,266	$ 22,514	$ 25,489	21.1%	(11.7)%
Applications and Internet-of-Things:					
Revenue	$ 25,713	$ 15,626	$ 6,495	64.6%	140.6%
Cost of revenue (excluding depreciation and amortization)	13,386	10,751	2,703	24.5%	297.7%
Depreciation and amortization	4,570	1,738	—	162.9%	*
Selling, general and administrative	1,961	1,685	268	16.4%	528.7%
Applications and Internet-of-Things operating income	$ 5,796	$ 1,452	$ 3,524	299.2%	(58.8)%
Systems Integration:					
Revenue	$ 41,567	$ 25,028	$ 21,590	66.1%	15.9%
Cost of revenue (excluding depreciation and amortization)	28,116	18,734	15,010	50.1%	24.8%
Depreciation and amortization	2,511	2,438	2,712	3.0%	(10.1)%
Selling, general and administrative	1,698	1,403	2,665	21.0%	(47.4)%
Systems Integration operating income	$ 9,242	$ 2,453	$ 1,203	276.8%	103.9%

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

Years Ended December 31, 2018 and 2017

Revenue. Revenue increased by $34.0 million, or 16.6%, to $238.9 million for the year ended December 31, 2018 from $204.9 million for the year ended December 31, 2017. Revenue increased in all segments. The 2018 acquisitions of Auto-Comm, SAFCON and Intelie contributed revenue of $17.7 million for the year ended December 31, 2018. The Systems Integration segment increased $16.5 million, or 66.1%, primarily due to $13.0 million from the acquisition of Auto-Comm and SAFCON and increased activity against a growing backlog of Systems Integration projects. The Apps & IoT segment increased $10.1 million, or 64.6%, due to our focus on growth of the application layer and IoT space including $2.2 million from the acquisition of Intelie, $1.1 million from the acquisition of Auto-Comm and SAFCON and $4.7 million from owning ESS for the full year ended December 31, 2018 compared to five months in 2017. The MCS segment increased $7.3 million, or 4.5%, due to increased average site count coupled with $1.4 million from the acquisition of Auto-Comm and SAFCON and $2.3 million from owning DTS for the full year ended December 31, 2018 compared to two months in 2017.

Cost of Revenue (excluding depreciation and amortization). Cost of revenue (excluding depreciation and amortization) increased by $15.4 million, or 11.8%, to $146.6 million for the year ended December 31, 2017 from $131.2 million for the year ended December 31, 2018. Cost of revenue (excluding depreciation and amortization) increased in the Systems Integration segment by $9.4 million due to the acquisition of Auto-Comm and SAFCON and increased activity of Systems Integration projects. Cost of revenue (excluding depreciation and amortization) increased in the MCS segment by $3.4 million due to serving an increased site count. Cost of revenue (excluding depreciation and amortization) increased in the Apps & IoT segment by $2.6 million as we invested in our strategy of expanding of the application layer and IoT space including the acquisition of Intelie and ESS.

Depreciation and Amortization. Depreciation and amortization expenses increased by $2.3 million to $33.2 million for the year ended December 31, 2018 from $30.8 million for the year ended December 31, 2017. 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 expenses increased by $4.5 million to $12.8 million for the year ended December 31, 2018 from $8.3 million for the year ended December 31, 2017. This increase was due to investments made towards our growth strategy including increased sales personnel costs, marketing strategy costs and our sales incentive plan (SIP), which increased with revenue.

Change in fair value of earn-out/contingent consideration. The $3.5 million of expense and $0.3 million of gain, in the years ended December 31, 2018 and 2017, respectively, for change in fair value of earn-out/contingent consideration is detailed in Note 8 of the Notes to Consolidated Financial Statements of this Annual Report on Form 10-K.

GX dispute. The net $50.6 million of expense for the GX dispute in the year ended December 31, 2018 is detailed in in Note 9 of the Notes to Consolidated Financial Statements and in Item 3, Legal Proceedings of this Annual Report on Form 10-K.

General and Administrative. General and administrative expenses increased by $8.4 million to $53.2 million for the year ended December 31, 2018 from $44.8 million for the year ended December 31, 2017. The increase in general and administrative expenses included $4.3 million from acquired business, $2.4 million from bad debt expense, along with other increases from personnel costs and legal expenses.

Income Tax Expense. Our effective income tax rate was 4.2% and (27.3)% for the years ended December 31, 2018 and 2017, 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. See Note 13—"Income Taxes," to our consolidated financial statements included in this Annual Report on Form 10-K for more information regarding the items comprising our effective tax rates.

Years Ended December 31, 2017 and 2016

Revenue. Revenue decreased by $15.7 million, or 7.1%, to $204.9 million for the year ended December 31, 2017 from $220.6 million for the year ended December 31, 2016. This decrease was driven by lower MCS revenues, partially offset by an increase in the Apps & IoT and Systems Integration segments. MCS segment revenue decreased $28.3 million, or 14.7%, which was primarily due to decreased revenue-per-site from offshore drilling rigs and decreased average offshore sites served partially offset by $1.9 million from the acquisition of DTS. The decreased revenue-per-site from offshore drilling rigs is primarily due to decreased multi-tenancy ratios from operators on offshore drilling rigs. Decreased multi-tenancy ratios from operators reduces the opportunity to serve the operator and earn additional revenue until drilling rigs are subsequently contracted for service. Although we were encouraged by the recent increase in offshore drilling rig site count from 175 as of December 31, 2016 to 182 as of December 31, 2017, the average site count decreased from 203 for the year ended December 31, 2016 to 178 for the year ended December 31, 2017. The decrease of 25 average offshore drilling sites served during the year was primarily due to offshore drilling rigs we previously served being cold-stacked or scrapped, partially offset by new sales wins. Revenue continues to be impacted by previously announced reductions in offshore drilling. Apps & IoT segment revenue increased $9.1 million, or 140.6%, due to our growth strategy which focuses on growth into the application layer and IoT space including the acquisition of ESS, which contributed $3.2 million. Systems Integration segment revenue increased $3.4 million, or 15.9%, due to increased activity of Systems Integration projects.

Cost of Revenue (excluding depreciation and amortization). Cost of revenue (excluding depreciation and amortization) increased by $1.4 million, or 1.1%, to $131.2 million for the year ended December 31, 2017 from $129.8 million for the year ended December 31, 2016. Cost of revenue (excluding depreciation and amortization) decreased in the MCS segment by $10.4 million primarily due to reductions in ongoing expenses partially offset by the acquisition of DTS. Cost of revenue increased in the Systems Integration segment by $3.7 million due to increased activity of Systems Integration projects. Cost of revenue increased in the Apps & IoT segment by $8.0 million as we invested in our strategy of expanding into the application layer and internet-of-things space including the acquisition of ESS and Cyphre.

Depreciation and Amortization. Depreciation and amortization expenses decreased by $2.7 million to $30.8 million for the year ended December 31, 2017 from $33.6 million for the year ended December 31, 2016. The decrease was primarily attributable to lower levels of capital expenditures in recent years, partially offset by additions to property, plant and equipment and intangibles from acquisitions.

Selling and Marketing. Selling and marketing expenses increased by $1.2 million to $8.3 million for the year ended December 31, 2017 from $7.2 million for the year ended December 31, 2016. This increase was due to investing in our growth strategy including more sales and marketing personnel costs.

Change in fair value of earn-out/contingent consideration. The $0.3 million and $1.3 million of gain, in the years ended December 31, 2017 and 2016, respectively, for change in fair value of earn-out/contingent consideration is detailed in Note 8 of the Notes to Consolidated Financial Statements of this Annual Report on Form 10-K.

General and Administrative. General and administrative expenses decreased by $8.6 million to $44.8 million for the year ended December 31, 2017 from $53.5 million for the year ended December 31, 2016. General and administrative costs decreased in the MCS and Systems Integration segments due to reductions in ongoing expenses partially offset by the acquisition of DTS. General and administrative costs increased in the Apps & IoT segment due to the acquisition of Cyphre and ESS.

Income Tax Expense. Our effective income tax rate was (27.3)% and (106.5)% for the years ended December 31, 2017 and 2016, respectively. Our effective tax rates are affected by factors including changes in the valuation allowance related to operating in loss jurisdictions for which a benefit cannot be claimed, fluctuations in income across international jurisdictions with varying tax rates, and changes in income tax reserves. See Note 13 — "Income Taxes," to our consolidated financial statements included in this Annual Report on Form 10-K for more information regarding the items comprising our effective tax rates.

Liquidity and Capital Resources

At December 31, 2018, we had working capital, including cash, of $2.2 million.

Over the past three years, annual capital expenditures have ranged from $13.6 million to $30.1 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 selective mergers, acquisitions, joint ventures or otherwise, or to pay down outstanding debt.

After settlement of intercompany payables and notes at December 31, 2018, there is no available cash in foreign subsidiaries available for repatriation to our domestic parent. No deferred tax liability has been recognized as of December 31, 2018 for those earnings that are not considered permanently reinvested.

During the next twelve months, we expect our principal sources of liquidity to be cash flows from operating activities, cash and cash equivalents, availability under our credit agreement and additional financing activities we may pursue, which may include debt or equity offerings. In forecasting our cash flows we have considered factors including contracted and expected services for customers, and contracted and available satellite bandwidth.

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

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.

	Year Ended December 31,		
	2018	2017	2016
		(in thousands)	
Consolidated Statements of Cash Flows Data:			
Cash and cash equivalents, January 1,	$ 36,141	$ 58,805	$ 61,011
Net cash provided by operating activities	7,673	29,228	39,174
Net cash used in investing activities	(34,198)	(49,990)	(18,288)
Net cash provided by (used) in financing activities	11,855	(2,847)	(15,352)
Changes in foreign currency translation	1,825	945	(7,740)
Cash and cash equivalents, December 31,	$ 23,296	$ 36,141	$ 58,805

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 risks on a regular basis and may utilize financial instruments in place in the future if deemed necessary. During the years ended December 31, 2018, 2017 and 2016, 91.6%, 90.7% and 85.4% of our revenue was denominated in U.S. dollars, respectively.

Operating Activities

Net cash provided by operating activities was $7.7 million for the year ended December 31, 2018 compared to $29.2 million for the year ended December 31, 2017. The decrease in cash provided by operating activities during 2018 of $21.6 million was primarily due to the timing of collecting receivables coupled with increased operating loss partially offset by the timing of the payment of accounts payable.

Net cash provided by operating activities was $29.2 million for the year ended December 31, 2017 compared to $39.2 million for the year ended December 31, 2016. The decrease in cash provided by operating activities during 2017 of $9.9 million was primarily due to decreased operating activity partially offset by the timing of the payment of accounts payable.

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

Investing Activities

Net cash used in investing activities was $34.2 million, $50.0 million and $18.3 million in the years ended December 31, 2018, 2017 and 2016, respectively. Of these amounts $30.1 million, $18.3 million, and $13.6 million, respectively, were for capital expenditures, an increase of $11.8 million and $4.6 million for the years ended December 31, 2018 and 2017, respectively, compared to each of the respective prior periods. We expect our 2019 capital expenditures to be focused on success-based growth, the buildout of our LTE network in the Gulf of Mexico and the buildout of our Lafayette, Louisiana office, which will consolidate multiple Louisiana facilities into one facility.

Net cash used in investing activities during the year ended December 31, 2018 included $5.2 million paid net of cash acquired in connection with acquisitions consisting of $1.8 million for Auto-Comm and SAFCON net of cash acquired and $3.2 million for Intelie. Net cash used in investing activities during the year ended December 31, 2017 included $32.2 million paid in connection with acquisitions consisting of $4.9 million for Cyphre, $5.1 million for DTS and $22.2 million for ESS.

Financing Activities

Net cash provided by financing activities was $11.9 million in the year ended December 31, 2018. Net cash used in financing activities was $2.8 million and $15.4 million in the years ended December 31, 2017 and 2016 respectively.

Net cash provided by financing activities for the year ended December 31, 2018 included draws of $23.8 million on our revolving credit facility partially offset by $5.1 million in principal payments on our long-term debt. Additionally, we paid the $8.0 million TECNOR earnout in July 2018, of which $6.4 million is recorded as cash used in financing activities and $1.6 million is recorded as cash used in operating activities. The Company received proceeds from the issuance of common stock upon the exercise of stock options of $1.0 million offset by $1.2 million for stock withheld to cover employee taxes on stock-based compensation.

Cash used in financing activities for the year ended December 31, 2017 included $18.2 million in principal payments on our long-term debt partially offset by draws of $15.0 million on our revolving credit facility. This was partially offset by $0.8 million in proceeds from the issuance of common stock upon the exercise of stock options.

Cash used in financing activities for the year ended December 31, 2016 includes $16.6 million in principal payments on our long-term debt consisting of $8.6 million of principal payments on the Term Loan and $8.0 million on the revolving credit facility. This was partially offset by $1.7 million in proceeds from the issuance of common stock upon the exercise of stock options.

Credit Agreement

We have a $15.0 million term loan facility (Term Loan) and an $85.0 million revolving credit facility (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.

Both the Term Loan and RCF bears an interest rate of LIBOR plus a margin ranging from 1.75% to 2.75%, based on a consolidated leverage ratio defined in the credit agreement. Interest is payable monthly and principal installments of $1.25 million under the Term Loan are due quarterly, with the balance due November 6, 2020.

The weighted average interest rate for the years ended December 31, 2018 and 2017 was 4.8% and 3.3%, respectively, with an interest rate of 5.3% at December 31, 2018. As of December 31, 2018, the outstanding principal amount of the Term Loan was $10.0 million, excluding the impact of unamortized deferred financing costs. As of December 31, 2018, $67.2 million in draws on the RCF remain outstanding.

