
UNITED STATES OF AMERICA
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, 2017

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

For the transition period from _____ to _____

Commission File No.: 000-09881



SHENANDOAH TELECOMMUNICATIONS COMPANY

(Exact name of registrant as specified in its charter)

VIRGINIA

(State or other jurisdiction of incorporation or organization)

54-1162807

(I.R.S. Employer Identification No.)

500 Shentel Way, Edinburg, Virginia 22824
(Address of principal executive offices) (Zip Code)

(540) 984-4141
(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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

The number of shares of the registrant's common stock outstanding on October 27, 2017 was 49,264,693.

SHENANDOAH TELECOMMUNICATIONS COMPANY
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SHENANDOAH TELECOMMUNICATIONS COMPANY AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)

ASSETS	<u>September 30, 2017</u>	<u>December 31, 2016</u>
Current Assets		
Cash and cash equivalents	\$ 75,467	\$ 36,193
Accounts receivable, net of allowance of \$479 and \$449, respectively	64,396	69,789
Income taxes receivable	7,689	—
Inventory, net	7,439	39,043
Prepaid expenses and other	18,226	16,440
Total current assets	<u>173,217</u>	<u>161,465</u>
Investments, including \$3,271 and \$2,907 carried at fair value	11,319	10,276
Property, plant and equipment, net	683,355	698,122
Other Assets		
Intangible assets, net	421,672	454,532
Goodwill	146,497	145,256
Deferred charges and other assets, net	11,012	14,756
Total assets	<u>\$ 1,447,072</u>	<u>\$ 1,484,407</u>

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SHENANDOAH TELECOMMUNICATIONS COMPANY AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)

LIABILITIES AND SHAREHOLDERS' EQUITY	September 30, 2017	December 31, 2016
Current Liabilities		
Current maturities of long-term debt, net of unamortized loan fees	\$ 54,316	\$ 32,041
Accounts payable	31,462	72,810
Advanced billings and customer deposits	21,109	20,427
Accrued compensation	7,373	9,465
Income taxes payable	—	435
Accrued liabilities and other	15,277	29,085
Total current liabilities	129,537	164,263
Long-term debt, less current maturities, net of unamortized loan fees	778,686	797,224
Other Long-Term Liabilities		
Deferred income taxes	142,056	151,837
Deferred lease payable	21,089	18,042
Asset retirement obligations	19,240	15,666
Retirement plan obligations	16,939	17,738
Other liabilities	40,180	23,743
Total other long-term liabilities	239,504	227,026
Commitments and Contingencies		
Shareholders' Equity		
Common stock	43,908	45,482
Retained earnings	249,419	243,624
Accumulated other comprehensive income (loss), net of taxes	6,018	6,788
Total shareholders' equity	299,345	295,894
Total liabilities and shareholders' equity	\$ 1,447,072	\$ 1,484,407

See accompanying notes to unaudited condensed consolidated financial statements.

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UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)*(in thousands, except per share amounts)*

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Operating revenues	\$ 151,782	\$ 156,836	\$ 458,920	\$ 379,716
Operating expenses:				
Cost of goods and services, exclusive of depreciation and amortization shown separately below	55,834	58,317	162,976	140,354
Selling, general and administrative, exclusive of depreciation and amortization shown separately below	42,199	40,369	125,374	96,263
Integration and acquisition expenses	1,706	15,272	9,873	35,801
Depreciation and amortization	42,568	46,807	132,297	96,961
Total operating expenses	142,307	160,765	430,520	369,379
Operating income (loss)	9,475	(3,929)	28,400	10,337
Other income (expense):				
Interest expense	(9,823)	(8,845)	(28,312)	(16,369)
Gain (loss) on investments, net	202	127	395	237
Non-operating income (loss), net	1,003	1,400	3,482	2,910
Income (loss) before income taxes	857	(11,247)	3,965	(2,885)
Income tax expense (benefit)	(2,677)	(3,651)	(1,830)	(2,174)
Net income (loss)	3,534	(7,596)	5,795	(711)
Other comprehensive income (loss):				
Unrealized gain (loss) on interest rate hedge, net of tax	6	1,712	(770)	(2,573)
Comprehensive income (loss)	\$ 3,540	\$ (5,884)	\$ 5,025	\$ (3,284)
Earnings (loss) per share:				
Basic	\$ 0.07	\$ (0.16)	\$ 0.12	\$ (0.01)
Diluted	\$ 0.07	\$ (0.16)	\$ 0.12	\$ (0.01)
Weighted average shares outstanding, basic	49,133	48,909	49,100	48,768
Weighted average shares outstanding, diluted	49,959	48,909	49,869	48,768

See accompanying notes to unaudited condensed consolidated financial statements.

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UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY*(in thousands, except per share amounts)*

	Shares	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income, net of tax	Total
Balance, December 31, 2015	48,475	\$ 32,776	\$ 256,747	\$ 415	\$ 289,938
Net income (loss)	—	—	(895)	—	(895)
Other comprehensive gain (loss), net of tax	—	—	—	6,373	6,373
Dividends declared (\$0.25 per share)	—	—	(12,228)	—	(12,228)
Dividends reinvested in common stock	19	524	—	—	524
Stock based compensation	—	3,506	—	—	3,506
Stock options exercised	371	3,359	—	—	3,359
Common stock issued for share awards	190	—	—	—	—
Common stock issued	2	14	—	—	14
Common stock issued to acquire non-controlling interests of nTelos	76	10,400	—	—	10,400
Common stock repurchased	(198)	(5,097)	—	—	(5,097)
Balance, December 31, 2016	48,935	\$ 45,482	\$ 243,624	\$ 6,788	\$ 295,894
Net income (loss)	—	—	5,795	—	5,795
Unrealized gain (loss) on interest rate hedge, net of tax	—	—	—	(770)	(770)
Stock based compensation	—	3,557	—	—	3,557
Stock options exercised	295	1,944	—	—	1,944
Common stock issued for share awards	153	—	—	—	—
Common stock issued	1	16	—	—	16
Common stock issued to acquire non-controlling interests of nTelos	76	—	—	—	—
Common stock repurchased	(195)	(7,091)	—	—	(7,091)
Balance, September 30, 2017	49,265	\$ 43,908	\$ 249,419	\$ 6,018	\$ 299,345

See accompanying notes to unaudited condensed consolidated financial statements.

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SHENANDOAH TELECOMMUNICATIONS COMPANY AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Nine Months Ended September 30,	
	2017	2016
Cash Flows From Operating Activities		
Net income (loss)	\$ 5,795	\$ (711)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	113,437	84,256
Amortization reflected as operating expense	18,860	12,705
Amortization reflected as contra revenue	15,563	8,883
Amortization reflected as rent expense	2,173	—
Provision for bad debt	1,479	1,278
Straight line adjustment to management fee revenue	12,960	7,687
Stock based compensation expense	3,053	2,570
Deferred income taxes	(12,251)	(57,196)
Net (gain) loss on disposal of equipment	80	(144)
Unrealized (gain) loss on investments	(308)	(180)
Net (gains) loss from patronage and equity investments	(2,315)	(497)
Amortization of debt issuance costs	3,572	2,608
Other	—	1,634
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	6,418	7,903
Inventory, net	31,604	(6,134)
Income taxes receivable	(8,704)	8,294
Other assets	(162)	2,619
Increase (decrease) in:		
Accounts payable	(30,795)	3,551
Income taxes payable	(435)	16,225
Deferred lease payable	3,729	2,728
Other deferrals and accruals	(5,048)	(2,633)
Net cash provided by (used in) operating activities	\$ 158,705	\$ 95,446
Cash Flows From Investing Activities		
Acquisition of property, plant and equipment	(109,435)	(102,850)
Proceeds from sale of assets	356	287
Cash distributions from investments	27	2,796
Additional contributions to investments	(23)	—
Cash disbursed for acquisition, net of cash acquired	(6,000)	(655,590)
Net cash provided by (used in) investing activities	\$ (115,075)	\$ (755,357)

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SHENANDOAH TELECOMMUNICATIONS COMPANY AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Nine Months Ended September 30,	
	2017	2016
Cash Flows From Financing Activities		
Principal payments on long-term debt	\$ (24,250)	\$ (207,816)
Amounts borrowed under debt agreements	25,000	835,000
Cash paid for debt issuance costs	—	(14,825)
Repurchases of common stock	(5,106)	(5,097)
Proceeds from issuance of common stock	—	3,368
Net cash provided by (used in) financing activities	\$ (4,356)	\$ 610,630
Net increase (decrease) in cash and cash equivalents	\$ 39,274	\$ (49,281)
Cash and cash equivalents:		
Beginning	36,193	76,812
Ending	<u>\$ 75,467</u>	<u>\$ 27,531</u>
Supplemental Disclosures of Cash Flow Information		
Cash payments for:		
Interest, net of capitalized interest of \$1,266 and \$909, respectively	<u>\$ 25,934</u>	<u>\$ 14,671</u>
Income taxes paid, net of refunds received	<u>\$ 19,567</u>	<u>\$ 23,851</u>

Non-cash investing and financing activities:

At September 30, 2017 and 2016, accounts payable included approximately \$3.8 million and \$14.2 million, respectively, associated with capital expenditures. Cash flows for accounts payable and acquisition of property, plant and equipment exclude this activity.

During the nine months ended September 30, 2016, in conjunction with the acquisition of nTelos, the Company issued common stock to acquire non-controlling interests held by third parties in a subsidiary of nTelos. The transaction was valued at \$10.4 million.

See accompanying notes to unaudited condensed consolidated financial statements.

SHENANDOAH TELECOMMUNICATIONS COMPANY AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

The interim condensed consolidated financial statements of Shenandoah Telecommunications Company and Subsidiaries (collectively, the "Company") are unaudited. In the opinion of management, all adjustments necessary for a fair presentation of the interim results have been reflected therein in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial reporting and as required by Rule 10-01 of Regulation S-X. Accordingly, the unaudited condensed consolidated financial statements may not include all of the information and notes required by GAAP for audited financial statements. The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts of assets and liabilities, and related disclosures, as of the date of the financial statements, and the amounts of revenue and expenses reported during the period. Actual results could differ from estimates. The information contained herein should be read in conjunction with the audited financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016. The accompanying balance sheet information at December 31, 2016 was derived from the audited December 31, 2016 consolidated balance sheet. Operating revenues and income (loss) from operations for any interim period are not necessarily indicative of results that may be expected for the entire year.

Management has made an immaterial error correction to the accompanying prior period unaudited condensed consolidated statement of cash flows for the nine months ended September 30, 2016 to decrease both the amount of net cash provided by operating activities and the amount of net cash used in investing activities by approximately 10.4 million to properly reflect the common stock issued (non-cash) by the Company to acquire non-controlling interests in a subsidiary of nTelos held by third parties in conjunction with the nTelos acquisition. This immaterial error correction had no effect on the net increase (decrease) in cash and cash equivalents for the period or the beginning or ending balance of cash and cash equivalents for the period.

Recently Issued Accounting Standards

There have been no developments to recently issued accounting standards, including the expected dates of adoption and estimated effects on the Company's consolidated financial statements and note disclosures, from those disclosed in the Company's 2016 Annual Report on Form 10-K, that would be expected to impact the Company except for the following:

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "*Revenue from Contracts with Customers*", which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. In August 2015, the FASB issued ASU No. 2015-14, delaying the effective date of ASU 2014-09. Three other amendments have been issued during 2016 modifying the original ASU. As amended, the new standard is effective for the Company on January 1, 2018, using either a retrospective basis or a modified retrospective basis with early adoption permitted. The Company plans to adopt the standard effective January 1, 2018 using the modified retrospective transition approach; under this approach prior periods will not be retrospectively adjusted.

The Company is continuing to assess all potential impacts of the standard, including the impact to the pattern with which revenue and direct and contract fulfillment costs are recognized, the impact of the standard on current accounting policies, practices and system of internal controls, in order to identify material differences, if any that would result from applying the new requirements.

The Company is in the process of establishing new policies and processes, and is implementing necessary changes to data and procedures necessary to comply with the new requirements.

While continuing to assess all potential impacts of the standard, the Company believes the adoption will not have a significant effect on earnings however, the presentation of certain costs may change and disclosures will be impacted. The Company is still in the process of evaluating the impacts and the initial assessment may change.

In January 2016, the FASB issued ASU 2016-01, "*Recognition and Measurement of Financial Assets and Financial Liabilities*". In addition to the presentation and disclosure requirements for financial instruments, ASU 2016-01 requires entities to measure equity investments, other than those accounted for under the equity method, at fair value and recognize changes in fair value in net income. Entities will no longer be able to use the cost method of accounting for equity securities. However, for equity investments without readily determinable fair values that do not qualify for the practical expedient to estimate fair value using net asset value per share, entities may elect a measurement alternative that will allow those investments to be recorded at cost, less impairment, and adjusted for subsequent observable price changes. Entities must record

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a cumulative-effect adjustment to the balance sheet as of the beginning of the first reporting period in which the standard is adopted, except for equity investments without readily determinable fair values, for which the guidance will be applied prospectively. The guidance under ASU 2016-01 is effective for annual and interim periods beginning after December 15, 2017. The Company has not yet completed its assessment of the impact of the new standard on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, "*Leases*", which requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous generally accepted accounting principles. The ASU is effective for us on January 1, 2019, and early application is permitted. Modified retrospective application is required. The Company plans to adopt this standard when it becomes effective for the Company beginning January 1, 2019, and expects the adoption of this standard will result in the recognition of right of use assets and lease liabilities that have not previously been recorded, which will have a material impact on the Company's consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. ASU 2016-15 is intended to reduce diversity in practice in how certain cash receipts and cash payments are presented and classified in the Consolidated Statement of Cash Flows by providing guidance on eight specific cash flow issues. The Company intends to adopt the standard retrospectively on the effective date of January 1, 2018 and does not expect the adoption of the ASU to have a material effect on cash flows.

