

SHENANDOAH TELECOMMUNICATIONS CO/VA/  
Form 10-Q  
October 31, 2014

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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, 2014

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 54-1162807  
(State or other jurisdiction of (I.R.S. Employer Identification No.)  
incorporation or organization)

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 October 23, 2014 was 24,113,184.

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## SHENANDOAH TELECOMMUNICATIONS COMPANY AND SUBSIDIARIES

## UNAUDITED CONSOLIDATED BALANCE SHEETS

(in thousands)

|  | September<br>30,<br>2014 | December<br>31,<br>2013 |
|--|--------------------------|-------------------------|
| <b>ASSETS</b>  |                          |                         |
| Current Assets   |                          |                         |
| Cash and cash equivalents  | \$ 78,643                | \$ 38,316               |
| Accounts receivable, net   | 27,747                   | 25,824                  |
| Income taxes receivable  | 2,141                    | 16,576                  |
| Materials and supplies   | 7,605                    | 10,715                  |
| Prepaid expenses and other                                       | 4,980                    | 5,580                   |
| Deferred income taxes  | 866                      | 963                     |
| Total current assets   | 121,982                  | 97,974                  |
| Investments, including \$2,628 and \$2,528 carried at fair value | 9,999                    | 9,332                   |
| Property, plant and equipment, net                               | 405,843                  | 408,963                 |
| Other Assets   |                          |                         |
| Intangible assets, net   | 68,680                   | 70,816                  |
| Deferred charges and other assets, net                           | 8,108                    | 9,921                   |
| Net other assets   | 76,788                   | 80,737                  |
| Total assets   | \$ 614,612               | \$ 597,006              |

See accompanying notes to unaudited consolidated financial statements.

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## SHENANDOAH TELECOMMUNICATIONS COMPANY AND SUBSIDIARIES

## UNAUDITED CONSOLIDATED BALANCE SHEETS

(in thousands)

|  | September  | December   |
|--|------------|------------|
| LIABILITIES AND SHAREHOLDERS' EQUITY       | 30, 2014   | 31, 2013   |
| Current Liabilities                        |            |            |
| Current maturities of long-term debt       | \$ 23,000  | \$ 5,750   |
| Accounts payable                           | 8,522      | 12,604     |
| Advanced billings and customer deposits    | 12,336     | 11,661     |
| Accrued compensation                       | 4,850      | 4,192      |
| Accrued liabilities and other              | 8,438      | 9,787      |
| Total current liabilities                  | 57,146     | 43,994     |
| Long-term debt, less current maturities    | 207,000    | 224,250    |
| Other Long-Term Liabilities                |            |            |
| Deferred income taxes                      | 66,637     | 74,547     |
| Deferred lease payable                     | 6,916      | 6,156      |
| Asset retirement obligations               | 6,856      | 6,485      |
| Other liabilities                          | 9,384      | 7,259      |
| Total other long-term liabilities          | 89,793     | 94,447     |
| Commitments and Contingencies              |            |            |
| Shareholders' Equity                       |            |            |
| Common stock                               | 28,667     | 26,759     |
| Accumulated other comprehensive income     | 1,810      | 2,594      |
| Retained earnings                          | 230,196    | 204,962    |
| Total shareholders' equity                 | 260,673    | 234,315    |
| Total liabilities and shareholders' equity | \$ 614,612 | \$ 597,006 |

See accompanying notes to unaudited consolidated financial statements.

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UNAUDITED CONSOLIDATED STATEMENTS OF INCOME AND  
COMPREHENSIVE INCOME (LOSS)

(in thousands, except per share amounts)

|  | Three Months                   |          | Nine Months Ended |           |
|--|--------------------------------|----------|-------------------|-----------|
|  | Ended<br>September 30,<br>2014 | 2013     | 2014              | 2013      |
| Operating revenues   | \$82,268                       | \$77,513 | \$244,136         | \$230,976 |
| Operating expenses:  |                                |          |                   |           |
| Cost of goods and services, exclusive of depreciation and amortization shown separately below          | 33,330                         | 31,778   | 97,970            | 93,006    |
| Selling, general and administrative, exclusive of depreciation and amortization shown separately below | 18,063                         | 17,481   | 51,836            | 49,966    |
| Depreciation and amortization  | 16,731                         | 14,992   | 48,714            | 45,034    |
| Total operating expenses   | 68,124                         | 64,251   | 198,520           | 188,006   |
| Operating income   | 14,144                         | 13,262   | 45,616            | 42,970    |
| Other income (expense):  |                                |          |                   |           |
| Interest expense   | (2,007 )                       | (2,050 ) | (6,119 )          | (6,270 )  |
| Gain on investments, net   | 239                            | 348      | 335               | 526       |
| Non-operating income, net  | 409                            | 377      | 1,496             | 1,356     |
| Income before taxes  | 12,785                         | 11,937   | 41,328            | 38,582    |
| Income tax expense   | 4,782                          | 5,220    | 16,094            | 15,672    |
| Net income   | \$8,003                        | \$6,717  | \$25,234          | \$22,910  |
| Other comprehensive income (loss):   |                                |          |                   |           |
| Unrealized gain (loss) on interest rate hedge, net of tax  | 476                            | (398 )   | (784 )            | 2,909     |
| Comprehensive Income   | \$8,479                        | \$6,319  | \$24,450          | \$25,819  |
| Earnings per share:  |                                |          |                   |           |
| Basic  | \$0.33                         | \$0.28   | \$1.05            | \$0.95    |
| Diluted  | \$0.33                         | \$0.28   | \$1.04            | \$0.95    |
| Weighted average shares outstanding, basic   | 24,113                         | 24,010   | 24,091            | 23,993    |
| Weighted average shares outstanding, diluted   | 24,393                         | 24,125   | 24,334            | 24,078    |

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UNAUDITED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(in thousands, except per share amounts)

|   | Shares | Common<br>Stock | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Total      |
|---|--------|-----------------|----------------------|--|------------|
| Balance, December 31, 2012                                      | 23,962 | \$ 24,688       | \$ 184,023           | \$ (863 )  | \$ 207,848 |
| Net income  | -      | -               | 29,586               | -  | 29,586     |
| Other comprehensive income, net of tax                          | -      | -               | -                    | 3,457  | 3,457      |
| Dividends declared (\$0.36 per share)                           | -      | -               | (8,647 )             | -  | (8,647 )   |
| Dividends reinvested in common stock                            | 20     | 475             | -                    | -  | 475        |
| Stock based compensation  | -      | 1,938           | -                    | -  | 1,938      |
| Common stock issued through exercise of incentive stock options | 66     | 1,186           | -                    | -  | 1,186      |
| Common stock issued for share awards                            | 68     | -               | -                    | -  | -          |
| Common stock issued   | 1      | 10              | -                    | -  | 10         |
| Common stock repurchased  | (77 )  | (1,600 )        | -                    | -  | (1,600 )   |
| Net excess tax benefit from stock options exercised             | -      | 62              | -                    | -  | 62         |
| Balance, December 31, 2013                                      | 24,040 | \$ 26,759       | \$ 204,962           | \$ 2,594   | \$ 234,315 |
| Net income  | -      | -               | 25,234               | -  | 25,234     |
| Other comprehensive loss, net of tax                            | -      | -               | -                    | (784 )   | (784 )     |
| Stock based compensation  | -      | 2,152           | -                    | -  | 2,152      |
| Stock options exercised   | 51     | 1,139           | -                    | -  | 1,139      |
| Common stock issued for share awards                            | 81     | -               | -                    | -  | -          |
| Common stock issued   | 1      | 7               | -                    | -  | 7          |
| Common stock repurchased  | (60 )  | (1,785 )        | -                    | -  | (1,785 )   |
| Net excess tax benefit from stock options exercised             | -      | 395             | -                    | -  | 395        |
| Balance, September 30, 2014                                     | 24,113 | \$ 28,667       | \$ 230,196           | \$ 1,810   | \$ 260,673 |

