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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2019

or

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

For the transition period from __________ to __________

Commission file number 001-35003

RigNet, Inc.
(Exact name of registrant as specified in its charter)

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer	☐	Accelerated filer	☒		
Non-accelerated filer	☐	Smaller reporting company	☒	Emerging growth company	☐

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

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

At October 31, 2019, there were outstanding 19,970,308 shares of the registrant’s Common Stock.

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Glossary

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

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

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

PART I – FINANCIAL INFORMATION

Item 1. *Condensed Consolidated Financial Statements*

RIGNET, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	September 30, 2019	December 31, 2018
	(in thousands, except share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 14,267	$ 21,711
Restricted cash	39	41
Accounts receivable, net	61,895	67,450
Costs and estimated earnings in excess of billings on uncompleted contracts (CIEB)	11,589	7,138
Prepaid expenses and other current assets	6,795	6,767
Total current assets	**94,585**	**103,107**
Property, plant and equipment, net	60,283	63,585
Restricted cash	1,522	1,544
Goodwill	45,484	46,631
Intangibles, net	30,083	33,733
Right-of-use lease asset	3,891	—
Deferred tax and other assets	7,312	10,325
TOTAL ASSETS	**$ 243,160**	**$ 258,925**
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 26,624	$ 20,568
Accrued expenses	16,810	16,374
Current maturities of long-term debt	10,795	4,942
Income taxes payable	1,789	2,431
GX dispute accrual	750	50,765
Deferred revenue and other current liabilities	10,897	5,863
Total current liabilities	**67,665**	**100,943**
Long-term debt	103,641	72,085
Deferred revenue	180	318
Deferred tax liability	2,889	652
Right-of-use lease liability - long-term portion	3,576	—
Other liabilities	21,702	28,943
Total liabilities	**199,653**	**202,941**
Commitments and contingencies (Note 11)		
Equity:		
Stockholders' equity		
Preferred stock - $0.001 par value; 10,000,000 shares authorized; no shares issued or outstanding at September 30, 2019 or December 31, 2018	—	—
Common stock - $0.001 par value; 190,000,000 shares authorized; 19,970,308 and 19,464,847 shares issued and outstanding at September 30, 2019 and December 31, 2018, respectively	20	19
Treasury stock - 201,622 and 91,567 shares at September 30, 2019 and December 31, 2018, respectively, at cost	(2,682)	(1,270)
Additional paid-in capital	183,081	172,946
Accumulated deficit	(115,150)	(96,517)
Accumulated other comprehensive loss	(21,831)	(19,254)
Total stockholders' equity	**43,438**	**55,924**
Non-redeemable, non-controlling interest	69	60
Total equity	**43,507**	**55,984**
TOTAL LIABILITIES AND EQUITY	**$ 243,160**	**$ 258,925**

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

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

	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
	(in thousands, except per share amounts)			
Revenue	**$ 60,993**	**$ 64,770**	**$ 178,835**	**$ 178,610**
Expenses:				
Cost of revenue (excluding depreciation and amortization)	35,662	40,734	108,637	110,661
Depreciation and amortization	7,172	8,413	23,763	24,756
Change in fair value of earn-out/contingent consideration	—	(750)	1,284	2,050
Selling and marketing	2,784	2,728	9,529	9,866
General and administrative	12,377	14,666	43,305	41,098
Total expenses	**57,995**	**65,791**	**186,518**	**188,431**
Operating income (loss)	**2,998**	**(1,021)**	**(7,683)**	**(9,821)**
Other income (expense):				
Interest expense	(1,784)	(807)	(4,291)	(2,773)
Other expense, net	(486)	(658)	(507)	(40)
Income (loss) before income taxes	728	(2,486)	(12,481)	(12,634)
Income tax benefit (expense)	(998)	(312)	(5,868)	11
Net loss	**(270)**	**(2,798)**	**(18,349)**	**(12,623)**
Less: Net income attributable to non-redeemable, non-controlling interest	224	49	284	109
Net loss attributable to RigNet, Inc. stockholders	**$ (494)**	**$ (2,847)**	**$ (18,633)**	**$ (12,732)**
COMPREHENSIVE LOSS				
Net loss	$ (270)	$ (2,798)	$ (18,349)	$ (12,623)
Foreign currency translation	(2,913)	(3,897)	(2,577)	(4,489)
Comprehensive loss	**(3,183)**	**(6,695)**	**(20,926)**	**(17,112)**
Less: Comprehensive income attributable to non-controlling interest	224	49	284	109
Comprehensive loss attributable to RigNet, Inc. stockholders	**$ (3,407)**	**$ (6,744)**	**$ (21,210)**	**$ (17,221)**
LOSS PER SHARE - BASIC AND DILUTED				
Net loss attributable to RigNet, Inc. common stockholders	$ (494)	$ (2,847)	$ (18,633)	$ (12,732)
Net loss per share attributable to RigNet, Inc. common stockholders, basic	$ (0.02)	$ (0.15)	$ (0.94)	$ (0.69)
Net loss per share attributable to RigNet, Inc. common stockholders, diluted	$ (0.02)	$ (0.15)	$ (0.94)	$ (0.69)
Weighted average shares outstanding, basic	19,970	18,905	19,777	18,566
Weighted average shares outstanding, diluted	19,970	18,905	19,777	18,566

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

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

	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
	(in thousands)	
Cash flows from operating activities:		
Net loss	$ (18,349)	$ (12,623)
Adjustments to reconcile net loss to net cash provided by operations:		
Depreciation and amortization	23,763	24,756
Stock-based compensation	7,132	4,368
Amortization of deferred financing costs	252	141
Deferred taxes	4,902	(117)
Change in fair value of earn-out/contingent consideration	1,284	2,050
Accretion of discount of contingent consideration payable for acquisitions	262	368
(Gain) loss on sales of property, plant and equipment, net of retirements	19	34
Changes in operating assets and liabilities, net of effect of acquisition:		
Accounts receivable, net	4,995	(15,428)
Costs and estimated earnings in excess of billings on uncompleted contracts (CIEB)	(4,536)	(1,095)
Prepaid expenses and other assets	128	(1,634)
Right-of-use lease asset	1,214	—
Accounts payable	5,355	3,986
Accrued expenses	36	(1,584)
GX Dispute payment	(50,000)	—
Deferred revenue	1,635	1,512
Right-of-use lease liability	(1,593)	—
Other liabilities	(2,444)	(1,807)
Payout of TECNOR contingent consideration - inception to date change in fair value portion	—	(1,575)
Net cash provided by (used in) operating activities	**(25,945)**	**1,352**
Cash flows from investing activities:		
Acquisitions (net of cash acquired)	—	(5,405)
Capital expenditures	(16,776)	(18,791)
Proceeds from sales of property, plant and equipment	300	685
Net cash used in investing activities	**(16,476)**	**(23,511)**
Cash flows from financing activities:		
Issuance of common stock upon the exercise of stock options and the vesting of restricted stock	4	967
Stock withheld to cover employee taxes on stock-based compensation	(1,412)	(1,130)
Subsidiary distributions to non-controlling interest	(275)	(157)
Payout of TECNOR contingent consideration - fair value on acquisition date portion	—	(6,425)
Proceeds from borrowings	48,500	16,750
Repayments of long-term debt	(11,413)	(3,848)
Payment of financing fees	(486)	—
Net cash provided by financing activities	**34,918**	**6,157**
Net change in cash and cash equivalents	**(7,503)**	**(16,002)**
Cash and cash equivalents including restricted cash:		
Balance, January 1,	23,296	36,141
Changes in foreign currency translation	35	2,175
Balance, September 30,	**$ 15,828**	**$ 22,314**
Supplemental disclosures:		
Income taxes paid	$ 3,881	$ 2,989
Interest paid	3,645	2,284
Property, plant and equipment acquired under finance leases	556	—
Non-cash investing - capital expenditures accrued	2,873	2,612
Non-cash investing and financing - issuance of common stock for the Intelieearn-out	3,000	—
Right-of-use operating lease	539	—
Non-cash investing - contingent consideration for acquisitions	—	7,600
Non-cash investing and financing - stock for acquisitions	—	11,436
Liabilities assumed in acquisitions	—	5,513

	September 30, 2019	September 30, 2018
Cash and cash equivalents	$ 14,267	$ 20,726
Restricted cash - current portion	39	42
Restricted cash - long-term portion	1,522	1,546
Cash and cash equivalents including restricted cash	**$ 15,828**	**$ 22,314**

