

SHENANDOAH TELECOMMUNICATIONS CO/VA/  
Form 10-Q  
November 06, 2018

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, 2018

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 incorporation or organization) (I.R.S. Employer Identification No.)

500 Shentel Way, Edinburg, Virginia 22824

(Address of principal executive offices) (Zip Code)

(540) 984-4141

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

Smaller reporting company Emerging growth company

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The number of shares of the registrant's common stock outstanding on November 2, 2018 was 49,558,663.



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

	September 30, 2018	December 31, 2017
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$75,207	\$ 78,585
Accounts receivable, net	59,968	54,184
Income taxes receivable	2,545	17,311
Inventory, net	4,962	5,704
Prepaid expenses and other	63,383	17,111
Total current assets	206,065	172,895
Investments	12,296	11,472
Property, plant and equipment, net	669,709	686,327
Other assets:		
Intangible assets, net	381,537	380,979
Goodwill	146,497	146,497
Deferred charges and other assets, net	53,723	13,690
Total assets	\$1,469,827	\$ 1,411,860
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Current maturities of long-term debt, net of unamortized loan fees	\$84,743	\$ 64,397
Accounts payable	23,868	28,953
Advanced billings and customer deposits	7,415	21,153
Accrued compensation	6,833	9,167
Accrued liabilities and other	14,756	13,914
Total current liabilities	137,615	137,584
Long-term debt, less current maturities, net of unamortized loan fees	694,045	757,561
Other long-term liabilities:		
Deferred income taxes	120,846	100,879
Deferred lease	22,162	15,782
Asset retirement obligations	22,372	21,211
Retirement plan obligations	13,235	13,328
Other liabilities	14,567	15,293
Total other long-term liabilities	193,182	166,493
Shareholders' equity:		
Common stock, no par value, authorized 96,000; 49,559 and 49,328 issued and outstanding at September 30, 2018 and December 31, 2017, respectively	—	—
Additional paid in capital	47,350	44,787
Retained earnings	385,045	297,205
Accumulated other comprehensive income (loss), net of taxes	12,590	8,230
Total shareholders' equity	444,985	350,222
Total liabilities and shareholders' equity	\$1,469,827	\$ 1,411,860

See accompanying notes to unaudited condensed consolidated financial statements.



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SHENANDOAH TELECOMMUNICATIONS COMPANY AND  
 SUBSIDIARIES  
 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND  
 COMPREHENSIVE INCOME (LOSS)

(in thousands, except per share amounts)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Operating revenue:				
Service revenue and other	\$142,768	\$149,788	\$419,819	\$450,617
Equipment revenue	15,963	1,994	49,551	8,303
Total operating revenue	158,731	151,782	469,370	458,920
Operating expenses:				
Cost of services	47,886	48,552	146,362	145,744
Cost of goods sold	15,036	7,282	46,007	17,232
Selling, general and administrative	27,452	42,199	86,117	125,374
Acquisition, integration and migration expenses	—	1,706	—	9,873
Depreciation and amortization	40,028	42,568	124,632	132,297
Total operating expenses	130,402	142,307	403,118	430,520
Operating income (loss)	28,329	9,475	66,252	28,400
Other income (expense):				
Interest expense	(9,001 )	(9,823 )	(27,184 )	(28,312 )
Gain (loss) on investments, net	88	202	112	395
Non-operating income (loss), net	966	1,003	2,770	3,482
Income (loss) before income taxes	20,382	857	41,950	3,965
Income tax expense (benefit)	4,848	(2,677 )	10,207	(1,830 )
Net income (loss)	15,534	3,534	31,743	5,795
Other comprehensive income (loss):				
Unrealized gain (loss) on interest rate hedge, net of tax	465	6	4,360	(770 )
Comprehensive income (loss)	\$15,999	\$3,540	\$36,103	\$5,025
Net income (loss) per share, basic and diluted:				
Basic net income (loss) per share	\$0.31	\$0.07	\$0.64	\$0.12
Diluted net income (loss) per share	\$0.31	\$0.07	\$0.63	\$0.12
Weighted average shares outstanding, basic	49,559	49,133	49,527	49,100
Weighted average shares outstanding, diluted	50,117	49,959	50,044	49,869

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Shares of Common Stock (no par value)	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2017	49,328	\$ 44,787	\$ 297,205	\$ 8,230	\$ 350,222
Change in accounting principle - adoption of accounting standard (Note 2)	—	—	56,097	—	56,097
Net income (loss)	—	—	31,743	—	31,743
Other comprehensive gain (loss), net of tax of \$1,441	—	—	—	4,360	4,360
Stock based compensation	206	4,578	—	—	4,578
Stock options exercised	15	104	—	—	104
Common stock issued	—	18	—	—	18
Shares retired for settlement of employee taxes upon issuance of vested equity awards	(66 )	(2,137 )	—	—	(2,137 )
Common stock issued to acquire non-controlling interest in nTelos	76	—	—	—	—
Balance, September 30, 2018	49,559	\$ 47,350	\$ 385,045	\$ 12,590	\$ 444,985

See accompanying notes to unaudited condensed consolidated financial statements.



