SHENANDOAH TELECOMMUNICATIONS CO/VA/
Form 10-Q
August 09, 2016

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 June 30, 2016

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIESEXCHANGE 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	54-1162807
(State or other jurisdiction of incorporation or organization)	(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, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

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

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 July 28, 2016 was 48,913,327.

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

ASSETS	June 30, 2016	December 31, 2015
Current Assets		
Cash and cash equivalents	$40,571	$ 76,812
Restricted cash	2,167	-
Accounts receivable, net	77,392	29,778
Income taxes receivable	-	7,694
Inventory, net	19,419	4,183
Prepaid expenses and other	18,562	8,573
Deferred income taxes	-	907
Total current assets	158,111	127,947
Investments, including $2,784 and $2,654 carried at fair value	12,526	10,679
Building held for sale	4,950	-
Property, plant and equipment, net	653,523	410,018
Other Assets		
Intangible assets, net	464,146	66,993
Goodwill	151,730	10
Deferred charges and other assets, net	10,855	11,504
Other assets, net	626,731	78,507
Total assets	$1,455,841	$ 627,151

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

LIABILITIES AND SHAREHOLDERS' EQUITY	June 30, 2016	December 31, 2015
Current Liabilities		
Current maturities of long-term debt, net of unamortized loan fees	$20,147	$ 22,492
Accounts payable	27,951	13,009
Advanced billings and customer deposits	23,024	11,674
Accrued compensation	6,020	5,915
Income taxes payable	29,717	-
Accrued liabilities and other	31,615	7,639
Total current liabilities	138,474	60,729
Long-term debt, less current maturities, net of unamortized loan fees	795,426	177,169
Other Long-Term Liabilities		
Deferred income taxes	142,181	74,868
Deferred lease payable	9,370	8,142
Asset retirement obligations	15,769	7,266
Other liabilities	50,514	9,039
Total other long-term liabilities	217,834	99,315
Commitments and Contingencies		
Shareholders' Equity		
Common stock	44,344	32,776
Retained earnings	263,633	256,747
Accumulated other comprehensive income (loss), net of taxes	(3,870)	415
Total shareholders' equity	304,107	289,938
Total liabilities and shareholders' equity	$1,455,841	$ 627,151

See accompanying notes to unaudited condensed consolidated financial statements.

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SHENANDOAH TELECOMMUNICATIONS COMPANY AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME(LOSS)
(in thousands, except per share amounts)

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Operating revenues	$ 130,309	$ 85,701	$ 222,880	$ 169,989
Operating expenses:				
Cost of goods and services, exclusive of depreciation and amortization shown separately below	50,296	30,280	82,057	60,970
Selling, general and administrative, exclusive of depreciation and amortization shown separately below	33,694	18,606	55,120	36,718
Integration and acquisition expenses	20,054	402	20,386	1,024
Depreciation and amortization	32,415	17,663	50,154	34,001
Total operating expenses	136,459	66,951	207,717	132,713
Operating income (loss)	(6,150)	18,750	15,163	37,276
Other income (expense):				
Interest expense	(5,904)	(1,940)	(7,524)	(3,855)
Gain on investments, net	21	98	109	200
Non-operating income, net	146	442	614	874
Income (loss) before income taxes	(11,887)	17,350	8,362	34,495
Income tax expense (benefit)	(4,892)	6,876	1,477	13,735
Net income (loss)	(6,995)	10,474	6,885	20,760
Other comprehensive income (loss):				
Unrealized gain (loss) on interest rate hedge, net of tax	(3,238)	326	(4,285)	(581)
Comprehensive income (loss)	$ (10,233)	$ 10,800	$ 2,600	$ 20,179
Earnings (loss) per share:				
Basic	$ (0.14)	$ 0.22	$ 0.14	$ 0.43
Diluted	$ (0.14)	$ 0.21	$ 0.14	$ 0.42
Weighted average shares outstanding, basic	48,830	48,380	48,696	48,343
Weighted average shares outstanding, diluted	48,830	49,004	49,415	48,927

See accompanying notes to unaudited condensed consolidated financial statements.