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## SHENANDOAH TELECOMMUNICATIONS COMPANY AND SUBSIDIARIES

## UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

|   | Nine Months Ended<br>September 30,<br>2014 | 2013      |
|---|--|-----------|
| Cash Flows From<br>Operating Activities   |  |           |
| Net income  | \$ 25,234                                  | \$ 22,910 |
| Adjustments to<br>reconcile net income<br>to net cash provided<br>by operating<br>activities: |  |           |
| Depreciation  | 46,569                                     | 41,749    |
| Amortization  | 2,145                                      | 3,285     |
| Provision for bad debt  | 1,155                                      | 1,504     |
| Stock based<br>compensation<br>expense  | 2,152                                      | 1,540     |
| Excess tax benefits on<br>stock awards  | (395 )                                     | (69 )     |
| Deferred income<br>taxes  | (6,261 )                                   | 4,950     |
| Net loss on disposal<br>of equipment  | 1,739                                      | 234       |
| Realized gain on<br>disposal of<br>investments  | -  | 1         |
| Unrealized gains on<br>investments  | (40 )                                      | (233 )    |
| Net gains from<br>patronage and equity<br>investments   | (667 )                                     | (627 )    |
| Other   | 1,446                                      | 1,976     |
| Changes in assets and<br>liabilities:   |  |           |
| (Increase) decrease<br>in:  |  |           |
| Accounts receivable   | (3,078 )                                   | (510 )    |
| Materials and<br>supplies   | 3,111                                      | 982       |
| Income taxes<br>receivable  | 14,434                                     | (5,609 )  |
| Increase (decrease)<br>in:  |  |           |
| Accounts payable  | 2,411                                      | 885       |
|   | 760  | 981       |



|   |           |  |           |   |
|---|-----------|--|-----------|---|
| Deferred lease payable                    |           |  |           |   |
| Other prepaids, deferrals and accruals    | 623       |  | (431)     | ) |
| Net cash provided by operating activities | \$ 91,338 |  | \$ 73,518 |   |

|  |            |   |            |   |
|--|------------|---|------------|---|
| Cash Flows From Investing Activities                       |            |   |            |   |
| Purchase and construction of property, plant and equipment | \$ (51,197 | ) | \$ (80,784 | ) |
| Proceeds from sale of assets                               | -          |   | 271        |   |
| Proceeds from sale of equipment                            | 390        |   | 25         |   |
| (Purchase) sale of investment securities                   | -          |   | (13        | ) |
| Proceeds from sale of investment securities                | 40         |   | 110        |   |
| Net cash used in investing activities                      | \$ (50,767 | ) | \$ (80,391 | ) |

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UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

|  | Nine Months<br>Ended<br>September 30,<br>2014      2013 |            |
|--|---|------------|
| Cash Flows From Financing Activities                 |   |            |
| Principal payments on long-term debt                 | \$-   | \$(1,977 ) |
| Excess tax benefits on stock awards                  | 395   | 69         |
| Repurchases of stock                                 | (1,785 )  | (1,297 )   |
| Proceeds from issuances of stock                     | 1,146   | 947        |
| Net cash used in financing activities                | \$(244 )  | \$(2,258 ) |
| Net increase (decrease) in cash and cash equivalents | \$40,327  | \$(9,131 ) |
| Cash and cash equivalents:                           |   |            |
| Beginning  | 38,316  | 71,086     |
| Ending   | \$78,643  | \$61,955   |
| Supplemental Disclosures of Cash Flow Information    |   |            |
| Cash payments for:                                   |   |            |
| Interest   | \$5,927   | \$6,476    |
| Income taxes paid                                    | \$8,825   | \$16,330   |

During the first nine months of 2013, the Company traded in certain PCS equipment and received credits of \$14.2 million against the purchase price of new equipment.

At December 31, 2013, accounts payable included approximately \$7.6 million associated with the capital expenditures related to the Network Vision project. These payables were disbursed during 2014.

See accompanying notes to unaudited consolidated financial statements.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

## 1. Basis of Presentation

The interim 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 statements should be read in conjunction with the consolidated financial statements and related notes in the Company’s Annual Report on Form 10-K for the year ended December 31, 2013. The balance sheet information at December 31, 2013 was derived from the audited December 31, 2013 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.

## 2. Property, Plant and Equipment

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

|  | September<br>30, 2014 | December<br>31, 2013 |
|--|-----------------------|----------------------|
| Plant in service                               | \$ 668,718            | \$ 633,480           |
| Plant under construction                       | 18,493                | 23,181               |
|  | 687,211               | 656,661              |
| Less accumulated amortization and depreciation | 281,368               | 247,698              |
| Net property, plant and equipment              | \$ 405,843            | \$ 408,963           |

## 3. Earnings per share

Basic net income 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 698 thousand and 764 thousand shares and options outstanding at September 30, 2014 and 2013, respectively, zero and 293 thousand were anti-dilutive, respectively. These options have been excluded from the computations of diluted earnings per share for their respective period. There were no adjustments to net income for either period.

## 4. Investments Carried at Fair Value

Investments include \$2.6 million and \$2.5 million of investments carried at fair value as of September 30, 2014 and December 31, 2013, respectively, consisting of equity, bond and money market mutual funds. These investments were acquired under a rabbi trust arrangement related to a non-qualified supplemental retirement plan maintained by the Company. During the nine months ended September 30, 2014, the Company recognized \$111 thousand in dividend and interest income from investments, and recorded net unrealized gains of \$40 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.

## 5. 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.



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## 6. 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 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 \$63.3 million of notional principal in August 2010. This interest rate swap was not designated as a cash flow hedge. Changes in the fair value of interest rate swaps not designated as cash flow hedges are recorded in interest expense each reporting period. The changes in fair value recorded in interest expense for the three and nine months ended September 30, 2013 were decreases of \$33 thousand and \$239 thousand, respectively. This swap expired in July 2013.

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 \$174.6 million as of September 30, 2014.

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 swap designated and that qualifies 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, 2014, the Company estimates that \$1.5 million will be reclassified as an increase to interest expense during the next twelve months due to the interest rate swap 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 consolidated balance sheet as of September 30, 2014 and December 31, 2013 (in thousands):

| Derivatives   | Fair Value as of   |                   |
|---|--------------------|-------------------|
| Balance Sheet Location                              | September 30, 2014 | December 31, 2013 |
| Derivatives designated as hedging instruments:      |                    |                   |
| Interest rate swap                                  |                    |                   |
| Accrued liabilities and other                       | \$ (1,459)         | \$ (1,590)        |
| Deferred charges and other assets, net              | 4,482              | 5,926             |
| Total derivatives designated as hedging instruments | \$ 3,023           | \$ 4,336          |

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).



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The table below presents change in accumulated other comprehensive income by component for the nine months ended September 30, 2014 (in thousands):

|  | Gains<br>and<br>(Losses)<br>on Cash<br>Flow<br>Hedges | Income<br>Tax<br>(Expense)<br>Benefit | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) |
|--|---|---------------------------------------|--|
| Balance as of December 31, 2013  | \$4,336   | \$ (1,742 )                           | \$ 2,594   |
| Other comprehensive income before reclassifications                                    | (2,603 )  | 1,043                                 | (1,560 )   |
| Amounts reclassified from accumulated other comprehensive income (to interest expense) | 1,290   | (514 )                                | 776  |
| Net current period other comprehensive income (loss)                                   | (1,313 )  | 529                                   | (784 )   |
| Balance as of September 30, 2014   | \$3,023   | \$ (1,213 )                           | \$ 1,810   |

## 7. 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 makers. 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 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. 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 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.