In March 2017, the FASB issued ASU No. 2017-07, "*Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*". The update requires employers to present the service cost component of the net periodic benefit cost in the same income statement line item as other employee compensation costs arising from services rendered during the period. The other components of net benefit cost, including interest cost, expected return on plan assets, amortization of prior service cost/credit and actuarial gain/loss, and settlement and curtailment effects, are to be presented outside of any subtotal of operating income. Employers will have to disclose the line(s) used to present the other components of net periodic benefit cost, if the components are not presented separately in the income statement. ASU 2017-07 is effective for fiscal years and interim periods beginning after December 15, 2017, and early adoption is permitted. The Company is currently assessing the impact that adopting this new accounting standard will have on its consolidated financial statements. The Company does not expect the adoption of ASU 2017-07 to have a material impact on its consolidated financial statements, nor does the Company expect to early adopt ASU 2017-07.

In August 2017, the FASB issued ASU 2017-12, "*Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*". This update is intended to simplify hedge accounting by better aligning an entity's financial reporting for hedging relationships with its risk management activities. The ASU also simplifies the application of the hedge accounting guidance. ASU 2017-12 is effective on January 1, 2019, with early adoption permitted. For cash flow hedges existing at the adoption date, the standard requires adoption on a modified retrospective basis with a cumulative-effect adjustment to the Consolidated Balance Sheet as of the beginning of the year of adoption, to the extent any ineffectiveness was previously recognized. The amendments to presentation guidance and disclosure requirements under this update are required to be adopted prospectively. The Company has not yet determined the effect of the ASU on our results of operations, financial condition or cash flows, nor has transition date been determined.

In September 2017, the FASB issued ASU No. 2017-13, "*Revenue Recognition (Topic 605), Revenue from Contracts with Customers (Topic 606), Leases (Topic 840), and Leases (Topic 842)*", which provided additional implementation guidance on the previously issued topics. The Company has not yet completed its assessment of the impact of the new standard on the Company's consolidated financial statements.

2. Acquisitions

Acquisition of NTELOS Holdings Corp. and Exchange with Sprint

On May 6, 2016, (the "acquisition date"), the Company completed its acquisition of NTELOS Holdings Corp. (nTelos). nTelos, was a regional provider of wireless telecommunications solutions and was acquired to expand the Company's wireless service area and subscriber base, thus strengthening the Company's relationship with Sprint Corporation (Sprint).

Pursuant to the terms of the Agreement and Plan of Merger between the Company and nTelos (the "Merger Agreement"), nTelos became a direct wholly owned subsidiary of the Company. Pursuant to the terms of the Merger Agreement, the Company acquired all of the issued and outstanding capital stock of nTelos for an aggregate purchase price of \$667.8 million. The purchase price was financed by a credit facility arranged by CoBank, ACB, Royal Bank of Canada, Fifth Third Bank, Bank of America, N.A., Capital One, National Association, Citizens Bank N.A., and Toronto Dominion (Texas) LLC.

Transaction costs in connection with the acquisition were expensed as incurred and are included in integration and acquisition expenses in the condensed consolidated statement of operations. The results of operations related to nTelos are included in our consolidated statements of operations beginning from the date of acquisition.

The Company accounted for the acquisition of nTelos under the acquisition method of accounting, in accordance with FASB's Accounting Standards Codification ("ASC") 805, "Business Combinations", and has accounted for measurement period adjustments under ASU 2015-16, "Simplifying the Accounting for Measurement Period Adjustments". Estimates of fair value included in the consolidated financial statements, in conformity with ASC 820, "Fair Value Measurements and Disclosures", represent the Company's best estimates and valuations. In accordance with ASC 805, "Business Combinations", the allocation of the consideration value was subject to adjustment until the Company completed its analysis, in a period of time, but not to exceed one year after the date of acquisition, or May 6, 2017, in order to provide the Company with the time to complete the valuation of its assets and liabilities. The Company has completed and finalized its analysis and allocation of the consideration value to assets acquired and liabilities assumed.

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The following table summarizes the final purchase price allocation to assets acquired and liabilities assumed, including measurement period adjustments:

	Initial Estimate	Measurement Period Adjustments	Purchase Price Allocation
Accounts receivable	\$ 48,476	\$ (1,242)	47,234
Inventory	3,810	762	4,572
Restricted cash	2,167	—	2,167
Investments	1,501	—	1,501
Prepaid expenses and other assets	14,835	—	14,835
Building held for sale	4,950	—	4,950
Property, plant and equipment	223,900	3,347	227,247
Spectrum licenses (1), (2)	198,200	—	198,200
Acquired subscribers - wireless (1), (2)	198,200	7,746	205,946
Favorable lease intangible assets (2)	11,000	6,029	17,029
Goodwill (3)	151,627	(5,244)	146,383
Other long term assets	10,288	555	10,843
Total assets acquired	\$ 868,954	\$ 11,953	\$ 880,907
Accounts payable	8,648	(105)	8,543
Advanced billings and customer deposits	12,477	—	12,477
Accrued expenses	25,230	(2,089)	23,141
Capital lease liability	418	—	418
Deferred tax liabilities	124,964	4,327	129,291
Retirement benefits	19,461	(263)	19,198
Other long-term liabilities	14,056	6,029	20,085
Total liabilities assumed	\$ 205,254	\$ 7,899	\$ 213,153
Net assets acquired	\$ 663,700	\$ 4,054	\$ 667,754

- (1) Concurrently with acquiring nTelos, the Company completed its previously announced transaction with SprintCom, Inc., a subsidiary of Sprint. Pursuant to this transaction, among other things, the Company exchanged spectrum licenses, valued at \$198.2 million and acquired subscribers - wireless, valued at \$206.0 million, acquired from nTelos with Sprint, and received an expansion of its affiliate service territory to include most of the service area served by nTelos, valued at \$283.3 million, as well as additional acquired subscribers - wireless, valued at \$120.9 million, relating to nTelos' and Sprint's legacy customers in the Company's affiliate service territory. These exchanges were accounted for in accordance with ASC 845, "Nonmonetary Transactions". The transfer of spectrum to Sprint resulted in a taxable gain to the Company which will be recognized as the Company recognizes the cash benefit of the waived management fees over the remaining approximately five years.
- (2) Identifiable intangible assets were measured using a combination of an income approach and a market approach.
- (3) Goodwill is the excess of the consideration transferred over the net assets recognized and represents the future economic benefits, primarily as a result of other assets acquired that could not be individually identified and separately recognized. The Company has recorded goodwill in its Wireless segment as a result of the nTelos acquisition. Goodwill is not amortized. The goodwill that arose from the acquisition of nTelos is not deductible for tax purposes.

In addition to the changes in the balances reflected above, the Company revised provisional estimated useful lives of certain assets and recorded an adjustment to amortization expense of \$0.1 million during the three months ended June 30, 2017, and recorded an adjustment during 2016 of \$4.6 million to depreciation expense relating to the three months ended June 30, 2016.

Acquisition-related costs primarily related to legal services, professional services, and severance accruals, were expensed as incurred. For the three and nine months ended September 30, 2016, the Company incurred acquisition-related costs of \$0.8 million and \$15.9 million, respectively.

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The amounts of operating revenue and income or loss before income taxes related to the former nTelos entity are not readily determinable due to intercompany transactions, allocations and integration activities that have occurred in connection with the operations of the combined company.

The following table presents pro forma information, based on estimates and assumptions that the Company believes to be reasonable, for the Company as if the acquisition of nTelos had occurred at the beginning of 2016: (in millions)

	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2016
Operating revenues	\$ 157.8	\$ 492.1
Income (loss) before income taxes	\$ (13.4)	\$ (4.0)

The pro forma information provided in the table above is not necessarily indicative of the consolidated results of operations for future periods or the results that actually would have been realized had the acquisition been completed at the beginning of the periods presented.

The pro forma information provided in the table above is based upon estimated valuations of the assets acquired and liabilities assumed as well as estimates of depreciation and amortization charges thereon. Other estimated pro forma adjustments include the following:

- changes in nTelos' reported revenues from cancelling nTelos' wholesale contract with Sprint;
- the incorporation of the Sprint-homed customers formerly serviced under the wholesale agreement into the Company's affiliate service territory under the Company's affiliate agreement with Sprint;
- the effect of other changes to revenues and expenses due to various provisions of the affiliate agreement, including fees charged under the affiliate agreement on revenues from former nTelos customers, a reduction of the net service fee charged by Sprint, the straight-line impact of the waived management fee, and the amortization of the affiliate agreement expansion intangible asset; and the elimination of non-recurring transaction related expenses incurred by the Company and nTelos;
- the elimination of certain nTelos operating costs associated with billing and care that are covered under the fees charged by Sprint under the affiliate agreement;
- historical depreciation expense was reduced for the fair value adjustment decreasing the basis of property, plant and equipment; this decrease was offset by a shorter estimated useful life to conform to the Company's standard policy and the acceleration of depreciation on certain equipment; and
- incremental amortization due to the Acquired subscribers - wireless intangible asset.

In connection with the acquisition of nTelos, the Company incurs costs which include the nTelos back office staff and support functions until the nTelos legacy customers are migrated to the Sprint billing platform; costs of the handsets to be provided to nTelos legacy customers as they migrate to the Sprint billing platform; severance costs for back office and other former nTelos employees who will not be retained permanently; and costs to shut down certain cell sites and related backhaul contracts. The Company has incurred these costs as follows:

Statement of Operations location:	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Cost of goods and services	0.1	0.7	0.3	1.0
Selling, general and administrative	1.1	4.2	5.2	7.1
Integration and acquisition	1.7	15.3	9.9	35.8
Total	2.9	20.2	15.4	43.9

The value of the affiliate agreement expansion discussed above is based on changes to the amended affiliate agreement that include:

- an increase in the price to be paid by Sprint from 80% to 90% of the entire business value if the affiliate agreement is not renewed;
- extension of the affiliate agreement with Sprint by five years to 2029;
- expanded territory in the nTelos service area;
- rights to serve all future Sprint customers in the affiliate service territory;
- the Company's commitment to upgrade certain coverage and capacity in its newly acquired service area; and

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- a reduction of the management fee charged by Sprint under the amended affiliate agreement; not to exceed \$4.2 million in an individual month until the total waived fee equals \$251.8 million, as well as an additional waiver of the management fee charged with respect to the former nTelos customers until the earlier of migration to the Sprint back-office billing and related systems or six months following the acquisition; not to exceed \$5.0 million.

Intangible assets resulting from the acquisition of nTelos and the Sprint exchange, both described above, are noted below (in thousands):

	Useful Life	Basis
Affiliate contract expansion	14 years	\$ 283,302
Acquired subscribers - wireless	4-10 years	\$ 120,855
Favorable lease intangible assets	10 years	\$ 17,029

The affiliate contract expansion intangible asset is amortized on a straight-line basis and recorded as a contra-revenue over the remaining 14 year initial contract term. The Acquired subscribers rights - wireless intangible is amortized over the life of the customers, gradually decreasing over the expected life of this asset, and recorded through amortization expense. The favorable lease intangible assets are amortized on a straight-line basis and recorded through rent expense. The value of these intangible assets includes measurement period adjustments.

Acquisition of Expansion Area

On April 6, 2017, the Company expanded its affiliate service territory, under its agreements with Sprint, to include certain areas in North Carolina, Kentucky, Maryland, Ohio and West Virginia. The expanded territory includes the Parkersburg, WV, Huntington, WV, and Cumberland, MD, basic trading areas. Approximately 25,000 Sprint retail and former nTelos postpaid and prepaid subscribers in the new basic trading areas became Sprint-branded affiliate customers managed by the Company.

3. Property, Plant and Equipment

Property, plant and equipment consisted of the following (in thousands):

	September 30, 2017	December 31, 2016
Plant in service	\$ 1,187,799	\$ 1,085,318
Plant under construction	67,099	73,759
	1,254,898	1,159,077
Less accumulated amortization and depreciation	571,543	460,955
Net property, plant and equipment	\$ 683,355	\$ 698,122

4. Earnings (loss) per share ("EPS")

Basic net income (loss) per share was computed by dividing net income or loss by the weighted average number of shares of common stock outstanding during the period. Diluted net income (loss) per share was computed under the treasury stock method, assuming the conversion as of the beginning of the period, for all dilutive stock options. Diluted EPS was computed by dividing net income by the sum of the weighted average number of shares of common stock outstanding and potentially dilutive securities outstanding during the period under the treasury stock method. Potentially dilutive securities include stock options and restricted stock units and shares that the Company is contractually obligated to issue in the future.

(in thousands, except per share amounts)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Basic income (loss) per share				
Net income (loss)	\$ 3,534	\$ (7,596)	\$ 5,795	\$ (711)
Basic weighted average shares outstanding	49,133	48,909	49,100	48,768
Basic income (loss) per share	\$ 0.07	\$ (0.16)	\$ 0.12	\$ (0.01)
Effect of stock options and awards outstanding:				
Basic weighted average shares outstanding	49,133	48,909	49,100	48,768
Effect from dilutive shares and options outstanding	826	—	769	—
Diluted weighted average shares	49,959	48,909	49,869	48,768
Diluted income (loss) per share	\$ 0.07	\$ (0.16)	\$ 0.12	\$ (0.01)

Due to the net loss for the three and nine months ended September 30, 2016, no adjustment was made to basic shares, as such an adjustment would have been anti-dilutive.