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SHENANDOAH TELECOMMUNICATIONS COMPANY AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(in thousands, except per share amounts)

	Shares	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss), net of tax	Total
Balance, December 31, 2014	48,265	$ 29,712	$ 227,512	$ 1,122	$ 258,346
Net income	-	-	40,864	-	40,864
Other comprehensive loss, net of tax	-	-	-	(707)	(707)
Dividends declared ($0.24 per share)	-	-	(11,629)	-	(11,629)
Dividends reinvested in common stock	22	544	-	-	544
Stock based compensation	-	2,719	-	-	2,719
Common stock issued through exercise of incentive stock options	87	996	-	-	996
Common stock issued for share awards	212	-	-	-	-
Common stock issued	1	11	-	-	11
Common stock repurchased	(111)	(1,885)	-	-	(1,885)
Net excess tax benefit from stock options exercised	-	679	-	-	679
Balance, December 31, 2015	48,475	$ 32,776	$ 256,747	$ 415	$ 289,938
Net income	-	-	6,885	-	6,885
Other comprehensive loss, net of tax	-	-	-	(4,285)	(4,285)
Stock based compensation	-	2,404	-	-	2,404
Stock options exercised	319	2,942	-	-	2,942
Common stock issued for share awards	188	-	-	-	-
Common stock issued	1	5	-	-	5
Common stock issued to acquire non-controlling interests of nTelos	76	10,400	-	-	10,400
Common stock repurchased	(177)	(4,183)	-	-	(4,183)
Balance, June 30, 2016	48,883	$ 44,344	$ 263,633	$ (3,870)	$ 304,107

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)

	Six Months Ended June 30, 2016	2015
Cash Flows From Operating Activities		
Net income	$6,885	$20,760
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	42,753	33,189
Amortization reflected as operating expense	7,401	812
Amortization reflected as contra revenue	3,290	-
Provision for bad debt	752	905
Straight line adjustment to reduce management fee revenue	3,406	-
Stock based compensation expense	1,957	1,430
Excess tax benefits on stock awards	-	(450)
Deferred income taxes	(53,238)	(3,656)
Net loss on disposal of equipment	12	227
Unrealized (gain) on investments	(83)	(54)
Net gains from patronage and equity investments	(315)	(385)
Amortization of long term debt issuance costs	1,205	289
Other	2,120	647
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(4,332)	(339)
Inventory, net	(11,424)	(414)
Income taxes receivable	7,694	14,752
Other assets	2,066	(3,421)
Increase (decrease) in:		
Accounts payable	5,529	(2,911)
Income taxes payable	34,195	499
Deferred lease payable	1,228	506
Other deferrals and accruals	9,692	(2,116)
Net cash provided by operating activities	$60,793	$60,270
Cash Flows From Investing Activities		
Acquisition of property, plant and equipment	$(60,123)	$(25,135)
Proceeds from sale of equipment	185	52
Cash distributions from investments	53	3
Cash disbursed for acquisition, net of cash acquired	(654,832)	-
Net cash used in investing activities	$(714,717)	$(25,080)

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

	Six Months Ended June 30, 2016	2015
Cash Flows From Financing Activities		
Principal payments on long-term debt	$(201,257)	$(11,500)
Amounts borrowed under debt agreements	835,000	-
Cash paid for debt issuance costs	(14,825)	-
Excess tax benefits on stock awards	-	450
Repurchases of common stock	(4,183)	(1,450)
Proceeds from issuances of common stock	2,948	530
Net cash provided by/(used in) financing activities	$617,683	$(11,970)
Net increase (decrease) in cash and cash equivalents	$(36,241)	$23,220
Cash and cash equivalents:		
Beginning	76,812	68,917
Ending	$40,571	$92,137
Supplemental Disclosures of Cash Flow Information		
Cash payments for:		
Interest	$6,659	$3,782
Income taxes paid, net of refunds received	$12,796	$2,139

Non-cash investing and financing activities:

At June 30, 2016 and 2015, accounts payable included approximately $5.2 million and $1.2 million, respectively, associated with capital expenditures. Cash flows for accounts payable and acquisition of property, plant and equipment exclude this activity.