Three months ended September 30, 2014

| (in thousands)           | Wireless | Cable    | Wireline | Other | Eliminations | Consolidated<br>Totals |
|--------------------------|----------|----------|----------|-------|--------------|------------------------|
| External revenues        |          |          |          |       |              |                        |
| Service revenues         | \$48,013 | \$17,602 | \$5,102  | \$-   | \$ -         | \$ 70,717              |
| Other                    | 3,083    | 3,370    | 5,098    | -     | -            | 11,551                 |
| Total external revenues  | 51,096   | 20,972   | 10,200   | -     | -            | 82,268                 |
| Internal revenues        | 1,099    | 32       | 5,724    | -     | (6,855 )     | -                      |
| Total operating revenues | 52,195   | 21,004   | 15,924   | -     | (6,855 )     | 82,268                 |
| Operating expenses       |          |          |          |       |              |                        |

|  |        |          |        |         |          |        |
|--|--------|----------|--------|---------|----------|--------|
| Costs of goods and services, exclusive of depreciation and amortization shown separately below         | 18,322 | 14,157   | 7,078  | -       | (6,227 ) | 33,330 |
| Selling, general and administrative, exclusive of depreciation and amortization shown separately below | 8,645  | 5,107    | 1,533  | 3,406   | (628 )   | 18,063 |
| Depreciation and amortization  | 7,895  | 5,864    | 2,875  | 97      | -        | 16,731 |
| Total operating expenses   | 34,862 | 25,128   | 11,486 | 3,503   | (6,855 ) | 68,124 |
| Operating income (loss)  | 17,333 | (4,124 ) | 4,438  | (3,503) | -        | 14,144 |



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Three months ended September 30, 2013

| (in thousands)   | Wireless | Cable    | Wireline | Other   | Eliminations | Consolidated Totals |
|--|----------|----------|----------|---------|--------------|---------------------|
| External revenues  |          |          |          |         |              |                     |
| Service revenues   | \$45,938 | \$16,415 | \$5,075  | \$-     | \$-          | \$67,428            |
| Other  | 2,550    | 2,706    | 4,829    | -       | -            | 10,085              |
| Total external revenues  | 48,488   | 19,121   | 9,904    | -       | -            | 77,513              |
| Internal revenues  | 1,090    | 19       | 5,127    | -       | (6,236)      | -                   |
| Total operating revenues   | 49,578   | 19,140   | 15,031   | -       | (6,236)      | 77,513              |
| Operating expenses   |          |          |          |         |              |                     |
| Costs of goods and services, exclusive of depreciation and amortization shown separately below         | 17,969   | 12,218   | 7,214    | -       | (5,623)      | 31,778              |
| Selling, general and administrative, exclusive of depreciation and amortization shown separately below | 8,313    | 5,147    | 1,457    | 3,177   | (613)        | 17,481              |
| Depreciation and amortization  | 6,799    | 5,312    | 2,872    | 9       | -            | 14,992              |
| Total operating expenses   | 33,081   | 22,677   | 11,543   | 3,186   | (6,236)      | 64,251              |
| Operating income (loss)  | 16,497   | (3,537)  | 3,488    | (3,186) | -            | 13,262              |

Nine months ended September 30, 2014

| (in thousands)   | Wireless  | Cable    | Wireline | Other    | Eliminations | Consolidated Totals |
|--|-----------|----------|----------|----------|--------------|---------------------|
| External revenues  |           |          |          |          |              |                     |
| Service revenues   | \$143,112 | \$52,442 | \$15,322 | \$-      | \$-          | \$210,876           |
| Other  | 8,653     | 9,788    | 14,819   | -        | -            | 33,260              |
| Total external revenues  | 151,765   | 62,230   | 30,141   | -        | -            | 244,136             |
| Internal revenues  | 3,283     | 91       | 17,202   | -        | (20,576)     | -                   |
| Total operating revenues   | 155,048   | 62,321   | 47,343   | -        | (20,576)     | 244,136             |
| Operating expenses   |           |          |          |          |              |                     |
| Costs of goods and services, exclusive of depreciation and amortization shown separately below         | 55,455    | 38,969   | 22,297   | -        | (18,751)     | 97,970              |
| Selling, general and administrative, exclusive of depreciation and amortization shown separately below | 24,734    | 14,487   | 4,270    | 10,170   | (1,825)      | 51,836              |
| Depreciation and amortization  | 23,162    | 17,035   | 8,225    | 292      | -            | 48,714              |
| Total operating expenses   | 103,351   | 70,491   | 34,792   | 10,462   | (20,576)     | 198,520             |
| Operating income (loss)  | 51,697    | (8,170)  | 12,551   | (10,462) | -            | 45,616              |

Nine months ended September 30, 2013

| (in thousands)          | Wireless  | Cable    | Wireline | Other | Eliminations | Consolidated Totals |
|-------------------------|-----------|----------|----------|-------|--------------|---------------------|
| External revenues       |           |          |          |       |              |                     |
| Service revenues        | \$136,365 | \$48,902 | \$15,353 | \$-   | \$-          | \$200,620           |
| Other                   | 7,897     | 7,364    | 15,095   | -     | -            | 30,356              |
| Total external revenues | 144,262   | 56,266   | 30,448   | -     | -            | 230,976             |

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|  |         |          |        |         |           |         |
|--|---------|----------|--------|---------|-----------|---------|
| Internal revenues  | 3,238   | 121      | 14,935 | -       | (18,294 ) | -       |
| Total operating revenues   | 147,500 | 56,387   | 45,383 | -       | (18,294 ) | 230,976 |
| Operating expenses   |         |          |        |         |           |         |
| Costs of goods and services, exclusive of depreciation and amortization shown separately below         | 53,354  | 34,679   | 21,577 | -       | (16,604 ) | 93,006  |
| Selling, general and administrative, exclusive of depreciation and amortization shown separately below | 24,268  | 14,071   | 4,069  | 9,248   | (1,690 )  | 49,966  |
| Depreciation and amortization  | 20,608  | 15,996   | 8,405  | 25      | -         | 45,034  |
| Total operating expenses   | 98,230  | 64,746   | 34,051 | 9,273   | (18,294 ) | 188,006 |
| Operating income (loss)  | 49,270  | (8,359 ) | 11,332 | (9,273) | -         | 42,970  |

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

|                                     | Three Months<br>Ended<br>September 30,<br>2014 2013 |          |
|-------------------------------------|---|----------|
| Total consolidated operating income | \$14,144  | \$13,262 |
| Interest expense                    | (2,007 )  | (2,050 ) |
| Non-operating income (expense), net | 648   | 725      |
| Income before taxes                 | \$12,785  | \$11,937 |

|                                     | Nine Months<br>Ended<br>September 30,<br>2014 2013 |          |
|-------------------------------------|--|----------|
| Total consolidated operating income | \$45,616   | \$42,970 |
| Interest expense                    | (6,119 )   | (6,270 ) |
| Non-operating income (expense), net | 1,831  | 1,882    |
| Income before taxes                 | \$41,328   | \$38,582 |

The Company's assets by segment are as follows:

| (in thousands)             | September<br>30,<br>2014 | December<br>31,<br>2013 |
|----------------------------|--------------------------|-------------------------|
| Wireless                   | \$252,229                | \$229,038               |
| Cable                      | 203,918                  | 199,184                 |
| Wireline                   | 92,875                   | 92,455                  |
| Other                      | 410,580                  | 435,804                 |
| Combined totals            | 959,602                  | 956,481                 |
| Inter-segment eliminations | (344,990)                | (359,475)               |
| Consolidated totals        | \$614,612                | \$597,006               |

## 8. 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 2011 are no longer subject to examination. The Company is under audit in the state of Maryland for the 2010 and 2011 tax years. No other state or federal income tax audits were in process as of September 30, 2014.

## 9. Subsequent Event

On October 20, 2014, the Company's Board of Directors declared a dividend of \$0.47 per share payable on December 1, 2014, to shareholders of record as of November 5, 2014. The Company expects to pay out approximately \$11.3 million excluding the effect of dividend reinvestments.

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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, 2013. 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, 2013, 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, fiber optics facilities, and leased tower facilities. The Company has the following three reportable segments, which it operates and manages as strategic business units organized by lines of business:

The Wireless segment provides 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. 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 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.

\*A fourth segment, Other, primarily includes Shenandoah Telecommunications Company, the parent holding company.

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## Results of Operations

Three Months Ended September 30, 2014 Compared with the Three Months Ended September 30, 2013

## Consolidated Results

The Company's consolidated results for the third quarters of 2014 and 2013 are summarized as follows:

| (in thousands)              | Three Months Ended |                    | Change  |        |
|-----------------------------|--------------------|--------------------|---------|--------|
|                             | September 30, 2014 | September 30, 2013 | \$      | %      |
| Operating revenues          | \$82,268           | \$77,513           | \$4,755 | 6.1    |
| Operating expenses          | 68,124             | 64,251             | 3,873   | 6.0    |
| Operating income            | 14,144             | 13,262             | 882     | 6.7    |
| Interest expense            | (2,007 )           | (2,050 )           | 43      | (2.1 ) |
| Other income (expense), net | 648                | 725                | (77 )   | (10.6) |
| Income before taxes         | 12,785             | 11,937             | 848     | 7.1    |
| Income tax expense          | 4,782              | 5,220              | (438 )  | (8.4 ) |
| Net income                  | \$8,003            | \$6,717            | \$1,286 | 19.1   |

## Operating revenues

For the three months ended September 30, 2014, operating revenues increased \$4.8 million, or 6.1%. Wireless segment revenues increased \$2.6 million compared to the third quarter of 2013. Net postpaid service revenues increased \$1.8 million, driven by 4.8% year-over-year growth in average postpaid subscribers. Other Wireless revenue increased \$0.8 million, primarily due to growth in prepaid service revenue and equipment revenue. Cable segment revenue grew \$1.9 million. This increase included a \$1.2 million growth in cable service revenue as a result of a 6.7% growth in average subscriber counts and an increase in revenue per subscriber. Growth in Cable equipment revenue of \$0.6 million resulted primarily from an increase in customer premises equipment rents. Wireline segment revenue increased \$0.9 million due primarily to growth in facility lease revenues from new contracts with affiliates and third parties.