The computation of diluted EPS does not include certain unvested awards, on a weighted average basis, because their inclusion would have an anti-dilutive effect on EPS. The awards excluded because of their anti-dilutive effect are as follows:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Awards excluded from the computation of diluted net income per share because their inclusion would have been anti-dilutive	—	893	94	778

5. Investments

Investments include \$3.3 million and \$2.9 million of investments carried at fair value as of September 30, 2017 and December 31, 2016, respectively, consisting of equity, bond and money market mutual funds. Investments carried at fair value were acquired under a rabbi trust arrangement related to the Company's nonqualified Supplemental Executive Retirement Plan (the "SERP"). The Company purchases investments in the trust to mirror the investment elections of participants in the SERP; gains and losses on the investments in the trust are reflected as increases or decreases in the liability owed to the participants. During the nine months ended September 30, 2017, the Company recognized \$59 thousand in dividend and interest income from investments, and recorded net unrealized gains of \$308 thousand on these investments. Fair values for these investments held under the rabbi trust were determined by Level 1 quoted market prices for the underlying mutual funds. Changes in carrying value of investments are recorded within gain on investments, net on the Statements of Operations and Comprehensive Income (Loss).

At September 30, 2017 and December 31, 2016, other investments, comprised of equity securities which do not have readily determinable fair values, consist of the following (in thousands):

	September 30, 2017	December 31, 2016
Cost method:		
CoBank	\$ 6,644	\$ 6,177
Other – Equity in other telecommunications partners	812	742
	<u>7,456</u>	<u>6,919</u>
Equity method:		
Other	592	450
Total other investments	<u>\$ 8,048</u>	<u>\$ 7,369</u>

6. Financial Instruments

Financial instruments on the condensed consolidated balance sheets that approximate fair value include: cash and cash equivalents, receivables, investments carried at fair value, payables, accrued liabilities, interest rate swaps and variable rate long-term debt.

The Company has certain non-marketable long-term investments for which it is not practicable to estimate fair value with a total carrying value of \$8.0 million and \$7.4 million as of September 30, 2017 and December 31, 2016, respectively, of which \$6.6 million and \$6.2 million, respectively, represents the Company's investment in CoBank. This investment is primarily related to patronage distributions of restricted equity and is a required investment related to the portion of the Credit Facility held by CoBank. This investment is carried under the cost method.

7. Derivative Instruments, Hedging Activities and Accumulated Other Comprehensive Income

The Company's objectives in using interest rate derivatives are to add stability to cash flows and to manage its exposure to interest rate movements. To accomplish these objectives, the Company primarily uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps (both those designated as cash flow hedges as well as those not designated as cash flow hedges) involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount.

The Company entered into a pay-fixed, receive-variable interest rate swap of \$174.6 million of notional principal in September 2012. This interest rate swap was designated as a cash flow hedge. The outstanding notional amount of this cash flow hedge was \$122.2 million as of September 30, 2017. The outstanding notional amount decreases based upon scheduled principal payments on the 2012 debt.

In May 2016, the Company entered into a pay-fixed, receive-variable interest rate swap of \$256.6 million of notional principal with three counterparties. This interest rate swap was designated as a cash flow hedge. The outstanding notional amount of this cash flow hedge was \$303.8 million as of September 30, 2017. The outstanding notional amount increases based upon draws expected to be made under a portion of the Company's Term Loan A-2 debt and as the 2012 interest rate swap's notional principal decreases, and the outstanding notional amount will decrease as the Company makes scheduled principal payments on the 2016 debt. In combination with the swap entered into in 2012 described above, the Company is hedging approximately 50% of the outstanding debt.

The effective portion of changes in the fair value of interest rate swaps designated and that qualify as cash flow hedges is recorded in accumulated other comprehensive income and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The Company uses its derivatives to hedge the variable cash flows associated with existing variable-rate debt. The ineffective portion of the change in fair value of the derivative is recognized directly in earnings through interest expense. No hedge ineffectiveness was recognized during any of the periods presented.

Amounts reported in accumulated other comprehensive income related to the interest rate swaps designated and qualified as a cash flow hedge, are reclassified to interest expense as interest payments are made on the Company's variable-rate debt. As of September 30, 2017, the Company estimates that \$1.1 million will be reclassified as a reduction of interest expense during the next twelve months.

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The table below presents the fair value of the Company's derivative financial instrument as well as its classification on the condensed consolidated balance sheet (in thousands):

	September 30, 2017	December 31, 2016
Balance Sheet Location:		
Prepaid expenses and other	\$ 1,124	\$ —
Deferred charges and other assets, net	8,848	12,118
Accrued liabilities and other	—	(895)
Total derivatives designated as hedging instruments	<u>\$ 9,972</u>	<u>\$ 11,223</u>

The fair value of interest rate swaps is determined using a pricing model with inputs that are observable in the market (level 2 fair value inputs).

The table below presents change in accumulated other comprehensive income (loss) by component for the nine months ended September 30, 2017 (in thousands):

	Gains (Losses) on Cash Flow Hedges	Income Tax Expense	Accumulated Other Comprehensive Income (Loss), net of taxes
Balance as of December 31, 2016	\$ 11,223	\$ (4,435)	\$ 6,788
Net change in unrealized gain (loss)	(1,789)	698	(1,091)
Amounts reclassified from accumulated other comprehensive income (loss) to interest expense	538	(217)	321
Net current period accumulated other comprehensive income (loss)	<u>(1,251)</u>	<u>481</u>	<u>(770)</u>
Balance as of September 30, 2017	<u>\$ 9,972</u>	<u>\$ (3,954)</u>	<u>\$ 6,018</u>

8. Goodwill and Other Intangible Assets

Changes in the carrying amount of goodwill during the nine months ended September 30, 2017 are shown below (in thousands):

	December 31, 2016	Measurement Period Adjustments	September 30, 2017
Goodwill - Wireline segment	\$ 10	\$ —	\$ 10
Goodwill - Cable segment	104	—	104
Goodwill - Wireless segment	145,142	1,241	146,383
Goodwill as of September 30, 2017	<u>\$ 145,256</u>	<u>\$ 1,241</u>	<u>\$ 146,497</u>

Intangible assets consist of the following at September 30, 2017 and December 31, 2016:

	September 30, 2017			December 31, 2016		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Non-amortizing intangibles:						
Cable franchise rights	\$ 64,335	\$ —	\$ 64,335	\$ 64,334	\$ —	\$ 64,334
Railroad crossing rights	140	—	140	97	—	97
	<u>64,475</u>	<u>—</u>	<u>64,475</u>	<u>64,431</u>	<u>—</u>	<u>64,431</u>
Finite-lived intangibles:						
Affiliate contract expansion	287,052	(29,593)	257,459	284,102	(14,030)	270,072
Acquired subscribers – wireless	123,105	(36,871)	86,234	120,855	(18,738)	102,117
Favorable leases - wireless	16,950	(3,985)	12,965	16,950	(1,130)	15,820
Acquired subscribers – cable	25,265	(25,059)	206	25,265	(24,631)	634
Other intangibles	563	(230)	333	2,212	(754)	1,458
Total finite-lived intangibles	<u>452,935</u>	<u>(95,738)</u>	<u>357,197</u>	<u>449,384</u>	<u>(59,283)</u>	<u>390,101</u>
Total intangible assets	<u>\$ 517,410</u>	<u>\$ (95,738)</u>	<u>\$ 421,672</u>	<u>\$ 513,815</u>	<u>\$ (59,283)</u>	<u>\$ 454,532</u>

9. Accrued and Other liabilities

Accrued liabilities and other include the following (in thousands):

	September 30, 2017	December 31, 2016
Sales and property taxes payable	\$ 4,409	\$ 6,628
Severance accrual	1,889	4,267
Asset retirement obligations, current portion	823	5,841
Accrued programming costs	2,856	2,939
Other current liabilities	5,300	9,410
Accrued liabilities and other	<u>\$ 15,277</u>	<u>\$ 29,085</u>

Other liabilities include the following (in thousands):

	September 30, 2017	December 31, 2016
Non-current portion of deferred revenues	\$ 14,111	\$ 8,933
Straight-line management fee waiver	24,934	11,974
Other	1,135	2,836
Other liabilities	<u>\$ 40,180</u>	<u>\$ 23,743</u>

10. Long-Term Debt and Revolving Lines of Credit

Total debt at September 30, 2017 and December 31, 2016 consists of the following:

(In thousands)	September 30, 2017	December 31, 2016
Term loan A-1	\$ 448,625	\$ 472,875
Term loan A-2	400,000	375,000
	848,625	847,875
Less: unamortized loan fees	15,623	18,610
Total debt, net of unamortized loan fees	<u>\$ 833,002</u>	<u>\$ 829,265</u>
Current maturities of long term debt, net of unamortized loan fees	\$ 54,316	\$ 32,041
Long-term debt, less current maturities, net of unamortized loan fees	\$ 778,686	\$ 797,224

As of September 30, 2017, our indebtedness totaled \$848.6 million in term loans with an annualized effective interest rate of approximately 4.07% after considering the impact of the interest rate swap contract and unamortized loan costs. The balance consists of the \$448.6 million Term Loan A-1 at a variable rate (3.99% as of September 30, 2017) that resets monthly based on one month LIBOR plus a margin of 2.75%, and the \$400.0 million Term Loan A-2 at a variable rate (4.24% as of September 30, 2017) that resets monthly based on one month LIBOR plus a margin of 3.00%. The Term Loan A-1 requires quarterly principal repayments of \$12.1 million through June 30, 2020, with further increases at that time through maturity in June 30, 2021. The Term Loan A-2 requires quarterly principal repayments of \$10.0 million beginning on September 30, 2018 through March 31, 2023, with the remaining balance due June 30, 2023.

The Company is subject to certain covenants to be measured on a trailing twelve month basis each calendar quarter unless otherwise specified. These covenants include:

- a limitation on the Company's total leverage ratio, defined as indebtedness divided by earnings before interest, taxes, depreciation and amortization, or EBITDA, of less than or equal to 3.75 to 1.00 from the closing date through December 30, 2018, then 3.25 to 1.00 through December 30, 2019, and 3.00 to 1.00 thereafter;
- a minimum debt service coverage ratio, defined as EBITDA minus certain cash taxes divided by the sum of all scheduled principal payments on the Term Loans and scheduled principal payments on other indebtedness plus cash interest expense, greater than 2.00 to 1.00;
- the Company must maintain a minimum liquidity balance, defined as availability under the revolver facility plus unrestricted cash and cash equivalents on deposit in a deposit account for which a control agreement has been delivered to the administrative agent under the 2016 credit agreement, of greater than \$25 million at all times.

As shown below, as of September 30, 2017, the Company was in compliance with the covenants in its credit agreements.

	Actual	Covenant Requirement
Total Leverage Ratio	2.93	3.75 or Lower
Debt Service Coverage Ratio	3.88	2.00 or Higher
Minimum Liquidity Balance	\$ 149,228	\$25 million or Higher

11. Segment Information

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker. The Company has three reportable segments, which the Company operates and manages as strategic business units organized by lines of business: (1) Wireless, (2) Cable, and (3) Wireline. A fourth segment, Other, primarily includes Shenandoah Telecommunications Company, the parent holding company.

The Wireless segment provides digital wireless service as a PCS affiliate to a portion of a four-state area covering the region from Harrisburg, York and Altoona, Pennsylvania, along Interstate 81 to Harrisonburg, Virginia, south-central and western Virginia, West Virginia, and small portions of North Carolina, Kentucky, Maryland and Ohio. The Wireless segment also owns cell site towers built on leased land, and leases space on these towers to both affiliates and non-affiliated service providers.

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The Cable segment provides video, internet and voice services in Virginia, West Virginia and Maryland, and leases fiber optic facilities throughout southern Virginia and West Virginia. It does not include video, internet and voice services provided to customers in Shenandoah County, Virginia.

The Wireline segment provides regulated and unregulated voice services, DSL internet access, and long distance access services throughout Shenandoah County and portions of Rockingham, Frederick, Warren and Augusta counties, Virginia. The segment also provides video and cable modem services in portions of Shenandoah County, and leases fiber optic facilities throughout the northern Shenandoah Valley of Virginia, northern Virginia and adjacent areas along the Interstate 81 corridor through West Virginia, Maryland and portions of central and southern Pennsylvania.