The credit agreement contains certain covenants and restrictions, including restricting the payment of cash dividends when under default and maintaining certain financial covenants such as a consolidated leverage ratio, defined in the credit agreement, of less than or equal to 2.75 to 1.00 and a consolidated fixed charge coverage ratio of not less than 1.25 to 1.00. 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 March 31, 2019. In addition, the Consent waived all specified violations for all prior periods.

We continue to work with the financial institutions under our Credit Agreement to ensure that the Credit Agreement does not impede our ordinary-course business operations with respect to surety bonds and other similar instruments.

Updated Credit Agreement

On February 13, 2019, we entered into the first amendment to the third amended and restated credit agreement (Updated Credit Agreement) with four participating financial institutions. We refinanced $30.0 million of outstanding draws under the existing $85.0 million RCF with a new $30.0 million term out facility. The Updated Credit Agreement requires a $45.0 million reserve (Specified Reserve) under the RCF that will be released and made available for borrowing for payment of monetary damages from the GX dispute. The Updated Credit Agreement provides for a $15.0 million term loan facility, a $30.0 million term out facility and an $85.0 million revolving credit facility. The revolving credit facility and term out facility mature on April 6, 2021. The term loan facility matures on December 31, 2020.

As of March 1, 2019, and after giving effect to the First Amendment, the outstanding principal amount of the Term Loan was $10.0 million, the outstanding principal amount of the Term Out Loan was $30.0 million, and the outstanding draws on the RCF were $37.2 million with available amounts under the RCF subject to the Specified Reserve.

Under the Updated Credit Agreement, the term loan facility, the term out facility and the revolving credit facility 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 Updated Credit Agreement. Interest is payable monthly and principal installments of $1.25 million under the term loan facility are due quarterly. Principal installments of $1.5 million are due quarterly under the term out facility beginning June 30, 2019. The revolving credit facility contains a sub-limit of up to $25.0 million for commercial and stand-by letters of credit issued by parties under the credit agreement.

Our Updated 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 as of December 31, 2018. Additionally, the Updated Credit Agreement requires a consolidated leverage ratio, as defined in the Updated Credit Agreement, of less than or equal to 2.75 to 1.00 as of December 31, 2018. The consolidated leverage ratio increases to 3.25 to 1.00 for four quarters starting in the quarter that we make a final irrevocable payment of all monetary damages from the GX dispute. 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 Updated Credit Agreement are secured by substantially all our assets.

Off-Balance Sheet Arrangements

We have not engaged in any off-balance sheet arrangements.

Contractual Obligations and Commercial Commitments

At December 31, 2018, we had contractual obligations and commercial commitments as follows:

	Total	2019	2020—2021	2022—2023	2024 and Beyond
			(in thousands)		
Contractual Obligations:					
Debt obligations					
Term loan	$ 9,685	$ 4,831	$ 4,854	$ —	$ —
Revolving loan	67,150	—	67,150	—	—
Capital leases	192	111	81	—	—
Interest (1)	7,729	3,930	3,799	—	—
Operating leases	6,112	1,822	1,895	1,351	1,044
Cyphre contingent consideration	4,110	325	650	3,135	—
Intelie contingent consideration (payable in stock)	9,500	3,000	6,500		—
Commercial Commitments:					
Satellite and network services	11,718	10,600	1,118	—	—
	$116,196	$24,619	$86,047	$4,486	$ 1,044

(1) Computed on the expected outstanding principal balance through the term of the Credit Agreement, at the interest rate in effect at December 31, 2018.

As of December 31, 2018, we have accrued the GX dispute ($50.8 million). This is subject to change in Phase II of the arbitration; therefore, such amounts are not included in the above contractual obligations table. As of December 31, 2018, our other noncurrent liabilities in the Consolidated Balance Sheet consist primarily of the, deferred tax liabilities ($0.7 million), gross unrecognized tax benefits ($16.1 million) and the related gross interest and penalties. At this time, we are unable to make a reasonably reliable estimate of the timing of payments in individual years in connection with these liabilities; therefore, such amounts are not included in the above contractual obligations table.

On September 14, 2012, NesscoInvsat Limited, a subsidiary of RigNet, secured a performance bond facility. On November 6, 2017, this facility became a part of the third amended and restated credit agreement and falls under the $25.0 million sub-limit of the RCF for commercial and standby letters of credit and performance bonds issued by the parties under the Credit Agreement.

As of December 31, 2018, there were no outstanding standby letters of credit and there were $30.5 million of performance bonds outstanding of which $1.7 million is issued by the parties under the Credit Agreement. We have a performance bond facility with a lender in the amount of $1.5 million for our MCS segment. This facility has a maturity date of June 2021. We maintain restricted cash on a dollar for dollar basis to secure this facility.

Non-GAAP Measures

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

	Year Ended December 31,		
	2018	**2017**	**2016**
		(in thousands)	
Net loss	$(62,314)	$(16,197)	$(11,297)
Interest expense	3,969	2,870	2,708
Depreciation and amortization	33,154	30,845	33,556
Impairment of intangibles	—	—	397
(Gain) loss on sales of property, plant and equipment, net of retirements	331	55	(153)
Stock-based compensation	4,712	3,703	3,389
Restructuring	842	767	1,911
Change in fair value of earn-out/contingent consideration	3,543	(320)	(1,279)
Executive departure costs	406	1,192	1,884
Acquisition costs	2,284	3,282	240
GX dispute	50,612	—	—
Income tax expense (benefit)	(2,746)	3,472	5,825
Adjusted EBITDA (non-GAAP measure)	$ 34,793	$ 29,669	$ 37,181

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.

During the year ended December 31, 2018, Adjusted EBITDA increased by $5.1 million from $29.7 million in 2017 to $34.8 million in 2017.

During the year ended December 31, 2017, Adjusted EBITDA decreased by $7.5 million from $37.2 million in 2016 to $29.7 million in 2017.

Item 8. ***Financial Statements and Supplementary Data***

Our consolidated financial statements, together with the related notes and report of independent registered public accounting firm, are set forth on the pages indicated in Item 15.

Item 9A. ***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 December 31, 2018. 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 their evaluation of our disclosure controls and procedures as of the end of the period covered by this Annual Report, our Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were not effective as of December 31, 2018, due to a material weakness in internal control over financial reporting as discussed below.

Changes in Internal Control over Financial Reporting

Except for the 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 December 31, 2018 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, but excluded certain acquiree processes related to operations from Auto-Comm and SAFCON acquired by the company on April 18, 2018, and Intelie acquired by the Company on March 23, 2018.

Limitations of the Effectiveness of Internal Control

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the internal control system are met. Because of the inherent limitations of any internal control system, internal control over financial reporting may not detect or prevent misstatements. Projections of any evaluation of the effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies and procedures may deteriorate.

Management's Annual Report on Internal Control over Financial Reporting (as revised)

The management report called for by Item 308(a) of Regulation S-K is provided below.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING (as revised)

The management of RigNet, Inc. and its subsidiaries (the Company) is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control system was designed to provide reasonable assurance to management and the Board of Directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

All internal control systems, no matter how well designed, have inherent limitations. Even those systems determined to be effective can provide only reasonable assurance with respect to financial statement presentation and preparation. Further, because of changes in conditions, the effectiveness of internal control may vary over time.

As of December 31, 2018, our management assessed the effectiveness of our internal control over financial reporting based on the criteria for effective internal control over financial reporting established in *Internal Control – Integrated Framework (2013)*, issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Management included in its assessment of internal control over financial reporting all consolidated entities, but excluded certain acquiree processes related to operations from Intelie, Auto-Comm and SAFCON acquired by the Company on March 23, 2018, and April 18, 2018, respectively. Intelie, Auto-Comm and SAFCON represents 43% and 11% of net and total assets, respectively, 7% of revenues and 3% of net loss of the consolidated financial statement amounts as of and for the year ended December 31, 2018. Management determined that the internal controls of Intelie, Auto-Comm and SAFCON would be excluded from the internal control assessment as of December 31, 2018, due to the timing of the closing of the acquisitions in March 2018 and April 2018 and as permitted by the rules and regulations of the Securities and Exchange Commission.

Deloitte & Touche LLP, the independent registered public accounting firm that audited our consolidated financial statements included in this Annual Report on Form 10-K, has issued an attestation report on the effectiveness of internal control over financial reporting as of December 31, 2018 which is included in Item 8. Financial Statements and Supplementary Data.

Description of Material Weakness

In evaluating the effectiveness of our disclosure controls and procedures, management identified an operational deficiency related to reporting requirements under our Third Amended and Restated Credit Agreement (Credit Agreement). For periods prior to and including December 31, 2018, the definition of "Consolidated Funded Indebtedness" used in our consolidated leverage ratio calculation included "the maximum amount available to be drawn under issued and outstanding letters of credit (including standby and commercial), bankers' acceptances, bank guarantees, surety bonds and similar instruments" and certain restrictions were in place on the incurrance of such instruments. In April 2019, we identified 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 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 we are permitted to exclude certain incurred surety bonds and other similar instruments from the calculation of Consolidated Funded Indebtedness for the period ended March 31, 2019. In addition, the Consent waived all specified violations for all prior periods.

We continue to work with the financial institutions under our credit agreement to ensure that the credit agreement does not impede our ordinary-course business operations with respect to surety bonds and other similar instruments.

We have concluded that we did not properly design and operate adequate internal control over monitoring compliance with financial covenants stipulated by our Third-Amended and Restated Credit Agreement. As a result, the technical violation in our leverage ratio calculation could have resulted in the outstanding amounts under our credit agreement being accelerated under the terms of the arrangement.Therefore, our management, including our Chief Executive Officer and Chief Financial Officer, have concluded that, for periods prior to and including December 31, 2018, we had a material weakness in our internal controls over financial reporting.

The material weakness did not result in any misstatement to our consolidated balance sheets or the related consolidated statements of comprehensive loss, cash flows, and equity for the year ended December 31, 2018, or any period prior to this date.

REMEDIATION EFFORTS TO ADDRESS THE MATERIAL WEAKNESS

Since identifying this deficiency, we have begun to consider the scope of our remediation efforts, including the enhancement of our internal controls related to our debt covenant calculations 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 additional personnel to participate in our disclosure committee meetings.

PART IV

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

(A) Consolidated Financial Statements

1. Consolidated Financial Statements. The consolidated financial statements listed in the accompanying "Index to Consolidated Financial Information" are filed as part of this Annual Report.
2. Consolidated Financial Statement Schedules. All schedules have been omitted because the information required to be presented in them is not applicable or is shown in the financial statements or related notes.

(B) Exhibits

The exhibits listed below are filed as part of this Annual Report for Form 10-K.

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 (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)
4.1	Specimen certificate evidencing common stock (filed as Exhibit 4.1 to the Registrant's Registration Statement on Form S-1 [File No. 333-169723], as amended, and incorporated herein by reference)
10.1+	2006 Long-Term Incentive Plan (filed as Exhibit 10.1 to the Registrant's Registration Statement on Form S-1 [File No. 333-169723], as amended, and incorporated herein by reference)
10.2+	2010 Omnibus Incentive Plan (filed as Exhibit 10.2 to the Registrant's Registration Statement on Form S-1 [File No. 333-169723], as amended, and incorporated herein by reference)
10.3+	Amendment to the 2010 Omnibus Incentive Plan (filed as Exhibit 99.2 to the Registrant's Registration Statement on Form S-8 [File No. 333-211471] and incorporated herein by reference)
10.4+	Form of Option Award Agreement under the 2006 Plan (filed as Exhibit 10.3 to the Registrant's Registration Statement on Form S-1 [File No. 333-169723], as amended, and incorporated herein by reference)
10.5+	Form of Incentive Stock Option Award Agreement under the 2010 Plan (filed as Exhibit 10.4 to the Registrant's Registration Statement on Form S-1 [File No. 333-169723], as amended, and incorporated herein by reference)
10.6+	Form of Nonqualified Stock Option Award Agreement under the 2010 Plan (filed as Exhibit 10.5 to the Registrant's Registration Statement on Form S-1 [File No. 333-169723], as amended, and incorporated herein by reference)
10.7+	Form of Restricted Stock Unit Award Agreement under the 2010 Omnibus Incentive Plan (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on May 27, 2016, and incorporated herein by reference)
10.8+	Form of Performance Unit Award Agreement under the 2010 Omnibus Incentive Plan (filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed with the SEC on May 27, 2016, and incorporated herein by reference)
10.9+	Form of Incentive Stock Option Award Agreement under the 2010 Omnibus Incentive Plan (filed as Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed with the SEC on May 27, 2016, and incorporated herein by reference)
10.10+	Form of Nonqualified Stock Option Award Agreement under the 2010 Omnibus Incentive Plan (filed as Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed with the SEC on May 27, 2016, and incorporated herein by reference)
10.11+	Form of Restricted Stock Award Agreement under the 2010 Omnibus Incentive Plan (filed as Exhibit 10.5 to the Registrant's Current Report on Form 8-K filed with the SEC on May 27, 2016, and incorporated herein by reference)
10.12+	Form of 2017 Performance Unit Award Agreement under the RigNet, Inc. 2010 Omnibus Incentive Plan, as amended (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on March 21, 2017, and incorporated herein)
10.13+	Form of Indemnification Agreement entered into with each director and executive officer (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on December 13, 2017, and incorporated herein by reference)
10.14+	Employment Agreement between the Registrant and Steven E. Pickett dated May 31, 2016 (filed as Exhibit 10.9 to the Registrant's Quarterly Report on Form 10-Q for the period ended June 30, 2016, and incorporated herein by reference)
10.15	Third Amended and Restated Credit Agreement dated as of November 6, 2017 among RigNet, Inc. as Borrower, the Subsidiaries of RigNet party hereto as Guarantors, Bank of America, N.A. as Administrative Agent, Swingline Lender and L/C Issuer, BBVA Compass, as Syndication Agent, the Lenders party hereto and Merrill Lynch, Pierce, Fenner & Smith Incorporated as Sole Lead Arranger and Sole Bookrunner. (filed as Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on November 6, 2017, and incorporated herein by reference)

10.16+	Omnibus Amendment to Incentive Plan Award Agreements (filed as Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed with the SEC on May 3, 2018, and incorporated herein by reference)
10.17+	Form of Restricted Stock Unit Award Agreement (filed as exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on August 6, 2018, and incorporated herein by reference)
10.18+	Form of Incentive Stock Option Award Agreement (filed as exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on August 6, 2018, and incorporated herein by reference)
10.19	Registration Rights Agreement among Digital Oilfield Investments LP and RigNet, Inc. dated as of August 14, 2018 (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on August 20, 2018, and incorporated herein by reference)
10.20	First Amendment to the Third Amended and Restated Credit Agreement dated as of February 13, 2019 among RigNet, Inc. as Borrower, the Subsidiaries of RigNet party hereto as Guarantors, Bank of America, N.A. as Administrative Agent, Swingline Lender and L/C Issuer, BBVA Compass, as Syndication Agent, the Lenders party hereto and Merrill Lynch, Pierce, Fenner & Smith Incorporated as Sole Lead Arranger and Sole Bookrunner. (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on February 13, 2019, and incorporated herein by reference).
21.1	Subsidiaries of the Registrant (filed as exhibit 21.1 to the Registrant's Annual Report on Form 10-K filed with the SEC on March 15, 2019, and incorporated herein by reference)
23.1	Consent of Deloitte & Touche LLP, independent registered public accounting firm
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
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.