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.

The Company reclassified $4.3 million of unamortized loan fees and costs included in deferred charges and other assets to long term debt in connection with the new Term loan A-1 and A-2 borrowing related to the acquisition of nTelos.

See accompanying notes to unaudited condensed consolidated financial statements.

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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. All such adjustments were of a normal and recurring nature. These financial statements should be read in conjunction with the audited consolidated financial statements and related notes in the Company's Annual Report on Form 10-K for the year ended December 31, 2015. The accompanying balance sheet information at December 31, 2015 was derived from the audited December 31, 2015 consolidated balance sheet. Operating revenues and income from operations for any interim period are not necessarily indicative of results that may be expected for the entire year.

In connection with the nTelos acquisition and exchange transaction with Sprint (see Note 2), the Company has added the following significant accounting policies:

Revenue Recognition

Under the Company's amended affiliate agreement, Sprint agreed to waive the management fee, which is historically presented as a contra-revenue by the Company, 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 contract term of approximately 14 years.

Goodwill

Goodwill is not amortized but is tested for impairment on at least an annual basis. Impairment testing is required more often than annually if an event or circumstance indicates that impairment is more likely than not to have occurred. In conducting its annual impairment testing, the Company may first perform a qualitative assessment of whether it is more likely than not that a reporting unit's fair value is less than its carrying amount. If not, no further goodwill impairment testing is required. If it is more likely than not that a reporting unit's fair value is less than its carrying amount, or if the Company elects not to perform a qualitative assessment of a reporting unit, the Company then compares the fair value of the reporting unit to the related net book value. If the net book value of a reporting unit exceeds its fair value, an impairment loss is measured and recognized. The Company conducts its annual impairment testing of goodwill as of October 1.

Pension Benefits and Retirement Benefits Other Than Pensions

Through the Company's acquisition of nTelos, the Company assumed nTelos' non-contributory defined benefit pension plan ("Pension Plan") covering all employees who met eligibility requirements and were employed by nTelos prior to October 1, 2003. The Pension Plan was closed to nTelos employees hired on or after October 1, 2003. Pension benefits vest after five years of plan service and are based on years of service and an average of the five highest consecutive years of compensation subject to certain reductions if the employee retires before reaching age 65 and elects to receive the benefit prior to age 65. Effective December 31, 2012, nTelos froze future benefit accruals. The Company uses updated mortality tables published by the Society of Actuaries that predict increasing life expectancies in the United States.

IRC Sections 412 and 430 and Sections 302 and 303 of the Employee Retirement Income Security Act of 1974, as amended establish minimum funding requirements for defined benefit pension plans. The minimum required contribution is generally equal to the target normal cost plus the shortfall amortization installments for the current plan year and each of the six preceding plan years less any calculated credit balance. If plan assets (less calculated credits) are equal to or exceed the funding target, the minimum required contribution is the target normal cost reduced by the excess funding, but not below zero. The Company's policy is to make contributions to stay at or above the threshold required in order to prevent benefit restrictions and related additional notice requirements and is intended to provide not only for benefits based on service to date, but also for those expected to be earned in the future. The Company also assumed two qualified nonpension postretirement benefit plans that provide certain health care and life benefits for nTelos retired employees that meet eligibility requirements. The health care plan is contributory, with participants' contributions adjusted annually. The life insurance plan also is contributory. These obligations, along with all of the pension plans and other postretirement benefit plans, are obligations assumed by the Company. Eligibility for the life insurance plan is restricted to active pension participants age 50-64 as of January 5, 1994. Neither plan is eligible to employees hired after April 1993. The accounting for the plans anticipates that the Company will maintain a consistent level of cost sharing for the benefits with the retirees. The Company's share of the projected costs of benefits that will be paid after retirement is generally being accrued by charges to expense over the eligible employees' service periods to the dates they are fully eligible for benefits.