Three Months Ended September 30, 2017
(in thousands)

	Wireless	Cable	Wireline	Other	Eliminations	Consolidated Totals
External revenues						
Service revenues	\$ 107,395	\$ 26,934	\$ 5,126	\$ —	\$ —	\$ 139,455
Other	3,871	2,156	6,300	—	—	12,327
Total external revenues	111,266	29,090	11,426	—	—	151,782
Internal revenues	1,239	999	8,425	—	(10,663)	—
Total operating revenues	112,505	30,089	19,851	—	(10,663)	151,782
Operating expenses						
Costs of goods and services, exclusive of depreciation and amortization shown separately below	41,041	14,913	9,807	—	(9,927)	55,834
Selling, general and administrative, exclusive of depreciation and amortization shown separately below	30,099	5,358	1,706	5,772	(736)	42,199
Integration and acquisition expenses	1,691	—	—	15	—	1,706
Depreciation and amortization	32,929	6,192	3,249	198	—	42,568
Total operating expenses	105,760	26,463	14,762	5,985	(10,663)	142,307
Operating income (loss)	\$ 6,745	\$ 3,626	\$ 5,089	\$ (5,985)	\$ —	\$ 9,475

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Three Months Ended September 30, 2016
(in thousands)

	Wireless	Cable	Wireline	Other	Eliminations	Consolidated Totals
External revenues						
Service revenues	\$ 111,001	\$ 24,948	\$ 4,948	\$ —	\$ —	\$ 140,897
Other	7,978	2,031	5,930	—	—	15,939
Total external revenues	118,979	26,979	10,878	—	—	156,836
Internal revenues	1,140	587	7,854	—	(9,581)	—
Total operating revenues	120,119	27,566	18,732	—	(9,581)	156,836
Operating expenses						
Costs of goods and services, exclusive of depreciation and amortization shown separately below	43,097	14,654	9,442	—	(8,876)	58,317
Selling, general and administrative, exclusive of depreciation and amortization shown separately below	29,892	4,770	1,676	4,736	(705)	40,369
Integration and acquisition expenses	14,499	—	—	773	—	15,272
Depreciation and amortization	38,038	5,860	2,822	87	—	46,807
Total operating expenses	125,526	25,284	13,940	5,596	(9,581)	160,765
Operating income (loss)	\$ (5,407)	\$ 2,282	\$ 4,792	\$ (5,596)	\$ —	\$ (3,929)

Nine Months Ended September 30, 2017
(in thousands)

	Wireless	Cable	Wireline	Other	Eliminations	Consolidated Totals
External revenues						
Service revenues	\$ 323,262	\$ 80,229	\$ 15,301	\$ —	\$ —	\$ 418,792
Other	15,133	6,283	18,712	—	—	40,128
Total external revenues	338,395	86,512	34,013	—	—	458,920
Internal revenues	3,707	2,153	24,568	—	(30,428)	—
Total operating revenues	342,102	88,665	58,581	—	(30,428)	458,920
Operating expenses						
Costs of goods and services, exclusive of depreciation and amortization shown separately below	117,829	45,052	28,409	—	(28,314)	162,976
Selling, general and administrative, exclusive of depreciation and amortization shown separately below	88,201	15,083	5,065	19,139	(2,114)	125,374
Integration and acquisition expenses	9,607	—	—	266	—	9,873
Depreciation and amortization	104,231	18,070	9,536	460	—	132,297
Total operating expenses	319,868	78,205	43,010	19,865	(30,428)	430,520
Operating income (loss)	\$ 22,234	\$ 10,460	\$ 15,571	\$ (19,865)	\$ —	\$ 28,400

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Nine Months Ended September 30, 2016
(in thousands)

	Wireless	Cable	Wireline	Other	Eliminations	Consolidated Totals
External revenues						
Service revenues	\$ 250,053	\$ 73,455	\$ 14,727	\$ —	\$ —	\$ 338,235
Other	17,461	5,799	18,221	—	—	41,481
Total external revenues	267,514	79,254	32,948	—	—	379,716
Internal revenues	3,417	1,159	22,754	—	(27,330)	—
Total operating revenues	270,931	80,413	55,702	—	(27,330)	379,716
Operating expenses						
Costs of goods and services, exclusive of depreciation and amortization shown separately below	94,892	43,864	26,892	—	(25,294)	140,354
Selling, general and administrative, exclusive of depreciation and amortization shown separately below	65,219	14,672	4,951	13,457	(2,036)	96,263
Integration and acquisition expenses	19,889	—	—	15,912	—	35,801
Depreciation and amortization	70,026	17,834	8,789	312	—	96,961
Total operating expenses	250,026	76,370	40,632	29,681	(27,330)	369,379
Operating income (loss)	\$ 20,905	\$ 4,043	\$ 15,070	\$ (29,681)	\$ —	\$ 10,337

A reconciliation of the total of the reportable segments' operating income (loss) to consolidated income (loss) before taxes is as follows:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Total consolidated operating income (loss)	\$ 9,475	\$ (3,929)	\$ 28,400	\$ 10,337
Interest expense	(9,823)	(8,845)	(28,312)	(16,369)
Non-operating income, net	1,205	1,527	3,877	3,147
Income (loss) before income taxes	\$ 857	\$ (11,247)	\$ 3,965	\$ (2,885)

12. Income Taxes

The Company files U.S. federal income tax returns and various state and local income tax returns. With few exceptions, years prior to 2013 are no longer subject to examination; net operating losses acquired in the nTelos acquisition are open to examination from 2002 forward. The Company is not subject to any state or federal income tax audits as of September 30, 2017.

The effective tax rate has fluctuated in recent periods due to the minimal base of pre-tax earnings or losses and has been further impacted by the impact of share based compensation tax benefits which are recognized as incurred under the provisions of ASC 740, "Income Taxes".

13. Related Party Transactions

ValleyNet, an equity method investee of the Company, resells capacity on the Company's fiber network under an operating lease agreement. Additionally, the Company's PCS operating subsidiary leases capacity through ValleyNet.

The following tables summarize the financial statement impact from related party transactions with ValleyNet (in thousands):

Statement of Operations and Comprehensive Income (Loss)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Facility Lease Revenue	\$ 506	\$ 560	\$ 1,664	\$ 1,809
Costs of Goods and Services	951	858	2,699	2,162

Consolidated Balance Sheet	September 30,	December 31,
	2017	2016
Accounts Receivable related to ValleyNet	\$ 181	\$ 191
Accounts Payable related to ValleyNet	301	448

14. Subsequent Events

On October 24, 2017, the Company's Board of Directors approved a dividend of \$0.26 per common share to be paid December 1, 2017 to shareholders of record as of the close of business on November 3, 2017. Before dividend reinvestments, the total payout is expected to be approximately \$12.8 million.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This management's discussion and analysis includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. When used in this report, the words "anticipate," "believe," "estimate," "expect," "intend," "plan" and similar expressions as they relate to Shenandoah Telecommunications Company or its management are intended to identify these forward-looking statements. All statements regarding Shenandoah Telecommunications Company's expected future financial position and operating results, business strategy, financing plans, forecasted trends relating to the markets in which Shenandoah Telecommunications Company operates and similar matters are forward-looking statements. We cannot assure you that the Company's expectations expressed or implied in these forward-looking statements will turn out to be correct. The Company's actual results could be materially different from its expectations because of various factors, including those discussed below and under the caption "Risk Factors" in the Company's Annual Report on Form 10-K for its fiscal year ended December 31, 2016. The following management's discussion and analysis should be read in conjunction with the Company's Annual Report on Form 10-K for its fiscal year ended December 31, 2016, including the financial statements and related notes included therein.

General

Overview: Shenandoah Telecommunications Company is a diversified telecommunications company providing both regulated and unregulated telecommunications services through its wholly owned subsidiaries. These subsidiaries provide wireless personal communications services (as a Sprint PCS affiliate), local exchange telephone services, video, internet and data services, long distance services, fiber optics facilities, and leased tower facilities. We have three reportable segments, which we operate and manage as strategic business units organized by lines of business: (1) Wireless, (2) Cable, and (3) Wireline.

- * The Wireless segment provides digital wireless service as a Sprint PCS affiliate to a portion of a four-state area covering the region from Harrisburg, York and Altoona, Pennsylvania, along Interstate 81 to Harrisonburg, Virginia, south-central and western Virginia, West Virginia, and small portions of North Carolina, Kentucky, Maryland and Ohio. In these areas, we are the exclusive provider of Sprint-branded wireless mobility communications network products and services on the 800 MHz, 1900 MHz and 2.5 GHz bands. This segment also owns cell site towers built on leased land, and leases space on these towers to both affiliates and non-affiliated service providers.
- * The Cable segment provides video, internet and voice services in franchise areas in portions of Virginia, West Virginia and western Maryland, and leases fiber optic facilities throughout its service area. It does not include video, internet and voice services provided to customers in Shenandoah County, Virginia.
- * The Wireline segment provides regulated and unregulated voice services, DSL internet access, and long distance access services throughout Shenandoah County and portions of Rockingham, Frederick, Warren and Augusta counties, Virginia. The segment also provides video and cable modem internet access services in portions of Shenandoah County, and leases fiber optic facilities throughout the northern Shenandoah Valley of Virginia, northern Virginia and adjacent areas along the Interstate 81 corridor through West Virginia, Maryland and portions of central and southern Pennsylvania.

A fourth segment, Other, primarily includes Shenandoah Telecommunications Company, the parent holding company, and includes corporate costs of executive management, information technology, legal, finance, and human resources and investor relations. This segment also includes certain acquisition and integration costs primarily consisting of severance accruals for short-term nTelos employees to be separated as integration activities wind down and transaction related expenses such as investment advisor, legal and other professional fees. The segment results provided below are presented without giving effect to the elimination of transactions between segments to provide a view of our results without inter-segment eliminations and corporate items.

Recent Developments

Acquisition of nTelos and Exchange with Sprint: On May 6, 2016, we completed our previously announced acquisition of NTELOS Holdings Corp. ("nTelos") for \$667.8 million, net of cash acquired. The purchase price was financed by a credit facility arranged by CoBank, ACB. We have included the operations of nTelos for financial reporting purposes for periods subsequent to the acquisition.

We expect to incur approximately \$16.7 million of integration and acquisition expenses associated with this transaction in 2017, in addition to the \$54.7 million of such costs incurred during 2016. We have incurred \$2.9 million and \$15.4 million of these costs in the three and nine months ended September 30, 2017, respectively. These costs include \$0.1 million reflected in

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cost of goods and services, \$1.1 million reflected in selling, general and administrative costs and \$1.7 million reflected in integration and acquisition in the three month period ended September 30, 2017. These costs include \$0.3 million reflected in cost of goods and services, \$5.2 million reflected in selling, general and administrative and \$9.9 million reflected in integration and acquisition costs in the nine month period ended September 30, 2017. In addition to the approximately \$71.4 million of incurred and expected expenses described above, we also incurred approximately \$28 million of debt issuance, legal and other costs in 2015 and 2016 relating to this transaction, for a total expected cost of \$100 million.

Acquisition of Expansion Area: On April 6, 2017, we expanded our affiliate service territory, under our agreements with Sprint, to include certain areas in North Carolina, Kentucky, Maryland, Ohio and West Virginia. The expanded territory covers the Parkersburg, WV, Huntington, WV and Cumberland, MD basic trading areas. Approximately 25,000 Sprint retail and former nTelos postpaid and prepaid subscribers in the new basic trading areas will become Sprint-branded affiliate customers managed by us. We have authorization to serve over 6 million POPs in the mid-Atlantic region as a Sprint PCS Affiliate following this expansion. We plan to invest approximately \$32 million over the next three years to upgrade and expand the existing wireless network coverage in those regions. Once the network expansion is complete, our plan is to open multiple Sprint-branded retail locations in the new area.

Results of Operations

Three Months Ended September 30, 2017 Compared with the Three Months Ended September 30, 2016

Our consolidated results for the third quarter of 2017 and 2016 are summarized as follows:

(in thousands)	Three Months Ended September 30,		Change	
	2017	2016	\$	%
Operating revenues	\$ 151,782	\$ 156,836	\$ (5,054)	(3.2)
Operating expenses	142,307	160,765	(18,458)	(11.5)
Operating income (loss)	9,475	(3,929)	13,404	(341.2)
Interest expense	(9,823)	(8,845)	(978)	11.1
Other income (expense), net	1,205	1,527	(322)	(21.1)
Income (loss) before taxes	857	(11,247)	12,104	(107.6)
Income tax expense (benefit)	(2,677)	(3,651)	974	(26.7)
Net income (loss)	\$ 3,534	\$ (7,596)	\$ 11,130	(146.5)

Operating revenues

For the three months ended September 30, 2017, operating revenues decreased \$5.1 million, or 3.2% to \$151.8 million. Wireless segment revenues decreased \$7.6 million compared with the third quarter of 2016, primarily driven by lower service revenue and the reduction of subsidized handset sales. Cable segment revenues grew \$2.5 million primarily as a result of 0.8% growth in average subscriber counts and an increase in revenue per subscriber. Wireline segment revenues increased \$1.1 million, primarily due to increases in fiber revenue.

Operating expenses

Total operating expenses decreased \$18.5 million or 11.5% to \$142.3 million in the three months ended September 30, 2017 compared with \$160.8 million in the prior year period. The decrease in operating expenses was primarily driven by a reduction of approximately \$17.3 million of integration and acquisition costs related to the completion of the transformation of the nTelos network during 2017 and the remainder is primarily attributable to improved operating efficiencies in network operations.

Integration and acquisition costs incurred in the Wireless segment and Other segment primarily consist of handsets provided to nTelos subscribers who required a new phone to transition to the Sprint billing platform, and personnel costs associated with nTelos employees retained on a short-term basis who were necessary in the efforts required to migrate former nTelos customers to the Sprint back-office billing platform. Acquisition and integration costs were \$2.9 million for the three months ended

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September 30, 2017, and were comprised of \$0.1 million classified as cost of goods and services, \$1.1 million classified as selling, general and administrative, and \$1.7 million classified as integration and acquisition; whereas acquisition and integration costs for the three months ended September 30, 2016 were \$20.2 million, and were comprised of \$0.7 million classified as cost of goods and services, \$4.2 million classified as selling, general and administrative, and \$15.3 million classified as integration and acquisition. We expect integration and acquisition costs related to the nTelos acquisition to continue to decrease as integration activities wind down.

For the three months ended September 30, 2017 compared with the three months ended September 30, 2016, excluding integration and acquisition costs, operating expenses decreased \$1.2 million primarily related to the completion of the transformation of the nTelos network during 2017 and improved operating efficiencies in network operations.

Interest expense

Interest expense has increased primarily as a result of the incremental borrowings associated with closing the nTelos acquisition and the effect of increases in the London Interbank Offered Rate ("LIBOR") in late 2016 and during 2017. The impact of the interest rate increases has been partially offset by an interest rate swap, which is classified as a cash flow hedge that covers approximately 50% of the outstanding principal under the Credit Facilities.

Other income, net

Other income, net has decreased \$0.3 million primarily as a result of lower interest income derived from our investments.

Income tax

During the three months ended September 30, 2017, income tax benefits were approximately \$2.7 million, compared with benefits of \$3.7 million for the three months ended September 30, 2016. Excluding approximately \$2.8 million of excess tax benefits recognized during 2017 that are derived from exercises of stock options and vesting of restricted stock, our income tax expense increased \$3.8 million consistent with the growth that we have experienced in our increase in income before taxes.