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

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

	Common Stock		Treasury Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity	Non-Redeemable, Non-Controlling Interest	Total Equity
	Shares	Amount	Shares	Amount						
	(dollars and shares in thousands)									
Balance, June 30, 2018	**19,360**	**$ 19**	**90**	**$(1,246)**	**$ 170,603**	**$ (43,949)**	**$ (15,398)**	**$ 110,029**	**$ 72**	**$110,101**
Issuance of common stock upon the exercise of stock options	51	—	—	—	910	—	—	910	—	910
Issuance of common stock upon the vesting of Restricted Stock Units, net of share cancellations	—	—	—	—	—	—	—	—	—	—
Issuance of common stock upon the acquisition of Intelie	—	—	—	—	—	—	—	—	—	—
Stock withheld to cover employee taxes on stock-based compensation	—	—	—	—	—	—	—	—	—	—
Stock-based compensation	—	—	—	—	1,086	—	—	1,086	—	1,086
Cumulative effect adjustment from implementation of ASU 2016-16	—	—	—	—	—	—	—	—	—	—
Foreign currency translation	—	—	—	—	—	—	(3,897)	(3,897)	—	(3,897)
Non-controlling owner distributions	—	—	—	—	—	—	—	—	(91)	(91)
Net income (loss)	—	—	—	—	—	(2,847)	—	(2,847)	49	(2,798)
Balance, September 30, 2018	**19,411**	**$ 19**	**90**	**$(1,246)**	**$ 172,599**	**$ (46,796)**	**$ (19,295)**	**$ 105,281**	**$ 30**	**$105,311**
Balance, June 30, 2019	**19,969**	**$ 20**	**201**	**$(2,676)**	**$ 181,577**	**$ (114,656)**	**$ (18,918)**	**$ 45,347**	**$ (15)**	**$ 45,332**
Issuance of common stock upon the exercise of stock options	—	—	—	—	—	—	—	—	—	—
Issuance of common stock upon the vesting of Restricted Stock Units, net of share cancellations	1	—	—	—	—	—	—	—	—	—
Issuance of common stock upon the Intelie earn-out	—	—	—	—	—	—	—	—	—	—
Stock withheld to cover employee taxes on stock-based compensation	—	—	1	(6)	—	—	—	(6)	—	(6)
Stock-based compensation	—	—	—	—	1,504	—	—	1,504	—	1,504
Foreign currency translation	—	—	—	—	—	—	(2,913)	(2,913)	—	(2,913)
Non-controlling owner distributions	—	—	—	—	—	—	—	—	(140)	(140)
Net income (loss)	—	—	—	—	—	(494)	—	(494)	224	(270)
Balance, September 30, 2019	**19,970**	**$ 20**	**202**	**$(2,682)**	**$ 183,081**	**$ (115,150)**	**$ (21,831)**	**$ 43,438**	**$ 69**	**$ 43,507**

	Common Stock		Treasury Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity	Non-Redeemable, Non-Controlling Interest	Total Equity
	Shares	Amount	Shares	Amount						
	(dollars and shares in thousands)									
Balance, January 1, 2018	**18,233**	**$ 18**	**6**	**$ (116)**	**$ 155,829**	**$ (33,726)**	**$ (14,806)**	**$ 107,199**	**$ 78**	**107,277**
Issuance of common stock upon the exercise of stock options	59	—	—	—	967	—	—	967	—	967
Issuance of common stock upon the vesting of Restricted Stock Units, net of share cancellations	330	—	—	—	—	—	—	—	—	—
Issuance of common stock for acquisitions	789	1	—	—	11,435	—	—	11,436	—	11,436
Stock withheld to cover employee taxes on stock-based compensation	—	—	84	(1,130)	—	—	—	(1,130)	—	(1,130)
Stock-based compensation	—	—	—	—	4,368	—	—	4,368	—	4,368
Cumulative effect adjustment from implementation of ASU 2016-16	—	—	—	—	—	(338)	—	(338)	—	(338)
Foreign currency translation	—	—	—	—	—	—	(4,489)	(4,489)	—	(4,489)
Non-controlling owner distributions	—	—	—	—	—	—	—	—	(157)	(157)
Net income (loss)	—	—	—	—	—	(12,732)	—	(12,732)	109	(12,623)
Balance, September 30, 2018	**19,411**	**$ 19**	**90**	**$(1,246)**	**$ 172,599**	**$ (46,796)**	**$ (19,295)**	**$ 105,281**	**$ 30**	**$105,311**
Balance, January 1, 2019	**19,465**	**$ 19**	**92**	**$(1,270)**	**$ 172,946**	**$ (96,517)**	**$ (19,254)**	**$ 55,924**	**$ 60**	**$ 55,984**
Issuance of common stock upon the exercise of stock options	1	—	—	—	3	—	—	3	—	3
Issuance of common stock upon the vesting of Restricted Stock Units, net of share cancellations	296	1	—	—	—	—	—	1	—	1
Issuance of common stock for the Intelie earn-out	208	—	—	—	3,000	—	—	3,000	—	3,000
Stock withheld to cover employee taxes on stock-based compensation	—	—	110	(1,412)	—	—	—	(1,412)	—	(1,412)

Stock-based compensation	—	—	—	—	7,132	—	—	7,132	—	7,132
Foreign currency translation	—	—	—	—	—	—	(2,577)	(2,577)	—	(2,577)
Non-controlling owner distributions	—	—	—	—	—	—	—	—	(275)	(275)
Net income (loss)	—	—	—	—	—	(18,633)	—	(18,633)	284	(18,349)
Balance, September 30, 2019	**19,970**	**$ 20**	**202**	**$(2,682)**	**$ 183,081**	**$ (115,150)**	**$ (21,831)**	**$ 43,438**	**$ 69**	**$ 43,507**

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Basis of Presentation

The interim unaudited condensed consolidated financial statements of RigNet, Inc. (the Company or RigNet) include all adjustments which, in the opinion of management, are necessary for a fair presentation of the Company's financial position and results of operations. All such adjustments are of a normal recurring nature. These financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and Rule 10-01 of Regulation S-X. The preparation of these financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying footnotes. Estimates and assumptions about future events and their effects cannot be perceived with certainty. Estimates may change as new events occur, as more experience is acquired, as additional information becomes available and as the Company's operating environment changes. Actual results could differ from estimates. These interim financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2018 included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 15, 2019.

Significant Accounting Policies

In addition to the accounting policies described below, please refer to RigNet's Annual Report on Form10-K for fiscal year 2018 for information regarding the Company's accounting policies.

Revenue Recognition – Revenue from Contracts with Customers

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

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

MCS and Apps & IoT customers are primarily served under fixed-price contracts, either on a monthly or day rate basis or for equipment sales and consulting services. Contracts are generally in the form of Master Service Agreements, or MSAs, with specific services being provided under individual service orders. Offshore contracts generally have a term of up to three years with renewal options. Land-based contracts are generally shorter term or terminable on short notice without a penalty. Service orders are executed under the MSA for individual remote sites or groups of sites, and generally permit early termination on short notice without penalty in the event of force majeure, breach of the MSA or cold stacking of a drilling rig (when a rig is taken out of service and is expected to be idle for a protracted period of time).

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

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

***Revenue Recognition* – Systems Integration**

Revenues related to long-term, fixed-price Systems Integration contracts for customized network solutions are recognized based on the percentage of completion for the contract. At any point, RigNet has numerous contracts in progress, all of which are at various stages of completion. Accounting for revenues and profits on long-term contracts requires estimates of total estimated contract costs and estimates of progress toward completion to determine the extent of revenue and profit recognition.

Performance Obligations Satisfied Over Time — The delivery of a Systems Integration solution represents the single performance obligation under Systems Integration contracts. Progress towards completion on fixed-price contracts is measured based on the ratio of costs incurred to total estimated contract costs (the cost-to-cost method). These estimates may be revised as additional information becomes available or as specific project circumstances change.

The Company reviews all material contracts on a monthly basis and revises the estimates as appropriate for developments such as providing services, purchasing third-party materials and equipment at costs differing from those previously estimated, and incurring or expecting to incur schedule issues. Changes in estimated final contract revenues and costs can either increase or decrease the final estimated contract profit or loss. Profits are recorded in the period in which a change in estimate is recognized, based on progress achieved through the period of change. Anticipated losses on contracts are recorded in full in the period in which they become evident. Revenue recognized in excess of amounts billed is classified as a current asset under Costs and estimated earnings in excess of billings on uncompleted contracts (CIEB).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Systems Integration contracts are billed in accordance with the terms of the contract which are typically either based on milestones or specified time intervals. As of September 30, 2019 and December 31, 2018, the amount of CIEB related to Systems Integration projects was $11.6 million and $7.1 million, respectively. Under long-term contracts, amounts recorded in CIEB may not be realized or paid within a one-year period. As of September 30, 2019 and December 31, 2018, $1.2 million and none, respectively, of amounts billed to customers in excess of revenue recognized to date were classified as a current liability, under deferred revenue and other current liabilities.