## Operating expenses

Total operating expenses were \$68.1 million in the third quarter of 2014 compared to \$64.3 million in the prior year period. Cost of goods and services sold increased \$1.6 million, including increases of \$1.2 million in PCS handset costs and \$0.9 million in cable programming costs. Disposal costs increased \$2.0 million, as the company disposed of obsolete equipment that had been taken out of service while upgrading its cable and wireline networks. The increase in disposal costs was offset by reductions in network costs and maintenance expense, driven primarily by an increased percentage of labor capitalized to projects. Selling, general and administrative expenses increased \$0.6 million. Depreciation and amortization expense increased \$1.7 million, primarily due to completion of the Network Vision and cable network upgrade projects.

## Income tax expense

The Company's effective tax rate decreased from 43.7% for the three months ended September 30, 2013 to 37.4% for the three months ended September 30, 2014. The 2013 period included \$0.5 million in unfavorable adjustments resulting from finalizing the estimated effects of restructuring entities during 2012. The 2014 period included \$0.2 million in favorable adjustments to estimates made for the 2013 federal and state returns filed in September 2014. The Company anticipates that its effective tax rate, without unanticipated adjustments, will be approximately 39.5%.

Net income

For the three months ended September 30, 2014, net income increased \$1.3 million, or 19.1%, primarily reflecting growth in subscriber counts and revenue per subscriber in the Wireless segment, along with a lower effective income tax rate in the current quarter.

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Nine Months Ended September 30, 2014 Compared with the Nine Months Ended September 30, 2013  
Consolidated Results

The Company's consolidated results for the first nine months of 2014 and 2013 are summarized as follows:

| (in thousands)              | Nine Months Ended  |                    | Change   |        |
|-----------------------------|--------------------|--------------------|----------|--------|
|                             | September 30, 2014 | September 30, 2013 | \$       | %      |
| Operating revenues          | \$244,136          | \$230,976          | \$13,160 | 5.7    |
| Operating expenses          | 198,520            | 188,006            | 10,514   | 5.6    |
| Operating income            | 45,616             | 42,970             | 2,646    | 6.2    |
| Interest expense            | (6,119 )           | (6,270 )           | 151      | (2.4 ) |
| Other income (expense), net | 1,831              | 1,882              | (51 )    | (2.7 ) |
| Income before taxes         | 41,328             | 38,582             | 2,746    | 7.1    |
| Income tax expense          | 16,094             | 15,672             | 422      | 2.7    |
| Net income                  | \$25,234           | \$22,910           | \$2,324  | 10.1   |

#### Operating revenues

For the nine months ended September 30, 2014, operating revenues increased \$13.2 million, or 5.7%. Wireless segment service revenues increased \$6.7 million compared to the first nine months of 2013. Net postpaid service revenues increased \$4.2 million, driven by 4.5% year-over-year growth in average postpaid subscribers. Net prepaid service revenues grew \$2.6 million, or 8.5%, due to 4.6% growth in average prepaid subscribers and higher average revenue per subscriber in 2014 over 2013. Cable segment revenues increased \$5.9 million due to a 6.3% increase in average revenue generating units compared to the 2013 period and to a \$1.7 million increase in rent revenues for customer premises equipment, due to a change in January 2014 of charging customers separately for their first set top box, which previously had been included in the service fee. Growth in fiber lease revenue contributed \$0.4 million to the year-over-year increase of Cable segment revenue. Wireline segment revenue increased \$2.0 million, primarily due to growth in facility lease revenues from new contracts with affiliates and third parties.

#### Operating expenses

Total operating expenses were \$198.5 million in the nine months ended September 30, 2014 compared to \$188.0 million in the prior year period. Cost of goods and services sold increased \$5.0 million, including increases of \$2.5 million in PCS handset costs, \$1.8 million in video programming costs and \$0.9 million in network maintenance costs. Disposal costs increased \$1.6 million, as the company disposed of obsolete equipment that had been taken out of service while upgrading the cable and wireline networks. The increase in disposal costs was offset by reductions in network costs, driven primarily by lower backhaul expenses along with an increase in labor capitalized to projects. Selling, general and administrative expenses increased \$1.9 million, due to higher personnel costs, partially offset by lower wireless prepaid and bad debt expenses. Depreciation and amortization expense increased \$3.7 million, primarily due to completion of the Network Vision and cable network upgrade projects.

#### Interest and other income (expense), net

Interest expense declined \$0.2 million from the prior year period. During the first nine months of 2013, the Company recorded \$0.2 million of interest expense charges to reflect changes in the fair value of an interest rate swap not designated as a cash flow hedge. This swap expired in July 2013.

#### Income tax expense

The Company's effective tax rate decreased from 40.6% for the nine months ended September 30, 2013 to 38.9% for the nine months ended September 30, 2014. The 2013 period included \$0.5 million in unfavorable adjustments from finalizing the estimated effects of restructuring entities during 2012. The 2014 period included \$0.2 million in favorable adjustments to estimates made for the 2013 federal and state returns filed in September 2014. The Company anticipates that its effective tax rate should be approximately 39.5%.

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## Net income

For the nine months ended September 30, 2014, net income increased \$2.3 million, or 10.1%, reflecting growth in subscriber counts and revenue per subscriber in the Wireless segment, partially offset by increases in operating expenses incurred in support of this growth.

## Wireless

The Company's Wireless segment provides digital wireless service to a portion of a four-state area covering the region from Harrisburg, York and Altoona, Pennsylvania, to Harrisonburg, Virginia, through Shenandoah Personal Communications, LLC ("PCS"), a Sprint PCS Affiliate. This segment also leases land on which it builds Company-owned cell towers, which it leases to affiliated and non-affiliated wireless service providers, throughout the same four-state area described above, through Shenandoah Mobile, LLC ("Mobile").

PCS receives revenues from Sprint for postpaid and prepaid subscribers that obtain service in PCS's network coverage area. PCS relies on Sprint to provide timely, accurate and complete information to record the appropriate revenue for each financial period. Through July 31, 2013, postpaid revenues received from Sprint were recorded net of certain fees totaling 20% of net postpaid billed revenue retained by Sprint. These fees included an 8% management fee and a 12% net service fee. Effective August 1, 2013, the net service fee increased to 14%, the maximum allowed by the current Sprint Affiliate contract. The management fee remained unchanged at 8%. Sprint also retains a 6% management fee on prepaid revenues.

During 2014, the Company's PCS stores began participating in Sprint's handset financing programs, whereby Sprint enters into a financing agreement with the subscriber and the subscriber receives a handset from Sprint. The equipment revenue from the subscriber and the handset expense are Sprint's responsibility and are not recorded by the Company.