Nine Months Ended September 30, 2017 Compared with the Nine Months Ended September 30, 2016

Our consolidated results for the first nine months of 2017 and 2016 are summarized as follows:

(in thousands)	Nine Months Ended September 30,		Change	
	2017	2016	\$	%
Operating revenues	\$ 458,920	\$ 379,716	\$ 79,204	20.9
Operating expenses	430,520	369,379	61,141	16.6
Operating income (loss)	28,400	10,337	18,063	174.7
Interest expense	(28,312)	(16,369)	(11,943)	73.0
Other income (expense), net	3,877	3,147	730	23.2
Income (loss) before taxes	3,965	(2,885)	6,850	(237.4)
Income tax expense (benefit)	(1,830)	(2,174)	344	(15.8)
Net income (loss)	\$ 5,795	\$ (711)	\$ 6,506	(915.0)

Operating revenues

For the nine months ended September 30, 2017, operating revenues increased \$79.2 million, or 20.9%. Wireless segment revenues increased \$71.2 million compared to the first nine months of 2016. Nearly all of this increase was a result of the acquisition of nTelos on May 6, 2016 as 2017 included nine months of nTelos revenue whereas the comparable 2016 period included approximately five months of nTelos revenue. Cable segment revenues grew \$8.3 million primarily as a result of 0.8% growth in high speed data and voice subscribers and an increase in average revenue per subscriber. Wireline segment revenues increased \$2.9 million primarily due to increases in fiber sales.

Operating expenses

Total operating expenses increased \$61.1 million or 16.6% to \$430.5 million in the nine months ended September 30, 2017 compared with \$369.4 million in the prior year period. Nearly all of this increase was a result of the acquisition of nTelos on May 6, 2016 as 2017 included nine months of nTelos operating expenses whereas the comparable 2016 period included approximately five months of nTelos operating expenses. The increase in operating expenses was consistent with the growth that occurred in operating revenues, and was partially offset by a decrease of approximately \$28.5 million in integration and acquisition costs related to the transformation of nTelos.

Integration and acquisition costs were \$15.4 million for the nine months ended September 30, 2017, and were primarily comprised of \$0.3 million classified as cost of goods and services, \$5.2 million classified as selling, general and administrative, and \$9.9 million classified as integration and acquisition; whereas acquisition and integration costs for the nine months ended September 30, 2016 were \$43.9 million, and were comprised of \$1.0 million classified as cost of goods and services, \$7.1 million classified as selling, general and administrative, and \$35.8 million classified as integration and acquisition. We expect integration and acquisition costs related to the nTelos acquisition to decrease as integration activities wind down.

Excluding integration and acquisition costs, operating expenses increased \$89.6 million, nearly all of this increase was a result of the acquisition of nTelos on May 6, 2016 as 2017 included nine months of nTelos operating expenses whereas the comparable 2016 period included approximately five months of nTelos operating expenses. The increase was consistent with the growth in operating revenues related to the acquisition of nTelos in 2016 and acquisition of the Expansion Area during 2017.

Interest expense

Interest expense has increased primarily as a result of the borrowings under our Credit Agreement, associated with closing the nTelos acquisition during May 2016, and the effect of increases in the London Interbank Offered Rate ("LIBOR") that have occurred since. As a result, the nine months ended September 30, 2016 include interest expense under our borrowings for approximately five months, whereas the nine months ended September 30, 2017 include interest expense for nine months. The impact of the interest rate increases has been partially offset by an interest rate swap, which is classified as a cash flow hedge that covers approximately 50% of the outstanding principal under the Credit Facilities.

Other income, net

Other income, net has increased \$0.7 million primarily as a result of lower interest income derived from our investments.

Income tax

During the nine months ended September 30, 2017, income tax expense increased by approximately \$0.3 million, compared with the nine months ended September 30, 2016. Excluding approximately \$1.8 million of incremental excess tax benefits recognized during 2017 that are derived from exercises of stock options and vesting of restricted stock, our income tax expense increased \$2.1 million consistent with the growth that we have experienced in our increase in income before taxes.

Wireless Segment

Our Wireless segment provides digital wireless service as a Sprint PCS affiliate to a portion of a multi-state area covering the region from Harrisburg, York and Altoona, Pennsylvania, along Interstate 81 to Harrisonburg, Virginia, south-central and western Virginia, West Virginia, and portions of Maryland, North Carolina, Kentucky, Maryland and Ohio. This segment also leases land on which it builds Company-owned cell towers, which it leases to affiliates and non-affiliated wireless service providers, throughout the same multi-state area described above.

We earn revenues from Sprint for providing access to our network. Postpaid revenues received from Sprint are recorded net of certain fees retained by Sprint. Since January 1, 2016, the fees retained by Sprint are 16.6%, and certain revenue and expense items previously included in these fees became separately settled.

We also offer prepaid wireless products and services in our network coverage area. Sprint retains a Management Fee equal to 6% of prepaid customer billings. Prepaid revenues received from Sprint are reported net of the cost of this fee. Other fees charged on a per unit basis are separately recorded as expenses according to the nature of the expense. We pay handset

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subsidies to Sprint for the difference between the selling price of prepaid handsets and their cost, recorded as a net cost in cost of goods sold.

Lifeline Subscribers: The Company is no longer including Lifeline subscribers in the customer counts to be consistent with Sprint. While the Lifeline subscribers will continue to be supported through the Assurance Wireless prepaid brand, we have excluded these subscribers from the reported prepaid customer base for all periods presented.

The following tables show selected operating statistics of the Wireless segment, including Sprint's subscribers:

	September 30, 2017	December 31, 2016	September 30, 2016	December 31, 2015
Retail PCS Subscribers – Postpaid	727,954	722,562	718,785	312,512
Retail PCS Subscribers – Prepaid (1)	224,609	206,672	245,046	129,855
PCS Market POPS (000) (2)	6,047	5,536	5,536	2,433
PCS Covered POPS (000) (2)	5,157	4,807	4,715	2,224
CDMA Base Stations (sites)	1,544	1,467	1,425	552
Towers Owned	201	196	181	158
Non-affiliate Cell Site Leases	192	202	186	202

- 1) Prepaid subscribers reported in the December 2016 and subsequent periods include the impact of a change in the Company's policy as to how long an inactive customer is included in the customer counts. This policy change, implemented in December 2016, effectively reduced prepaid customers by approximately 24 thousand. As of September 2017, The Company is no longer including Lifeline subscribers to be consistent with Sprint's policy. Historical customer counts have been adjusted accordingly.
- 2) POPS refers to the estimated population of a given geographic area and is based on information purchased from third party sources. Market POPS are those within a market area which we are authorized to serve under our Sprint PCS affiliate agreements, and Covered POPS are those covered by our network.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Gross PCS Subscriber Additions – Postpaid	43,320	41,563	122,429	85,104
Net PCS Subscriber Additions (Losses) – Postpaid	(4,710)	1,222	(13,675)	1,829
Gross PCS Subscriber Additions – Prepaid (1)	37,653	32,315	112,201	77,010
Net PCS Subscriber Additions (Losses) – Prepaid (1)	2,571	(13,856)	13,259	(21,557)
PCS Average Monthly Retail Churn % - Postpaid (2)	2.19%	2.01%	2.08%	1.71%
PCS Average Monthly Retail Churn % - Prepaid(1) (2)	5.25%	6.09%	5.06%	5.67%

- 1) The Company is no longer including Lifeline subscribers to be consistent with Sprint's policy. Historical customer counts have been adjusted accordingly.
- 2) PCS Average Monthly Retail Churn is the average of the monthly subscriber turnover, or churn, calculations for the period. Excluding losses associated with the migration of nTelos subscribers to the Sprint network and platform, churn for the three months ended September 30, 2017 and 2016, was 1.85% and 1.64%, respectively.

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The numbers shown above include the following:

	April 6, 2017	May 6, 2016
	Expansion Area	nTelos Area
Acquired PCS Subscribers - Postpaid	19,067	404,444
Acquired PCS Subscribers - Prepaid	5,962	154,944
Acquired PCS Market POPS (000) (1)	511	3,099
Acquired PCS Covered POPS (000) (1)	244	2,298
Acquired CDMA Base Stations (sites) (2)	—	868
Towers	—	20
Non-affiliate Cell Site Leases	—	10

1) POPS refers to the estimated population of a given geographic area and is based on information purchased from third party sources. Market POPS are those within a market area which we are authorized to serve under our Sprint PCS affiliate agreements, and Covered POPS are those covered by our network.

2) As of September 30, 2017 we have shut down 107 overlap sites.

Three Months Ended September 30, 2017 Compared with the Three Months Ended September 30, 2016

(in thousands)

	Three Months Ended September 30,		Change	
	2017	2016	\$	%
Segment operating revenues				
Wireless service revenue	\$ 107,395	\$ 111,001	\$ (3,606)	(3.2)
Tower lease revenue	2,933	2,909	24	0.8
Equipment revenue	1,742	3,539	(1,797)	(50.8)
Other revenue	435	2,670	(2,235)	(83.7)
Total segment operating revenues	<u>112,505</u>	<u>120,119</u>	<u>(7,614)</u>	<u>(6.3)</u>
Segment operating expenses				
Cost of goods and services, exclusive of depreciation and amortization shown separately below	41,041	43,097	(2,056)	(4.8)
Selling, general and administrative, exclusive of depreciation and amortization shown separately below	30,099	29,892	207	0.7
Integration and acquisition expenses	1,691	14,499	(12,808)	(88.3)
Depreciation and amortization	<u>32,929</u>	<u>38,038</u>	<u>(5,109)</u>	<u>(13.4)</u>
Total segment operating expenses	<u>105,760</u>	<u>125,526</u>	<u>(19,766)</u>	<u>(15.7)</u>
Segment operating income (loss)	<u>\$ 6,745</u>	<u>\$ (5,407)</u>	<u>\$ 12,152</u>	<u>(224.7)</u>

Service Revenues

Wireless service revenue decreased \$3.6 million, or 3.2%, for the three months ended September 30, 2017, compared with the September 30, 2016, period. The table below provides additional detail in the settlement with Sprint impacting service revenue.

(in thousands)

	Three Months Ended September 30,		Change	
	2017	2016	\$	%
Service Revenues				
Postpaid net billings ⁽¹⁾	\$ 94,013	\$ 97,470	\$ (3,457)	(3.5)
Sprint management fee	(7,460)	(7,919)	459	(5.8)
Sprint net service fee	(7,872)	(6,745)	(1,127)	16.7
Waiver of management fee	7,440	7,996	(556)	(7.0)
	<u>86,121</u>	<u>90,802</u>	<u>(4,681)</u>	<u>(5.2)</u>
Prepaid net billings				
Gross billings ⁽²⁾	24,155	24,323	(168)	(0.7)
Sprint management fee	(1,502)	(1,521)	19	(1.2)
Waiver of management fee	1,521	1,521	—	—
	<u>24,174</u>	<u>24,323</u>	<u>(149)</u>	<u>(0.6)</u>
Travel and other revenues ⁽²⁾	6,662	6,109	553	9.1
Amortization of expanded affiliate agreement	(5,242)	(5,593)	351	(6.3)
Straight-line adjustment - management fee waiver	(4,320)	(4,640)	320	(6.9)
Total Service Revenues	<u>\$ 107,395</u>	<u>\$ 111,001</u>	<u>\$ (3,606)</u>	<u>(3.2)</u>

1) Postpaid net billings are defined under the terms of the affiliate contract with Sprint to be the gross billings to customers within our service territory less billing credits and adjustments and allocated write-offs of uncollectible accounts.

2) The Company is no longer including Lifeline subscribers to be consistent with Sprint. The above table reflects the reclassification of the related Assurance Wireless prepaid revenue within the Wireless segment from Prepaid gross billings to travel and other revenues.

Operating revenues

Wireless service revenue decreased \$3.6 million, or 3.2% in the third quarter of 2017. The decline in postpaid service revenue was the result of a reduction in Sprint's average revenue per postpaid customer as a higher percentage of Sprint's postpaid customer base moved from higher revenue subsidized phone price plans to lower phone price plans associated with leased and installment sales. Additionally, we were impacted by an increase of approximately \$1.1 million in net service fees during the third quarter as a result of the migration of former nTelos subscribers to the Sprint platform. This decline was partially offset by an increase in postpaid subscribers of approximately 9 thousand. The decline in prepaid service revenues was the result of the resolution of \$1.1 million related to a previously settled prepaid amount with Sprint, which reduced revenue for the three months ended September 30, 2017. This was partially offset by an increase in average revenue per prepaid customer.

Equipment revenue decreased \$1.8 million, or 50.8%, in the third quarter of 2017 driven by a decline in handset sales as more subscribers are leasing their handsets, directly from Sprint, and the reduction of accessory sales in our national retailer channel.

Other revenue decreased \$2.2 million, or 83.7%, in the third quarter of 2017. During the prior year period the Company recognized approximately \$2.4 million of revenue related to regulatory and handset insurance billings for subscribers on the nTelos platform. Regulatory and handset insurance billings have steadily declined as former nTelos subscribers migrate to the the Sprint network and platform.

Cost of goods and services

Cost of goods and services decreased \$2.1 million, or 4.8%, in the third quarter of 2017 compared with the third quarter of 2016. The decrease results primarily from a decline in handset costs as customers increasingly acquire handsets under Sprint leasing and installment sales programs, the reduction in network line costs as we optimize the network, and the reduction in regulatory fees related to the migration of nTelos customers. These decreases were offset by an increase in rent expense to support our network expansion and accelerated amortization of off-market lease intangibles associated with decommissioned cell sites in our overlap territory.

Selling, general and administrative

Selling, general and administrative costs increased \$0.2 million, or 0.7%, in the third quarter of 2017 from the comparable 2016 period, primarily due to increases in commissions and subscriber acquisition costs associated with higher gross additions in the current period that were offset by reductions in back office staff and support functions attributable to the completion of the migration of the former nTelos subscribers to the Sprint network.