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

	Nine Months Ended September 30,	
	2018	2017
Cash flows from operating activities:		
Net income (loss)	\$31,743	\$5,795
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	106,002	113,437
Amortization	18,630	18,860
Amortization reflected as rent expense in cost of services	372	2,173
Bad debt expense	1,362	1,479
Stock based compensation expense, net of amount capitalized	4,578	3,053
Waived management fee	28,164	27,068
Deferred income taxes	(1,989 )	(12,251 )
(Gain) loss on investments	(112 )	(308 )
Net (gain) loss from patronage and equity investments	(2,300 )	(2,315 )
Amortization of long-term debt issuance costs	3,472	3,572
Accrued interest and other	205	1,633
Changes in assets and liabilities:		
Accounts receivable	(5,492 )	6,418
Inventory, net	741	31,604
Income taxes receivable	14,932	(8,704 )
Other assets	(13,393 )	(162 )
Accounts payable	(1,913 )	(30,795 )
Income taxes payable	—	(435 )
Deferred lease	4,159	3,729
Other deferrals and accruals	(361 )	(5,146 )
Net cash provided by (used in) operating activities	188,800	158,705
Cash flows from investing activities:		
Acquisition of property, plant and equipment	(92,309 )	(109,435)
Proceeds from sale of assets	540	356
Cash distributions (contributions) from investments and other	(1 )	4
Sprint expansion	(52,000 )	(6,000 )
Net cash provided by (used in) investing activities	(143,770)	(115,075)
Cash flows from financing activities:		
Principal payments on long-term debt	(46,375 )	(24,250 )
Proceeds from revolving credit facility borrowings	15,000	—
Proceeds from credit facility borrowings	—	25,000
Principal payments on revolving credit facility	(15,000 )	—
Taxes paid for equity award issuances	(2,033 )	(5,106 )
Net cash provided by (used in) financing activities	(48,408 )	(4,356 )
Net increase (decrease) in cash and cash equivalents	(3,378 )	39,274
Cash and cash equivalents, beginning of period	78,585	36,193
Cash and cash equivalents, end of period	\$75,207	\$75,467

Supplemental Disclosures of Cash Flow Information

Cash payments for:

Interest, net of capitalized interest of \$1,187 and \$1,266, respectively	\$25,067	\$25,934
Income tax (refunds received) payments, net	\$(2,736)	\$19,567
Capital expenditures payable	\$11,919	\$3,800

See accompanying notes to unaudited condensed consolidated financial statements.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## Note 1. Basis of Presentation

The interim condensed consolidated financial statements of Shenandoah Telecommunications Company and Subsidiaries (collectively, the "Company") are unaudited. In the opinion of management, all adjustments necessary for a fair presentation of the interim results have been reflected therein in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial reporting and as required by Rule 10-01 of Regulation S-X. Accordingly, the unaudited condensed consolidated financial statements may not include all of the information and notes required by GAAP for audited financial statements. The information contained herein should be read in conjunction with the audited financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

## Immaterial Prior Period Adjustment.

During the three months ended September 30, 2018, the Company determined that the unaudited condensed consolidated financial statements for the three months ended March 31, 2018, and the three and six months ended June 30, 2018, contained an immaterial misstatement. Excess amortization of deferred contract costs that are recognized as a reduction of revenue, as described in Note 2, resulted in an understatement of revenue for the three months ended March 31, 2018, and the three and six months ended June 30, 2018. Additionally, amounts recorded upon the adoption of ASU No. 2014-09, Revenue from Contracts with Customers ("Topic 606", or "the new revenue recognition standard"), on January 1, 2018 were misstated. The Company evaluated the materiality of the prior period adjustment quantitatively and qualitatively, under the SEC's authoritative guidance on materiality, and concluded that the prior period adjustment was not material to the financial statements of any of the impacted unaudited 2018 periods. The Company elected to correct the prior period adjustment by revising the prior period financial statements.