Item 16. *Form 10-K Summary*

None.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

RIGNET, INC.

By: /s/ STEVEN E. PICKETT May 9, 2019
Steven E. Pickett
Chief Executive Officer and President

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

Name	Title	Date
/s/ STEVEN E. PICKETT Steven E. Pickett	Chief Executive Officer and President (Principal Executive Officer)	May 9, 2019
/s/ LEE M. AHLSTROM Lee M. Ahlstrom	Senior Vice President and Chief Financial Officer (Principal Financial Officer)	May 9, 2019
/s/ BENJAMIN A. CARTER Benjamin A. Carter	Director of Accounting and Reporting (Principal Accounting Officer)	May 9, 2019
/s/ JAMES H. BROWNING James H. Browning	Chairman of the Board	May 9, 2019
/s/ MATTIA CAPRIOLI Mattia Caprioli	Director	May 9, 2019
/s/ DITLEF DE VIBE Ditlef de Vibe	Director	May 9, 2019
/s/ KEVIN MULLOY Kevin Mulloy	Director	May 9, 2019
/s/ KEVIN J. O'HARA Kevin J. O'Hara	Director	May 9, 2019
/s/ KEITH OLSEN Keith Olsen	Director	May 9, 2019
/s/ GAIL SMITH Gail Smith	Director	May 9, 2019
/s/ BRENT K. WHITTINGTON Brent K. Whittington	Director	May 9, 2019

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of RigNet, Inc.

Opinion on the Financial Statements:

We have audited the accompanying consolidated balance sheets of RigNet, Inc. and subsidiaries (the "Company") as of December 31, 2018 and 2017, the related consolidated statements of comprehensive loss, cash flows, and equity for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 15, 2019, (May 9, 2019, as to the effects of the material weakness described in Management's Report on Internal Control over Financial Reporting (as revised)), which report expressed an adverse opinion on the Company's internal control over financial reporting because of a material weakness.

Basis for opinion:

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Houston, Texas
March 15, 2019 (May 9, 2019 as to the effects of the matter described in Note 6 to the consolidated financial statements).

We have served as the Company's auditor since 2007.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of RigNet, Inc.

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of RigNet, Inc. and subsidiaries (the "Company") as of December 31, 2018, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, because of the effect of the material weakness identified below on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control — Integrated Framework (2013) issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2018, of the Company and our report dated March 15, 2019 (May 9, 2019, as to the matter described in Note 6 to the consolidated financial statements), expressed an unqualified opinion on those financial statements.

As described in Management's Report on Internal Control over Financial Reporting (as revised), management excluded from its assessment the internal control over financial reporting at Intelie Soluções Em Informática S.A ("Intelie") and Automation Communications Engineering Corp. and Safety Controls, Inc. (collectively known as "AutoComm/SAFCON"), which was acquired on March 23, 2018 and April 18, 2018, respectively, and whose financial statements constitute 40% and 10% of net and total assets, respectively, 7% of revenues, and 3% of net loss of the consolidated financial statement amounts of the Company as of and for the year ended December 31, 2018. Accordingly, our audit did not include the internal control over financial reporting at Intelie or AutoComm/SAFCON.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting (as revised). Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Material Weakness

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management's assessment:

The Company did not properly design and operate adequate internal control over monitoring compliance with financial covenants stipulated by the Company's Third Amended and Restated Credit Agreement.

This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the consolidated financial statements as of and for the year ended December 31, 2018, of the Company, and this report does not affect our report on such financial statements.

Houston, Texas
March 15, 2019 (May 9, 2019 as to the effects of the material weakness described in Management's Report on Internal Control over Financial Reporting (as revised)).

RIGNET, INC.
CONSOLIDATED BALANCE SHEETS

	December 31, 2018	December 31, 2017
	(in thousands, except share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 21,711	$ 34,598
Restricted cash	41	43
Accounts receivable, net	67,450	49,021
Costs and estimated earnings in excess of billings on uncompleted contracts (CIEB)	7,138	2,393
Prepaid expenses and other current assets	6,767	5,591
Total current assets	**103,107**	**91,646**
Property, plant and equipment, net	63,585	60,344
Restricted cash	1,544	1,500
Goodwill	46,631	37,088
Intangibles, net	33,733	30,405
Deferred tax and other assets	10,325	9,111
TOTAL ASSETS	**$ 258,925**	**$ 230,094**
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 20,568	$ 12,234
Accrued expenses	16,374	16,089
Current maturities of long-term debt	4,942	4,941
Income taxes payable	2,431	1,601
GX dispute accrual	50,765	—
Deferred revenue and other current liabilities	5,863	8,511
Total current liabilities	**100,943**	**43,376**
Long-term debt	72,085	53,173
Deferred revenue	318	546
Deferred tax liability	652	189
Other liabilities	28,943	25,533
Total liabilities	**202,941**	**122,817**
Commitments and contingencies (Note 9)		
Equity:		
Stockholders' equity		
Preferred stock—$0.001 par value; 10,000,000 shares authorized; no shares issued or outstanding at December 31, 2018 and 2017	—	—
Common stock—$0.001 par value; 190,000,000 shares authorized; 19,464,847 and 18,232,872 shares issued and outstanding at December 31, 2018 and 2017, respectively	19	18
Treasury stock—91,567 and 5,516 shares at December 31, 2018 and 2017, respectively, at cost	(1,270)	(116)
Additional paid-in capital	172,946	155,829
Accumulated deficit	(96,517)	(33,726)
Accumulated other comprehensive loss	(19,254)	(14,806)
Total stockholders' equity	**55,924**	**107,199**
Non-redeemable, non-controlling interest	60	78
Total equity	**55,984**	**107,277**
TOTAL LIABILITIES AND EQUITY	**$ 258,925**	**$ 230,094**

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

RIGNET, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	Year Ended December 31,		
	2018	2017	2016
	(in thousands, except per share amounts)		
Revenue	**$238,854**	**$204,892**	**$220,623**
Expenses:			
Cost of revenue (excluding depreciation and amortization)	146,603	131,166	129,759
Depreciation and amortization	33,154	30,845	33,556
Impairment of intangibles	—	—	397
Selling and marketing	12,844	8,347	7,172
Change in fair value of earn-out/contingent consideration	3,543	(320)	(1,279)
GX dispute	50,612	—	—
General and administrative	53,193	44,842	53,469
Total expenses	**299,949**	**214,880**	**223,074**
Operating loss	**(61,095)**	**(9,988)**	**(2,451)**
Other income (expense):			
Interest expense	(3,969)	(2,870)	(2,708)
Other income (expense), net	4	133	(313)
Loss before income taxes	(65,060)	(12,725)	(5,472)
Income tax (expense) benefit	2,746	(3,472)	(5,825)
Net loss	**(62,314)**	**(16,197)**	**(11,297)**
Less: Net loss (income) attributable to:			
Non-redeemable, non-controlling interest	139	(21)	210
Net Loss attributable to RigNet, Inc. stockholders	**$ (62,453)**	**$ (16,176)**	**$ (11,507)**
COMPREHENSIVE LOSS			
Net loss	$ (62,314)	$ (16,197)	$ (11,297)
Foreign currency translation	(4,448)	3,165	(4,135)
Comprehensive loss	**(66,762)**	**(13,032)**	**(15,432)**
Less: Comprehensive income (loss) attributable to non-controlling interest	139	(21)	210
Comprehensive loss attributable to RigNet, Inc. stockholders	**$ (66,901)**	**$ (13,011)**	**$ (15,642)**
LOSS PER SHARE—BASIC AND DILUTED			
Net loss attributable to RigNet, Inc. common stockholders	$ (62,453)	$ (16,176)	$ (11,507)
Net loss per share attributable to RigNet, Inc. common stockholders, basic	$ (3.34)	$ (0.90)	$ (0.65)
Net loss per share attributable to RigNet, Inc. common stockholders, diluted	$ (3.34)	$ (0.90)	$ (0.65)
Weighted average shares outstanding, basic	18,713	18,009	17,768
Weighted average shares outstanding, diluted	18,713	18,009	17,768

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

RIGNET, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2018	2017	2016
	(in thousands)		
Cash flows from operating activities:			
Net loss	$ (62,314)	$ (16,197)	$ (11,297)
Adjustments to reconcile net loss to net cash provided by operations:			
Depreciation and amortization	33,154	30,845	33,556
Impairment of intangibles	—	—	397
Stock-based compensation	4,712	3,703	3,389
Amortization of deferred financing costs	184	217	135
Deferred taxes	(5,263)	3,917	(1,830)
Change in fair value of earn-out/contingent consideration	3,543	(320)	(1,279)
Accretion of discount of contingent consideration payable for acquisitions	450	624	498
(Gain) loss on sales of property, plant and equipment, net of retirements	331	55	(153)
Changes in operating assets and liabilities, net of effect of acquisitions:			
Accounts receivable	(15,254)	203	18,347
Costs and estimated earnings in excess of billings on uncompleted contracts	(4,103)	122	4,378
Prepaid expenses and other assets	(1,026)	4,659	392
Accounts payable	7,527	2,733	129
Accrued expenses	279	3,601	(8,579)
GX dispute	50,612	—	—
Deferred revenue and other assets	1,565	4,933	(1,150)
Other liabilities	(5,149)	(9,867)	2,241
Payout of TECNOR contingent consideration—inception to date change in fair value portion	(1,575)	—	—
Net cash provided by operating activities	**7,673**	**29,228**	**39,174**
Cash flows from investing activities:			
Acquisitions (net of cash acquired)	(5,208)	(32,205)	(4,841)
Capital expenditures	(30,072)	(18,284)	(13,641)
Proceeds from sales of property, plant and equipment	1,082	499	194
Net cash used in investing activities	**(34,198)**	**(49,990)**	**(18,288)**
Cash flows from financing activities:			
Proceeds from issuance of common stock upon the exercise of stock options	970	916	1,680
Stock withheld to cover employee taxes on stock-based compensation	(1,154)	(116)	—
Subsidiary distributions to non-controlling interest	(157)	(76)	(197)
Payout of TECNOR contingent consideration—fair value on acquisition date portion	(6,425)	—	—
Proceeds from borrowings	23,750	15,000	—
Repayments of long-term debt	(5,129)	(18,171)	(16,560)
Payments of financing fees	—	(400)	(100)
Excess tax benefits from stock-based compensation	—	—	(175)
Net cash provided by (used) in financing activities	**11,855**	**(2,847)**	**(15,352)**
Net change in cash and cash equivalents	**(14,670)**	**(23,609)**	**5,534**
Cash and cash equivalents:			
Balance, January 1,	36,141	58,805	61,011
Changes in foreign currency translation	1,825	945	(7,740)
Balance, December 31,	**$ 23,296**	**$ 36,141**	**$ 58,805**
Supplemental disclosures:			
Income taxes paid	$ 3,967	$ 2,060	$ 5,337
Interest paid	$ 3,264	$ 1,965	$ 2,032
Property, plant and equipment acquired under capital leases	$ 108	$ —	$ 335
Non-cash investing—capital expenditures accrued	$ 2,123	$ 1,672	$ 2,046
Non-cash investing—tenant improvement allowance	$ —	$ 1,728	$ —
Non-cash investing—contingent consideration for acquisitions	$ 7,600	$ 3,798	$ 5,673
Non-cash investing and financing—stock for acquisitions	$ 11,436	$ 3,304	$ —
Liabilities assumed—acquisitions	$ 5,610	$ 819	$ 2,408

	December 31, 2018	December 31, 2017	December 31, 2016
Cash and cash equivalents	$ 21,711	$ 34,598	$ 57,152
Restricted cash—current portion	41	43	139
Restricted cash—long-term portion	1,544	1,500	1,514
Cash and cash equivalents including restricted cash	**$ 23,296**	**$ 36,141**	**$ 58,805**