The following tables show selected operating statistics of the Wireless segment as of the dates shown:

|                                    | September<br>30,<br>2014 | December<br>31,<br>2013 | September<br>30,<br>2013 | December<br>31,<br>2012 |
|------------------------------------|--------------------------|-------------------------|--------------------------|-------------------------|
| Retail PCS Subscribers – Postpaid  | 282,976                  | 273,721                 | 267,667                  | 262,892                 |
| Retail PCS Subscribers – Prepaid   | 140,126                  | 137,047                 | 132,669                  | 128,177                 |
| PCS Market POPS (000) (1)          | 2,410                    | 2,397                   | 2,395                    | 2,390                   |
| PCS Covered POPS (000) (1)         | 2,116                    | 2,067                   | 2,065                    | 2,057                   |
| CDMA Base Stations (sites)         | 531                      | 526                     | 525                      | 516                     |
| Towers                             | 154                      | 153                     | 153                      | 150                     |
| Non-affiliate cell site leases (2) | 197                      | 217                     | 221                      | 216                     |

|   | Three Months<br>Ended<br>September 30,<br>2014 |        | September 30,<br>2013 |        | Nine Months<br>Ended<br>September 30,<br>2014 |   | September 30,<br>2013 |   |
|---|--|--------|-----------------------|--------|---|---|-----------------------|---|
| Gross PCS Subscriber Additions – Postpaid         | 20,095   | 15,754 | 51,578                | 46,762 |   |   |                       |   |
| Net PCS Subscriber Additions – Postpaid           | 5,303  | 1,370  | 9,255                 | 4,775  |   |   |                       |   |
| Gross PCS Subscriber Additions – Prepaid          | 18,225   | 17,572 | 52,683                | 57,301 |   |   |                       |   |
| Net PCS Subscriber Additions – Prepaid            | 1,950  | 1,297  | 3,079                 | 4,483  |   |   |                       |   |
| PCS Average Monthly Retail Churn % - Postpaid (3) | 1.76   | %      | 1.80                  | %      | 1.70  | % | 1.76                  | % |
| PCS Average Monthly Retail Churn % - Prepaid (3)  | 3.92   | %      | 4.11                  | %      | 3.99  | % | 4.45                  | % |

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

2) The decrease from December 31, 2013 is primarily a result of termination of Sprint iDEN leases associated with the  
former Nextel network.

3) PCS Average Monthly Retail Churn is the average of the monthly subscriber turnover, or churn, calculations for the  
period.

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Three Months Ended September 30, 2014 Compared with the Three Months Ended September 30, 2013

| (in thousands)   | Three Months Ended |                    | Change  |         |
|--|--------------------|--------------------|---------|---------|
|  | September 30, 2014 | September 30, 2013 | \$      | %       |
| Segment operating revenues   |                    |                    |         |         |
| Wireless service revenue   | \$48,013           | \$45,938           | \$2,075 | 4.5     |
| Tower lease revenue  | 2,545              | 2,611              | (66 )   | (2.5 )  |
| Equipment revenue  | 1,573              | 1,257              | 316     | 25.1    |
| Other revenue  | 64                 | (228 )             | 292     | (128.1) |
| Total segment operating revenues   | 52,195             | 49,578             | 2,617   | 5.3     |
| Segment operating expenses   |                    |                    |         |         |
| Cost of goods and services, exclusive of depreciation and amortization shown separately below          | 18,322             | 17,969             | 353     | 2.0     |
| Selling, general and administrative, exclusive of depreciation and amortization shown separately below | 8,645              | 8,313              | 332     | 4.0     |
| Depreciation and amortization  | 7,895              | 6,799              | 1,096   | 16.1    |
| Total segment operating expenses   | 34,862             | 33,081             | 1,781   | 5.4     |
| Segment operating income   | \$17,333           | \$16,497           | \$836   | 5.1     |

## Operating revenues

Wireless service revenue increased \$2.1 million, or 4.5%, for the three months ended September 30, 2014, compared to the comparable 2013 period. Net postpaid service revenues increased \$1.8 million, driven by 4.8% year-over-year growth in average postpaid subscribers. As stated above, the net service fee increased from 12% of net billed revenues to 14% on August 1, 2013, reducing net postpaid service revenue by \$0.3 million in the three months ended September 30, 2014. Net prepaid service revenues grew \$0.3 million due to 5.0% growth in average prepaid subscribers over 2013.

The decrease in tower lease revenue resulted from the termination of Sprint iDEN leases associated with the former Nextel network. Equipment revenue increased due to growth in accessories sales and fewer discounts on handset sales. Other revenue increased, as the prior year period included a \$0.3 million unfavorable adjustment to straight-line rent accruals related to the termination of iDEN leases.

## Cost of goods and services

Cost of goods and services increased \$0.4 million, or 2.0%, in 2014 from the third quarter of 2013. Prepaid handset subsidies increased \$0.6 million, as higher cost of handsets was partially offset by a decrease in the volume of upgraded handsets. Postpaid handset costs increased \$0.5 million, as higher volume of handset upgrades and tablet sales were largely offset by a reduction in the volume of subsidized handsets. Network costs decreased \$0.8 million, due primarily to a \$0.5 million decrease in backhaul costs following completion of the Network Vision project. An increase in labor capitalized to projects also contributed to the decrease in network costs.

## Selling, general and administrative

Selling, general and administrative costs increased \$0.3 million, or 4.0%, in the third quarter of 2014 from the comparable 2013 period. Advertising and commissions expenses increased \$0.2 million, or 3.9%.

## Depreciation and amortization

Depreciation and amortization increased \$1.1 million, or 16.1%, in the third quarter of 2014 over the comparable 2013 period, following completion of Network Vision upgrades.

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Nine Months Ended September 30, 2014 Compared with the Nine Months Ended September 30, 2013

| (in thousands)   | Nine Months Ended     |                       | Change   |         |
|--|-----------------------|-----------------------|----------|---------|
|  | September 30,<br>2014 | September 30,<br>2013 | \$       | %       |
| Segment operating revenues   |                       |                       |          |         |
| Wireless service revenue   | \$ 143,112            | \$ 136,365            | \$ 6,747 | 4.9     |
| Tower lease revenue  | 7,576                 | 7,748                 | (172 )   | (2.2 )  |
| Equipment revenue  | 4,076                 | 3,859                 | 217      | 5.6     |
| Other revenue  | 284                   | (472 )                | 756      | (160.2) |
| Total segment operating revenues   | 155,048               | 147,500               | 7,548    | 5.1     |
| Segment operating expenses   |                       |                       |          |         |
| Cost of goods and services, exclusive of depreciation and amortization shown separately below          | 55,455                | 53,354                | 2,101    | 3.9     |
| Selling, general and administrative, exclusive of depreciation and amortization shown separately below | 24,734                | 24,268                | 466      | 1.9     |
| Depreciation and amortization  | 23,162                | 20,608                | 2,554    | 12.4    |
| Total segment operating expenses   | 103,351               | 98,230                | 5,121    | 5.2     |
| Segment operating income   | \$ 51,697             | \$ 49,270             | \$ 2,427 | 4.9     |

## Operating revenues

Wireless service revenue increased \$6.7 million, or 4.9%, for the nine months ended September 30, 2014, compared to the 2013 period. Net postpaid service revenues increased \$4.2 million, or 3.9%, driven by 4.5% year-over-year growth in average postpaid subscribers. As stated above, the net service fee increased from 12% of net billed revenues to 14% on August 1, 2013, reducing net postpaid service revenue by \$2.1 million, approximately \$0.3 million per month. Net prepaid service revenues grew \$2.6 million, or 8.5%, compared to the nine months ended September 30, 2013. Average prepaid subscribers increased 4.6% in 2014 over 2013, with changes in the mix of subscribers accounting for the remainder of the increase in prepaid service revenues.

The decrease in tower lease revenue resulted from the termination of Sprint iDEN leases associated with the former Nextel network. Equipment revenue increased due to growth in accessories sales and fewer discounts on handset sales. Other revenue increased, as the prior year period included a \$0.8 million unfavorable adjustment to straight-line rent accruals related to the termination of iDEN leases.

## Cost of goods and services

Cost of goods and services increased \$2.1 million, or 3.9%, in 2014 from the first nine months of 2013. Postpaid handset costs increased \$2.9 million, driven primarily by higher average cost per handset sold and a higher volume of handset upgrades. Prepaid handset subsidies decreased \$0.5 million on lower volume of handsets sold. Network costs decreased \$0.1 million, as a decrease in backhaul costs was partially offset by an increase in rent expense associated with the Network Vision project. An increase in labor capitalized to projects also contributed to the decrease in network costs. Maintenance expense grew \$0.9 million due to increases in maintenance contracts that support the upgraded wireless network. These increases were largely offset by a one-time \$0.4 million gain related to actual disposal costs for the Network Vision project being less than the previously accrued amounts and by \$0.4 million lower costs from Sprint to service prepaid customers who take advantage of the “top-up” program.

## Selling, general and administrative

Selling, general and administrative costs increased \$0.5 million, or 1.9%, in the first nine months of 2014 over the comparable 2013 period primarily due to an increase in advertising and other marketing costs. Acquisition costs related to prepaid customers decreased due to lower volume of upgrades and new activations, but were partially offset by costs to support existing customers.