Integration and acquisition

Integration and acquisition expenses of \$1.7 million in the third quarter of 2017 were primarily attributable to the cost of replacement handsets provided to former nTelos subscribers related to the completion of the migration of the subscribers to the Sprint platform. Integration and acquisitions expenses have decreased approximately \$12.8 million compared with the three months ended September 30, 2016 primarily as a result of the completion of migration and integration activities related to the acquisition of nTelos.

Depreciation and amortization

Depreciation and amortization decreased \$5.1 million, or 13.4%, in the third quarter of 2017 over the comparable 2016 period, due primarily to a \$5.6 million decline in depreciation resulting from the retirement of certain network related assets that occurred during 2016, which was partially offset by an increase of \$0.5 million in amortization of customer based intangibles recorded in the acquisition.

Nine Months Ended September 30, 2017 Compared with the Nine Months Ended September 30, 2016

(in thousands)

	Nine Months Ended September 30,		Change	
	2017	2016	\$	%
Segment operating revenues				
Wireless service revenue	\$ 323,262	\$ 250,053	\$ 73,209	29.3
Tower lease revenue	8,676	8,471	205	2.4
Equipment revenue	7,666	7,771	(105)	(1.4)
Other revenue	2,498	4,636	(2,138)	(46.1)
Total segment operating revenues	342,102	270,931	71,171	26.3
Segment operating expenses				
Cost of goods and services, exclusive of depreciation and amortization shown separately below	117,829	94,892	22,937	24.2
Selling, general and administrative, exclusive of depreciation and amortization shown separately below	88,201	65,219	22,982	35.2
Integration and acquisition expenses	9,607	19,889	(10,282)	(51.7)
Depreciation and amortization	104,231	70,026	34,205	48.8
Total segment operating expenses	319,868	250,026	69,842	27.9
Segment operating income (loss)	\$ 22,234	\$ 20,905	\$ 1,329	6.4

Service Revenues

Wireless service revenue increased \$73.2 million, or 29.3%, for the nine months ended September 30, 2017, compared to the nine months ended September 30, 2016, detailed as follows:

(in thousands)

	Nine Months Ended September 30,		Change	
	2017	2016	\$	%
Service Revenues				
Postpaid net billings ⁽¹⁾	\$ 280,724	\$ 218,327	\$ 62,397	28.6
Sprint management fee	(22,465)	(17,914)	(4,551)	25.4
Sprint net service fee	(22,852)	(15,986)	(6,866)	43.0
Waiver of management fee	22,426	13,126	9,300	70.9
	<u>257,833</u>	<u>197,553</u>	<u>60,280</u>	<u>30.5</u>
Prepaid net billings				
Gross billings ⁽²⁾	74,609	56,955	17,654	31.0
Sprint management fee	(4,622)	(3,524)	(1,098)	31.2
Waiver of management fee	4,642	2,486	2,156	86.7
	<u>74,629</u>	<u>55,917</u>	<u>18,712</u>	<u>33.5</u>
Travel and other revenues ⁽²⁾	19,323	13,153	6,170	46.9
Amortization of expanded affiliate agreement	(15,563)	(8,883)	(6,680)	75.2
Straight-line adjustment - management fee waiver	(12,960)	(7,687)	(5,273)	68.6
Total Service Revenues	<u>\$ 323,262</u>	<u>\$ 250,053</u>	<u>\$ 73,209</u>	<u>29.3</u>

1) Postpaid net billings are defined under the terms of the affiliate contract with Sprint to be the gross billings to customers within our service territory less billing credits and adjustments and allocated write-offs of uncollectible accounts.

2) The Company is no longer including Lifeline subscribers to be consistent with Sprint. The above table reflects the reclassification of the related Assurance Wireless prepaid revenue within the Wireless segment from Prepaid gross billings to travel and other revenues.

Operating revenues

Wireless service revenues increased \$73.2 million, or 29.3%, in 2017 from the same period in 2016 as a result of the acquisition of nTelos. Effective May 6, 2016, we acquired the right to provide network access to approximately 404 thousand postpaid and 155 thousand prepaid Sprint subscribers through our acquisition of nTelos and obtaining the Sprint customers in the former nTelos service area. As a result, 2017 results included nine months of nTelos revenue whereas the comparable 2016 period included approximately five months of nTelos revenue.

Other revenues decreased \$2.1 million, or 46.1%, in 2017 compared to the same period in 2016 primarily due to a decline in regulatory recovery revenues. The decline primarily resulted from the completion of the migration of the former nTelos subscribers to the Sprint network and subscriber billing platform. Prior to the migration of the nTelos subscribers to the Sprint billing platform we billed the subscribers from the former nTelos platform and retained the the regulatory recovery revenues.

Cost of goods and services

Cost of goods and services increased \$22.9 million, or 24.2%, in 2017 from the first nine months of 2016. 2017 included nine months of nTelos cost of goods and services whereas the comparable 2016 period included approximately five months of nTelos cost of goods and services. The increase results from increases in cell site rent and backhaul costs for the incremental cell sites acquired in the nTelos territory, as well as the related growth in the cost of service agreements to maintain these sites, partially offset by declines in handset costs as customers increasingly acquire handsets under Sprint's leasing and installment sales programs.

Selling, general and administrative

Selling, general and administrative costs increased \$23.0 million, or 35.2%, in the nine months ended September 30, 2017 from the comparable 2016 period. 2017 included nine months of nTelos selling, general and administrative expenses whereas the comparable 2016 period included approximately five months of these expenses for the incremental acquired customers. This increase was driven by third-party sales commissions, incremental sales and marketing campaigns to support our expanded territory, and prepaid acquisition costs. The increases described above were partially offset by the reduction in back office staff and support functions attributable to the completion of the migration of the former nTelos subscribers to the Sprint platform.

Integration and acquisition

Integration and acquisition expenses of \$9.6 million incurred during the nine months ended September 30, 2017, include approximately \$9.0 million for replacement handsets issued to former nTelos subscribers when migrating to the Sprint billing platform and \$0.6 million in other expenses. Integration and acquisitions expenses have decreased approximately \$10.3 million compared with the nine months ended September 30, 2016 primarily as a result of the completion of migration and integration activities related to the acquisition of nTelos.

Depreciation and amortization

Depreciation and amortization increased \$34.2 million, or 48.8%, in the nine months ended September 30, 2017 as compared with the comparable 2016 period as the result of the May 6, 2016 acquisition of nTelos. Depreciation on the acquired fixed assets increased \$28.0 million and amortization of customer based intangibles increased \$6.2 million. Customer based intangibles are being amortized over accelerated lives, based on a pattern of benefits.

Cable Segment

The Cable segment provides video, internet and voice services in franchise areas in portions of Virginia, West Virginia and western Maryland, and leases fiber optic facilities throughout its service area. It does not include video, internet and voice services provided to customers in Shenandoah County, Virginia, which are included in the Wireline segment. Increases in homes passed, available homes and video customers between December 31, 2015 and September 30, 2016, resulted from the Colane acquisition on January 1, 2016.

	September 30, 2017	December 31, 2016	September 30, 2016	December 31, 2015
Homes Passed (1)	184,881	184,710	184,698	172,538
Customer Relationships (2)				
Video customers	45,290	48,512	48,924	48,184
Non-video customers	32,663	28,854	28,469	24,550
Total customer relationships	77,953	77,366	77,393	72,734
Video				
Customers (3)	47,379	50,618	51,379	50,215
Penetration (4)	25.6%	27.4%	27.8%	29.1%
Digital video penetration (5)	76.0%	77.4%	76.3%	77.9%
High-speed Internet				
Available Homes (6)	184,881	183,826	183,814	172,538
Customers (3)	63,442	60,495	59,852	55,131
Penetration (4)	34.3%	32.9%	32.6%	32.0%
Voice				
Available Homes (6)	182,350	181,089	181,077	169,801
Customers (3)	22,419	21,352	21,199	20,166
Penetration (4)	12.3%	11.8%	11.7%	11.9%
Total Revenue Generating Units (7)	133,240	132,465	132,430	125,512
Fiber Route Miles	3,340	3,137	3,124	2,844
Total Fiber Miles (8)	121,331	92,615	84,945	76,949
Average Revenue Generating Units	132,704	131,218	131,707	124,054

- 1) Homes and businesses are considered passed ("homes passed") if we can connect them to our distribution system without further extending the transmission lines. Homes passed is an estimate based upon the best available information.
- 2) Customer relationships represent the number of customers who receive at least one of our services.
- 3) Generally, a dwelling or commercial unit with one or more television sets connected to our distribution system counts as one video customer. Where services are provided on a bulk basis, such as to hotels and some multi-dwelling units, the revenue charged to the customer is divided by the rate for comparable service in the local market to determine the number of customer equivalents included in the customer counts shown above.
- 4) Penetration is calculated by dividing the number of customers by the number of homes passed or available homes, as appropriate.
- 5) Digital video penetration is calculated by dividing the number of digital video customers by total video customers. Digital video customers are video customers who receive any level of video service via digital transmission. A dwelling with one or more digital set-top boxes or digital adapters counts as one digital video customer.
- 6) Homes and businesses are considered available ("available homes") if we can connect them to our distribution system without further extending the transmission lines and if we offer the service in that area.
- 7) Revenue generating units are the sum of video, voice and high-speed internet customers.
- 8) Fiber miles are measured by taking the number of fiber strands in a cable and multiplying that number by the route distance. For example, a 10 mile route with 144 fiber strands would equal 1,440 fiber miles.

Three Months Ended September 30, 2017 Compared with the Three Months Ended September 30, 2016

(in thousands)

	Three Months Ended September 30,		Change	
	2017	2016	\$	%
Segment operating revenues				
Service revenue	\$ 26,934	\$ 24,948	\$ 1,986	8.0
Other revenue	3,155	2,618	537	20.5
Total segment operating revenues	30,089	27,566	2,523	9.2
Segment operating expenses				
Cost of goods and services, exclusive of depreciation and amortization shown separately below	14,913	14,654	259	1.8
Selling, general, and administrative, exclusive of depreciation and amortization shown separately below	5,358	4,770	588	12.3
Depreciation and amortization	6,192	5,860	332	5.7
Total segment operating expenses	26,463	25,284	1,179	4.7
Segment operating income (loss)	\$ 3,626	\$ 2,282	\$ 1,344	58.9

Operating revenues

Cable segment service revenues increased \$2.0 million, or 8.0%, primarily due to increases in high speed data and voice subscribers, video rate increases in January 2017 that offset increases in programming costs, customers selecting or upgrading to higher-speed data access packages.

Other revenue grew \$0.5 million, primarily due to new fiber contracts to towers, schools and libraries.

Operating expenses

Cable segment cost of goods and services increased \$0.3 million, or 1.8%, in the third quarter of 2017 over the comparable 2016 period. The increase resulted from higher network and maintenance costs.

Selling, general and administrative expenses increased \$0.6 million against the prior year quarter due to higher commission and marketing costs.

Nine Months Ended September 30, 2017 Compared with the Nine Months Ended September 30, 2016

(in thousands)

	Nine Months Ended September 30,		Change	
	2017	2016	\$	%
Segment operating revenues				
Service revenue	\$ 80,229	\$ 73,455	\$ 6,774	9.2
Other revenue	8,436	6,958	1,478	21.2
Total segment operating revenues	88,665	80,413	8,252	10.3
Segment operating expenses				
Cost of goods and services, exclusive of depreciation and amortization shown separately below	45,052	43,864	1,188	2.7
Selling, general, and administrative, exclusive of depreciation and amortization shown separately below	15,083	14,672	411	2.8
Depreciation and amortization	18,070	17,834	236	1.3
Total segment operating expenses	78,205	76,370	1,835	2.4
Segment operating income (loss)	\$ 10,460	\$ 4,043	\$ 6,417	158.7

Operating revenues

Cable segment service revenues increased \$6.8 million, or 9.2%, primarily due to increases in high-speed data and voice subscribers, video rate increases in January 2017 that offset increases in programming costs, customers selecting or upgrading to higher-speed data access packages.

Other revenue grew \$1.5 million, primarily due to new fiber contracts to towers, schools and libraries.

Operating expenses

Cable segment cost of goods and services increased \$1.2 million, or 2.7%, in the nine months ended September 30, 2017 over the comparable 2016 period. The increase resulted from higher network and maintenance costs.

Wireline Segment

The Wireline segment provides regulated and unregulated voice services, DSL internet access, and long distance access services throughout Shenandoah County and portions of Rockingham, Frederick, Warren and Augusta counties, Virginia. The segment also provides video and cable modem internet access services in portions of Shenandoah County, and leases fiber optic facilities throughout the northern Shenandoah Valley of Virginia, northern Virginia and adjacent areas along the Interstate 81 corridor through West Virginia, Maryland and portions of Pennsylvania.

	September 30, 2017	December 31, 2016	September 30, 2016	December 31, 2015
Telephone Access Lines (1)	18,006	18,443	18,737	20,252
Long Distance Subscribers	9,107	9,149	9,186	9,476
Video Customers (2)	5,110	5,264	5,285	5,356
DSL and Cable Modem Subscribers (1)	14,605	14,314	14,195	13,890
Fiber Route Miles	2,040	1,971	1,916	1,736
Total Fiber Miles (3)	149,944	142,230	133,903	123,891

1) Effective October 1, 2015, we launched cable modem services on our cable plant, and ceased the requirement that a customer have a telephone access line to purchase internet service. As of September 30, 2017, 1,578 customers have purchased cable modem service received via the coaxial cable network.

2) The Wireline segment's video service passes approximately 16,500 homes.

3) Fiber miles are measured by taking the number of fiber strands in a cable and multiplying that number by the route distance. For example, a 10 mile route with 144 fiber strands would equal 1,440 fiber miles.