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

RIGNET, INC.
CONSOLIDATED STATEMENTS OF EQUITY

	Common Stock		Treasury Stock							
	Shares	Amount	Shares	Amount	Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity	Non-Redeemable, Non-Controlling Interest	Total Equity
						(in thousands)				
Balance, January 1, 2016	**17,758**	**18**	**—**	**—**	**143,012**	**(6,043)**	**(13,836)**	**123,151**	**162**	**$ 123,313**
Issuance of common stock upon the exercise of stock options	223	—	—	—	1,680	—	—	**1,680**	—	**1,680**
Restricted common stock cancellations	(48)	—	—	—	—	—	—	**—**	—	**—**
Stock-based compensation	—	—	—	—	3,389	—	—	**3,389**	—	**3,389**
Excess tax benefits from stock-based compensation	—	—	—	—	(175)	—	—	**(175)**	—	**(175)**
Foreign currency translation	—	—	—	—	—	—	(4,135)	**(4,135)**	—	**(4,135)**
Non-controlling owner distributions	—	—	—	—	—	—	—	**—**	(197)	**(197)**
Net income (loss)	—	—	—	—	—	(11,507)	—	**(11,507)**	210	**(11,297)**
Balance, December 31, 2016	**17,933**	**18**	**—**	**—**	**147,906**	**(17,550)**	**(17,971)**	**112,403**	**175**	**112,578**
Issuance of common stock upon the exercise of stock options	70	—	—	—	916	—	—	**916**	—	**916**
Issuance of common stock upon the vesting of restricted stock units, net of share cancellations	44	—	—	—	—	—	—	**—**	—	**—**
Issuance of common stock upon the acquisition of Cyphre	192	—	—	—	3,304	—	—	**3,304**	—	**3,304**
Stock witheld to cover employee taxes on stock-based compensation	(6)	—	6	(116)	—	—	—	**(116)**	—	**(116)**
Stock-based compensation	—	—	—	—	3,703	—	—	**3,703**	—	**3,703**
Foreign currency translation	—	—	—	—	—	—	3,165	**3,165**	—	**3,165**
Non-controlling owner distributions	—	—	—	—	—	—	—	**—**	(76)	**(76)**
Net income (loss)	—	—	—	—	—	(16,176)	—	**(16,176)**	(21)	**(16,197)**
Balance, December 31, 2017	**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	60	—	—	—	970	—	—	**970**	—	**970**
Issuance of common stock upon the vesting of restricted stock units, net of share cancellations	383	—	—	—	—	—	—	**—**	—	**—**
Issuance of common stock for acquisitions	789	1	—	—	11,435	—	—	**11,436**	—	**11,436**
Stock witheld to cover employee taxes on stock-based compensation	—	—	86	(1,154)	—	—	—	**(1,154)**	—	**(1,154)**
Stock-based compensation	—	—	—	—	4,712	—	—	**4,712**	—	**4,712**
Cumulative effect adjustment from implementation of ASU 2016-16	—	—	—	—	—	(338)	—	**(338)**	—	**(338)**
Foreign currency translation	—	—	—	—	—	—	(4,448)	**(4,448)**	—	**(4,448)**
Non-controlling owner distributions	—	—	—	—	—	—	—	**—**	(157)	**(157)**
Net income (loss)	—	—	—	—	—	(62,453)	—	**(62,453)**	139	**(62,314)**
Balance, December 31, 2018	**19,465**	**$ 19**	**92**	**$ (1,270)**	**$ 172,946**	**$ (96,517)**	**$ (19,254)**	**$ 55,924**	**$ 60**	**$ 55,984**

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

RIGNET, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1—Business and Summary of Significant Accounting Policies

Nature of Business

RigNet, Inc. (the Company or RigNet) is a global technology company that provides customized data and communications services. 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. RigNet provides our clients what is often the sole means of communications for their remote operations. On top of and vertically integrated into these networks RigNet provides 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.

RigNet delivers advanced software, optimized industry solutions, and communications infrastructure that allow our customers to realize the business benefits of digital transformation. With world-class, ultra-secure solutions spanning global IP connectivity, bandwidth-optimized Over-The-Top (OTT) applications, Industrial Internet of Things (IoT) big data enablement, and industry-leading machine learning analytics, RigNet supports the full evolution of digital enablement, empowering businesses to respond faster to high priority issues, mitigate the risk of operational disruption, and maximize their overall financial performance.

Basis of Presentation

The Company presents its financial statements in accordance with generally accepted accounting principles in the United States (U.S. GAAP).

The GX dispute and change in fair value of earn-out/contingent consideration are now presented as separate financial statement line items, and all historical data have been recast to conform to the current year presentation.

Principles of Consolidation and Reporting

The Company's consolidated financial statements include the accounts of RigNet, Inc. and all subsidiaries thereof. All intercompany accounts and transactions have been eliminated in consolidation. As of December 31, 2018, 2017 and 2016, non-controlling interest of subsidiaries represents the outside economic ownership interest of Qatar, WLL of less than 3.0%.

Use of Estimates in Preparation of Financial Statements

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods, as well as certain financial statement disclosures. The estimates that are particularly significant to the financial statements include estimates related to the Company's use of the percentage-of-completion method, as well as the Company's valuation of goodwill, intangibles, stock-based compensation, litigation accruals, income tax valuation allowance and uncertain tax positions. While management believes that the estimates and assumptions used in the preparation of the financial statements are appropriate, future results could differ from these estimates. Further, volatile equity and energy markets combine to increase uncertainty in such estimates and assumptions. As such, estimates and assumptions are adjusted when facts and circumstances dictate, and any changes will be reflected in the financial statements in future periods.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on-hand and highly-liquid investments purchased with original maturities of three months or less.

Restricted Cash

As of December 31, 2018 and 2017, 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 is primarily used to collateralize a performance bond in the MCS segment (see Note 6 – "Long-Term Debt").

Accounts Receivable

Trade accounts receivable are recognized as customers are billed in accordance with customer contractual agreements. The Company reports an allowance for doubtful accounts for probable credit losses existing in accounts receivable. Management determines the allowance based on a review of currently outstanding receivables and the Company's historical write-off experience. Individual receivables and balances which have been outstanding greater than 120 days are reviewed individually. Account balances, when determined to be uncollectible, are charged against the allowance.

Property, Plant and Equipment

Property, plant and equipment consists of (i) telecommunication and computer equipment, (ii) furniture and other office equipment, (iii) leasehold improvements, (iv) building and (v) land. All property, plant and equipment, excluding land, is depreciated and stated at acquisition cost net of accumulated depreciation. Depreciation is provided using the straight-line method over the expected useful lives of the respective assets, which range from one to ten years. The Company assesses the value of property, plant and equipment for impairment when the Company determines that events and circumstances indicate that the recorded carrying value may not be recoverable. An impairment is determined by comparing estimated future net undiscounted cash flows to the carrying value at the time of the assessment. No impairment to property, plant and equipment was recorded in the years ended December 31, 2018, 2017 or 2016.

Maintenance and repair costs are charged to expense when incurred.

Intangibles

Intangibles consist of customer relationships, covenants-not-to-compete, brand name, licenses, developed 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. The Company assesses the value of intangibles for impairment when the Company determines that events and circumstances indicate that the recorded carrying value may not be recoverable. An impairment is determined by comparing estimated future net undiscounted cash flows to the carrying value at the time of the assessment.

No impairment to intangibles was recorded in the years ended December 31, 2018 or 2017.

In June 2016, the Company identified a triggering event for a license in Kazakhstan associated with a decline in cash flow projections, which resulted in a $0.4 million impairment of licenses in the Corporate segment, which was the full amount of the Company's intangibles within Kazakhstan.

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, as of July 31, with additional evaluations being performed when events or circumstances indicate that the carrying value of these assets may not be recoverable.

The goodwill impairment test is used to identify potential impairment by comparing the fair value of each reporting unit to the book value of the reporting unit, including goodwill. Fair value of the reporting unit is determined using a combination of the reporting unit's expected present value of future cash flows and a market approach. The present value of future cash flows is estimated using our most recent forecast and our weighted average cost of capital. The market approach uses a market multiple on the reporting unit's cash generated from operations. Significant estimates for each reporting unit included in our impairment analysis are cash flow forecasts, our weighted average cost of capital, projected income tax rates and market multiples. Changes in these estimates could affect the estimated fair value of our reporting units and result in an impairment of goodwill in a future period. If the fair value of a reporting unit is less than its book value, goodwill of the reporting unit is considered to be impaired. If the book value of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. Any impairment in the value of goodwill is charged to earnings in the period such impairment is determined.

The Company performs its annual impairment test on July 31, with the most recent annual test being performed as of July 31, 2018. The July 31, 2018, 2017 and 2016 tests resulted in no impairment as the fair value of each reporting unit exceeded the carrying value plus goodwill of that reporting unit. Additionally, the November 30, 2017 interim test, which was conducted due to a change in segments after the Company completed the acquisition of ESS resulted in no impairment as the fair value of each reporting unit substantially exceeded the carrying value plus goodwill of that reporting unit.

MCS had $22.5 million of goodwill as of December 31, 2018, and fair value exceeded carrying value by 34.7% as of the July 31, 2018 annual impairment test. Apps & IoT had $22.8 million of goodwill as of December 31, 2018, 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 December 31, 2018, 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.

As of December 31, 2018 and 2017, goodwill was $46.6 million and $37.1 million, respectively. In addition to the impact of acquisitions and impairments, goodwill increases or decreases in value due to the effect of foreign currency translation.

Long-Term Debt

Long-term debt is recognized in the consolidated balance sheets, net of costs incurred, in connection with obtaining debt financing. Debt financing costs are deferred and reported as a reduction to the principal amount of the debt. Such costs are amortized over the life of the debt using the effective interest rate method and included in interest expense in the Company's consolidated financial statements.

Revenue Recognition—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—MCS and 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).

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 December 31, 2018 and 2017, the amount of CIEB related to Systems Integration projects was $7.1 million and $2.4 million, respectively. Under long-term contracts, amounts recorded in CIEB may not be realized or paid, respectively, within a one-year period. As of December 31, 2018 and 2017, none and $0.4 million, respectively, of amounts billed to customers in excess of revenue recognized to date are classified as a current liability, under deferred revenue. All of the billings in excess of costs as of December 31, 2017 were recognized as revenue during the year ended December 31, 2018.

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 was included in CIEB as of December 31, 2018 and 2017. As new facts become known, an adjustment to the estimated recovery is made and reflected in the current period.

Backlog—As of December 31, 2018, we have backlog for our percentage of completion projects of $45.5 million, which will be recognized over the remaining contract term for each contract. The Company's backlog does not extend past 2020. Percentage of completion contract terms are typically one to three years.

Stock-Based Compensation

The Company recognizes expense for stock-based compensation based on the fair value of options and restricted stock on the grant date of the awards. Fair value of options on the grant date is determined using the Black-Scholes model, which requires judgment in estimating the expected term of the option, risk-free interest rate, expected volatility of the Company's stock and dividend yield of the option. Fair value of restricted stock, restricted stock units and performance share units on the grant date is equal to the market price of RigNet's common stock on the date of grant. The Company's policy is to recognize compensation expense for service-based awards on a straight-line basis over the requisite service period of the entire award. Stock-based compensation expense is based on awards ultimately expected to vest.

Taxes

Current income taxes are determined based on the tax laws and rates in effect in the jurisdictions and countries that the Company operates in and revenue is earned. Deferred income taxes reflect the tax effect of net operating losses, foreign tax credits and the tax effects of temporary differences between the carrying amount of assets and liabilities for financial statement and income tax purposes, as determined under enacted tax laws and rates. Valuation allowances are established when management determines that it is more likely than not that some portion or the entire deferred tax asset will not be realized. The financial effect of changes in tax laws or rates is accounted for in the period of enactment.

From time to time, the Company engages in transactions in which the tax consequences may be subject to uncertainty. In the normal course of business, the Company prepares and files tax returns based on interpretation of tax laws and regulations, which are subject to examination by various taxing authorities. Such examinations may result in future tax and interest assessments by these taxing authorities. The Company evaluates its tax positions and recognize only tax benefits for financial purposes that, more likely than not, will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits of the position.

The Company has elected to include income tax related interest and penalties as a component of income tax expense.

On December 22, 2017 the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (The Tax Act), making broad and complex changes to the U.S. tax code.

The SEC staff issued SAB 118, which provides guidance on accounting for the tax effects of the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the accounting under ASC 740. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the Tax Act for which the accounting under ASC 740 is complete. To the extent that a company's accounting for certain income tax effects of the Tax Act is incomplete but it is able to determine a reasonable estimate, it must record a provisional estimate in the financial statements. If a company cannot determine a provisional estimate to be included in the financial statements, it should continue to apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the Tax Act.

The Company has completed the accounting for the income tax effects of the Tax Act based on current regulations and available information. Any additional guidance issued by the IRS could impact our recorded amounts in future periods.

Foreign Currency Translation

The U.S. dollar serves as the currency of measurement and reporting for the Company's consolidated financial statements. The Company has certain subsidiaries with functional currencies of Norwegian kroner, British pound sterling, or Brazilian real. The functional currency of all the Company's other subsidiaries is the U.S. dollar.

Transactions occurring in currencies other than the functional currency of a subsidiary have been converted to the functional currency of that subsidiary at the exchange rate in effect at the transaction date with resulting gains and losses included in current earnings. Carrying values of monetary assets and liabilities in functional currencies other than U.S. dollars have been translated to U.S. dollars based on the U.S. exchange rate at the balance sheet date and the resulting foreign currency translation gain or loss is included in comprehensive income (loss) in the consolidated financial statements.