The cumulative effect of the adjustment made to the consolidated January 1, 2018 balance sheet for the adoption of the new revenue recognition standard was as follows:

(in thousands)	As of January 1, 2018		
	As	Correction	As
	Reported	of Error	Adjusted
Prepaid expenses and other	\$53,688	\$(6,701)	\$46,987
Deferred charges and other assets, net	29,797	14,964	44,761
Deferred income taxes	119,030	2,201	121,231
Retained earnings	347,240	6,062	353,302

The following table presents the effects of the immaterial prior period adjustment on the unaudited condensed consolidated balance sheet as of March 31, 2018 and June 30, 2018:

(in thousands)	As of March 31, 2018		
	As	Correction	As
	Reported	of Error	Adjusted
Prepaid expenses and other	\$64,200	\$(5,741)	\$58,459
Deferred charges and other assets, net	33,934	16,410	50,344
Deferred income taxes	115,809	2,853	118,662
Retained earnings	352,069	7,816	359,885

(in thousands)

As of June 30, 2018

	As	Correction	As
	Reported	of Error	Adjusted
Prepaid expenses and other	\$64,163	\$(4,756 )	\$ 59,407
Deferred charges and other assets, net	34,021	17,896	51,917
Deferred income taxes	111,125	3,522	114,647
Retained earnings	359,893	9,618	369,511

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The following tables present the effects of the immaterial prior period adjustment on the unaudited condensed consolidated statements of operations and comprehensive income (loss) for the three months ended March 31, 2018 and the three and six months ended June 30, 2018:

(in thousands)	For the Three Months Ended March 31, 2018		
	As Reported	Correction of Error	As Adjusted
Service revenue and other	\$ 134,153	\$ 2,406	\$ 136,559
Income tax expense (benefit)	1,176	652	1,828
Net income (loss)	4,829	1,754	6,583
Earnings per share - basic	\$0.10	\$ 0.03	\$0.13
Earnings per share - diluted	\$0.10	\$ 0.03	\$0.13

(in thousands)	For the Three Months Ended June 30, 2018		
	As Reported	Correction of Error	As Adjusted
Service revenue and other	\$ 138,021	\$ 2,471	\$ 140,492
Income tax expense (benefit)	2,862	669	3,531
Net income (loss)	7,824	1,802	9,626
Earnings per share - basic	\$0.16	\$ 0.03	\$0.19
Earnings per share - diluted	\$0.16	\$ 0.03	\$0.19

(in thousands)	For the Six Months Ended June 30, 2018		
	As Reported	Correction of Error	As Adjusted
Service revenue and other	\$ 272,174	\$ 4,877	\$ 277,051
Income tax expense (benefit)	4,038	1,321	5,359
Net income (loss)	12,653	3,556	16,209
Earnings per share - basic	\$0.26	\$ 0.07	\$0.33
Earnings per share - diluted	\$0.25	\$ 0.07	\$0.32

## Adoption of New Accounting Principles

There have been no developments related to recently issued accounting standards, including the expected dates of adoption and estimated effects on the Company's unaudited condensed consolidated financial statements and note disclosures, from those disclosed in the Company's 2017 Annual Report on Form 10-K, that would be expected to impact the Company except for the topics discussed below.

The Company adopted ASU No. 2014-09, Revenue from Contracts with Customers ("Topic 606", or "the new revenue recognition standard"), and all related amendments, effective January 1, 2018, using the modified retrospective method as discussed in Note 2, Revenue from Contracts with Customers. The Company recognized the cumulative effect of applying the new revenue recognition standard as an adjustment to the opening balance of retained earnings. The comparative information has not been retrospectively modified and continues to be reported under the accounting standards in effect for those periods.

In February 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-02, Leases (Topic 842), which requires lessees to recognize a right-of-use asset and a lease liability for all leases with terms greater than 12 months. The standard also requires disclosures by lessees and lessors about the amount, timing and uncertainty of cash

flows arising from leases, as well as changes in the categorization of rental costs, from rent expense to interest and depreciation expense. Other effects may occur depending on the types of leases and the specific terms of them utilized by particular lessees. The ASU is effective for the Company on January 1, 2019, and early application is permitted. Modified retrospective application is required. The Company expects that the most notable impact to its financial statements upon the adoption of this ASU will be the recognition of a material right-of-use asset and a lease liability for its real estate and equipment leases. The Company is continuing to assess potential impacts that the standard may have on our consolidated financial statements.