The Company records annual amounts relating to the Pension Plan and postretirement benefit plans based on calculations that incorporate various actuarial and other assumptions, including discount rates, mortality, assumed rates of return, turnover rates and healthcare cost trend rates. The Company reviews its assumptions on an annual basis and makes modifications to the assumptions based on current rates and trends when it is appropriate to do so. The effect of modifications to those assumptions is recorded in accumulated other comprehensive income (loss) and amortized to net periodic cost over future periods using the corridor method.

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2. Acquisition of NTELOS Holdings Corp. and Exchange with Sprint

On May 6, 2016, the Company completed its previously announced acquisition of NTELOS Holdings Corp. ("nTelos") for $663.7 million in cash, net of cash acquired. The purchase price was financed by a credit facility arranged by CoBank, ACB (see Note 14). The Company has included the operations of nTelos for financial reporting purposes for the period subsequent to the acquisition. The Company has accounted for the acquisition of nTelos under the acquisition method of accounting, in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 805, "Business Combinations", and will account for any measurement period adjustments under Accounting Standards Update ("ASU") 2015-16, "Simplifying the Accounting for Measurement Period Adjustments". Under the acquisition method of accounting, the total purchase price is allocated to the tangible and intangible assets acquired and liabilities assumed in connection with the acquisition based on their estimated fair values.

The preliminary allocation of the purchase price was based upon management's preliminary valuation of the fair value of tangible and intangible assets acquired and liabilities assumed of nTelos, with the excess recorded as goodwill. (in thousands):

Accounts receivable	$48,476
Inventory	3,810
Restricted cash	2,167
Investments	1,501
Prepaids expenses and other assets	14,835
Building held for sale	4,950
Property, plant and equipment	223,900
Spectrum licenses	198,200
Customer based contract rights	198,200
Contract based intangible assets	11,000
Goodwill	151,627
Other long term assets	10,288
Total assets acquired	$868,954
Accounts payable	$8,648
Advanced billings and customer deposits	12,477
Accrued expenses	25,230
Capital lease liability	418
Deferred tax liabilities	124,964
Retirement benefits	19,461
Other long-term liabilities	14,056
Total liabilities assumed	205,254
Net assets acquired	$663,700

Finalization of the purchase price allocations is dependent on final review and acceptance of the independent appraiser's valuation report.

Immediately after acquiring nTelos, Shenandoah Personal Communications, LLC, ("PCS") a wholly-owned subsidiary of the Company, completed its previously announced transaction with SprintCom, Inc., an affiliate of Sprint Corporation ("Sprint"). Pursuant to this transaction, among other things, the Company exchanged spectrum licenses valued at $198.2 million and customer based contract rights, valued at $198.2 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 $258.1 million, as well as additional customer based contract rights, valued at $138.3 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".

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The value of the affiliate agreement expansion 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 of PCS 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
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 (dollars in thousands):

	Useful Life	Basis
Affiliate contract agreement	14 years	$258,100
Customer based contract rights	4-10 years	138,300
Contract based intangible assets	3-19 years	11,000

The affiliate contract agreement intangible asset will be amortized on a straight-line basis and recorded as a contra-revenue over the 14 year contract term. The other contract based intangible assets will be amortized on a straight-line basis and recorded through amortization expense. The customer based contract rights will be amortized over the life of the customers, gradually decreasing over the expected life of this asset, and recorded through amortization expense.

The Company has recorded goodwill in its Wireless segment as a result of the nTelos acquisition. This goodwill is not amortizable for tax purposes, as the Company acquired the common stock of nTelos.

Prior to the acquisition, nTelos was eligible to receive up to $5.0 million in connection with its winning bid in the Connect America Fund's Mobility Fund Phase I Auction ("Auction 901"). Pursuant to the terms of Auction 901, nTelos obtained a Letter of Credit (“LOC”) in the amount of $2.2 million for the benefit of the Universal Service Administrative Company (“USAC”) to cover each disbursement plus the amount of the performance default penalty (10% of the total eligible award). In accordance with the terms of the LOC, nTelos deposited $2.2 million into a separate account at the issuing bank to serve as cash collateral and is presented as restricted cash. Such funds will be released to the Company when the LOC is terminated without being drawn upon by USAC.