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

Backlog - As of September 30, 2019, we have backlog for our percentage of completion projects of $35.9 million, which will be recognized over the remaining contract term for each contract. Percentage of completion contract terms are typically one to three years.

Leases

Effective with adoption of Accounting Standards Update No. 2016-02 (ASU2016-02), Leases (the new lease standard) on January 1, 2019, we determine if an arrangement is a lease at inception. Operating leases right of use assets and liabilities are included in right to use lease asset, deferred revenue and other current liabilities, and right to use lease liability – long-term portion on our condensed consolidated balance sheets. Finance leases are included in property, plant and equipment; current maturities of long-term debt; and long-term debt on our condensed consolidated balance sheets.

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

Recently Issued Accounting Pronouncements

In March 2016, the FASB issued ASU2016-02, Leases. This ASU is effective for annual reporting periods beginning after December 15, 2018. This ASU introduces a new lessee model that generally brings leases on to the balance sheet. The Company adopted this ASU as of the first quarter 2019, and it required right-of-use liabilities on the consolidated balance sheet of $6.5 million as of March 31, 2019, of which $5.8 million were long-term and $0.7 million were current, with no related impact on the Company's Condensed Consolidated Statement of Equity or Comprehensive Loss. The Company elected the package of practical expedients permitted under the transition guidance within the new standard which, among other things, allows companies to carry forward their historical lease classification and to not record leases with an initial term of less than 12 months. The Company has used the optional transition method permitted under Accounting Standards Update No. 2018-11 (ASU 2018-11). Accordingly, prior year amounts have not been adjusted and continue to be reflected in accordance with the Company's historical accounting. The Company's credit agreement excludes the impact of ASU 2016-02.

In June 2016, the FASB issued Accounting Standards UpdateNo. 2016-13 (ASU 2016-13), which measures credit losses on most financial assets and certain other instruments that are not measured at fair value through net income. The update amends the impairment model to utilize a current expected credit loss (CECL) methodology in place of the incurred loss methodology for financial instruments, including trade receivables. The amendment requires entities to consider a broader range of information to estimate expected credit losses, which may result in earlier recognition of losses. Companies will apply this standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. The new standard is effective for interim and annual reporting periods beginning after December 15, 2019. The Company is evaluating the potential impact of this guidance on its consolidated financial statements and will adopt the guidance effective January 1, 2020.

In June 2018, the FASB issued Accounting Standards UpdateNo. 2018-07 (ASU 2018-07), which expands the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. The ASU is effective for annual and interim reporting periods beginning after December 15, 2018. The adoption of this ASU did not have any material impact on the Company's condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

Note 2 – Business Combinations

Auto-Comm and SAFCON

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

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

The assets and liabilities of Auto-Comm and SAFCON have been recorded at their estimated fair values at the date of acquisition. The excess of the purchase price over the estimated fair values of the underlying net tangible and identifiable intangible assets and liabilities has been recorded as goodwill.

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

	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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 earn-out for Intelie is measured at fair value in each reporting period, based on level 3 inputs, with any change to fair value recorded in the Condensed Consolidated Statements of Comprehensive Loss. As of September 30, 2019, the fair value of the earn-out was $7.9 million with $4.4 million in deferred revenue and other current liabilities and $3.5 million in other long-term liabilities. During the nine months ended September 30, 2019, RigNet recognized accreted interest expense on the Intelie earn-out of $0.2 million with corresponding increases to other liabilities. Portions of the earn-out are payable in RigNet stock on the first, second and third anniversary of the closing of the acquisition based on certain post-closing performance targets under the acquisition agreement. On April 29, 2019, the agreement was amended to clarify the calculation of certain contingent consideration, but did not change the amount or form of consideration that could be paid pursuant to the purchase agreement. In May 2019, the Company issued 208,356 shares of its common stock, with an aggregate value of $3.0 million, as payment for the portion of the earn-out earned as of the first anniversary of the closing of the acquisition.

The goodwill of $10.7 million arising from the acquisition consists largely of growth prospects, synergies and other benefits that the Company believes will result from combining the operations of the Company and Intelie, as well as other intangible assets that do not qualify for separate recognition, such as assembled workforce in place at the date of acquisition. None of the goodwill recognized is expected to be deductible for income tax purposes. The acquisition of Intelie, including goodwill, is included in the Company's condensed consolidated financial statements as of the acquisition date and is reflected in the Apps & IoT segment.

	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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Actual and Pro Forma Impact of the 2018 Acquisitions

The 2018 acquisitions of Auto-Comm, SAFCON and Intelie contributed revenue and net income of $7.0 million and $0.8 million, respectively, for the three months ended September 30, 2018. The 2018 acquisitions of Auto-Comm, SAFCON and Intelie contributed revenue and net income of $13.2 million and $1.6 million, respectively, for the nine months ended September 30, 2018.

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

	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018
	(in thousands, except per share amounts)	
Revenue	$ 64,770	$ 183,067
Expenses	67,568	195,161
Net loss	$ (2,798)	$ (12,094)
Net loss attributable to RigNet, Inc. common stockholders	$ (2,847)	$ (12,203)
Net loss per share attributable to RigNet, Inc. common stockholders:		
Basic	$ (0.15)	$ (0.66)
Diluted	$ (0.15)	$ (0.66)

The Company incurred acquisition-related costs of $0.1 million and $0.9 million in the three months ended September 30, 2019 and 2018, respectively, and $0.5 million and $2.1 million in the nine months ended September 30, 2019 and 2018, respectively, reported in general and administrative costs.

Note 3 – Business and Credit Concentrations

The Company is exposed to various business and credit risks including interest rate, foreign currency, credit and liquidity risks.

Interest Rate Risk

The Company has significant interest-bearing liabilities at variable interest rates which generally price monthly. The Company's variable borrowing rates are tied to LIBOR resulting in interest rate risk (see Note 6 – Long-Term Debt). The Company presently does not use financial instruments to hedge interest rate risk, but evaluates this on a regular basis and may utilize financial instruments in the future if deemed necessary.

Foreign Currency Risk

The Company has exposure to foreign currency risk, as a portion of the Company's activities are conducted in currencies other than U.S. dollars. Currently, the Norwegian Kroner, the British Pound Sterling and the Brazilian Real are the currencies that could materially impact the Company's financial position and results of operations. The Company presently does not hedge these risks, but evaluates financial risk on a regular basis and may utilize financial instruments in the future if deemed necessary. Foreign currency translations are reported as accumulated other comprehensive income (loss) in the Company's condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Credit and Customer Concentration Risk

Credit risk, with respect to accounts receivable, is due to the limited number of customers concentrated in the oil and gas, maritime, pipeline, engineering and construction industries. The Company mitigates the risk of financial loss from defaults through defined collection terms in each contract or service agreement and periodic evaluations of the collectability of accounts receivable. The Company provides an allowance for doubtful accounts which is adjusted when the Company becomes aware of a specific customer's inability to meet its financial obligations or as a result of changes in the overall aging of accounts receivable. Although no one customer comprised over 10% of our revenue for the nine months ended September 30, 2019, our top 5 customers generated 24.7% of the Company's revenue for the nine months ended September 30, 2019.

Liquidity Risk

The Company maintains cash and cash equivalent balances with major financial institutions which, at times, exceed federally insured limits. The Company monitors the financial condition of the financial institutions and has not experienced losses associated with these accounts during 2019 or 2018. Liquidity risk is managed by continuously monitoring forecasted and actual cash flows and by matching the maturity profiles of financial assets and liabilities (see Note 6 – Long-Term Debt).

Note 4 – Goodwill and Intangibles

Goodwill

Goodwill resulted from prior acquisitions as the consideration paid for the acquired businesses exceeded the fair value of acquired identifiable net tangible and intangible assets. Goodwill is reviewed for impairment at least annually with additional evaluations being performed when events or circumstances indicate that the carrying value of these assets may not be recoverable.

The Company acquired $1.4 million of goodwill in the Systems Integration segment from the Auto-Comm and SAFCON acquisitions completed on April 18, 2018 (see Note 2 – Business Combinations).