Three Months Ended September 30, 2017 Compared with the Three Months Ended September 30, 2016

(in thousands)	Three Months Ended September 30,		Change	
	2017	2016	\$	%
Segment operating revenues				
Service revenue	\$ 5,724	\$ 5,516	\$ 208	3.8
Carrier access and fiber revenues	13,217	12,365	852	6.9
Other revenue	910	851	59	6.9
Total segment operating revenues	19,851	18,732	1,119	6.0
Segment operating expenses				
Cost of goods and services, exclusive of depreciation and amortization shown separately below	9,807	9,442	365	3.9
Selling, general and administrative, exclusive of depreciation and amortization shown separately below	1,706	1,676	30	1.8
Depreciation and amortization	3,249	2,822	427	15.1
Total segment operating expenses	14,762	13,940	822	5.9
Segment operating income (loss)	\$ 5,089	\$ 4,792	\$ 297	6.2

Operating revenues

Total operating revenues in the quarter ended September 30, 2017 increased \$1.1 million, or 6.0%, against the comparable 2016 period, primarily as a result of increases in fiber and access contracts.

Operating expenses

Operating expenses overall increased \$0.8 million, or 5.9%, in the quarter ended September 30, 2017, compared to the 2016 quarter. The \$0.4 million increase in cost of goods and services primarily resulted from costs to support the increase in carrier access and fiber revenues shown above. The \$0.4 million increase in depreciation and amortization primarily resulted from the expansion of the underlying network assets necessary to support the growth in fiber revenue.

Nine Months Ended September 30, 2017 Compared with the Nine Months Ended September 30, 2016

(in thousands)	Nine Months Ended September 30,		Change	
	2017	2016	\$	%
Segment operating revenues				
Service revenue	\$ 17,002	\$ 16,433	\$ 569	3.5
Carrier access and fiber revenues	38,920	36,628	2,292	6.3
Other revenue	2,659	2,641	18	0.7
Total segment operating revenues	58,581	55,702	2,879	5.2
Segment operating expenses				
Cost of goods and services, exclusive of depreciation and amortization shown separately below	28,409	26,892	1,517	5.6
Selling, general and administrative, exclusive of depreciation and amortization shown separately below	5,065	4,951	114	2.3
Depreciation and amortization	9,536	8,789	747	8.5
Total segment operating expenses	43,010	40,632	2,378	5.9
Segment operating income (loss)	\$ 15,571	\$ 15,070	\$ 501	3.3

Operating revenues

Total operating revenues in the nine months ended September 30, 2017 increased \$2.9 million, or 5.2%, against the comparable 2016 period. Carrier access and fiber revenues increased \$2.3 million due to increases in fiber and access contracts. The increase in service revenues primarily results from higher revenues for high-speed data services.

Operating expenses

Operating expenses overall increased \$2.4 million, or 5.9%, in the nine months ended September 30, 2017, compared to the 2016 period. The \$1.5 million increase in cost of goods and services primarily resulted from costs to support the increase in carrier access and fiber revenues shown above. The \$0.7 million increase in depreciation and amortization primarily resulted from the expansion of the underlying network assets necessary to support the growth in fiber revenue.

Non-GAAP Financial Measures

In managing our business and assessing our financial performance, management supplements the information provided by financial statement measures prepared in accordance with GAAP with Adjusted OIBDA and Continuing OIBDA, which are considered “non-GAAP financial measures” under SEC rules.

Adjusted OIBDA is defined by us as operating income (loss) before depreciation and amortization, adjusted to exclude the effects of: certain non-recurring transactions, impairment of assets, gains and losses on asset sales, straight-line adjustments for the waived management fee by Sprint, amortization of the affiliate contract expansion intangible reflected as a contra revenue, actuarial gains and losses on pension and other post-retirement benefit plans, and share-based compensation expense. Adjusted OIBDA should not be construed as an alternative to operating income as determined in accordance with GAAP as a measure of operating performance. Continuing OIBDA is defined by us as Adjusted OIBDA, less the benefit received from the waived management fee. The waiver will end when the cumulative amount waived reaches approximately \$256 million, which we expect to occur in five years.

In a capital-intensive industry such as telecommunications, management believes that Adjusted OIBDA and Continuing OIBDA and the associated percentage margin calculations are meaningful measures of our operating performance. We use Adjusted OIBDA and Continuing OIBDA as supplemental performance measures because management believes they facilitate comparisons of our operating performance from period to period and comparisons of our operating performance to that of other companies by excluding potential differences caused by the age and book depreciation of fixed assets (affecting relative depreciation expenses) as well as the other items described above for which additional adjustments were made. In the future, management expects that we may again report Adjusted and Continuing OIBDA excluding these items and may incur expenses similar to these excluded items. Accordingly, the exclusion of these and other similar items from our non-GAAP presentation should not be interpreted as implying these items are non-recurring, infrequent or unusual.

While depreciation and amortization are considered operating costs under generally accepted accounting principles, these expenses primarily represent the current period allocation of costs associated with long-lived assets acquired or constructed in prior periods, and accordingly may obscure underlying operating trends for some purposes. By isolating the effects of these expenses and other items that vary from period to period without any correlation to our underlying performance, or that vary widely among similar companies, management believes Adjusted and Continuing OIBDA facilitates internal comparisons of our historical operating performance, which are used by management for business planning purposes, and also facilitates comparisons of our performance relative to that of our competitors. In addition, we believe that Adjusted and Continuing OIBDA and similar measures are widely used by investors and financial analysts as measures of our financial performance over time, and to compare our financial performance with that of other companies in our industry.

Adjusted and Continuing OIBDA have limitations as an analytical tool, and should not be considered in isolation or as a substitute for analysis of our results as reported under GAAP. These limitations include the following:

- they do not reflect capital expenditures;
- many of the assets being depreciated and amortized will have to be replaced in the future and Adjusted and Continuing OIBDA do not reflect cash requirements for such replacements;
- they do not reflect costs associated with share-based awards exchanged for employee services;
- they do not reflect interest expense necessary to service interest or principal payments on indebtedness;
- they do not reflect gains, losses or dividends on investments;
- they do not reflect expenses incurred for the payment of income taxes; and

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- other companies, including companies in our industry, may calculate Adjusted and Continuing OIBDA differently than we do, limiting its usefulness as a comparative measure.

In light of these limitations, management considers Adjusted OIBDA and Continuing OIBDA as a financial performance measure that supplements but does not replace the information reflected in our GAAP results.

The following table shows Adjusted OIBDA and Continuing OIBDA for the three and nine months ended September 30, 2017 and 2016.

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Adjusted OIBDA	\$ 66,904	\$ 73,746	\$ 209,895	\$ 170,166
Continuing OIBDA	\$ 57,943	\$ 64,228	\$ 182,827	\$ 154,554

The following table reconciles Adjusted OIBDA and Continuing OIBDA to operating income, which we consider to be the most directly comparable GAAP financial measure, for the three and nine months ended September 30, 2017 and 2016:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Consolidated: Operating income (loss)	\$ 9,475	\$ (3,929)	\$ 28,400	\$ 10,337
Plus depreciation and amortization	42,568	46,807	132,297	96,961
Plus (gain) loss on asset sales	164	(81)	80	(144)
Plus share based compensation expense	640	496	3,053	2,570
Plus straight line adjustment to management fee waiver	4,320	4,640	12,960	7,687
Plus amortization of intangible netted in revenue	5,242	5,593	15,563	8,883
Plus amortization of intangible netted in rent expense	1,580	—	2,173	—
Plus temporary back office costs to support the billing operations through migration (1)	1,209	4,948	5,496	8,071
Plus integration and acquisition related expenses	1,706	15,272	9,873	35,801
Adjusted OIBDA	\$ 66,904	\$ 73,746	\$ 209,895	\$ 170,166
Less waived management fee	(8,961)	(9,518)	(27,068)	(15,612)
Continuing OIBDA	\$ 57,943	\$ 64,228	\$ 182,827	\$ 154,554

(1) Once former nTelos customers migrate to the Sprint back office, the Company incurs certain postpaid fees retained by Sprint that would offset a portion of these savings. For the three and nine months ended September 30, 2017, these offsets were estimated at \$0.1 million and \$1.4 million, respectively.

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The following tables reconcile adjusted OIBDA and Continuing OIBDA to operating income by major segment for the three and nine months ended September 30, 2017 and 2016:

Wireless Segment:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Operating income (loss)	\$ 6,745	\$ (5,407)	\$ 22,234	\$ 20,905
Plus depreciation and amortization	32,929	38,038	104,231	70,026
Plus (gain) loss on asset sales	193	(45)	208	(84)
Plus share based compensation expense	277	246	1,354	1,058
Plus straight line adjustment to management fee waiver (1)	4,320	4,640	12,960	7,687
Plus amortization of intangible netted in revenue	5,242	5,593	15,563	8,883
Plus amortization of intangible netted in rent expense	1,580	—	2,173	—
Plus temporary back office costs to support the billing operations	1,209	4,945	5,495	8,067
Plus integration and acquisition related expenses (2)	1,691	14,499	9,607	19,889
Adjusted OIBDA	\$ 54,186	\$ 62,509	\$ 173,825	\$ 136,431
Less waived management fee (3)	(8,961)	(9,518)	(27,068)	(15,612)
Continuing OIBDA	\$ 45,225	\$ 52,991	\$ 146,757	\$ 120,819

- (1) Pursuant to the intangible asset exchange with Sprint, we recognized an intangible asset for the affiliate contract expansion received. Consistent with the presentation of related service fees charged by Sprint, we recognize the amortization of this intangible as a contra-revenue over the remaining contract term that concludes November 2029.
- (2) Integration and acquisition costs consist of severance accruals for short-term nTelos personnel to be separated as integration activities wind down, transaction related expenses, device costs to support the transition to Sprint billing platforms, and other transition costs to support the migration to Sprint back-office functions. Once former nTelos customers migrate to the Sprint back office, the Company incurs certain postpaid fees retained by Sprint and prepaid costs passed to us by Sprint that would offset a portion of these savings.
- (3) As part of our amended affiliate agreement, Sprint agreed to waive the management fee, which is historically presented as a contra-revenue, for a period of approximately six years. The impact of Sprint's waiver of the management fee over the approximate six-year period is reflected as an increase in revenue, offset by the non-cash adjustment to recognize this impact on a straight-line basis over the remaining contract term that concludes November 2029.

Cable Segment:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Operating income (loss)	\$ 3,626	\$ 2,282	\$ 10,460	\$ 4,043
Plus depreciation and amortization	6,192	5,860	18,070	17,834
Less gain on asset sales	(19)	(19)	(115)	(53)
Plus share based compensation expense	172	108	766	673
Adjusted OIBDA and Continuing OIBDA	\$ 9,971	\$ 8,231	\$ 29,181	\$ 22,497

Wireline Segment:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Operating income (loss)	\$ 5,089	\$ 4,792	\$ 15,571	\$ 15,070
Plus depreciation and amortization	3,249	2,822	9,536	8,789
Plus (gain) loss on asset sales	—	—	27	40
Plus share based compensation expense	73	49	319	284
Adjusted OIBDA and Continuing OIBDA	\$ 8,411	\$ 7,663	\$ 25,453	\$ 24,183

Liquidity and Capital Resources

We have three principal sources of funds available to meet the financing needs of our operations, capital projects, debt service, and potential dividends. These sources include cash flows from operations, existing balances of cash and cash equivalents, the liquidation of investments, and borrowings. Management routinely considers the alternatives available to determine what mix of sources are best suited for the long-term benefit of the Company.

Sources and Uses of Cash. We generated \$158.7 million of net cash from operations in the first nine months of 2017, compared with \$95.4 million in the first nine months of 2016.

Indebtedness. As of September 30, 2017, our indebtedness totaled \$848.6 million in term loans with an annualized effective interest rate of approximately 4.07% after considering the impact of the interest rate swap contracts and unamortized loan costs. The balance consists of the \$448.6 million million Term Loan A-1 at a variable rate (3.99% as of September 30, 2017) that resets monthly based on one month LIBOR plus a margin of 2.75%, and the \$400.0 million Term Loan A-2 at a variable rate (4.24% as of September 30, 2017) that resets monthly based on one month LIBOR plus a margin of 3.00%. The Term Loan A-1 requires quarterly principal repayments of \$12.1 million quarterly through June 30, 2020, with further increases at that time through maturity in June 30, 2021. The Term Loan A-2 requires quarterly principal repayments of \$10.0 million beginning on September 30, 2018 through March 31, 2023, with the remaining balance due June 30, 2023.

We are bound by certain covenants under the 2016 credit agreement. Noncompliance with any one or more of the covenants may have an adverse effect on our financial condition or liquidity in the event such noncompliance cannot be cured or should we be unable to obtain a waiver from the lenders. As of September 30, 2017, we were in compliance with all covenants, and ratios at September 30, 2017 were as follows:

	Actual	Covenant Requirement at September 30, 2017
Total Leverage Ratio	2.93	3.75 or Lower
Debt Service Coverage Ratio	3.88	2.00 or Higher
Minimum Liquidity Balance (000)	\$149,228	\$25 million or Higher

In accordance with the Credit Agreement, the total leverage and debt service coverage ratios noted above are based on consolidated EBITDA, cash taxes, scheduled principal payments and cash interest expense for the twelve months ending September 30, 2017, all as defined under the Credit Agreement. In addition to the covenants above, we are required to supply the lenders with quarterly financial statements and other reports as defined by the 2016 credit agreement. We were in compliance with all reporting requirements at September 30, 2017.

We had no off-balance sheet arrangements (other than operating leases) and have not entered into any transactions involving unconsolidated, limited purpose entities or commodity contracts.

Capital Commitments. We budgeted \$155.2 million in capital expenditures for 2017, including \$86.4 million in the Wireless segment for upgrades and expansion of the nTelos wireless network, \$2.9 million for upgrades in the Wireless segment Expansion Area; \$28.1 million for network expansion including new fiber routes, new cell towers, and cable market expansion; \$27.0 million for additional network capacity; and \$10.8 million for information technology upgrades, new and renovated buildings and other projects. As of September 30, 2017, expectations for 2017 total capital spending have been revised downward to \$140.8 million, a decrease of \$14.4 million. Of the decrease, \$11.8 million is from the Wireless segment.