At the time of the acquisition, certain third party investors held a non-controlling interest in one of nTelos’ subsidiaries. Immediately after the acquisition of nTelos, the Company acquired these interests in exchange for 380,000 shares of Company common stock, to be paid in five equal installments, with the first installment paid immediately and the remaining four to be paid over the next four years. This transaction was valued at $10.4 million.

In connection with the acquisition, at closing, the Company borrowed $810.0 million in term loans with a weighted average effective interest rate of approximately 3.84%. The proceeds were used to finance in part the acquisition, including the repayment of the Company’s term loan of $195.5 million, and the repayment of nTelos’ term loans at the outstanding principal amount of $519.7 million, without penalty.

Following are the unaudited pro forma results of the Company for the three and six months ended June 30, 2016 and 2015 as if the acquisition of nTelos had occurred at the beginning of each of the periods presented (in millions):

	Three Months Ended June 30,	
	2016	2015
Operating revenues	$ 161.1	$ 170.1
Income (loss) before income taxes	$ (7.5)	$ 13.6

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	Six Months Ended June 30,	
	2016	2015
Operating revenues	$ 334.4	$ 342.8
Income before income taxes	$ 9.4	$ 37.1

The pro forma disclosures shown above are based upon estimated preliminary valuations of the assets acquired and liabilities assumed as well as preliminary estimates of depreciation and amortization charges thereon, that may differ from the final fair values of the acquired assets and assumed liabilities and the resulting depreciation and amortization charges thereon. Other 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 customer-based contract rights associated with acquired customers.

In connection with these transactions, the Company committed to Sprint to migrate the former nTelos customers to devices which can interact with the Sprint billing and network systems and to maintain the nTelos billing, customer care and switching systems until the migration is complete, and expects to incur a total of between $106 million and $126 million of integration and acquisition expenses associated with this transaction, excluding approximately $24 million of debt issuance costs. These costs include the nTelos back office staff and support functions until the nTelos legacy customers are migrated to the Sprint billing platform; cost of 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 transaction related fees. The Company has incurred $22.4 million and $22.7 million of these costs in the three months and six months ended June 30, 2016, respectively, including $0.3 million reflected in cost of goods and services and $2.0 million reflected in selling, general and administrative costs in both the three and six month periods ended June 30, 2016.

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.

Former nTelos stockholders who held approximately one million shares of nTelos' common stock have exercised their appraisal rights under Delaware law with respect to the merger consideration of $9.25 per share paid pursuant to the nTelos acquisition. The Company has recorded a payable for the $9.3 million aggregate remaining purchase price due based upon the terms of the merger agreement with nTelos. At this time, the Company is unable to determine an estimate of any final outcome of the appraisal action or the expected timing of resolving the appraisal action. Under Delaware law, the former nTelos stockholders will be entitled to interest at the rate of 6.1% per annum on the unpaid amount when the appraisal action is resolved.

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3. Intangible assets

Intangible assets consisted of the following (in thousands):

	June 30, 2016			December 31, 2015		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Non-amortizing intangibles:						
Cable franchise rights	$64,374	$ -	$64,374	$64,098	$ -	$64,098
Finite-lived intangibles:						
Affiliate contract expansion rights	$258,100	$ (3,290)	$254,810	$-	$ -	$-
Acquired subscribers – wireless	138,300	(6,647)	131,653	-	-	-
Favorable leases – wireless	11,000	(183)	10,817	-	-	-
Acquired subscribers – cable	25,265	(24,246)	1,019	25,326	(23,805)	1,521
Other intangibles	2,168	(695)	1,473	1,938	(564)	1,374
Total finite-lived intangibles	$434,833	$ (35,061)	$399,772	$27,264	$ (24,369)	2,895
Total intangible assets	$499,207	$ (35,061)	$464,146	$91,362	$ (24,369)	$66,993

Aggregate amortization expense for intangible assets for the periods shown is expected to be as follows:

Year Ending December 31,	Amount
	(in thousands)
2016 Remaining	$ 26,061
2017	48,574
2018	41,377
2019	36,619
2020	33,363
2021	30,116
thereafter	183,662
Total	$ 399,772

Changes in the carrying amount of goodwill during the six months ended June 30, 2016 are shown below (in thousands):