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

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

MCS had $21.9 million of goodwill as of September 30, 2019, and fair value exceeded carrying value by 16.1% as of the July 31, 2019 annual impairment test. Apps & IoT had $22.2 million of goodwill as of September 30, 2019, and fair value exceeded carrying value by 155.7% as of the July 31, 2019 annual impairment test. Systems Integration had $1.4 million of goodwill as of September 30, 2019, and fair value exceeded carrying value by 29.2% as of the July 31, 2019 annual impairment test. Any future downturn in our business could adversely impact the key assumptions in our impairment test. While we believe that there appears to be no indication of current or future impairment, historical operating results may not be indicative of future operating results and events and circumstances may occur causing a triggering event in a period as short as three months.

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

As of September 30, 2019 and December 31, 2018, goodwill was $45.5 million and $46.6 million, respectively. Goodwill increases or decreases in value due to the effect of foreign currency translation, increases with acquisitions, and decreases in the event an impairment is recognized.

Intangibles

Intangibles consist of customer relationships, covenants-not-to-compete, brand name, licenses, technology and backlog acquired as part of the Company's acquisitions. Intangibles also include internal-use software. The Company's intangibles have useful lives ranging from 5.0 to 20.0 years and are amortized on a straight-line basis. Impairment testing is performed when events or circumstances indicate that the carrying value of the assets may not be recoverable.

No impairment indicators have been identified as of September 30, 2019.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As of September 30, 2019 and December 31, 2018, intangibles were $30.1 million and $33.7 million, respectively. During the three months ended September 30, 2019 and 2018, the Company recognized amortization expense of $2.0 million and $2.6 million, respectively. During the nine months ended September 30, 2019 and 2018, the Company recognized amortization expense of $6.9 million and $7.2 million, respectively.

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

2019	1,651
2020	6,544
2021	6,137
2022	5,857
2023	5,213
Thereafter	4,681
	$30,083

Note 5 – Restricted Cash

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

Note 6 – Long-Term Debt

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

	September 30, 2019	December 31, 2018
	(in thousands)	
Term Loan	$ 6,250	$ 10,000
Term-Out Loan	27,000	—
Revolving credit facility (RCF)	81,150	67,150
Unamortized deferred financing costs	(548)	(315)
Finance lease	584	192
	114,436	77,027
Less: Current maturities of long-term debt	(10,629)	(4,831)
Current maturities of finance lease	(166)	(111)
	$ 103,641	$ 72,085

Credit Agreement

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

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Under the Credit Agreement, the Term Loan, Term-Out Loan and the RCF bear interest at a rate of LIBOR plus a margin ranging from 1.75% to 3.00% based on a consolidated leverage ratio defined in the Credit Agreement. Interest on the Term Loan, Term-Out Loan and RCF is payable monthly. Principal installments of $1.25 million and $1.5 million under the Term Loan and Term-Out Loan, respectively, are due quarterly. The weighted average interest rate for the three months ended September 30, 2019 and 2018 were 5.3% and 4.9%, respectively. The weighted average interest rate for the nine months ended September 30, 2019 and 2018 were 5.3% and 4.7%, respectively, with an interest rate of 5.0% at September 30, 2019.

Term Loan

As of September 30, 2019, the Term Loan had an outstanding principal balance of $6.3 million, excluding the impact of unamortized deferred financing costs.

Term-Out Loan

As of September 30, 2019, the Term-Out Loan had an outstanding principal balance of $27.0 million.

RCF

As of September 30, 2019, $81.2 million in draws remain outstanding under the RCF. During the nine months ended September 30, 2019, the Company borrowed $43.0 million under the RCF in connection with the $45.0 million of GX Dispute settlement payments.

Covenants and Restrictions

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

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

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Performance Bonds, Surety Bonds and Other Similar Instruments

As of September 30, 2019, there were $6.3 million of performance bonds, surety bonds and similar instruments outstanding of which $1.7 million is issued by the parties under the Credit Agreement. As of September 30, 2019, there were $0.1 million outstanding standby letters of credit and bank guarantees.

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

Debt Maturities

The following table sets forth the aggregate principal maturities of long-term debt, net of deferred financing cost amortization, for the remainder of 2019 and the following years (in thousands):

2019	2,791
2020	10,814
2021	100,676
2022	116
2023	39
Total debt, including current maturities	$114,436

Note 7 – Fair Value Disclosures

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

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

The Company’s non-financial assets, such as goodwill, intangibles and property, plant and equipment, are measured at fair value, based on level 3 inputs, when there is an indicator of impairment and recorded at fair value only when an impairment charge is recognized.

The earn-out for Intelie is measured at fair value in each reporting period, based on level 3 inputs, with any change to fair value recorded in the Condensed Consolidated Statements of Comprehensive Loss. As of September 30, 2019, the fair value of the earn-out was $7.9 million with $4.4 million in deferred revenue and other current liabilities and $3.5 million in other long-term liabilities. During the three and nine months ended September 30, 2019, RigNet recognized accreted interest expense on the Intelie earn-out of $0.1 million, and $0.2 million, respectively, with corresponding increases to other liabilities. During the three and nine months ended September 30, 2018, RigNet recognized accreted interest expense on the Intelie earn-out of $0.1 million, and $0.1 million, respectively. During the three and nine months ended September 30, 2019, RigNet recognized an increase in the fair value of the earn-out of none and $1.3 million, respectively. The earn-out is payable in RigNet stock in portions on the first, second and third anniversary of the March 23, 2018 closing of the acquisition based on certain post-closing performance targets under the acquisition agreement. In May 2019, the Company issued 208,356 shares of its common stock, with an aggregate value of $3.0 million, as payment for the portion of the earn-out earned as of the first anniversary of the closing of the acquisition.

The contingent consideration for Cyphre, a cybersecurity company acquired in May 2017, is measured at fair value in each reporting period, based on level 3 inputs, with any change to fair value recorded in the Condensed Consolidated Statements of Comprehensive Loss. As of September 30, 2019, the fair value of the contingent consideration was $3.5 million, of which $0.3 million is in other current liabilities and $3.2 million is in other long-term liabilities. During the three and nine months ended September 30, 2019, RigNet recognized accreted interest expense on the Cyphre contingent consideration of $0.1 million, and $0.1 million, respectively, with corresponding increases to other liabilities. During the three and nine months ended September 30, 2018, RigNet recognized accreted interest expense on the Cyphre contingent consideration of $0.1 million, and $0.1 million, respectively.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The earn-out for Orgtec S.A.P.I. de C.V., d.b.a. TECNOR (TECNOR), acquired in February 2016, was measured at fair value, based on level 3 inputs, with any change to fair value recorded in the Condensed Consolidated Statements of Comprehensive Loss in each reporting period. The fair value of the earn-out of $8.0 million was paid in July 2018. During the three and nine months ended September 30, 2018, RigNet recognized accreted interest expense on the TECNOR earn-out liability of $0.1 million with corresponding increases to other liabilities. During the three months ended September 30, 2018, RigNet recognized a decrease in the fair value of the earn-out of $0.8 million. During the nine months ended September 30, 2018, RigNet recognized an increase in the fair value of the earn-out of $2.1 million.

Note 8 – Income Taxes

The Company's effective income tax rate was 137.1% and (47.0%) for the three and nine months ended September 30, 2019, respectively. The Company's effective income tax rate was (12.6)% and 0.1% for the three and nine months ended September 30, 2018, respectively. The Company's effective tax rate is affected by factors including changes in valuation allowances, fluctuations in income across jurisdictions with varying tax rates, and changes in income tax reserves, including related penalties and interest.

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

The IRS finalized the audit of the Company's 2016 income tax return. There were no assessments or material impact to the Company's Consolidated Financial Statements.

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

The Company believes that it is reasonably possible that a decrease of up to $2.8 million in unrecognized tax benefits, including related interest and penalties, may be necessary within the coming year due to lapse in statute of limitations.

Note 9 – Stock-Based Compensation

During the nine months ended September 30, 2019, the Company granted a total of 601,122 stock-based awards to certain officers and employees of the Company under the 2010 Omnibus Incentive Plan (2010 Plan). Of these, the Company granted the following stock-based awards associated with the long term incentive plan (LTIP): (i) 190,588 restricted stock units (RSUs) to certain officers and employees that generally vest over a three year period of continued employment, with 33% of the RSUs vesting on each of the first three anniversaries of the grant date, (ii) 30,648 RSUs to certain officers and employees that generally vest over a four year period of continued employment, with 25% of the RSUs vesting on each of the first four anniversaries of the grant date, (iii) 60,361 performance share units (PSUs) to certain officers and employees that generally cliff vest on the third anniversary of the grant date and are subject to continued employment and certain performance based targets and (iv) 86,772 RSUs to outside directors that vest in 2020. The ultimate number of PSUs issued is based on a multiple determined by certain performance-based targets. The fair value of RSUs and PSUs is determined based on the closing trading price of the Company's common stock on the grant date of the award. Compensation expense is recognized on a straight-line basis over the requisite service period of the entire award, net of forfeitures.