For the first nine months of 2017, we spent \$109.4 million on capital projects, compared to \$102.9 million in the comparable 2016 period. Spending related to Wireless projects accounted for \$54.1 million in the first nine months of 2017, primarily for upgrades of former nTelos sites and additional cell sites to expand coverage in the former nTelos territory. Cable capital spending of \$20.8 million related to network and cable market expansion. Wireline capital projects cost \$13.5 million, driven primarily by fiber builds. The remaining balance of capital expenditures is largely related to information technology projects.

We believe that cash on hand, cash flow from operations and borrowings expected to be available under our existing credit facilities will provide sufficient cash to enable us to fund planned capital expenditures, make scheduled principal and interest payments, meet our other cash requirements and maintain compliance with the terms of our financing agreements for at least the next twelve months. Thereafter, capital expenditures will likely continue to be required to continue planned capital upgrades to the acquired wireless network and provide increased capacity to meet our expected growth in demand for our

products and services. The actual amount and timing of our future capital requirements may differ materially from our estimate depending on the demand for our products and new market developments and opportunities.

Our cash flows from operations could be adversely affected by events outside our control, including, without limitation, changes in overall economic conditions, regulatory requirements, changes in technologies, demand for our products, availability of labor resources and capital, changes in our relationship with Sprint, and other conditions. The Wireless segment's operations are dependent upon Sprint's ability to execute certain functions such as billing, customer care, and collections; our ability to develop and implement successful marketing programs and new products and services; and our ability to effectively and economically manage other operating activities under our agreements with Sprint. Our ability to attract and maintain a sufficient customer base is also critical to our ability to maintain a positive cash flow from operations. The foregoing events individually or collectively could affect our results.

Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "*Revenue from Contracts with Customers*", which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. In August 2015, the FASB issued ASU No. 2015-14, delaying the effective date of ASU 2014-09. Three other amendments have been issued during 2016 modifying the original ASU. As amended, the new standard is effective for the Company on January 1, 2018, using either a retrospective basis or a modified retrospective basis with early adoption permitted. The Company plans to adopt the standard effective January 1, 2018 using the modified retrospective transition approach; under this approach prior periods will not be retrospectively adjusted.

The Company is continuing to assess all potential impacts of the standard, including the impact to the pattern with which revenue and direct and contract fulfillment costs are recognized, the impact of the standard on current accounting policies, practices and system of internal controls, in order to identify material differences, if any that would result from applying the new requirements.

The Company is in the process of establishing new policies and processes, and is implementing necessary changes to data and procedures necessary to comply with the new requirements.

While continuing to assess all potential impacts of the standard, the Company believes the adoption will not have a significant effect on earnings however, the presentation of certain costs may change and disclosures will be impacted. The Company is still in the process of evaluating the impacts and the initial assessment may change.

In February 2016, the FASB issued ASU No. 2016-02, "*Leases*", which requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous generally accepted accounting principles. The ASU is effective for us on January 1, 2019, and early application is permitted. Modified retrospective application is required. The Company plans to adopt this standard when it becomes effective for the Company beginning January 1, 2019, and expects the adoption of this standard will result in the recognition of right of use assets and lease liabilities that have not previously been recorded, which will have a material impact on the Company's consolidated financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's market risks relate primarily to changes in interest rates on instruments held for other than trading purposes. The Company's interest rate risk generally involves three components. The first component is outstanding debt with variable rates. As of September 30, 2017, the Company had \$848.6 million of variable rate debt outstanding (excluding unamortized loan fees and costs of \$15.6 million), bearing interest at a weighted average rate of 4.10% as determined on a monthly basis. An increase in market interest rates of 1.00% would add approximately \$8.3 million to annual interest expense, excluding the effect of the interest rate swap. In May 2016, the Company entered into a pay-fixed, receive-variable interest rate swap with three counterparties totaling \$256.6 of notional principal (subject to change based upon expected draws under the delayed draw term loan and principal payments due under our debt agreements). This swap, combined with the swap purchased in 2012, covers notional principal equal to approximately 50% of the outstanding variable rate debt through maturity in 2023. The Company is required to pay a combined fixed rate of approximately 1.16% and receive a variable rate based on one month LIBOR (1.235% as of September 30, 2017), to manage a portion of its interest rate risk. Changes in the net interest paid or received under the swaps would offset approximately 50% of the change in interest expense on the variable rate debt outstanding. The swap agreements currently reduce annual interest expense by approximately \$1.1 million, based on the spread between the fixed rate and the variable rate currently in effect on our debt.

The second component of interest rate risk consists of temporary excess cash, which can be invested in various short-term investment vehicles such as overnight repurchase agreements and Treasury bills with a maturity of less than 90 days. As of September 30, 2017, the cash is invested in a commercial checking account that has limited interest rate risk. Management continually evaluates the most beneficial use of these funds.

The third component of interest rate risk is increases in interest rates that may adversely affect the rate at which the Company may borrow funds for growth in the future. If the Company should borrow additional funds under any Incremental Term Loan Facility to fund its capital investment needs, repayment provisions would be agreed to at the time of each draw under the Incremental Term Loan Facility. If the interest rate margin on any draw exceeds by more than 0.25% the applicable interest rate margin on the Term Loan Facility, the applicable interest rate margin on the Term Loan Facility shall be increased to equal the interest rate margin on the Incremental Term Loan Facility. If interest rates increase generally, or if the rate applied under the Company's Incremental Term Loan Facility causes the Company's outstanding debt to be repriced, the Company's future interest costs could increase.

Management views market risk as having a potentially significant impact on the Company's results of operations, as future results could be adversely affected if interest rates were to increase significantly for an extended period, or if the Company's need for additional external financing resulted in increases to the interest rates applied to all of its new and existing debt. As of September 30, 2017, the Company has \$424.3 million of variable rate debt with no interest rate protection. The Company's investments in publicly traded stock and bond mutual funds under the rabbi trust, which are subject to market risks and could experience significant swings in market values, are offset by corresponding changes in the liabilities owed to participants in the Supplemental Executive Retirement Plan. General economic conditions affected by regulatory changes, competition or other external influences may pose a higher risk to the Company's overall results.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Management, with the participation of our President and Chief Executive Officer, who is the principal executive officer, and the Vice President - Finance and Chief Financial Officer, who is the principal financial officer, conducted an evaluation of our disclosure controls and procedures, (as defined by Rule 13a-15(e) under the Securities Exchange Act of 1934), as of the end of the period covered by this Quarterly report on Form 10-Q.

As disclosed in our Annual Report on Form 10-K for our fiscal year ended December 31, 2016, we identified material weaknesses in internal control over financial reporting. The material weaknesses will not be considered remediated until the applicable enhanced controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively. As remediation has not yet been completed, our President and Chief Executive Officer and our Vice President, Finance and Chief Financial Officer have concluded that our disclosure controls and procedures continued to be ineffective as of September 30, 2017.

Notwithstanding the material weaknesses, management has concluded that the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q fairly state, in all material respects, our financial position, results of operations and cash flows for the periods presented.

Changes in Internal Control Over Financial Reporting

The acquisition of nTelos was completed on May 6, 2016. Our Company's management has extended its oversight and monitoring processes that support internal control over financial reporting to include the operations of nTelos and consideration for such has been included in our evaluation of disclosure controls and procedures. Our management is continuing to integrate the acquired operations into our overall internal control financial reporting process, expected to be complete in 2017.

There have been no changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) as of September 30, 2017, that have materially affected or are reasonably likely to material affect, the Company's internal control over financial reporting.

Remediation Efforts

Management is continuing to implement the remediation plans as disclosed in our Annual Report on Form 10-K for our fiscal year ended December 31, 2016. We believe that these actions and the improvements we expect to achieve will effectively remediate the material weaknesses. However, these material weaknesses will not be considered remediated until the enhanced controls operate for a sufficient period of time and management has concluded that these controls are operating effectively.

Other Matters Relating to Internal Control Over Financial Reporting

Under the Company's agreements with Sprint, Sprint provides the Company with billing, collections, customer care, certain network operations and other back-office services for the PCS operation. As a result, Sprint remits to the Company a substantial portion of the Company's total operating revenues, which will increase as legacy nTelos subscribers migrate to the Sprint billing platform in the future. Due to this relationship, the Company necessarily relies on Sprint to provide accurate, timely and sufficient data and information to properly record the Company's revenues and accounts receivable, which underlie a substantial portion of the Company's periodic financial statements and other financial disclosures.

Information provided by Sprint includes reports regarding the subscriber accounts receivable in the Company's markets. Sprint provides the Company with monthly accounts receivable, billing and cash receipts, average national costs to acquire and support a prepaid customer, certain national channel commission and handset subsidy costs, and travel revenue information on a market level, rather than a subscriber level. The Company reviews these various reports to identify discrepancies or errors. Under the Company's agreements with Sprint, the Company is entitled to only a portion of the receipts, net of items such as taxes, government surcharges, certain allocable write-offs and the 16.6% of postpaid and 6% of prepaid revenue currently retained by Sprint (before the effect of fee waivers). Sprint reports directly billed costs and revenues to the Company. Because of the Company's reliance on Sprint for financial information, the Company must depend on Sprint to design adequate internal controls with respect to the processes established to provide this data and information to the Company and Sprint's other Sprint PCS affiliate network partners. To address this issue, Sprint engages an independent registered public accounting firm to perform a periodic evaluation of these controls and to provide a "Report on Controls Placed in Operation and Tests of Operating Effectiveness" under guidance provided in Statements on Standards for Attestation Engagements No. 16 ("SSAE 16"). The report is provided to the Company on an annual basis and covers a nine-month period. The most recent report covered the period from January 1, 2016 to September 30, 2016. The most recent report indicated there were no material issues

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which would adversely affect the information used to support the recording of the revenues provided by Sprint related to the Company's relationship with them.

PART II. OTHER INFORMATION

ITEM 1A. Risk Factors

We discuss in our Annual Report on Form 10-K various risks that may materially affect our business. We use this section to update this discussion to reflect material developments since our Form 10-K was filed. As of September 30, 2017, the Company has not identified any needed updates to the risk factors included in our most recent Form 10-K.

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

The Company maintains a dividend reinvestment plan (the “DRIP”) for the benefit of its shareholders. When shareholders remove shares from the DRIP, the Company issues a certificate for whole shares, pays out cash for any fractional shares, and cancels the fractional shares purchased. In conjunction with exercises of stock options and distributions of vested share awards, the Company periodically repurchases shares from recipients to satisfy some of the exercise price of the options being exercised or taxes payable associated with the distribution of shares. The following table provides information about the Company’s repurchases of shares during the three months ended September 30, 2017:

	Number of Shares Purchased	Average Price Paid per Share
July 1 to July 31	—	\$ —
August 1 to August 31	—	\$ —
September 1 to September 30	140,328	\$ 38.85
Total	140,328	\$ 38.85

ITEM 6. Exhibits

(a) The following exhibits are filed with this Quarterly Report on Form 10-Q:

10.54 Addendum XX to Sprint PCS Management Agreement, dated as of March 9, 2017, by and among Shenandoah Personal Communications, LLC, Sprint Spectrum L.P., Sprint Communications Company, L.P., SprintCom, Inc. and Horizon Personal Communications, LLC, filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed March 15, 2017.

31.1* Certification of President and Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.

31.2* Certification of Vice President - Finance and Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.

32** Certifications pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. § 1350.

(101) Formatted in XBRL (Extensible Business Reporting Language)

101.INS* XBRL Instance Document

101.SCH* XBRL Taxonomy Extension Schema Document

101.CAL* XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF* XBRL Taxonomy Extension Definition Linkbase Document

101.LAB* XBRL Taxonomy Extension Label Linkbase Document

101.PRE* XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith

** This certification is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (Exchange Act), or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference into any filing under the Securities Act of 1933, as amended (Securities Act), or the Exchange Act.

EXHIBIT INDEX

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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.

SHENANDOAH TELECOMMUNICATIONS COMPANY

	<u>/s/ Adele M. Skolits</u>
	Adele M. Skolits
	Vice President - Finance and Chief Financial Officer
	Date: November 2, 2017

CERTIFICATION

I, Christopher E. French, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Shenandoah Telecommunications Company;
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(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) 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.

/S/ CHRISTOPHER E. FRENCH

Christopher E. French, President and Chief Executive Officer

Date: November 2, 2017

CERTIFICATION

I, Adele M. Skolits, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Shenandoah Telecommunications Company;
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(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) 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.

/s/ADELE M. SKOLITS

Adele M. Skolits, Vice President - Finance and Chief Financial Officer

Date: November 2, 2017

**Written Statement of Chief Executive Officer and Chief Financial Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

Each of the undersigned, the President and Chief Executive Officer and the Vice President - Finance and Chief Financial Officer, of Shenandoah Telecommunications Company (the "Company"), hereby certifies that, on the date hereof:

- (1) The quarterly report on Form 10-Q of the Company for the three months ended September 30, 2017 filed on the date hereof with the Securities and Exchange Commission (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) Information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/S/CHRISTOPHER E. FRENCH

Christopher E. French
President and Chief Executive Officer
November 2, 2017

/S/ADELE M. SKOLITS

Adele M. Skolits
Vice President - Finance and
Chief Financial Officer
November 2, 2017

The foregoing certification is being furnished solely pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 (the "Exchange Act") and 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document. This certification shall not be deemed "filed" for purposes of Section 18 of the Exchange Act or otherwise subject to liability under that section. This certification shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act except to the extent this Exhibit 32 is expressly and specifically incorporated by reference in any such filing.