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2014-09 (ASU 2014-09), Revenue from Contracts with Customers (Topic 606). The core principle of this amendment is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued Accounting Standards Update No. 2015-14 (ASU 2015-14), Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date. In March 2016, the FASB issued Accounting Standards Update No. 2016-08 (ASU 2016-08), Revenue from Contracts with Customers: Principal versus Agent Considerations. The amendments are intended to improve the operability and understandability of the implementation guidance on principal versus agent considerations. In April and May of 2016, the FASB issued Accounting Standards Update No. 2016-10 (ASU 2016-10) and Accounting Standards Update No. 2016-12 (ASU 2016-12), Revenue from Contracts with Customers (Topic 606), respectively, that provide scope amendments, performance obligations clarification and practical expedients. These ASUs allow for the use of either the full or modified retrospective transition method and are effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period, with early adoption permitted for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. The Company adopted this ASU on January 1, 2018. The Company's evaluation of this ASU included a detailed review of representative contracts from each segment and comparing historical accounting policies and practices to the new standard. The adoption of this ASU did not have any material impact on the Company's consolidated financial statements.

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. Based on the Company's current leases, the Company anticipates the new guidance will require additional assets and liabilities on the consolidated balance sheet of between approximately $5.2 million and $6.2 million as of December 31, 2018. The Company plans on adopting using the optional transition method permitted under Accounting Standards Update No. 2018-11 (ASU 2018-11). The Company's credit agreement excludes the impact of ASU 2016-02.

In August 2016, the FASB issued Accounting Standards Update No. 2016-15 (ASU 2016-15), Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. The new ASU reduces diversity of practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows under Topic 230, Statement of Cash Flows, and other Topics, including the treatment of contingent consideration payments made after a business combination. The ASU is effective for annual and interim reporting periods beginning after December 15, 2017. The Company adopted this ASU on January 1, 2018. The adoption of this ASU did not have any material impact on the Company's consolidated financial statements.

In October 2016, the FASB issued Accounting Standards Update No. 2016-16 (ASU 2016-16), Income Taxes: Intra-Entity Transfer of Assets Other Than Inventory. The new ASU requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs, rather than the previous requirement to defer recognition of current and deferred income taxes for an intra-entity asset transfer until the asset had been sold to an outside party. The ASU is effective for annual and interim reporting periods beginning after December 15, 2017. The Company adopted this ASU on January 1, 2018 using the modified retrospective method through a $0.3 million cumulative effect that directly lowered accumulated deficit. The adoption of this ASU did not have any material impact on the Company's consolidated financial statements.

In November 2016, the FASB issued Accounting Standards Update No. 2016-18 (ASU 2016-18), which includes restricted cash in the cash and cash equivalents balance in the statement of cash flows. The ASU is effective for annual and interim reporting periods beginning after December 15, 2017. The Company adopted this ASU on January 1, 2018. The adoption of this ASU did not have any material impact on the Company's consolidated financial statements.

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 Company is currently in the process of evaluating the impact the adoption of this ASU will have on the Company's consolidated financial statements.

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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 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 consolidated financial statements.

Note 2—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 consolidated financial statements.

Credit Risk

Credit risk, with respect to accounts receivable, is due to the limited number of customers concentrated in the oil and gas, 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.

	Year Ended December 31,		
	2018	2017	2016
		(in thousands)	
Accounts receivable	$71,649	$51,996	$52,996
Allowance for doubtful accounts, January 1,	(2,975)	(4,324)	(3,972)
Current year provision for doubtful accounts	(2,660)	(366)	(1,095)
Write-offs	1,436	1,715	743
Allowance for doubtful accounts, December 31,	(4,199)	(2,975)	(4,324)
Accounts receivable, net	$67,450	$49,021	$48,672

Although during 2018, 2017 and 2016 no single customer comprised greater than 10% of revenue, the top 5 customers generated 23.0%, 26.8% and 28.6% of the Company's 2018, 2017 and 2016 revenue, respectively.

Liquidity Risk

The Company maintains cash and cash equivalent balances with major financial institutions which, at times, exceed federally insured limits. The Company monitors the financial condition of the financial institutions and has not experienced losses associated with these accounts during 2018, 2017 or 2016. 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 3—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 Company’s allocation of the purchase price is preliminary as the amounts related to the identifiable intangible assets and effects of income taxes resulting from the transaction, are still being finalized.

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 and 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 consolidated financial statements as of the acquisition date and are primarily reflected in the Systems Integration segment.

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

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 and normalize real-time data from a myriad of data sources. This technology enables the Intelie LIVE™ 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 Company’s allocation of the purchase price is preliminary as the amounts related to contingent consideration, identifiable intangible assets, and the effects of income taxes resulting from the transaction, are still being finalized.

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 Consolidated Statements of Comprehensive Loss. As of December 31, 2018, the fair value of the earn-out was $9.5 million, of which $3.0 million is in other current liabilities and $6.5 million is in other long-term liabilities. During the year ended December 31, 2018, RigNet recognized $1.8 million of increase in the fair value and accreted interest expense of $0.1 million on the Intelie earn-out with corresponding increases to other liabilities. The earn-out is payable in RigNet stock in portions on the first, second and third anniversary of the closing of the acquisition based on certain post-closing performance targets under the acquisition agreement.

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 consolidated financial statements as of the acquisition date and is reflected in the Apps & IoT segment.

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

(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 $17.7 million and $2.2 million, respectively, for year ended December 31, 2018.

The following table represents supplemental pro forma information as if the 2018 acquisitions had occurred on January 1, 2017.

	Year Ended December 31, 2018	Year Ended December 31, 2017
	(in thousands, except per share amounts)	
Revenue	$ 243,311	$ 222,404
Expenses*	305,096	238,045
Net loss	$ (61,785)	$ (15,641)
Net loss attributable to RigNet, Inc. common stockholders	$ (61,924)	$ (15,620)
Net loss per share attributable to RigNet, Inc. common stockholders:		
Basic	$ (3.31)	$ (0.87)
Diluted	$ (3.31)	$ (0.87)

* Note – The Year Ended December 31, 2018 includes a net $50.6 million expense accrual for the GX dispute reported in general and administrative expense. See a more complete discussion of the GX Dispute in Note 9 of the Notes to Consolidated Financial Statements and in Item 3, Legal Proceedings of this Annual Report on Form 10-K.

The Company incurred acquisition-related costs of $2.3 million in the year ended December 31, 2018, reported in general and administrative expenses. Additional costs related to these acquisitions may be incurred and recorded as expense in 2019.

Energy Satellite Services

On July 28, 2017, RigNet acquired substantially all the assets of Energy Satellite Services (ESS). ESS is a supplier of wireless communications services via satellite networks primarily to the midstream sector of the oil and gas industry for remote pipeline monitoring. The assets acquired enhance RigNet's Supervisory Control and Data Acquisition (SCADA) customer portfolio, and strengthen the Company's Apps & IoT market position. The Company paid $22.2 million in cash for the ESS assets. ESS is based in Texas.

The assets and liabilities of ESS 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 $8.5 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 ESS, 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 deductible for income tax purposes. The acquisition of ESS, including goodwill, is included in the Company's consolidated financial statements as of the acquisition date and is reflected in the Apps & IoT segment.

	Weighted Average Estimated Useful Life (Years)	Fair Market Values	
		(in thousands)	
Accounts Receivable			$ 392
Property and equipment			1,000
Covenant Not to Compete	5	3,040	
Customer Relationships	7	9,870	
Total identifiable intangible assets			12,910
Goodwill			8,465
Accounts Payable			(567)
Total purchase price			$22,200

Data Technology Solutions

On July 24, 2017, RigNet acquired substantially all the assets of Data Technology Solutions (DTS). DTS provides comprehensive communications and IT services to the onshore, offshore, and maritime industries, as well as disaster relief solutions to global corporate clients. The Company paid $5.1 million in cash for the DTS assets. DTS is based in Louisiana.

The assets and liabilities of DTS 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 $0.7 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 DTS, 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 deductible for income tax purposes. The acquisition of DTS, including goodwill, is included in the Company's consolidated financial statements as of the acquisition date and is reflected in the MCS segment.

		Fair Market Values
		(in thousands)
Property and equipment	$	4,553
Goodwill		704
Accounts Payable		(152)
Total purchase price	$	5,105

Cyphre Security Solutions

On May 18, 2017, RigNet completed its acquisition of Cyphre Security Solutions (Cyphre®) for an estimated aggregate purchase price of $12.0 million. Of this aggregate purchase price, RigNet paid $4.9 million in cash in May 2017, $3.3 million in stock and expects to pay $3.8 million of contingent consideration for intellectual property, estimated as of the date of acquisition. Cyphre is a cybersecurity company that provides advanced enterprise data protection leveraging BlackTIE® hardware-based encryption featuring low latency protection for files at rest and in transit for both public and private cloud. Cyphre is based in Texas.

The contingent consideration for Cyphre is measured at fair value in each reporting period, based on level 3 inputs, with any change to fair value recorded in the Consolidated Statements of Comprehensive Loss. As of December 31, 2018, the fair value of the contingent consideration was $3.7 million, of which $0.3 million is in other current liabilities and $3.4 million is in other long-term liabilities. During the year ended December 31, 2018, RigNet recognized a $0.3 million reduction in fair value and accreted interest expense of $0.1 million on the Cyphre contingent consideration with corresponding changes to other liabilities.

The assets and liabilities of Cyphre 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 $4.6 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 Cyphre, 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 deductible for income tax purposes. The acquisition of Cyphre, including goodwill, is included in the Company's consolidated financial statements as of the acquisition date and is reflected in the Apps & IoT segment.

	Weighted Average Estimated Useful Life (Years)	Fair Market Values	
		(in thousands)	
Property and equipment			$ 18
Trade Name	7	1,590	
Technology	7	5,571	
Customer Relationships	7	332	
Total identifiable intangible assets			7,493
Goodwill			4,591
Accrued Expenses			(100)
Total purchase price			$12,002(a)

(a) Includes $3.8 million in contingent consideration estimated as of the date of acquisition.

Actual and Pro Forma Impact of the 2017 Acquisitions

The 2017 acquisitions of ESS, DTS and Cyphre contributed $5.1 million of revenue for the year ended December 31, 2017. The 2017 acquisitions contributed $1.4 million to net income for the year ended December 31, 2017.

The following table represents supplemental pro forma information as if the 2017 acquisitions had occurred on January 1, 2016.

	Year Ended December 31,	
	2017	2016
	(in thousands, except per share amounts)	
Revenue	$ 214,899	$ 237,352
Expenses	228,105	242,483
Net loss	$ (13,206)	$ (5,131)
Net loss attributable to RigNet, Inc. common stockholders	$ (13,185)	$ (5,341)
Net loss per share attributable to RigNet, Inc. common stockholders:		
Basic	$ (0.73)	$ (0.30)
Diluted	$ (0.73)	$ (0.30)

For the year ended December 31, 2017, RigNet incurred $3.3 million, of acquisition-related costs, which are reported as general and administrative expenses in the Company's Consolidated Statements of Comprehensive Loss.

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. The goodwill primarily relates to the growth prospects foreseen for the companies acquired, synergies between existing business and the acquired companies and the assembled workforce of the acquired companies. Goodwill balances and changes therein, by reportable segment, as of and for the years ended December 31, 2018 and 2017 are presented below.

	Managed Communication Services	Applications and Internet-of-Things	Systems Integration	Total
		(in thousands)		
Balance, January 1, 2017	$ 21,331	$ 667	$ —	$21,998
Acquisition of Cyphre, DTS and ESS	704	13,056	—	13,760
Foreign currency translation	1,330	—	—	1,330
Balance, December 31, 2017	23,365	13,723	—	37,088
Acquisition of Intelie, Auto-Comm and SAFCON	—	10,744	1,387	12,131
Foreign currency translation	(886)	(1,702)	—	(2,588)
Balance, December 31, 2018	$ 22,479	$ 22,765	$ 1,387	$46,631

Intangibles

Intangibles consist of customer relationships, brand name, backlog, technology and licenses acquired as part of the Company's acquisitions. Intangibles also include internal-use software. The following table reflects intangibles activities for the years ended December 31, 2018 and 2017:

	Brand Name	Backlog	Customer Relation-ships	Software	Licenses	Technology	Covenant Not to Compete	Customer Contracts	Total
				(in thousands, except estimated lives)					
Intangibles Acquired	4,353	3,282	22,235	13,615	2,500	—	—	—	45,985
Accumulated amortization and foreign currency translation, January 1, 2017	(3,120)	(3,069)	(16,843)	(5,591)	(1,334)	—	—	—	(29,957)
Balance, January 1, 2017	1,233	213	5,392	8,024	1,166	—	—	—	16,028
Additions	1,590	—	10,202	79	—	5,903	3,040	—	20,814
Amortization expense	(669)	(181)	(2,302)	(2,517)	(286)	(551)	(253)	—	(6,759)
Foreign currency translation	91	(15)	209	37	—	—	—	—	322
Balance, December 31, 2017	2,245	17	13,501	5,623	880	5,352	2,787	—	30,405
Additions	2,840	—	1,300	236	1,251	8,948	—	191	14,766
Amortization expense	(1,036)	(17)	(3,349)	(2,480)	(308)	(1,787)	(608)	(191)	(9,776)
Foreign currency translation	(366)		(156)	66	—	(1,206)	—	—	(1,662)
Balance, December 31, 2018	$ 3,683	$ —	$ 11,296	$ 3,445	$ 1,823	$ 11,307	$ 2,179	$ 0	$ 33,733
Weighted average estimated lives (years)	7.0	0	7.0	5.0	15.3	5.0	7.0	0.0	

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

2019	7,237
2020	6,243
2021	5,835
2022	5,555
2023	4,911
Thereafter	3,952
	$33,733

Note 5—Property, Plant and Equipment

Property, plant and equipment consists of the following:

	Estimated Lives	December 31, 2018	2017
	(in years)	(in thousands)	
Telecommunication and computer equipment	1 - 5	$ 176,518	$ 152,480
Furniture and other	5 - 7	10,415	9,544
Building	10	4,419	4,627
Land	—	1,378	1,444
		192,730	168,095
Less: Accumulated depreciation		(129,145)	(107,751)
		$ 63,585	$ 60,344

Depreciation expense associated with property, plant and equipment was $23.4 million, $24.1 million and $28.3 million for the years ended December 31, 2018, 2017 and 2016, respectively. No impairment to property, plant and equipment was recorded in the years ended December 31, 2018, 2017 or 2016.