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The fair value of each stock option award is estimated on the grant date using a Black-Scholes option valuation model, which uses certain assumptions as of the date of grant. The assumptions used for the stock option grants made during the nine months ended September 30, 2019, were as follows:

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

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

During the nine months ended September 30, 2019, 30,288 RSUs and 19,826 stock options were forfeited.

Stock-based compensation expense related to the Company's stock-based compensation plans for the three and nine months ended September 30, 2019 was $1.5 million and $7.1 million, respectively. Stock-based compensation expense related to the Company's stock-based compensation plans for the three and nine months ended September 30, 2018 was $1.1 million and $4.4 million, respectively. As of September 30, 2019, there was $4.3 million of total unrecognized compensation cost related to unvested options, RSUs and restricted stock expected to vest. This cost is expected to be recognized over a remaining weighted-average period of 1.6 years.

Note 10 – Earnings (loss) per Share

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

For the three and nine months ended September 30, 2019, there were approximately 1,167,910 and 2,195,304 potentially issuable shares excluded from the Company's calculation of diluted EPS that were excluded because to include them would have been anti-dilutive.

For the three and nine months ended September 30, 2018, there were approximately 932,048 and 620,666 potentially issuable shares, respectively, excluded from the Company's calculation of diluted EPS that were excluded because the Company incurred a loss in the period and to include them would have been anti-dilutive.

Note 11 – Commitments and Contingencies

Global Xpress (GX) Dispute

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

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

The Company incurred credits of $(0.4) million and cost of $3.9 million in GX Dispute Phase II legal costs for the three and nine months ended September 30, 2019, respectively. The Company incurred legal expenses of $0.7 million and $2.1 million in connection with the GX Dispute for the three and nine months ended September 30, 2018, respectively.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Other Litigation

The Company, in the ordinary course of business, is a claimant or a defendant in various legal proceedings, including proceedings as to which the Company has insurance coverage and those that may involve the filing of liens against the Company or its assets.

Sales Tax Audit

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

Operating Leases

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

The Company's leasing activities primarily consist of leases of real-estate including office space under lease agreements expiring on various dates through 2025. For the three months and nine months ended September 30, 2019, the Company recognized expense under operating leases, which approximates cash paid and includes short-term leases, of $0.6 million and $1.9 million, respectively. For the three months and nine months ended September 30, 2018, the Company recognized expense under operating leases, which approximates cash paid and includes short-term leases, of $0.7 million and $2.1 million, respectively.

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

2019	$ 524
2020	1,664
2021	1,005
2022	844
2023	802
Thereafter	1,269
Total lease payments	$ 6,108
Less present value discount	(570)
Amounts recognized in Balance Sheet	$ 5,538
Amounts recognized in Balance Sheet	
Deferred revenue and other current liabilities	1,962
Right-of-use lease liability - long-term portion	3,576
Total right to use lease liability	$ 5,538

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

The right-of-use assets and liabilities for leases were discounted at a weighted-average discount rate of 5.3%. The weighted-average remaining lease term as of September 30, 2019 was 4.4 years.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2018, future undiscounted minimum lease obligation maturities for 2019 and future years 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 September 30, 2019, the Company had the following commercial commitments related to satellite and network services for the remainder of 2019 and the future years thereafter (in thousands):

2019	5,795
2020	16,474
2021	8,832
2022	3,932
	$ 35,033

Note 12 – Segment Information

Segment information is prepared consistent with the components of the enterprise for which separate financial information is available and regularly evaluated by the chief operating decision-maker for the purpose of allocating resources and assessing performance. During the fourth quarter of 2018, the Managed Services segment 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 a real-time machine learning and AI data platform (Intelie Pipes and Intelie LIVE), Cyphre Encryption, Enhanced Cybersecurity Services (ECS), edge computing solution services that assist customers with collecting and standardizing the complex data produced by edge devices (LIVE-IT), applications for safety and workforce productivity such as weather monitoring primarily in the North Sea (MetOcean), and certain other value-added services such as Adaptive Video Intelligence (AVI). This segment also includes the private machine-to-machine IoT data networks including Supervisory Control and Data Acquisition (SCADA) provided primarily for pipelines.
- ***Systems Integration.*** The Systems Integration segment provides design and implementation services for customer telecommunications systems. Solutions are delivered based on the customer's specifications, adhering to international industry standards and best practices. Project services may include consulting, design, engineering, project management, procurement, testing, installation, commissioning and maintenance.

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

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

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	Three Months Ended September 30, 2019				
	Managed Communication Services	Applications and Internet-of-Things	Systems Integration	Corporate and Eliminations	Consolidated Total
			(in thousands)		
Revenue	$ 42,055	$ 9,265	$ 9,673	$ —	$ 60,993
Cost of revenue (excluding depreciation and amortization)	24,156	4,091	7,415	—	35,662
Depreciation and amortization	5,037	1,218	155	762	7,172
Change in fair value of earn-out/contingent consideration	—	—	—	—	—
Selling, general and administrative	3,303	1,599	464	9,795	15,161
Operating income (loss)	$ 9,559	$ 2,357	$ 1,639	$ (10,557)	$ 2,998
Capital expenditures	4,818	720	—	326	5,864

	Three Months Ended September 30, 2018				
	Managed Communication Services	Applications and Internet-of-Things	Systems Integration	Corporate and Eliminations	Consolidated Total
			(in thousands)		
Revenue	$ 44,943	$ 7,463	$ 12,364	$ —	$ 64,770
Cost of revenue (excluding depreciation and amortization)	27,930	3,677	9,127	—	40,734
Depreciation and amortization	5,641	1,661	605	506	8,413
Change in fair value of earn-out/contingent consideration	—	—	—	(750)	(750)
Selling, general and administrative	3,779	520	380	12,715	17,394
Operating income (loss)	$ 7,593	$ 1,605	$ 2,252	$ (12,471)	$ (1,021)
Capital expenditures	6,413	109	—	—	6,522

	Nine Months Ended September 30, 2019				
	Managed Communications Services	Applications and Internet-of-Things	Systems Integration	Corporate and Eliminations	Consolidated Total
			(in thousands)		
Revenue	$ 125,593	$ 25,285	$ 27,957	$ —	$ 178,835
Cost of revenue (excluding depreciation and amortization)	76,160	12,975	19,502	—	108,637
Depreciation and amortization	16,360	3,675	1,456	2,272	23,763
Change in fair value of earn-out/contingent consideration	—	—	—	1,284	1,284
Selling, general and administrative	10,446	2,999	2,158	37,231	52,834
Operating income (loss)	$ 22,627	$ 5,636	$ 4,841	$ (40,787)	$ (7,683)
Total assets	154,268	42,886	26,782	19,224	243,160
Capital expenditures	15,143	1,556	—	827	17,526

	Nine Months Ended September 30, 2018				
	Managed Communications Services	Applications and Internet-of-Things	Systems Integration	Corporate and Eliminations	Consolidated Total
			(in thousands)		
Revenue	$ 128,705	$ 19,375	$ 30,530	$ —	$ 178,610
Cost of revenue (excluding depreciation and amortization)	78,982	9,927	21,752	—	110,661
Depreciation and amortization	17,012	3,344	1,922	2,478	24,756
Change in fair value of earn-out/contingent consideration	—	—	—	2,050	2,050
Selling, general and administrative	13,017	1,304	1,260	35,383	50,964
Operating income (loss)	$ 19,694	$ 4,800	$ 5,596	$ (39,911)	$ (9,821)
Total assets	165,532	47,694	23,609	14,403	251,238
Capital expenditures	18,709	377	—	645	19,731

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in thousands)			
Domestic	$ 27,360	$ 18,876	$ 80,868	$ 52,510
International	33,633	45,894	97,967	126,100
Total	$ 60,993	$ 64,770	$ 178,835	$ 178,610

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

	September 30, 2019	December 31, 2018
	(in thousands)	
Domestic	$ 76,575	$ 73,615
International	63,166	70,334
Total	$ 139,741	$ 143,949

Note 13 – 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 three and nine months ended September 30, 2019, the Company purchased $0.1 million and $0.1 million, respectively, from Darktrace in the ordinary course of business.