Goodwill as of December 31, 2015, Wireline segment	$10
Goodwill recorded January 2016, Cable segment, Colane acquisition	93
Goodwill recorded May 2016, Wireless segment, nTelos acquisition	151,627
Goodwill as of June 30, 2016	$151,730

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4. Property, Plant and Equipment

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

	June 30, 2016	December 31, 2015
Plant in service	$964,601	$ 718,503
Plant under construction	75,949	36,600
	1,040,550	755,103
Less accumulated amortization and depreciation	387,027	345,085
Net property, plant and equipment	$653,523	$ 410,018

5. Earnings (loss) per share

Basic net income (loss) per share was computed on the weighted average number of shares outstanding. Diluted net income per share was computed under the treasury stock method, assuming the conversion as of the beginning of the period, for all dilutive stock options. Of 964 thousand and 696 thousand shares and options outstanding at June 30, 2016 and 2015, respectively, 22 thousand and 79 thousand were anti-dilutive, respectively. These shares and options have been excluded from the computations of diluted earnings per share for the six months ended June 30, 2016, and the three and six month periods ended June 30, 2015. Due to the net loss for the three months ended June 30, 2016, no adjustment was made to basic shares, as such adjustment would have been anti-dilutive. There were no adjustments to net income for either period.

6. Investments Carried at Fair Value

Investments include $2.8 million and $2.7 million of investments carried at fair value as of June 30, 2016 and December 31, 2015, 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 six months ended June 30, 2016, the Company recognized $153 thousand in dividend and interest income from investments, and recorded net unrealized gains of $83 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.

7. Equipment Installment Plan Receivables

As part of the acquisition of nTelos, the Company assumed the accounts receivable associated with nTelos' Equipment Installment Plan, ("EIP"). This plan allowed EIP subscribers to pay for their devices in installments over a 24-month period. At the time of an installment sale, nTelos imputed interest on the installment receivable using current market interest rate estimates ranging from approximately 5% to 10%. Additionally, the customer had the right to trade in their original device after a specified period of time for a new device and have the remaining unpaid balance satisfied. This trade-in right was measured at the estimated fair value of the device being traded in based on current trade-in values and the timing of the trade-in.

Immediately following the acquisition, the Company terminated the EIP offering but has continued to service the installment receivable and trade in obligation until such time that the customer migrates to Sprint. The accounts receivable associated with EIP and the trade-in liability were estimated at its fair value at acquisition date in accordance with ASC 805, "Business Combinations".

There was $26.0 million of EIP receivables as of June 30, 2016. The short term portion of $19.5 million is included in accounts receivable, net. The long term portion of $6.5 million is included in deferred charges and other assets, net.

As of June 30, 2016, the liability associated with the trade-in right was $5.3 million, and is reflected in accrued liabilities and other and other long term liabilities.

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8. Financial Instruments

Financial instruments on the 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.

9. Derivative Instruments, Hedging Activities and Accumulated Other Comprehensive Income (Loss)

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 this objective, 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 total outstanding notional amount of the cash flow hedge was $144.1 million as of June 30, 2016. The outstanding notional amount decreases as the Company makes scheduled principal payments on the 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 total outstanding notional amount of the cash flow hedge was $273.4 million as of June 30, 2016. The outstanding notional amount increases with each expected draw on the term debt and decreases as the Company makes scheduled principal payments on the debt. In combination with the swap entered into in 2012 described above, the Company is hedging approximately 50% of the expected outstanding debt (including expected draws under the delayed draw term loan) associated with the nTelos acquisition.

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 (loss) 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 (loss) 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 June 30, 2016, the Company estimates that $3.0 million will be reclassified as an increase to interest expense during the next twelve months due to the interest rate swaps since the hedge interest rate exceeds the variable interest rate on the debt.