#### Depreciation and amortization

Depreciation and amortization increased \$2.6 million, 12.4%, in 2014 over the first nine months of 2013, following completion of Network Vision upgrades.

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## Cable

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.

|                                    | September<br>30, 2014 | December<br>31, 2013 | September<br>30,<br>2013 | December<br>31,<br>2012 |
|------------------------------------|-----------------------|----------------------|--------------------------|-------------------------|
| Homes Passed (1)                   | 171,382               | 170,470              | 168,746                  | 168,475                 |
| Customer Relationships (2)         |                       |                      |                          |                         |
| Video customers                    | 49,672                | 51,197               | 51,529                   | 52,676                  |
| Non-video customers                | 21,630                | 18,341               | 17,687                   | 15,709                  |
| Total customer relationships       | 71,302                | 69,538               | 69,216                   | 68,385                  |
| Video                              |                       |                      |                          |                         |
| Customers (3)                      | 52,347                | 53,076               | 53,386                   | 54,840                  |
| Penetration (4)                    | 30.5 %                | 31.1 %               | 31.6 %                   | 32.6 %                  |
| Digital video penetration (5)      | 64.8 %                | 49.2 %               | 48.7 %                   | 39.5 %                  |
| High-speed Internet                |                       |                      |                          |                         |
| Available Homes (6)                | 170,728               | 168,255              | 166,898                  | 163,273                 |
| Customers (3)                      | 50,626                | 45,776               | 44,583                   | 40,981                  |
| Penetration (4)                    | 29.7 %                | 27.2 %               | 26.7 %                   | 25.1 %                  |
| Voice                              |                       |                      |                          |                         |
| Available Homes (6)                | 167,991               | 163,282              | 161,932                  | 154,552                 |
| Customers (3)                      | 17,493                | 14,988               | 14,338                   | 12,262                  |
| Penetration (4)                    | 10.4 %                | 9.2 %                | 8.9 %                    | 8.0 %                   |
| Total Revenue Generating Units (7) | 120,466               | 113,840              | 112,307                  | 108,083                 |
| Fiber Route Miles                  | 2,473                 | 2,446                | 2,237                    | 2,077                   |
| Total Fiber Miles (8)              | 71,022                | 69,715               | 41,562                   | 39,418                  |

Homes and businesses are considered passed (“homes passed”) if we can connect them to our distribution system 1) 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.

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 3) 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.

Digital video penetration is calculated by dividing the number of digital video customers by total video customers.

5) 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 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.

Fiber miles are measured by taking the number of fiber strands in a cable and multiplying that number by the route 8) distance. For example, a 10 mile route with 144 fiber strands would equal 1,440 fiber miles. Fiber counts were recalculated after a fiber audit and deployment of enhanced mapping software in the fourth quarter of 2013.





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Three Months Ended September 30, 2014 Compared with the Three Months Ended September 30, 2013

| (in thousands)   | Three Months Ended |                    | Change   |        |
|--|--------------------|--------------------|----------|--------|
|  | September 30, 2014 | September 30, 2013 | \$       | %      |
| Segment operating revenues   |                    |                    |          |        |
| Service revenue  | \$17,602           | \$16,415           | \$1,187  | 7.2    |
| Equipment and other revenue  | 3,402              | 2,725              | 677      | 24.8   |
| Total segment operating revenues   | 21,004             | 19,140             | 1,864    | 9.7    |
| Segment operating expenses   |                    |                    |          |        |
| Cost of goods and services, exclusive of depreciation and amortization shown separately below          | 14,157             | 12,218             | 1,939    | 15.9   |
| Selling, general and administrative, exclusive of depreciation and amortization shown separately below | 5,107              | 5,147              | (40 )    | (0.8 ) |
| Depreciation and amortization  | 5,864              | 5,312              | 552      | 10.4   |
| Total segment operating expenses   | 25,128             | 22,677             | 2,451    | 10.8   |
| Segment operating loss   | \$(4,124 )         | \$(3,537 )         | \$(587 ) | 16.6   |

## Operating revenues

Cable segment service revenue increased \$1.2 million, or 7.2%, due to a 6.7% increase in average revenue generating units, a video rate increase in January 2014, and customers selecting higher-priced digital TV services and higher-speed data access packages.

Growth in equipment and other revenue was driven primarily by a \$0.6 million increase in equipment rents, due to a change in January 2014 of charging customers separately for their first set top box, which previously had been included in the service fee. Facility lease revenue grew \$0.1 million due to new fiber to the tower contracts with third parties.

## Operating expenses

Cable segment cost of goods and services increased \$1.9 million, or 15.9%, in the third quarter of 2014 over the comparable 2013 period. Disposal costs increased \$1.3 million, as the Company disposed of obsolete equipment that had previously been taken out of service. Video programming costs increased \$0.9 million as the impact of rising rates per subscriber outpaced declining video subscriber counts. Maintenance costs decreased \$0.3 million due to a reduction in materials and supplies expense.

Selling, general and administrative expenses were flat against the prior year quarter as a \$0.3 million decrease in marketing and selling expense was largely offset by increases in bad debt expense and costs related to administrative functions.

The increase in depreciation and amortization expense consists of \$0.8 million of higher depreciation expense on assets placed in service, offset by lower amortization on the customer base intangible asset recorded when the cable markets were acquired. The amortization of this asset declines on the anniversary of the acquisitions.

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Nine Months Ended September 30, 2014 Compared with the Nine Months Ended September 30, 2013

| (in thousands)   | Nine Months Ended  |                    | Change  |       |
|--|--------------------|--------------------|---------|-------|
|  | September 30, 2014 | September 30, 2013 | \$      | %     |
| Segment operating revenues   |                    |                    |         |       |
| Service revenue  | \$52,442           | \$48,902           | \$3,540 | 7.2   |
| Equipment and other revenue  | 9,879              | 7,485              | 2,394   | 32.0  |
| Total segment operating revenues   | 62,321             | 56,387             | 5,934   | 10.5  |
| Segment operating expenses   |                    |                    |         |       |
| Cost of goods and services, exclusive of depreciation and amortization shown separately below          | 38,969             | 34,679             | 4,290   | 12.4  |
| Selling, general and administrative, exclusive of depreciation and amortization shown separately below | 14,487             | 14,071             | 416     | 3.0   |
| Depreciation and amortization  | 17,035             | 15,996             | 1,039   | 6.5   |
| Total segment operating expenses   | 70,491             | 64,746             | 5,745   | 8.9   |
| Segment operating loss   | \$(8,170)          | \$(8,359)          | \$189   | (2.3) |

#### Operating revenues

Cable segment service revenue increased \$3.5 million, or 7.2%, due to a 6.3% increase in average revenue generating units, a video rate increase in January 2014, and customers selecting higher-priced digital TV services and higher-speed data access packages.

Growth in equipment and other revenue was driven primarily by a \$1.7 million increase in equipment rents, due to a change in January 2014 of charging customers separately for their first set top box, which previously had been included in the service fee. Facility lease revenue grew \$0.4 million due to new fiber to the tower contracts with third parties. Installation revenue increased \$0.2 million.

#### Operating expenses

Cable segment cost of goods and services increased \$4.3 million, or 12.4%, in the nine months ended September 30, 2014 over the comparable 2013 period. Video programming costs increased \$2.0 million as the impact of rising rates per subscriber outpaced declining video subscriber counts. Disposal costs increased \$1.4 million, as the Company disposed of obsolete equipment that had been taken out of service while upgrading the network. Personnel costs increased \$0.5 million and maintenance costs increased \$0.2 million due to costs to support network growth.

Selling, general and administrative expenses grew \$0.4 million against the prior year period as increases in costs related to customer service and administrative functions were partially offset by reductions of \$0.4 million in marketing and selling expense and \$0.1 million in bad debt expense.

The increase in depreciation and amortization expense consists of \$2.0 million of higher depreciation expense on network upgrades, offset by lower amortization on the customer base intangible asset recorded when the cable markets were acquired. The amortization of this asset declines on the anniversary of the acquisitions.

#### Wireline

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 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.