Vissim AS is now a vendor following a competitive request for quote from RigNet in the ordinary course of business. A customer specified Vissim AS by name as a provider for an SI project. Vissim AS is 24% owned by AVANT Venture Capital AS. AVANT Venture Capital is owned by and has as its chairman of its board one of our board members. In the three and nine months ended September 30, 2019, the Company purchased $0.2 million and $0.8 million, respectively, from Vissim AS in the ordinary course of business.

Note 14 – Restructuring Costs – Cost Reduction Plans

During the nine months ended September 30, 2019, the Company incurred a netpre-tax restructuring expense of $0.7 million reported as general and administrative expense, of which $0.2 million was incurred in the three months ended September 30, 2019 related to consolidating three separate legacy facilities into our new office in Lafayette, Louisiana and $0.5 million was incurred in the first quarter of 2019 associated with the reduction of 25 employees.

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

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

Forward-Looking Statements

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

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

In some cases, forward-looking statements can be identified by terminology such as "may," "could," "should," "would," "expect," "plan," "project," "intend," "will," "anticipate," "believe," "estimate," "predict," "potential," "pursue," "target," "continue," the negative of such terms or other comparable terminology that convey uncertainty of future events or outcomes. All of these types of statements, other than statements of historical fact included in this Quarterly Report on Form 10-Q, are forward-looking statements.

The forward-looking statements contained in this Quarterly Report on Form 10-Q are largely based on Company expectations, which reflect estimates and assumptions made by Company management. These estimates and assumptions reflect management's best judgment based on currently known market conditions and other factors. Although the Company believes such estimates and assumptions to be reasonable, they are inherently uncertain and involve a number of risks and uncertainties beyond its control. In addition, management's assumptions may prove to be inaccurate. The Company cautions that the forward-looking statements contained in this Quarterly Report on Form 10-Q are not guarantees of future performance, and it cannot assure any reader that such statements will be realized or the forward-looking statements or events will occur. Future results may differ materially from those anticipated or implied in forward-looking statements due to factors listed in the "Risk Factors" section of our Annual Report on Form 10-K for the year ended December 31, 2018 and elsewhere in this Quarterly Report on Form 10-Q. If one or more of these factors materialize, or if any underlying assumptions prove incorrect, our actual future results, performance or achievements may vary materially from any projected future results, performance or achievements expressed or implied by these forward-looking statements. The forward-looking statements speak only as of the date made, and other than as required by law, the Company undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

Our Operations

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

Segment information is prepared consistent with the components of the enterprise for which separate financial information is available and regularly evaluated by the chief operating decision-maker for the purpose of allocating resources and assessing performance. Managed Services was renamed Managed Communications Services (MCS). We report our operations through the following reportable segments:

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

Customers in our MCS and Apps & IoT segments are primarily served under fixed-price contracts, either on a monthly or day rate basis or for equipment sales. Our contracts are generally in the form of Master Service Agreements, or MSAs, with specific services being provided under individual service orders. Offshore contracts generally have a term of up to three years with renewal options. Land-based contracts are generally shorter term or terminable on short notice without a penalty. Service orders are executed under the MSA for individual remote sites or groups of sites, and generally permit early termination on short notice without penalty in the event of force majeure, breach of the MSA or cold stacking of a drilling rig (when a rig is taken out of service and is expected to be idle for a protracted period of time). Systems Integration customers are served primarily under fixed-price, long-term contracts.

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

Profitability generally increases or decreases at an MCS site as we add or lose customers and value-added services. Assumptions used in developing the rates for a site may not cover cost variances from inherent uncertainties or unforeseen obstacles, including both physical conditions and unexpected problems encountered with third party service providers.

Recent Developments

On June 24, 2019, we announced that we reached a settlement with Inmarsat that concludes the GX Dispute. Pursuant to the settlement we paid $45.0 million in June 2019 and paid $5.0 million in July 2019 and will pay $0.8 million in the third quarter of 2020. We have an accrued liability of $0.8 million as of September 30, 2019. As previously disclosed, Inmarsat plc (Inmarsat), a satellite telecommunications company, filed arbitration with the International Centre for Dispute Resolution tribunal (the panel) in October 2016 concerning a January 2014 take-or-pay agreement to purchase up to $65.0 million, under certain conditions, of GX capacity from Inmarsat over several years. We incurred a credit of $0.4 million and cost of $3.9 million in GX Dispute Phase II costs for the three and nine months ended September 30, 2019, respectively. We incurred legal expenses of $0.7 million and $2.1 million in connection with the GX Dispute for the three and nine months ended September 30, 2018, respectively.

As of September 30, 2019, we have backlog for our percentage of completion projects of $35.9 million.

Known Trends and Uncertainties

Operating Matters

Uncertainties in the oil and gas industry may continue to impact our profitability. The fundamentals of the oil and gas industry we serve remain challenged into 2019, particularly offshore. The oil and gas environment continues to be challenged with operators focusing on projects with shorter pay-back periods that generally require less capital investment and lower costs from service providers and drilling contractors. The average price of Brent crude, a key indicator of activity for the oil and gas industry, was $64.65 per barrel for the nine months ending September 30, 2019 compared to an average of $72.17 for the nine months ending September 30, 2018. Brent crude spot prices increased in the first three quarters of 2018 and peaked at $86.07 on October 4, 2018. From the October 4, 2018 high, Brent crude oil prices decreased over 40.0% in the fourth quarter of 2018. In the first half of 2019, Brent crude oil prices recovered to the $70 per barrel range and have then declined in the second half of 2019 to the $60 per barrel range. Certain analysts are not presently predicting meaningful increases in offshore drilling rig utilization for the remainder of 2019, but are predicting more meaningful improvements in utilization and day rates in 2020 or 2021. As a result, we believe drilling contractors are cautiously optimistic about a gradual demand recovery. The offshore drilling contracting environment remains challenged, with major offshore drilling contractors having experienced significant pressure on day rates, which in turn has had a negative impact on the rates we are able to charge customers. Generally, a prolonged lower oil price environment decreases exploration and development drilling investment, utilization of drilling rigs and the activity of the global oil and gas industry that we serve.

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

Sales Tax Audit

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

Results of Operations

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in thousands)			
Revenue	$ 60,993	$ 64,770	$ 178,835	$ 178,610
Expenses:				
Cost of revenue (excluding depreciation and amortization)	35,662	40,734	108,637	110,661
Depreciation and amortization	7,172	8,413	23,763	24,756
Change in fair value of earn-out/contingent consideration	—	(750)	1,284	2,050
Selling and marketing	2,784	2,728	9,529	9,866
General and administrative	12,377	14,666	43,305	41,098
Total expenses	57,995	65,791	186,518	188,431
Operating income (loss)	2,998	(1,021)	(7,683)	(9,821)
Other expense, net	(2,270)	(1,465)	(4,798)	(2,813)
Income (loss) before income taxes	728	(2,486)	(12,481)	(12,634)
Income tax benefit (expense)	(998)	(312)	(5,868)	11
Net loss	(270)	(2,798)	(18,349)	(12,623)
Less: Net income attributable to non-controlling interest	224	49	284	109
Net loss attributable to RigNet, Inc. stockholders	$ (494)	$ (2,847)	$ (18,633)	$ (12,732)
Other Non-GAAP Data:				
Adjusted EBITDA	$ 11,010	$ 8,730	$ 29,171	$ 24,247

The following represents selected financial operating results for our segments:

	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
	(in thousands)			
Managed Communications Services:				
Revenue	$ 42,055	$ 44,943	$ 125,593	$ 128,705
Cost of revenue (excluding depreciation and amortization)	24,156	27,930	76,160	78,982
Depreciation and amortization	5,037	5,641	16,360	17,012
Selling, general and administrative	3,303	3,779	10,446	13,017
Managed Communication Services operating income	$ 9,559	$ 7,593	$ 22,627	$ 19,694
Applications and Internet-of-Things:				
Revenue	$ 9,265	$ 7,463	$ 25,285	$ 19,375
Cost of revenue (excluding depreciation and amortization)	4,091	3,677	12,975	9,927
Depreciation and amortization	1,218	1,661	3,675	3,344
Selling, general and administrative	1,599	520	2,999	1,304
Applications & Internet-of-Things operating income	$ 2,357	$ 1,605	$ 5,636	$ 4,800
Systems Integration:				
Revenue	$ 9,673	$ 12,364	$ 27,957	$ 30,530
Cost of revenue (excluding depreciation and amortization)	7,415	9,127	19,502	21,752
Depreciation and amortization	155	605	1,456	1,922
Selling, general and administrative	464	380	2,158	1,260
Systems Integration and Automation operating income	$ 1,639	$ 2,252	$ 4,841	$ 5,596

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

Three Months Ended September 30, 2019 and 2018

Revenue. Revenue decreased by $3.8 million, or 5.8%, to $61.0 million for the three months ended September 30, 2019 from $64.8 million for the three months ended September 30, 2018. Revenue for the Apps & IoT segment increased $1.8 million, or 24.1%, due to our focus on growth of the application layer and IoT space, which was offset by a $2.9 million decrease in MCS segment revenue and a $2.7 million decrease in Systems Integration revenue.