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 as of June 30, 2016 and December 31, 2015 (in thousands):

	Derivatives		
		Fair Value as of	
	Balance Sheet Location	June 30, 2016	December 31, 2015

Derivatives designated as hedging instruments:					
Interest rate swap					
	Accrued liabilities and other	$	(3,016)	$	(682)
	Other liabilities		(3,502)		-
	Deferred charges and other assets, net		-		1,370
Total derivatives designated as hedging instruments		$	(6,518)	$	688

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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 six months ended June 30, 2016 (in thousands):

	Gains and (Losses) on Cash Flow Hedges	Income Tax (Expense) Benefit	Accumulated Other Comprehensive Income (Loss)
Balance as of December 31, 2015	$ 688	$ (273)	$ 415
Other comprehensive loss before reclassifications	(7,997)	3,243	(4,754)
Amounts reclassified from accumulated other comprehensive income (to interest expense)	791	(322)	469
Net current period other comprehensive loss	(7,206)	2,921	(4,285)
Balance as of June 30, 2016	$ (6,518)	$ 2,648	$ (3,870)

10. Other liabilities

Other liabilities include the following (in thousands):

	June 30, 2016	December 31, 2015
Retirement plan obligations	$21,982	$ 2,654
Due to dissenting shareholder	9,436	-
Non-current portion of deferred revenues	8,968	4,156
Other	10,128	2,229
Other liabilities	$50,514	$ 9,039

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 has provided digital wireless service to a portion of a four-state area covering the region from Harrisburg, York and Altoona, Pennsylvania, to Harrisonburg, Virginia, as a Sprint PCS Affiliate. With the recent acquisition of nTelos (see Note 2), the Company's wireless service area has expanded to include south-central and western Virginia, West Virginia, and small portions of Kentucky and Ohio. 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 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.

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Three months ended June 30, 2016

(in thousands)

	Wireless	Cable	Wireline	Other	Eliminations	Consolidated Totals
External revenues						
Service revenues	$86,873	$24,167	$4,820	$-	$ -	$ 115,860
Other	6,280	1,923	6,246	-	-	14,449
Total external revenues	93,153	26,090	11,066	-	-	130,309
Internal revenues	1,141	311	7,525	-	(8,977)	-
Total operating revenues	94,294	26,401	18,591	-	(8,977)	130,309
Operating expenses						
Costs of goods and services, exclusive of depreciation and amortization shown separately below	35,236	14,564	8,808	-	(8,312)	50,296
Selling, general and administrative, exclusive of depreciation and amortization shown separately below	23,010	4,794	1,670	4,885	(665)	33,694
Integration and acquisition expenses	5,276	-	-	14,778	-	20,054
Depreciation and amortization	23,495	5,879	2,933	108	-	32,415
Total operating expenses	87,017	25,237	13,411	19,771	(8,977)	136,459
Operating income (loss)	$7,277	$1,164	$5,180	$(19,771)	$ -	$ (6,150)

Three months ended June 30, 2015

(in thousands)

	Wireless	Cable	Wireline	Other	Eliminations	Consolidated Totals
External revenues						
Service revenues	$48,749	$22,117	$4,889	$-	$ -	$ 75,755
Other	2,848	1,850	5,248	-	-	9,946
Total external revenues	51,597	23,967	10,137	-	-	85,701
Internal revenues	1,105	186	6,326	-	(7,617)	-
Total operating revenues	52,702	24,153	16,463	-	(7,617)	85,701
Operating expenses						
Costs of goods and services, exclusive of depreciation and amortization shown separately below	15,903	13,635	7,677	(16)	(6,919)	30,280
Selling, general and administrative, exclusive of depreciation and amortization shown separately below	8,917	5,084	1,736	3,567	(698)	18,606
Integration and acquisition expenses	-	-	-	402	-	402
Depreciation and amortization	8,612	5,859	3,083	109	-	17,663
Total operating expenses	33,432	24,578	12,496	4,062	(7,617)	66,951
Operating income (loss)	$19,270	$(425)	$3,967	$(4,062)	$ -	$ 18,750

Six months ended June 30, 2016

(in thousands)

	Wireless	Cable	Wireline	Other	Eliminations	Consolidated Totals
External revenues						
Service revenues	$139,052	$48,507	$9,779	$ -	$ -	$ 197,338
Other	9,484	3,768	12,290	-	-	25,542
Total external revenues	148,536	52,275				