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|                           | Sept.<br>30,<br>2014 | Dec.<br>31,<br>2013 | Sept.<br>30,<br>2013 | Dec.<br>31,<br>2012 |
|---------------------------|----------------------|---------------------|----------------------|---------------------|
| Telephone Access Lines    | 21,742               | 22,106              | 22,257               | 22,342              |
| Long Distance Subscribers | 9,645                | 9,851               | 9,920                | 10,157              |
| Video Customers           | 5,787                | 6,342               | 6,405                | 6,719               |
| DSL Subscribers           | 12,708               | 12,632              | 12,559               | 12,611              |
| Fiber Route Miles         | 1,459                | 1,452               | 1,434                | 1,420               |
| Total Fiber Miles (1)     | 85,398               | 85,135              | 84,487               | 84,107              |

(1) Total 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, 2014 Compared with the Three Months Ended September 30, 2013

| (in thousands)   | Three Months<br>Ended |         | Change |        |
|--|-----------------------|---------|--------|--------|
|  | September 30,<br>2014 | 2013    | \$     | %      |
| Segment operating revenues   |                       |         |        |        |
| Service revenue  | \$5,627               | \$5,587 | \$40   | 0.7    |
| Access revenue   | 3,098                 | 3,177   | (79 )  | (2.5 ) |
| Facility lease revenue   | 6,284                 | 5,456   | 828    | 15.2   |
| Equipment revenue  | 17                    | 14      | 3      | 21.4   |
| Other revenue  | 898                   | 797     | 101    | 12.7   |
| Total segment operating revenues   | 15,924                | 15,031  | 893    | 5.9    |
| Segment operating expenses   |                       |         |        |        |
| Cost of goods and services, exclusive of depreciation and amortization shown separately below          | 7,078                 | 7,214   | (136)  | (1.9 ) |
| Selling, general and administrative, exclusive of depreciation and amortization shown separately below | 1,533                 | 1,457   | 76     | 5.2    |
| Depreciation and amortization  | 2,875                 | 2,872   | 3      | 0.1    |
| Total segment operating expenses   | 11,486                | 11,543  | (57 )  | (0.5 ) |
| Segment operating income   | \$4,438               | \$3,488 | \$950  | 27.2   |

## Operating revenues

Total operating revenues in the quarter ended September 30, 2014 increased \$0.9 million against the comparable 2013 period. Facility lease revenue increased \$0.8 million due primarily to a \$0.5 million increase in affiliate billings associated with Network Vision upgrades on the Wireless segment. New service contracts with third parties generated an additional \$0.3 million of facility lease revenue.

## Operating expenses

Operating expenses overall decreased \$0.1 million in the quarter ended September 30, 2014, compared to the 2013 quarter. The benefit of additional labor costs being capitalized to fixed asset project costs was largely offset by the increased cost of asset disposals.

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Nine Months Ended September 30, 2014 Compared with the Nine Months Ended September 30, 2013

| (in thousands)   | Nine Months<br>Ended  |          | Change  |        |
|--|-----------------------|----------|---------|--------|
|  | September 30,<br>2014 | 2013     | \$      | %      |
| Segment operating revenues   |                       |          |         |        |
| Service revenue  | \$16,839              | \$16,608 | \$231   | 1.4    |
| Access revenue   | 8,929                 | 9,491    | (562 )  | (5.9 ) |
| Facility lease revenue   | 18,968                | 16,247   | 2,721   | 16.7   |
| Equipment revenue  | 43                    | 37       | 6       | 16.2   |
| Other revenue  | 2,564                 | 3,000    | (436 )  | (14.5) |
| Total segment operating revenues   | 47,343                | 45,383   | 1,960   | 4.3    |
| Segment operating expenses   |                       |          |         |        |
| Cost of goods and services, exclusive of depreciation and amortization shown separately below          | 22,297                | 21,577   | 720     | 3.3    |
| Selling, general and administrative, exclusive of depreciation and amortization shown separately below | 4,270                 | 4,069    | 201     | 4.9    |
| Depreciation and amortization  | 8,225                 | 8,405    | (180 )  | (2.1 ) |
| Total segment operating expenses   | 34,792                | 34,051   | 741     | 2.2    |
| Segment operating income   | \$12,551              | \$11,332 | \$1,219 | 10.8   |

## Operating revenues

Total operating revenues in the nine months ended September 30, 2014 increased \$2.0 million against the comparable 2013 period. Increases in service revenue resulted primarily from increases in affiliate revenues. Facility lease revenue grew \$2.7 million due to a \$1.9 million increase in affiliate billings associated with Network Vision upgrades on the Wireless segment and an increase of \$0.8 million of new service contracts with third parties. The decrease in access revenue is the result of 2013 changes in certain intrastate access charges. Other revenue decreased \$0.4 million due to the conclusion of billings for transition services to buyers of Converged Services' properties.

## Operating expenses

Operating expenses overall increased \$0.7 million in the nine months ended September 30, 2014, compared to the 2013 period. The increase in cost of goods and services resulted primarily from a \$1.1 million increase in costs to provide services to affiliates and to other customers, related to the increases in facility lease revenue shown above. The disposal of obsolete out of service assets resulted in an additional \$0.4 million increase. These increases were partially offset by a \$0.7 million increase in labor capitalized to projects.

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Non-GAAP Financial Measure

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, which is considered a “non-GAAP financial measure” 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; 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.

In a capital-intensive industry such as telecommunications, management believes that adjusted OIBDA and the associated percentage margin calculations are meaningful measures of our operating performance. We use adjusted OIBDA as a supplemental performance measure because management believes it facilitates 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 the Company may again report adjusted 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 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 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 OIBDA has 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:

- it does not reflect capital expenditures;  
many of the assets being depreciated and amortized will have to be replaced in the future and adjusted OIBDA does not reflect cash requirements for such replacements;
- it does not reflect costs associated with share-based awards exchanged for employee services;
- it does not reflect interest expense necessary to service interest or principal payments on indebtedness;
- it does not reflect gains, losses or dividends on investments;
- it does not reflect expenses incurred for the payment of income taxes; and
- other companies, including companies in our industry, may calculate adjusted OIBDA differently than we do, limiting its usefulness as a comparative measure.

In light of these limitations, management considers adjusted 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 for the three and nine months ended September 30, 2014 and 2013.

|                | Three Months  |          | Nine Months   |          |
|----------------|---------------|----------|---------------|----------|
|                | Ended         |          | Ended         |          |
|                | September 30, |          | September 30, |          |
| (in thousands) | 2014          | 2013     | 2014          | 2013     |
| Adjusted OIBDA | \$33,253      | \$28,703 | \$97,991      | \$89,597 |

The following table reconciles adjusted 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, 2014 and 2013:

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|                                       | Three Months  |          | Nine Months   |          |
|---------------------------------------|---------------|----------|---------------|----------|
|                                       | Ended         |          | Ended         |          |
| Consolidated:                         | September 30, |          | September 30, |          |
| (in thousands)                        | 2014          | 2013     | 2014          | 2013     |
| Operating income                      | \$14,144      | \$13,262 | \$45,616      | \$42,970 |
| Plus depreciation and amortization    | 16,731        | 14,992   | 48,714        | 45,034   |
| Plus (gain) loss on asset sales       | 2,053         | 18       | 1,811         | 252      |
| Plus share based compensation expense | 325           | 431      | 1,850         | 1,341    |
| Adjusted OIBDA                        | \$33,253      | \$28,703 | \$97,991      | \$89,597 |