Cost of Revenue (excluding depreciation and amortization). Cost of revenue (excluding depreciation and amortization) decreased by $5.1 million, or 12.5%, to $35.7 million for the three months ended September 30, 2019 from $40.7 million for the three months ended September 30, 2018. This decrease was due to cost reductions and lower variable costs on lower revenues. Cost of revenue (excluding depreciation and amortization) decreased in the MCS segment by $3.8 million. Cost of revenue (excluding depreciation and amortization) decreased in the Systems Integration segment by $1.7 million. Cost of revenue (excluding depreciation and amortization) increased in the Apps & IoT segment by $0.4 million as we continue our strategy to grow our application layer and IoT space, including Intelie.

Depreciation and Amortization. Depreciation and amortization expense decreased by $1.2 million to $7.2 million for the three months ended September 30, 2019 from $8.4 million for the three months ended September 30, 2018. The decrease is primarily attributable to the intangibles from the July 2012 acquisition of Nessco being fully amortized coupled with lower capital expenditures.

Selling and Marketing. Selling and marketing expense increased $0.1 million to $2.8 million for the three months ended September 30, 2019 from $2.7 million for the three months ended September 30, 2018.

General and Administrative. General and administrative expenses decreased by $2.3 million to $12.4 million for the three months ended September 30, 2019 from $14.7 million for the three months ended September 30, 2018. General and administrative costs decreased due to reduced legal cost attributable to settlement of the GX Dispute during the second quarter of 2019 and other cost reductions.

Income Tax Expense. Our effective income tax rates were 137.1% and (12.6%) for the three months ended September 30, 2019 and 2018, respectively. Our effective tax rate is affected by factors including changes in valuation allowances, fluctuations in income across jurisdictions with varying tax rates, and changes in income tax reserves, including related penalties and interest.

Nine months Ended September 30, 2019 and 2018

Revenue. Revenue increased by $0.2 million, or 0.1%, to $178.8 million for the nine months ended September 30, 2019 from $178.6 million for the nine months ended September 30, 2018, driven by growth in the Apps & IoT segment. Revenue for the Apps & IoT segment increased $5.9 million, or 30.5%, due to our focus on growth of the application layer and IoT space. Revenue for the Systems Integration segment decreased $2.6 million, or 8.4%. Revenue for the MCS segment decreased $3.1 million, or 2.4%.

Cost of Revenue (excluding depreciation and amortization). Cost of revenue (excluding depreciation and amortization) decreased by $2.0 million, or 1.8%, to $108.6 million for the nine months ended September 30, 2019 from $110.7 million for the nine months ended September 30, 2018. Cost of revenue (excluding depreciation and amortization) decreased in the MCS segment by $2.8 million from cost reductions. Cost of revenue (excluding depreciation and amortization) decreased in the Systems Integration segment by $2.3 million. Cost of revenue (excluding depreciation and amortization) increased in the Apps & IoT segment by $3.0 million as we continue our strategy to grow our application layer and IoT space, including Intelie.

Depreciation and Amortization. Depreciation and amortization expense decreased by $1.0 million to $23.8 million for the nine months ended September 30, 2019 from $24.8 million for the nine months ended September 30, 2018. The decrease is primarily attributable to the intangibles from the July 2012 acquisition of Nessco being fully amortized coupled with lower capital expenditures.

Selling and Marketing. Selling and marketing expense decreased $0.3 million to $9.5 million for the nine months ended September 30, 2019 from $9.9 million for the nine months ended September 30, 2018.

General and Administrative. General and administrative expenses increased by $2.2 million to $43.3 million for the nine months ended September 30, 2019 from $41.1 million for the nine months ended September 30, 2018. General and administrative costs increased primarily due to increased stock-based compensation and increased GX Dispute legal expenses.

Income Tax Expense. Our effective income tax rates were (47.0%) and 0.1% for the nine months ended September 30, 2019 and 2018, respectively. Our effective tax rate is affected by factors including changes in valuation allowances, fluctuations in income across jurisdictions with varying tax rates, and changes in income tax reserves, including related penalties and interest.

Liquidity and Capital Resources

At September 30, 2019, we had working capital, including cash and cash equivalents, of $26.9 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 pay down outstanding debt.

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

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

	Nine Months Ended September 30,	
	2019	2018
	(in thousands)	
Condensed Consolidated Statements of Cash Flows Data:		
Cash and cash equivalents including restricted cash, January 1,	$ 23,296	$ 36,141
GX Dispute payment	(50,000)	—
Remaining net cash provided by operating activities	24,055	1,352
Net cash provided by (used in) operating activities	(25,945)	1,352
Net cash used in investing activities	(16,476)	(23,511)
Net cash provided by financing activities	34,918	6,157
Changes in foreign currency translation	35	2,175
Cash and cash equivalents including restricted cash, September 30,	$ 15,828	$ 22,314

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

Currently, the Norwegian Kroner, the British Pound Sterling and the Brazilian Real are the foreign currencies that could materially impact our liquidity. We presently do not hedge these risks, but evaluate financial risk on a regular basis and may utilize financial instruments in the future if deemed necessary. During the nine months ended September 30, 2019 and 2018, 91.9% and 91.4% of our revenue was denominated in U.S. dollars, respectively.

Operating Activities

Net cash used in operating activities was $25.9 million for the nine months ended September 30, 2019 compared to net cash provided by operating activities of $1.4 million for the nine months ended September 30, 2018. The decrease in cash from operating activities of $27.3 million was primarily due to payment of $50.0 million towards the GX Dispute settlement, partially offset by the timing of collecting receivables and paying our accounts payable.

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

Investing Activities

Net cash used in investing activities was $16.5 million and $23.5 million for the nine months ended September 30, 2019 and 2018, respectively.

Net cash used in investing activities during the nine months ended September 30, 2019 and 2018 included $16.8 million and $18.8 million of capital expenditures, respectively. Net cash used in investing activities during the nine months ended September 30, 2018 included $5.4 million for acquisitions.

Financing Activities

Net cash provided by financing activities was $34.9 million for the nine months ended September 30, 2019. Cash provided by financing activities for the nine months ended September 30, 2019 included $48.5 million in proceeds from borrowings, partially offset by $11.4 million in principal payments on our long-term debt, $1.4 million withheld to cover employee taxes on stock-based compensation and $0.5 million in financing fees related to the consents, waiver and amendment to the Credit Agreement.

Net cash provided by financing activities was $6.2 million for the nine months ended September 30, 2018. Cash provided by financing activities for the nine months ended September 30, 2018 included $16.8 million in proceeds from borrowings and $3.8 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 was in cash flows from financing activities and $1.6 million was in cash flows from operating activities.

Credit Agreement

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

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

The weighted average interest rate for the three months ended September 30, 2019 and 2018 were 5.3% and 4.9%, respectively. The weighted average interest rate for the nine months ended September 30, 2019 and 2018 were 5.3% and 4.7%, respectively, with an interest rate of 5.0% at September 30, 2019. As of September 30, 2019, the outstanding principal amounts were $6.3 million for the Term Loan, $27.0 million for the Term-Out Loan and $81.2 million for the RCF.

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

In April 2019, we determined that in periods beginning at least as early as March 31, 2014, we had incurred and not appropriately included certain surety bonds or other similar instruments in our consolidated leverage ratio calculation as defined by the credit agreement. As a result, on May 6, 2019, we entered into a Consent and Waiver (Consent) to the Credit Agreement with the financial institutions party thereto under which we are permitted to exclude certain incurred surety bonds and other similar instruments from the calculation of Consolidated Funded Indebtedness, as defined in the credit agreement, for the period ended September 30, 2019. In addition, the Consent waived all specified violations for all prior periods. On June 7, 2019, the Company entered into a second amendment to the Credit Agreement (Second Amendment), which (i) permits the Company to exclude up to $5.0 million in legal and related costs for the GX Dispute from the calculation of Consolidated EBITDA, (ii) permits the Company to exclude from the calculation of Consolidated Funded Indebtedness up to $30.0 million of undrawn surety bonds and (iii) revises the threshold of proceeds from asset dispositions above which the Company must prepay on the Term Out Loan to $5.0 million. Consolidated EBITDA and Consolidated Funded Indebtedness are non-GAAP metrics defined in the Credit Agreement.