Note 6—Long-Term Debt

As of December 31, 2018 and 2017, the following credit facilities and long-term debt arrangements with financial institutions were in place:

	December 31,	
	2018	2017
	(in thousands)	
Term loan	$10,000	$15,000
Revolving loan	67,150	43,400
Unamortized deferred financing costs	(315)	(497)
Capital lease	192	211
	77,027	58,114
Less: Current maturities of long-term debt	(4,831)	(4,814)
Current maturities of capital lease	(111)	(127)
	$72,085	$53,173

Credit Agreement

On November 6, 2017, the Company entered into its third amended and restated credit agreement with four participating financial institutions. The credit agreement provides for a $15.0 million term loan facility (Term Loan) and an $85.0 million revolving credit facility (RCF) and matures on November 6, 2020.

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 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, both the Term Loan and RCF bear interest at a rate of LIBOR plus a margin ranging from 1.75% to 2.75% based on a consolidated leverage ratio defined in the credit agreement. Interest is payable monthly and principal installments of $1.25 million under the Term Loan are due quarterly. The weighted average interest rate for the years ended December 31, 2018 and 2017 were 4.8% and 3.3%, respectively, with an interest rate of 5.3% at December 31, 2018.

Term Loan

As of December 31, 2018, the Term Loan had an outstanding principal balance of $10.0 million, excluding the impact of unamortized deferred financing costs.

RCF

As of December 31, 2018, $67.2 million in draws remain outstanding under the RCF.

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 leverage ratio, defined in the credit agreement, of less than or equal to 2.75 to 1.00 and a consolidated fixed charge coverage ratio of not less than 1.25 to 1.00 as of December 31, 2018. 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.

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 March 31, 2019. In addition, the Consent waived all specified violations for all prior periods.

The Company continues to work with the financial institutions under our credit agreement to ensure that the credit agreement does not impede the Company's ordinary-course business operations with respect to surety bonds and other similar instruments.

Performance Bonds, Surety Bonds and Other Similar Instruments

On September 14, 2012, NesscoInvsat Limited, a subsidiary of RigNet, secured a performance bond facility. On November 6, 2017, this facility became a part of the third amended and restated credit agreement and falls under the $25.0 million sub-limit of the RCF for commercial and standby letters of credit and performance bonds issued by the parties under the Credit Agreement.

As of December 31, 2018, there were no outstanding standby letters of credit and there were $30.5 million of performance bonds outstanding of which $1.7 million is issued by the parties under the Credit Agreement.

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.

Deferred Financing Costs

The Company incurred bank fees associated with the credit agreement, and certain amendments hereto, which were capitalized and reported as a reduction to long-term debt. Deferred financing costs are expensed using the effective interest method over the life of the agreement. For the years ended December 31, 2018 and 2017, deferred financing cost amortization of $0.2 million is included in interest expense in the Company's consolidated financial statements.

Debt Maturities

The following table sets forth the aggregate principal maturities of long-term debt, net of deferred financing cost amortization as of December 31, 2018(in thousands):

2019	4,942
2020	72,085
Total debt, including current maturities	$77,027

Updated Credit Agreement

On February 13, 2019, the Company entered into the first amendment to the third amended and restated credit agreement (Updated Credit Agreement) with four participating financial institutions. The Company refinanced $30.0 million of outstanding draws under the existing $85.0 million RCF with a new $30.0 million term out facility. The Updated Credit Agreement requires a $45.0 million reserve (Specified Reserve) under the RCF that will be released and made available for borrowing for payment of monetary damages from the GX dispute. The Updated Credit Agreement provides for a $15.0 million term loan facility, a $30.0 million term out facility and an $85.0 million revolving credit facility. The revolving credit facility and term out facility mature on April 6, 2021. The term loan facility matures on December 31, 2020.

Under the Updated Credit Agreement, the term loan facility, the term out facility and the revolving credit facility 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 Updated Credit Agreement. Interest is payable monthly and principal installments of $1.25 million under the term loan facility are due quarterly. Principal installments of $1.5 million are due quarterly under the term out facility beginning June 30, 2019. The revolving credit facility contains a sub-limit of up to $25.0 million for commercial and stand-by letters of credit issued by the parties under the credit agreement.

The Company's Updated 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 Updated Credit Agreement requires a consolidated leverage ratio, as defined in the Updated Credit Agreement, of less than or equal to 2.75 to 1.00 as. The consolidated leverage ratio increases to 3.25 to 1.00 for four quarters starting in the quarter that RigNet makes a final irrevocable payment of all monetary damages from the GX dispute. 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 Updated Credit Agreement are secured by substantially all the assets of the Company.

Note 7—Related Party Transactions

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 year ended December 31, 2018, the Company purchased $0.1 million from Darktrace in the ordinary course of business.

Vissim AS has participated in a competitive request for quote from RigNet in the ordinary course of business. 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. Although no amounts were spent with Vissim AS in the year ended December 31, 2018, in the future the Company may spend money with this potential vendor.

Note 8—Fair Value Measurements

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

- ***Cash and Cash Equivalents*** — Reported amounts approximate fair value based on quoted market prices (Level 1).
- ***Restricted Cash*** — Reported amounts approximate fair value.
- ***Accounts Receivable*** — Reported amounts, net of the allowance for doubtful accounts, approximate fair value due to the short-term nature of these assets.
- ***Accounts Payable, Including Income Taxes Payable and Accrued Expenses*** — Reported amounts approximate fair value due to the short-term nature of these liabilities.
- ***Long-Term Debt*** — The carrying amount of the Company's floating-rate debt approximates fair value since the interest rates paid are based on short-term maturities and recent quoted rates from financial institutions. The estimated fair value of debt was calculated based upon observable (Level 2) inputs regarding interest rates available to the Company at the end of each respective period.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. For items that are not actively traded, fair value reflects the price in a transaction with a market participant, including an adjustment for risk, not just the mark-to-market value. The fair value measurement standard establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. As presented in the table below, the hierarchy consists of three broad levels:

Level 1—Inputs are unadjusted quoted prices in active markets for identical assets and liabilities and have the highest priority.

Level 2—Inputs are observable inputs other than quoted prices considered Level 1. Level 2 inputs are market-based and are directly or indirectly observable, including quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; or valuation techniques whose inputs are observable. Where observable inputs are available, directly or indirectly, for substantially the full term of the asset or liability, the instrument is categorized in Level 2.

Level 3—Inputs are unobservable (meaning they reflect the Company's assumptions regarding how market participants would price the asset or liability based on the best available information) and therefore have the lowest priority.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. RigNet believes it uses appropriate valuation techniques, such as market-based valuation, based on the available inputs to measure the fair values of its assets and liabilities. The Company's valuation technique maximizes the use of observable inputs and minimizes the use of unobservable inputs.

The Company had no derivatives as of December 31, 2018 or 2017.

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 Consolidated Statements of Comprehensive Loss. As of December 31, 2018, the fair value of the earn-out was $9.5 million, of which $3.0 million is in other current liabilities and $6.5 million is in other long-term liabilities. During the year ended December 31, 2018, RigNet recognized $1.8 million of increase in the fair value and accreted interest expense of $0.1 million on the Intelie earn-out with corresponding increases to other liabilities. The earn-out is payable in RigNet stock in portions on the first, second and third anniversary of the closing of the acquisition based on certain post-closing performance targets under the acquisition agreement.

The contingent consideration for Cyphre is measured at fair value in each reporting period, based on level 3 inputs, with any change to fair value recorded in the Consolidated Statements of Comprehensive Loss. As of December 31, 2018, the fair value of the contingent consideration was $3.7 million, of which $0.3 million is in other current liabilities and $3.4 million is in other long-term liabilities. During the year ended December 31, 2018, RigNet recognized a $0.3 million reduction in fair value and accreted interest expense of $0.1 million on the Cyphre contingent consideration with corresponding changes to other liabilities.

The earn-out for Orgtec S.A.P.I. de C.V., d.b.a. TECNOR (TECNOR), acquired in March 2016, was measured at fair value in each reporting period, based on level 3 inputs, with any change to fair value recorded in the Consolidated Statements of Comprehensive Loss. The fair value of the earn-out of $8.0 million was paid in July 2018. The $2.1 million change in fair value in the year ended December 31, 2018 was primarily related to the second quarter 2018 negotiations with the sellers of TECNOR on the amount of the earn-out. There was a $0.3 million and $1.3 million reduction in fair value to the TECNOR earn-out in the years ended December 31, 2017 and 2016, respectively, recorded as a reduction of other current liabilities and a decrease to expense in the Corporate segment.

Note 9—Commitments and Contingencies

Legal Proceedings

In August 2017, the Company filed litigation in Harris County District Court and arbitration against one of its former Chief Executive Officers for, among other things, breach of fiduciary duty, misappropriation of trade secrets, unfair competition and breach of contract. That former executive filed counterclaims against the Company and one of its independent directors. The parties entered into a settlement agreement resolving all claims amongst themselves in May 2018 and dismissed the litigation and arbitration proceedings. The Company incurred legal expense of approximately $0.6 million and $0.9 million in connection with this dispute for the year ended December 31, 2018 and 2017, respectively.

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 (GX dispute). Phase I of the arbitration, now concluded, concerned only whether RigNet's take or pay obligation ever commenced under the agreement. In December 2018, the panel's Phase I ruling found that a take-or-pay obligation under a January 2014 contract had commenced and that RigNet owed Inmarsat $50.8 million, subject to any offsets from RigNet's counterclaims in Phase II of the arbitration. The Phase I ruling is an interim ruling, and RigNet is not required to pay any amounts to Inmarsat until the panel rules on Phase II counterclaims. The Company currently expects a Phase II ruling in the second half of 2019.

The Company has an accrued liability of $50.8 million, based on the Phase I interim award amount. While management believes it has strong counterclaims, which will be heard in Phase II and could reduce the ultimate liability, the amount of the final award is not estimable at this time. No assurance can be given as to the ultimate outcome of the GX dispute, and the ultimate outcome may differ from the accrued amount. Based on the information available at this time, the potential final loss could be based on the Phase I ruling less any offsets from RigNet's counterclaims in Phase II of the arbitration offset by any potential counterclaims by Inmarsat, including interest and fees. As such, the range of the ultimate liability is currently not estimable.

During the year ended December 31, 2018, the Company has accrued $50.6 million of expense, net of approximately $0.2 million of prior accruals, in the Corporate segment. The Company has incurred legal expenses of $2.2 million and $1.6 million in connection with the GX dispute for the years ended December 31, 2018 and 2017, respectively. The Company may continue to incur significant legal fees, related expenses and management time in the future.

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.

Contractual Dispute

The Company's Systems Integration business reached a settlement in the first quarter of 2016 related to a contract dispute associated with a percentage of completion project. The dispute related to the payment for work related to certain change orders. After the settlement, the Company recognized $2.3 million of gain in the first quarter of 2016. In the fourth quarter of 2016, the Company issued additional billings for approximately $1.0 million related to work performed in prior years under the contract. After the collection of this final billing in the fourth quarter of 2016, the Company received the certificate of final acceptance from the customer acknowledging completion of the project. The total loss incurred over the life of this project amounted to $11.2 million.

The Company incurred legal expense of $0.2 million in connection with the dispute for the year ended December 31, 2016.

Regulatory Matter

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

The Company incurred legal expenses of $0.1 million in connection with the investigation during the year ended December 31, 2016.

In the third quarter of 2016, the Company received a letter from BIS notifying the Company that it had concluded its investigation. BIS assessed no fines or penalties on the Company in connection with the matter. The Company does not anticipate any penalties or fines will be assessed as a result of the matter. As such, the Company released the previously accrued estimated liability of $0.8 million resulting in a decrease of general and administrative expense for the year ended December 31, 2016 in the MCS segment.

Operating Leases

The Company leases office space under lease agreements expiring on various dates through 2025. The Company recognized expense under operating leases of $2.8 million, $4.0 million and $4.7 million for the years ended December 31, 2018, 2017 and 2016, respectively.

As of December 31, 2018, future minimum lease obligations were as follows (in thousands):

2019	1,822
2020	1,115
2021	780
2022	692
2023	659
Thereafter	1,044
	$6,112

Commercial Commitments

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

As of December 31, 2018, the Company had the following commercial commitments related to satellite and network services (in thousands):

2019	10,600
2020	1,010
2021	108
	$11,718

The Company is no longer reporting $65.0 million in the above table for capacity from Inmarsat's GX network. Please see paragraph "Global Express (GX) Dispute" above for details of the ongoing arbitration.

Note 10—Stock-Based Compensation

The Company has two stock-based compensation plans as described below.

2010 Omnibus Incentive Plan

In May 2010, the Board of Directors adopted the 2010 Omnibus Incentive Plan (2010 Plan). Under the 2010 Plan, the Board of Directors or its designated committee is authorized to issue awards representing a total of four million shares of common stock to certain directors, officers and employees of the Company. Awards may be in the form of new stock incentive awards or options including (i) incentive or non-qualified stock options, (ii) stock appreciation rights, (iii) restricted stock, (iv) restricted stock units (RSUs), (v) performance stock, (vi) performance share units (PSUs), (vii) director awards, (viii) annual cash incentive awards, (ix) cash-based awards, (x) substitution awards or (xi) other stock-based awards, as approved by the Board of Directors or its designated committee. Options granted under the 2010 Plan will generally expire at the earlier of a specified period after termination of service or the date specified by the Board of Directors or its designated committee at the date of grant, but not more than ten years from such grant date.