The following tables reconcile adjusted OIBDA to operating income by major segment for the three and nine months ended September 30, 2014 and 2013:

|                                       | Three Months  |          | Nine Months   |          |
|---------------------------------------|---------------|----------|---------------|----------|
|                                       | Ended         |          | Ended         |          |
| Wireless Segment:                     | September 30, |          | September 30, |          |
| (in thousands)                        | 2014          | 2013     | 2014          | 2013     |
| Operating income                      | \$17,333      | \$16,497 | \$51,697      | \$49,270 |
| Plus depreciation and amortization    | 7,895         | 6,799    | 23,162        | 20,608   |
| Plus (gain) loss on asset sales       | -             | -        | (293 )        | 100      |
| Plus share based compensation expense | 67            | 123      | 387           | 385      |
| Adjusted OIBDA                        | \$25,295      | \$23,419 | \$74,953      | \$70,363 |

|                                       | Three Months  |           | Nine Months   |            |
|---------------------------------------|---------------|-----------|---------------|------------|
|                                       | Ended         |           | Ended         |            |
| Cable Segment:                        | September 30, |           | September 30, |            |
| (in thousands)                        | 2014          | 2013      | 2014          | 2013       |
| Operating income (loss)               | \$(4,124)     | \$(3,537) | \$(8,170 )    | \$(8,359 ) |
| Plus depreciation and amortization    | 5,864         | 5,312     | 17,035        | 15,996     |
| Plus (gain) loss on asset sales       | 1,512         | (35 )     | 1,528         | (26 )      |
| Plus share based compensation expense | 125           | 187       | 699           | 585        |
| Adjusted OIBDA                        | \$3,377       | \$1,927   | \$11,092      | \$8,196    |

|                                       | Three Months  |         | Nine Months   |          |
|---------------------------------------|---------------|---------|---------------|----------|
|                                       | Ended         |         | Ended         |          |
| Wireline Segment:                     | September 30, |         | September 30, |          |
| (in thousands)                        | 2014          | 2013    | 2014          | 2013     |
| Operating income                      | \$4,438       | \$3,488 | \$12,551      | \$11,332 |
| Plus depreciation and amortization    | 2,875         | 2,872   | 8,225         | 8,405    |
| Plus loss on asset sales              | 541           | 53      | 575           | 177      |
| Plus share based compensation expense | 45            | 92      | 311           | 284      |
| Adjusted OIBDA                        | \$7,899       | \$6,505 | \$21,662      | \$20,198 |



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## Liquidity and Capital Resources

The Company has four principal sources of funds available to meet the financing needs of its operations, capital projects, debt service, investments 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.** The Company generated \$91.3 million of net cash from operations in the first nine months of 2014, compared to \$73.5 million in the first nine months of 2013, driven primarily by utilization of excess tax payments carried over to 2014 from 2013.

**Indebtedness.** As of September 30, 2014, the Company's indebtedness totaled \$230.0 million, with an annualized overall weighted average interest rate of approximately 3.40% after considering the impact of the swap contract. Patronage credits provided by the lender reduce the effective cost of our debt by approximately 69 basis points to an effective rate of approximately 2.71%. The Company has \$50 million available under the Revolving Facility, and the right to borrow up to \$100 million under one or more Incremental Term Loan facilities, subject to certain restrictions. The Revolving Facility and Incremental Term Loan Facility are both subject to the terms of the Restated and Amended Credit Agreement entered into in September 2012. Quarterly repayments of the term loan in the amount of \$5.75 million begin December 31, 2014.

The Company is bound by certain financial covenants under its Credit Agreement. Noncompliance with any one or more of the debt 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, 2014, the Company was in compliance with all debt covenants, and ratios at September 30, 2014 were as follows:

|                             | Actual | Covenant Requirement at<br>September 30, 2014 |
|-----------------------------|--------|---|
| Total Leverage Ratio        | 1.78   | 2.50 or Lower                                 |
| Debt Service Coverage Ratio | 15.05  | 2.50 or Higher                                |
| Equity to Assets Ratio      | 42.4%  | 32.5% or Higher                               |

In accordance with the Credit Agreement, the total leverage and debt service coverage ratios noted above are based on the twelve months ended September 30, 2014. In addition to the covenants above, the Company is required to supply the lender with quarterly financial statements and other reports as defined by the Credit Agreement. The Company was in compliance with all reporting requirements at September 30, 2014.

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

**Capital Commitments.** Capital expenditures budgeted for 2014 totaled \$74 million, but current forecasts project spending of approximately \$64 million. The cable segment will be slightly over its initial budget, as the introduction of the company's whole home gateway set top box has exceeded modest expectations. All other segments will be under budget, with the shortfall roughly equally split between budgeted projects coming in under budget, projects being delayed until 2015 and success based projects not materializing.

For the first nine months of 2014, the Company spent \$51.2 million on capital projects, compared to \$80.8 million in the comparable 2013 period. Spending related to Wireless projects accounted for \$19.7 million in the first nine months of 2014, primarily for continued network expansion and upgrades of 4G LTE capacity. Cable capital spending of \$17.4 million related to network expansion and upgrades to support new services or customers. Wireline projects accounted for \$10.5 million, driven primarily by fiber builds and switching/routing capability. Other projects totaled

\$3.6 million, largely related to information technology projects.

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The Company believes that cash on hand, cash flow from operations and borrowings expected to be available under the Company's existing credit facilities will provide sufficient cash to enable the Company to fund planned capital expenditures, make scheduled principal and interest payments, meet its other cash requirements and maintain compliance with the terms of its financing agreements for at least the next twelve months. Thereafter, capital expenditures will likely continue to be required to provide increased capacity to meet the Company's expected growth in demand for its products and services. The actual amount and timing of the Company's future capital requirements may differ materially from the Company's estimate depending on the demand for its products and new market developments and opportunities.

The Company's cash flows from operations could be adversely affected by events outside the Company's control, including, without limitation, changes in overall economic conditions, regulatory requirements, changes in technologies, demand for its products, availability of labor resources and capital, changes in the Company's 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; the subsidiary's ability to develop and implement successful marketing programs and new products and services; and the subsidiary's ability to effectively and economically manage other operating activities under the Company's agreements with Sprint. The Company's ability to attract and maintain a sufficient customer base, particularly in the acquired cable markets, is also critical to its ability to maintain a positive cash flow from operations. The foregoing events individually or collectively could affect the Company's results.

Recently Issued Accounting Standards

On May 28, 2014, the 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. The new standard is effective for the Company on January 1, 2017. Early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

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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, 2014, the Company had \$230.0 million of variable rate debt outstanding, bearing interest at a rate of 2.65% as determined on a monthly basis. An increase in market interest rates of 1.00% would add approximately \$2.3 million to annual interest expense, excluding the effect of the interest rate swap. In 2012, the Company entered into a swap agreement that covers notional principal equal to approximately 76% of the outstanding variable rate debt through maturity in 2019, requiring the Company to pay a fixed rate of 1.13% and receive a variable rate based on one month LIBOR, to manage a portion of its interest rate risk. The 2012 swap currently adds approximately \$1.5 million to annual interest expense, 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. The cash is currently invested in a combination of a commercial checking account that has limited interest rate risk, and three money market mutual funds that contain a total investment of \$40.1 million. Management continues to evaluate the most beneficial use of these funds.

The third component of interest rate risk is marked 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 A Facility, the applicable interest rate margin on the Term Loan A 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, 2014, the Company has \$55.4 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 Executive Supplemental 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.

As of September 30, 2014, the Company has \$7.4 million of cost and equity method investments. Approximately \$4.4 million consists of illiquid required investments related to business, regulatory or lending arrangements necessary to access services. An additional \$0.5 million consists of investments in telephone-related business consortiums. The remaining \$2.5 million is invested in privately held companies through an investment with a portfolio manager. Most of the companies are in an early stage of development and significant increases in interest rates could have an adverse impact on their results, ability to raise capital and viability. The Company's market risk is limited to the funds previously invested.

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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. Based on this evaluation, the Company's principal executive officer and its principal financial officer concluded that the Company's disclosure controls and procedures were effective as of September 30, 2014.

Changes in Internal Control Over Financial Reporting

During the third quarter of 2014, there were no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

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 approximately 59% of the Company's total operating revenues. 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 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 22.0% of revenue retained by Sprint. 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, 2013 to September 30, 2013. The most recent report indicated there were no material issues 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.

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## PART II. OTHER INFORMATION

## ITEM 1A. Risk Factors

As previously discussed, our actual results could differ materially from our forward-looking statements. There have been no material changes in the risk factors from those described in Part 1, Item 1A of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

## 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 cover 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, 2014:

|                             | Number<br>of Shares<br>Purchased | Average<br>Price<br>Paid per<br>Share |
|-----------------------------|----------------------------------|---------------------------------------|
| July 1 to July 31           | 436                              | \$ 30.46                              |
| August 1 to August 31       | 5                                | \$ 27.84                              |
| September 1 to September 30 | 1                                | \$ 27.81                              |
| Total                       | 442                              | \$ 30.42                              |

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ITEM 6. Exhibits

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

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

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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  
(Registrant)

/s/Adele M. Skolits

Adele M. Skolits

Vice President - Finance and Chief Financial Officer

Date: October 31, 2014

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EXHIBIT INDEX

Exhibit  
No.

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