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

Off-Balance Sheet Arrangements

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

Non-GAAP Measure

Adjusted EBITDA should not be considered as an alternative to net loss, operating income (loss), basic or diluted loss per share or any other measure of financial performance calculated and presented in accordance with GAAP. Our Adjusted EBITDA may not be comparable to similarly titled measures of other companies because other companies may not calculate Adjusted EBITDA or similarly titled measures in the same manner as we do. We prepare Adjusted EBITDA to eliminate the impact of items that we do not consider indicative of our core operating performance. We encourage you to evaluate these adjustments and the reasons we consider them appropriate. Net loss is the most comparable GAAP measure to Adjusted EBITDA.

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

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

- Investors and securities analysts use Adjusted EBITDA as a supplemental measure to evaluate the overall operating performance of companies, and we understand our investor and analyst's presentations include Adjusted EBITDA;
- By comparing our Adjusted EBITDA in different periods, our investors may evaluate our operating results without the additional variations caused by items that we do not consider indicative of our core operating performance and which are not necessarily comparable from year to year; and
- Adjusted EBITDA is an integral component of Consolidated EBITDA, as defined and used in the financial covenant ratios in the Credit Agreement.

Our management uses Adjusted EBITDA:

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

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

- Adjusted EBITDA does not reflect our cash expenditures or future requirements for capital expenditures or other contractual commitments;
- Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- Adjusted EBITDA does not reflect interest expense;
- Adjusted EBITDA does not reflect cash requirements for income taxes;
- Adjusted EBITDA does not reflect impairment of goodwill, intangibles, property, plant and equipment;
- Adjusted EBITDA does not reflect foreign exchange impact of intercompany financing activities;
- Adjusted EBITDA does not reflect (gain) loss on retirement of property, plant and equipment;
- Adjusted EBITDA does not reflect the stock-based compensation component of employee compensation;
- Adjusted EBITDA does not reflect acquisition costs;
- Adjusted EBITDA does not reflect change in fair value of earn-outs and contingent consideration;
- Adjusted EBITDA does not reflect executive departure costs;
- Adjusted EBITDA does not reflect restructuring charges;
- Adjusted EBITDA does not reflect the GX Dispute;
- Adjusted EBITDA does not reflect the GX Dispute Phase II costs;
- Although depreciation and amortization are non-cash charges, the assets being depreciated or amortized will often have to be replaced in the future, and Adjusted EBITDA does not reflect any cash requirements for these replacements; and
- Other companies in our industry may calculate Adjusted EBITDA or similarly titled measures differently than we do, limiting its usefulness as a comparative measure.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in thousands)			
Net loss	$ (270)	$(2,798)	$(18,349)	$(12,623)
Interest expense	1,784	807	4,291	2,773
Depreciation and amortization	7,172	8,413	23,763	24,756
Loss on sales of property, plant and equipment, net of retirements	8	66	19	34
Stock-based compensation	1,504	1,086	7,132	4,368
Restructuring	158	664	731	664
Change in fair value of earn-out/contingent consideration	—	(750)	1,284	2,050
Executive departure costs	—	—	—	161
Acquisition costs	76	930	486	2,075
GX dispute Phase II costs	(420)	—	3,946	—
Income tax expense (benefit)	998	312	5,868	(11)
Adjusted EBITDA (non-GAAP measure)	$11,010	$ 8,730	$ 29,171	$ 24,247

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

Adjusted EBITDA increased by $2.3 million to $11.0 million for the three months ended September 30, 2019, from $8.7 million for the three months ended September 30, 2018. Adjusted EBITDA increased by $4.9 million to $29.2 million for the nine months ended September 30, 2019, from $24.2 million for the nine months ended September 30, 2018.

Item 3. *Quantitative and Qualitative Disclosures about Market Risk*

We are subject to a variety of risks, including foreign currency exchange rate fluctuations relating to foreign operations and certain purchases from foreign vendors. In the normal course of business, we assess these risks and have established policies and procedures to manage our exposure to fluctuations in foreign currency values.

Our objective in managing our exposure to foreign currency exchange rate fluctuations is to reduce the impact of adverse fluctuations in earnings and cash flows associated with foreign currency exchange rates. We presently do not hedge these risks, but evaluate financial risk on a regular basis and may utilize financial instruments in the future if deemed necessary. During the nine months ended September 30, 2019 and 2018, 8.1% and 8.6%, respectively, of our revenues were earned in non-U.S. currencies. At September 30, 2019 and 2018, we had no significant outstanding foreign exchange contracts.

Our results of operations and cash flows are subject to fluctuations due to changes in interest rates primarily from our variable interest rate long-term debt. We presently do not hedge these risks, but evaluate financial risk on a regular basis and may utilize financial instruments in the future if deemed necessary. The following analysis reflects the annual impacts of potential changes in our interest rate to net loss attributable to us and our total stockholders' equity based on our outstanding long-term debt at September 30, 2019 and December 31, 2018, assuming those liabilities were outstanding for the previous twelve months:

	September 30, 2019	December 31, 2018
	(in thousands)	
Effect on Net Income (Loss) and Equity - Increase/Decrease:		
1% Decrease/increase in rate	$ 1,144	$ 770
2% Decrease/increase in rate	$ 2,289	$ 1,541
3% Decrease/increase in rate	$ 3,433	$ 2,311

Item 4. *Controls and Procedures*

Evaluation of Disclosure Controls and Procedures

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

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

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule13a-15(d) of the Exchange Act that occurred during the quarter ended September 30, 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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

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PART II – OTHER INFORMATION

Item 1. *Legal Proceedings*

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

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

The Company, in the ordinary course of business, is a claimant or a defendant in various other legal proceedings, including proceedings as to which the Company has insurance coverage and those that may involve the filing of liens against the Company or its assets.

Item 1A. *Risk Factors*

There have been no material changes from the risk factors disclosed in “Part I, Item 1A. Risk Factors” of our Annual Report on Form10-K for the year ended December 31, 2018.

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

None.

Item 3. *Defaults Upon Senior Securities*

None.

Item 4. *Mine Safety Disclosures*

Not applicable.

Item 5. *Other Information*

Not applicable.

Item 6. *Exhibits*

The exhibits required to be filed with this Quarterly Report on Form10-Q are listed in the Exhibit Index attached hereto and are incorporated herein by reference.

INDEX TO EXHIBITS

2.1	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 Form10-Q filed with the SEC on August 8, 2016, and incorporated herein by reference)
3.2	Amendment to Amended and Restated Certificate of Incorporation, effective May 18, 2016. (filed as Exhibit 3.2 to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on August 8, 2016, and incorporated herein by reference)
3.3	Second Amended and Restated Bylaws of the Registrant, as amended (filed as Exhibit 3.3 to the Registrant's Annual Report on Form10-K filed with the SEC on March 6, 2018, and incorporated herein by reference)
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.LAB	XBRL Label Linkbase Document
101.PRE	XBRL Presentation Linkbase Document
101.DEF	XBRL Definition Linkbase Document

+ Indicates management contract or compensatory plan.

SIGNATURES

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

RIGNET, INC.

Date: November 8, 2019	By: /s/ LEE M. AHLSTROM
	Lee M. Ahlstrom
	Senior Vice President and Chief Financial Officer
	(Principal Financial Officer)

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:

a. I have reviewed this Quarterly Report on Form 10-Q of RigNet, Inc. (the "Registrant");

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

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

d. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules13a-15(f) and 15d-15(f)) for the Registrant and have:

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

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

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

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

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

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

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

Date: November 8, 2019

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

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 Quarterly Report on Form 10-Q of RigNet, Inc. (the "Registrant");

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

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

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules13a-15(f) and 15d-15(f)) for the Registrant and have:

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

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

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

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

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

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

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

Date: November 8, 2019

/s/ LEE AHLSTROM
Lee Ahlstrom
Chief Financial Officer

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 Quarterly Report on Form10-Q for the period ended September 30, 2019 filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Steven E. Pickett, Chief Executive Officer of RigNet, Inc. (the “Company”), hereby certify, to my knowledge, that:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 8, 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 Quarterly Report on Form10-Q for the period ended September 30, 2019 filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Lee Ahlstrom, Chief Financial Officer, of RigNet, Inc. (the "Company"), hereby certify, to my knowledge, that:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 8, 2019

/s/ LEE AHLSTROM
Lee Ahlstrom
Chief Financial Officer