During the year ended December 31, 2018, the Company granted 59,703 stock options with an average exercise price of $13.50 to certain officers and employees of the Company under the 2010 Plan. Options granted have a contractual term of ten years and vest over a four-year period of continued employment, with 25% of the options vesting on each of the first four anniversaries of the grant date. As of December 31, 2018, the Company has issued 1,204,813 options under the 2010 Plan, of which 193,441 options have been exercised, 691,766 options have been returned or forfeited and 319,606 options remain outstanding under the 2010 Plan.

During the year ended December 31, 2018 in addition to the options described above, the Company granted a total of 459,497 stock-based awards to certain directors, officers and employees of the Company under the 2010 Plan. Of these, the Company granted (i) 158,503 restricted stock units (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, (ii) 17,380 RSUs to certain officers and employees that generally vest over a two year period of continued employment, with 50% of the RSUs vesting on each of the first two anniversaries of the grant date, (iii) 48,179 RSUs to outside directors that vest in 2019, (iv) 157,442 unrestricted stock grants to certain officers and employees that vested immediately and (v) 77,993 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. The ultimate number of PSUs issued is based on a multiple determined by the achievement of certain performance-based targets. As of December 31, 2018, 782,506 RSUs and shares of restricted stock have vested, 667,246 RSUs and shares of restricted stock have been forfeited and 395,265 unvested RSUs and shares of restricted stock were outstanding under the 2010 Plan.

2006 Long-Term Incentive Plan

In March 2006, the Board of Directors adopted the RigNet 2006 Long-Term Incentive Plan (2006 Plan). Under the 2006 Plan, the Board of Directors is authorized to issue options to purchase RigNet common stock to certain officers and employees of the Company. In general, all options granted under the 2006 Plan have a contractual term of ten years and a four-year vesting period, with 25.0% of the options vesting on each of the first four anniversaries of the grant date. The 2006 Plan authorized the issuance of three million options, which was increased to five million in January 2010, net of any options returned or forfeited. As of December 31, 2018, the Company has granted options to purchase 981,125 shares under the 2006 Plan, of which 754,878 options have been exercised, 221,872 options have been returned or forfeited and 4,375 options remain outstanding. The Company will grant no additional options under the 2006 Plan as the Company's Board of Directors froze the 2006 Plan.

The Company does not accrue or pay dividends with regard to any equity awards.

Stock-based compensation expense related to the Company's stock-based compensation plans for the years ended December 31, 2018, 2017 and 2016 was $4.7 million, $3.7 million and $3.4 million, respectively, and accordingly, reduced income for each year.

There were no significant modifications to the two stock-based compensation plans during the years ended December 31, 2018, 2017 or 2016. As of December 31, 2018 and 2017, there were $3.3 million and $6.5 million, respectively, of total unrecognized compensation cost related to unvested equity awards granted and expected to vest under the 2010 Plan. This cost is expected to be recognized on a remaining weighted-average period of two years.

All outstanding equity instruments are settled in stock. The Company currently does not have any awards accounted for as a liability. The fair value of each stock option award is estimated on the grant date using a Black-Scholes option valuation model, which uses certain assumptions as of the date of grant:

- ***Expected Volatility***—based on peer group price volatility for periods equivalent to the expected term of the options
- ***Expected Term***—expected life adjusted based on management's best estimate for the effects of non-transferability, exercise restriction and behavioral considerations
- ***Risk-Free Interest Rate***—risk-free rate, for periods within the contractual terms of the options, is based on the U.S. Treasury yield curve in effect at the time of grant
- ***Dividend Yield***—expected dividends based on the Company's historical dividend rate at the date of grant

No options were granted in 2017. The assumptions used for grants made in the years ended December 31, 2018 and 2016 were as follows:

	Year Ended December 31, 2018	Year Ended December 31, 2016
Expected volatility	48%	49%
Expected term (in years)	7	7
Risk-free interest rate	2.8%	1.6 - 1.7%
Dividend yield	—	—

Based on these assumptions, the weighted average grant date fair value of stock options granted, per share, for the year ended December 31, 2018 and 2016 was $7.14 and $6.56, respectively.

The fair value of each RSU and PSU award on the grant date is equal to the market price of RigNet's stock on the date of grant. The weighted average fair value of RSUs, PSUs and restricted stock granted, per share, for the years ended December 31, 2018, 2017 and 2016 was $14.22, $19.68 and $12.45 respectively.

The following table summarizes the Company's stock option activity as of and for the years ended December 31, 2018, 2017 and 2016:

	Year Ended December 31,					
	2018		2017		2016	
	Number of Underlying Shares	Weighted Average Exercise Price	Number of Underlying Shares	Weighted Average Exercise Price	Number of Underlying Shares	Weighted Average Exercise Price
	(in thousands, except per share amounts)					
Balance, January 1,	381	$ 21.37	499	$ 20.77	992	$ 20.40
Granted	60	$ 13.50	—	$ —	112	$ 12.80
Exercised	(60)	$ 16.15	(70)	$ 13.04	(223)	$ 8.73
Forfeited	(53)	$ 23.89	(47)	$ 27.11	(382)	$ 26.29
Expired	(4)	$ 6.55	(1)	$ 8.32	—	$ —
Balance, December 31,	324	$ 20.41	381	$ 21.37	499	$ 20.77
Exercisable, December 31,	204	$ 23.41	224	$ 21.28	240	$ 18.02

	Year Ended December 31, 2018	2017	2016
	(in thousands)		
Intrinsic value of options exercised	$1,297	$1,286	$ 591
Fair value of options vested	$ 950	$ 837	$1,455

The following table summarizes the Company's RSU, PSU and restricted stock activity as of and for the years ended December 31, 2018 and 2017:

	Year Ended December 31, 2018	2017
	(in thousands)	
Balance, January 1,	436	494
Granted	459	232
Vested	(337)	(110)
Forfeited	(147)	(180)
Balance, December 31,	411	436

The weighted average remaining contractual term in years for equity awards outstanding as of and for the years ended December 31, 2018, 2017 and 2016 was 1.7 years, 1.7 years and 2.8 years, respectively. At December 31, 2018 equity awards vested and expected to vest totaled 2.7 million with awards available for grant of approximately 2.2 million.

The following is a summary of changes in unvested equity awards, including stock options, RSUs, PSUs and restricted stock, as of and for the years ended December 31, 2018, 2017 and 2016:

	Number of Underlying Shares	Weighted Average Grant Date Fair Value
	(in thousands)	
Unvested equity awards, January 1, 2016	506	$ 21.48
Granted	753	$ 11.57
Vested	(169)	$ 18.34
Forfeited	(617)	$ 13.97
Unvested equity awards, December 31, 2016	473	$ 16.62
Granted	232	$ 19.42
Vested	(182)	$ 14.16
Forfeited	(227)	$ 11.66
Unvested equity awards, December 31, 2017	296	$ 24.13
Granted	519	$ 14.03
Vested	(259)	$ 22.03
Forfeited	(200)	$ 12.41
Unvested equity awards, December 31, 2018	356	$ 17.52

Note 11—Earnings (loss) per Share

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

	Year Ended December 31,		
	2018	2017	2016
	(in thousands)		
Net loss attributable to RigNet, Inc. common stockholders	$(62,453)	$(16,176)	$(11,507)
Weighted average shares outstanding, basic	18,713	18,009	17,768
Effect of dilutive securities	—	—	—
Weighted average shares outstanding, diluted	18,713	18,009	17,768

As of December 31, 2018, there were approximately 573,481 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.

As of December 31, 2017, there were approximately 625,039 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.

As of December 31, 2016, there were approximately 1,120,400 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 12—Segment Information

Segment information has been prepared consistent with the components of the enterprise for which separate financial information is available and regularly evaluated by the chief operating decision-maker for the purpose of allocating resources and assessing performance. Managed Communications 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, eliminations, the GX dispute and change in fair value of earn-out/contingent consideration.

The Company’s reportable segment information as of and for the years ended December 31, 2018, 2017 and 2016 is presented below.

	Managed Communication Services	Applications and Internet-of-Things	Systems Integration	Corporate and Eliminations	Consolidated Total
			(in thousands)		
2018					
Revenue	$ 171,574	$ 25,713	$ 41,567	$ —	$ 238,854
Cost of revenue (excluding depreciation and amortization)	105,101	13,386	28,116	—	146,603
Depreciation and amortization	22,759	4,570	2,511	3,314	33,154
Change in fair value of earn-out/contingent consideration	—	—	—	3,543	3,543
GX dispute	—	—	—	50,612	50,612
Selling, general and administrative	16,448	1,961	1,698	45,930	66,037
Operating income (loss)	$ 27,266	$ 5,796	$ 9,242	$ (103,399)	$ (61,095)
Total assets	171,503	47,175	24,094	16,153	258,925
Capital expenditures	29,058	759	—	706	30,523
2017					
Revenue	$ 164,238	$ 15,626	$ 25,028	$ —	$ 204,892
Cost of revenue (excluding depreciation and amortization)	101,681	10,751	18,734	—	131,166
Depreciation and amortization	23,202	1,738	2,438	3,467	30,845
Change in fair value of earn-out/contingent consideration	—	—	—	(320)	(320)
Selling, general and administrative	16,841	1,685	1,403	33,260	53,189
Operating income (loss)	$ 22,514	$ 1,452	$ 2,453	$ (36,407)	$ (9,988)
Total assets	181,157	32,464	16,708	(235)	230,094
Capital expenditures	17,066	198	—	645	17,909
2016					
Revenue	$ 192,538	$ 6,495	$ 21,590	$ —	$ 220,623
Cost of revenue (excluding depreciation and amortization)	112,046	2,703	15,010	—	129,759
Depreciation and amortization	26,581	—	2,712	4,263	33,556
Impairment of intangibles	—	—	—	397	397
Change in fair value of earn-out/contingent consideration	—	—	—	(1,279)	(1,279)
Selling, general and administrative	28,422	268	2,665	29,286	60,641
Operating income (loss)	$ 25,489	$ 3,524	$ 1,203	$ (32,667)	$ (2,451)
Total assets	203,048	—	26,169	1,755	230,972
Capital expenditures	13,794	—	—	1,403	15,197

The following table presents revenue earned from the Company's domestic and international operations for the years ended December 31, 2018, 2017 and 2016. Revenue is based on the location where services are provided or goods are sold. Due to the mobile nature of RigNet's customer base and the services provided, the Company works closely with its customers to ensure rig or vessel moves are closely monitored to ensure location of service information is properly reflected.

	Year Ended December 31,		
	2018	2017	2016
	(in thousands)		
Domestic	$106,189	$ 63,460	$ 66,028
International	132,665	141,432	154,595
Total	$238,854	$204,892	$220,623

The following table presents goodwill and long-lived assets for the Company's domestic and international operations as of December 31, 2018 and 2017.

	December 31,	
	2018	2017
	(in thousands)	
Domestic	$ 73,615	$ 68,942
International	70,334	58,895
Total	$143,949	$127,837

Note 13—Income Taxes

Income Tax Expense

The components of the income tax expense are:

	Year Ended December 31,		
	2018	2017	2016
	(in thousands)		
Current:			
Federal	$ —	$ —	$ 23
State	659	495	43
Foreign	4,174	2,638	4,386
Total current	4,833	3,133	4,452
Deferred:			
Federal	(411)	(2,020)	458
State	(1)	(8)	419
Foreign	(7,167)	2,367	496
Total deferred	(7,579)	339	1,373
Income tax expense (benefit)	$(2,746)	$ 3,472	$5,825

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

	Year Ended December 31,		
	2018	2017	2016
		(in thousands)	
Income (loss) before income taxes:			
United States	$(63,266)	$(15,019)	$(18,361)
Foreign	(1,794)	2,294	12,889
	$(65,060)	$(12,725)	$ (5,472)

Income tax expense differs from the amount computed by applying the 2018 statutory federal income tax rate of 21.0% and the 2017 and 2016 statutory federal income tax rate of 35% to income (loss) before taxes as follows:

	Year Ended December 31,		
	2018	2017	2016
		(in thousands)	
United States statutory federal income tax rate	$(13,663)	$(4,454)	$(1,915)
Non-deductible expenses	592	(294)	290
Deferred earnout adjustments	1,253	—	—
Noncash compensation	359	(30)	761
U.S. tax on foreign earnings, net of tax credits	—	(1,283)	587
Changes in valuation allowances	7,920	(5,956)	6,681
Tax credits	(1,025)	(699)	(4,403)
State taxes	74	224	53
Effect of operating in foreign jurisdictions	1,545	2,101	1,818
Deemed repatriation transition tax	—	3,807	—
Reduction of federal corporate tax rate	1,823	8,190	—
Changes in prior year estimates	(66)	(26)	293
Changes in uncertain tax benefits	(1,506)	1,798	1,243
Revisions of deferred tax accounts	(56)	(10)	313
Other	4	104	104
Income tax expense (benefit)	$ (2,746)	$ 3,472	$ 5,825

Deferred Tax Assets and Liabilities

The Company's deferred tax position reflects the net tax effects of the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax reporting. Significant components of the deferred tax assets and liabilities are as follows:

	December 31, 2018	December 31, 2017
	(in thousands)	
Deferred tax assets:		
Net operating loss carryforwards	$ 17,934	$ 15,598
Federal, state and foreign tax credits	13,042	17,833
Depreciation and amortization	12,359	13,009
Unrealized loss on functional currency	1,203	565
Allowance for doubtful accounts	1,221	704
Accruals not currently deductible	12,559	1,027
Stock-based compensation	755	812
Intercompany interest	1,779	1,985
Other	193	351
Valuation allowance	(51,316)	(45,129)
Total deferred tax assets	9,729	6,755
Deferred tax liabilities:		
Depreciation and amortization	(2,342)	(605)
Tax on foreign earnings	—	—
Other	(398)	(280)
Total deferred tax liabilities	(2,740)	(885)
Net deferred tax assets	$ 6,989	$ 5,870

As of December 31, 2018, the Company's as filed net operating loss and tax credit carryforwards were as follows:

Jurisdiction	Expiration Period Begins	Net Operating Loss Carryforwards	Tax Credit Carryforwards
		(in thousands)	
U.S. Federal	2036	$ 20,263	$ —
U.S. Federal	Indefinite	5,728	—
U.S. Federal	2020	—	9,930
U.S. State	2020	6,763	—
Non-U.S.	Indefinite	49,141	—
Non-U.S.	2019	1,607	—
		$ 83,502	$ 9,930

As of December 31, 2018, the Company's valuation allowances were as follows:

Jurisdiction	Valuation Allowances
	(in thousands)
United States	$ 38,450
Norway	10,093
United Kingdom	2,466
Other	307
	$ 51,316

The amount reported on an as filed basis can differ from the amount recorded in the deferred tax assets of the Company's financial statements due to the utilization or creation of assets in recording uncertain tax benefits.

In assessing deferred tax assets, the Company considers whether a valuation allowance should be recorded for some or all of the deferred tax assets which may not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which the temporary differences become deductible. Among other items, the Company considers the scheduled reversal of deferred tax liabilities, projected future taxable income and available tax planning strategies. While the Company expects to realize the remaining net deferred tax assets, changes in future taxable income or in tax laws may alter this expectation and result in future increases to the valuation allowance.

During 2018, the Company released the valuation allowance of $4.2 million in Australia. Management determined that sufficient positive evidence exists to conclude that it is more likely than not that the deferred tax assets will be realized in the future.

As of December 31, 2018, the Company intends to continue reinvesting earnings outside of the United States for the foreseeable future. This determination is based on estimates that future domestic cash generation will be sufficient to meet future domestic cash needs and on its specific plan for reinvestment of the foreign subsidiaries' undistributed earnings, with the exception of RigNet Qatar W.L.L. The Company did recognize U.S. taxes on the one-time repatriation tax due under the 2017 Tax Cuts and Jobs Act. While the Company does not expect to repatriate cash to the United States, if these amounts were distributed in the form of dividends or otherwise, the Company may be subject to additional tax liabilities with respect to items such as certain foreign exchange gains or losses, withholding taxes or state taxes It is not practicable at this time to determine the amount of unrecognized deferred tax liabilities with respect to the reinvested foreign earnings.

Corporate Tax Reform

On December 22, 2017 the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (The Tax Act), making broad and complex changes to the U.S. tax code.

The SEC staff issued SAB 118, which provides guidance on accounting for the tax effects of the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the accounting under ASC 740. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the Tax Act for which the accounting under ASC 740 is complete. To the extent that a company's accounting for certain income tax effects of the Tax Act is incomplete but it is able to determine a reasonable estimate, it must record a provisional estimate in the financial statements. If a company cannot determine a provisional estimate to be included in the financial statements, it should continue to apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the Tax Act.

During 2018, the Company has completed the accounting for the income tax effects of the Tax Act based on current regulations and available information. Any additional guidance issued by the IRS could impact our recorded amounts in future periods.. The adjustments related to The Tax Act are recorded as follows:

Reduction of US Federal Corporate Tax Rate: In the fourth quarter of 2017, the Company recorded a provisional decrease of $8.2 million to deferred tax expense related to the US federal corporate tax rate reduction. The Department of Treasury and the Internal Revenue Service issued proposed regulations in 2018 which provided additional guidance on the provisions of the Transition Tax under Section 965, including the election not to apply net operating loss deductions against the Transition Tax. The Company elected to apply foreign tax credits against the Transition Tax rather than current year operating losses. Due to utilizing credits rather than current operating losses, the Company recorded an additional decrease of $1.8 million to deferred tax expense and assets in 2018; however, since the Company recognizes a full valuation on the deferred tax asset, there is no impact to the 2018 federal tax provision. The Company considers this item complete.

Deemed Repatriation Transition Tax: In the fourth quarter of 2017, the Company recorded a provisional Transition Tax obligation of $3.8 million, which was fully offset by current losses and foreign tax credits. The Department of Treasury and the Internal Revenue Service issued proposed regulations in 2018 which provided additional guidance on the provisions of the Transition Tax under Section 965, including the election not to apply net operating loss deductions against the Transition Tax. The Company elected to apply foreign tax credits against the Transition Tax rather than current year operating losses. The final Transition Tax obligation of $4.0 million is fully offset by foreign tax credits. The Company considers this item complete.

Global Intangible Low Taxed Income (GILTI): In the fourth quarter of 2017, the Company was not able to reasonably estimate the effects for GILTI. Therefore, no provisional adjustment was recorded. Under U.S. GAAP, the Company is allowed to make an accounting policy choice of either (1) treating taxes due on future U.S. inclusions in taxable income related to GILTI as a current-period expense when incurred (the period cost method) or (2) factoring such amounts into a company's measurement of its deferred taxes (the deferred method). The Company's selection of an accounting policy related to the new GILTI tax rules will depend, in part, on analyzing its global income to determine whether it expects to have future U.S. inclusions in taxable income related to GILTI and, if so, what the impact is expected to be. The Company has elected to treat any future U.S. inclusions in taxable income related to GILTI as a current-period expense when incurred (the period cost method). The Company prepared an estimate for 2018, which resulted in no GILTI impact. The Company considers this item complete.

Uncertain Tax Benefits

The Company evaluates its tax positions and recognizes only tax benefits that, more likely than not, will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax position is measured at the largest amount of benefit that has a greater than 50.0% likelihood of being realized upon settlement. At December 31, 2018, 2017 and 2016, the Company's uncertain tax benefits totaling $16.1 million, $18.8 million and $21.8 million, respectively, are reported as other liabilities in the consolidated balance sheets. Changes in the Company's gross unrecognized tax benefits are as follows:

	Year Ended December 31,		
	2018	2017	2016
		(in thousands)	
Balance, January 1,	$ 9,637	$13,244	$15,718
Additions for the current year tax	—	—	794
Additions related to prior years	—	110	602
Reductions related to settlements with taxing authorities	—	—	(3,701)
Reductions related to lapses in statue of limitations	(1,262)	(327)	(169)
Reductions related to prior years	(878)	(3,390)	—
Balance, December 31,	$ 7,497	$ 9,637	$13,244

As of December 31, 2018, the Company's gross unrecognized tax benefits which would impact the annual effective tax rate upon recognition were $7.5 million. In addition, as of December 31, 2018, the Company has recorded related assets, net of a valuation allowance of $1.1 million. The related asset might not be recognized in the same period as the contingent tax liability and like interest and penalties does have an impact on the annual effective tax rate. The Company has elected to include income tax related interest and penalties as a component of income tax expense. As of December 31, 2018, 2017 and 2016, the Company has accrued penalties and interest of approximately $8.6 million, $9.2 million and $8.8 million, respectively. The Company has recognized ($0.6) million, $0.3 million and $1.6 million of interest and penalties in income tax expense for the years ended December 31, 2018, 2017 and 2016, respectively. To the extent interest and penalties are not assessed with respect to uncertain tax positions, accruals will be reduced and reflected as a reduction to income tax expense.

The Company believes that it is reasonably possible that a decrease of up to $3.3 million in unrecognized tax benefits, including related interest and penalties, may be necessary within the coming year due to lapse in statute of limitations.

The Company files income tax returns in the U.S. federal jurisdiction, and various states and foreign jurisdictions. All of the Company's federal filings are still subject to tax examinations. With few exceptions, the Company is no longer subject to the foreign income tax examinations by tax authorities for years before 2008.

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.

Note 14—Supplemental Quarterly Financial Information (Unaudited)

Summarized quarterly supplemental consolidated financial information for 2018 and 2017 are as follows:

	2018 Quarter Ended			
	March 31	June 30	September 30	December 31
	(in thousands, except per share data)			
Revenue	$ 53,833	$60,007	$ 64,770	$ 60,244
Operating loss	$ (4,470)	$ (4,330)	$ (1,021)	$ (51,274)
Net loss	$ (5,526)	$ (4,299)	$ (2,798)	$ (49,691)
Net loss attributable to RigNet, Inc. common stockholders	$ (5,556)	$ (4,329)	$ (2,847)	$ (49,721)
Net loss per share attributable to RigNet, Inc. common stockholders, basic	$ (0.31)	$ (0.23)	$ (0.15)	$ (2.62)
Net loss per share attributable to RigNet, Inc. common stockholders, diluted	$ (0.31)	$ (0.23)	$ (0.15)	$ (2.62)
Weighted average shares outstanding, basic	18,146	18,639	18,905	18,948
Weighted average shares outstanding, diluted	18,146	18,639	18,905	18,948

	2017 Quarter Ended			
	March 31	June 30	September 30	December 31
	(in thousands, except per share data)			
Revenue	$ 48,072	$49,162	$ 50,844	$ 56,814
Operating loss	$ (1,067)	$ (3,438)	$ (2,951)	$ (2,532)
Net loss	$ (1,987)	$ (4,210)	$ (4,193)	$ (5,807)
Net loss attributable to RigNet, Inc. common stockholders	$ (2,026)	$ (4,249)	$ (4,232)	$ (5,669)
Net loss per share attributable to RigNet, Inc. common stockholders, basic	$ (0.11)	$ (0.24)	$ (0.23)	$ (0.31)
Net loss per share attributable to RigNet, Inc. common stockholders, diluted	$ (0.11)	$ (0.24)	$ (0.23)	$ (0.31)
Weighted average shares outstanding, basic	17,873	17,985	18,086	18,090
Weighted average shares outstanding, diluted	17,873	17,985	18,086	18,090

Note—The Quarter Ended December 31, 2018 includes a net $50.6 million expense accrual for the GX dispute reported in general and administrative expense. See a more complete discussion of the GX Dispute in Note 9 of the Notes to Consolidated Financial Statements and in Item 3, Legal Proceedings of this Annual Report on Form 10-K.

Note 15 – Employee Benefits

The Company maintains a 401(k)-plan pursuant to which eligible employees may make contributions through a payroll deduction.

Effective January 1, 2018, the Company re-instated the 401(k) match under which the Company will make matching cash contributions of 100% of each employee's contribution up to 3.0% of that employee's eligible compensation and 50% of each employee's contribution between 3.0% and 5.0% of such employee's eligible compensation, up to the maximum amount permitted by law. The Company incurred expenses of $0.8 million, none and none for the years ended December 31, 2018, 2017 and 2016, respectively, for employer contributions.

Note 16 – Restructuring Costs – Cost Reduction Plans

During the year ended December 31, 2018, the Company incurred a net pre-tax restructuring expense of $0.8 million reported as general and administrative expense in the Corporate segment associated with the reduction of 23 employees.

During the year ended December 31, 2017, the Company incurred a net pre-tax restructuring expense of $0.8 million reported as general and administrative expense in the Corporate segment associated with the reduction of 31 employees.

During the year ended December 31, 2016, the Company incurred net pre-tax restructuring expense of $1.9 million reported as general and administrative expense in the Corporate segment consisting of $3.3 million associated with the reduction of 148 employees partially offset by a net $1.4 million release of previously accrued restructuring charges.

Note 17 –Executive Departure costs

Charles “Chip” Schneider, the prior Senior Vice President and Chief Financial Officer, departed the Company effective December 27, 2017. On August 20, 2018, Lee M. Ahlstrom was named Senior Vice President and Chief Financial Officer.

Marty Jimmerson, the Company’s former CFO, served as Interim CEO and President from January 7, 2016 to May 31, 2016, to replace Mark Slaughter, the prior CEO and President. Mr. Jimmerson departed the Company on June 1, 2016. On May 31, 2016, Steven E. Pickett was named Chief Executive Officer (CEO) and President of the Company.

In connection with these executive departures, the Company incurred executive departure expense of $0.4 million, $1.2 million and $1.9 million for the years ended December 31, 2018, 2017 and 2016, respectively, in the corporate segment.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statements No. 333-171278 and 333-211471 on Form S-8, and Registration Statement No. 333-217867 on Form S-3 of our reports relating to the financial statements of RigNet, Inc. and subsidiaries (the "Company") dated March 15, 2019 (May 9, 2019, as to the matter described in Note 6 to the consolidated financial statements), and our report relating to the effectiveness of the Company's internal control over financial reporting dated March 15, 2019 (May 9, 2019, as to the effects of the material weakness described in Management's Report on Internal Control over Financial Reporting (as revised), which report expresses an adverse opinion on the effectiveness of the Company's internal control over financial reporting because of a material weakness), appearing in the Annual Report on Form 10-K/A of RigNet, Inc. and subsidiaries for the year ended December 31, 2018.

Houston, Texas
May 9, 2019

Exhibit 31.1

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:

1. I have reviewed this Annual Report on Form 10-K/A of RigNet, Inc. (the "Registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

   a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

   d. disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's Board of Directors (or persons performing the equivalent functions):

   a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

   b. any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

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

Date: May 9, 2019

Exhibit 31.2

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 Annual Report on Form 10-K/A of RigNet, Inc. (the "Registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

   a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

   d. disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's Board of Directors (or persons performing the equivalent functions):

   a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

   b. any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

By: /s/ LEE AHLSTROM
Lee Ahlstrom
Chief Financial Officer

Date: May 9, 2019

Exhibit 32.1

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

In connection with the accompanying Annual Report on Form 10-K/A for the period ended December 31, 2018 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: May 9, 2019

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

Exhibit 32.2

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

In connection with the accompanying Annual Report on Form 10-K/A for the period ended December 31, 2018 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: May 9, 2019

/s/ LEE AHLSTROM
Lee Ahlstrom
Chief Financial Officer