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In February 2018, the FASB issued ASU No. 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. Under existing U.S. GAAP, the effects of changes in tax rates and laws on deferred tax balances are recorded as a component of income tax expense in the period in which the law was enacted. When deferred tax balances related to items originally recorded in accumulated other comprehensive income are adjusted, certain tax effects become stranded in accumulated other comprehensive income. The amendments in ASU No. 2018-02 allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the 2017 Tax Cuts and Jobs Act. The amendments in this ASU also require certain disclosures about stranded tax effects. The guidance is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption in any period is permitted. The Company is currently evaluating the impact of adopting ASU No. 2018-02.

## Note 2. Revenue from Contracts with Customers

The Company earns revenue primarily through the sale of our wireless telecommunications services, wireless equipment, and business, residential, and enterprise cable and wireline services that include video, internet, voice, and data services. Revenue earned for the three months ended September 30, 2018 was as follows:

(in thousands)	Wireless	Cable	Wireline	Consolidated
Wireless service	\$96,299	\$—	\$—	\$ 96,299
Equipment	15,666	234	63	15,963
Business, residential and enterprise	—	29,334	10,702	40,036
Tower and other	4,134	2,614	8,857	15,605
Total revenue	116,099	32,182	19,622	167,903
Internal revenue	(1,263 )	(1,266 )	(6,643 )	(9,172 )
Total operating revenue	\$ 114,836	\$ 30,916	\$ 12,979	\$ 158,731

Revenue earned for the nine months ended September 30, 2018 was as follows:

(in thousands)	Wireless	Cable	Wireline	Consolidated
Wireless service	\$284,154	\$—	\$—	\$ 284,154
Equipment	48,859	537	155	49,551
Business, residential and enterprise	—	87,931	31,906	119,837
Tower and other	10,643	7,536	26,380	44,559
Total revenue	343,656	96,004	58,441	498,101
Internal revenue	(3,746 )	(3,394 )	(21,591 )	(28,731 )
Total operating revenue	\$339,910	\$92,610	\$36,850	\$ 469,370

## Wireless service

The majority of the Company's revenue is earned through providing network access to Sprint under the affiliate agreement, which represents approximately 61% of consolidated revenues for the nine months ended September 30, 2018. Wireless service revenue is variable based on billed revenue to Sprint's subscribers in the Company's affiliate area, less applicable fees retained by Sprint.

The Company's revenue related to Sprint's postpaid customers is the amount that Sprint bills its postpaid subscribers, reduced by customer credits, write-offs of receivables, and 8% management and 8.6% service fees. The Company is also charged for the costs of subsidized handsets sold through Sprint's national channels as well as commissions paid by Sprint to third-party resellers in the Company's service territory.

The Company's revenue related to Sprint's prepaid customers is the amount that Sprint bills its prepaid subscribers, reduced by costs to acquire and support the customers, based on national averages for Sprint's prepaid programs, and a

6% management fee.

The Company considers Sprint, rather than Sprint's subscribers, to be the customer under the new revenue recognition standard and the Company's performance obligation is to provide Sprint a series of continuous network access services. The reimbursement to Sprint for the costs of handsets sold through Sprint's national channels, as well as commissions paid by Sprint to third-party resellers in our service territory represent consideration payable to a customer. These reimbursements are initially recorded as a contract asset and are subsequently recognized as a reduction of revenue over the expected benefit period between 21 and 53 months. Historically, under ASC 605 the customer was considered the subscriber rather than Sprint and as a result, reimbursement

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payments to Sprint for costs of handsets and commissions were recorded as operating expenses in the period incurred. During 2017, these costs totaled \$63.5 million recorded in cost of goods and services, and \$16.9 million recorded in selling, general and administrative costs.

On January 1, 2018, upon adoption, the Company recorded a wireless contract asset of approximately \$51.1 million. During the three months ended September 30, 2018, payments that increased the wireless contract asset balance totaled \$16.4 million and amortization reflected as a reduction of revenue totaled approximately \$11.9 million. During the nine months ended September 30, 2018, payments that increased the wireless contract asset balance totaled \$44.8 million and amortization reflected as a reduction of revenue totaled approximately \$34.1 million. The wireless contract asset balance as of September 30, 2018 was approximately \$61.8 million.

### Wireless equipment

The Company owns and operates Sprint-branded retail stores within their geographic territory from which the Company sells equipment, primarily wireless handsets, and service to Sprint subscribers. The Company's equipment is predominantly sold to subscribers through Sprint's equipment financing plans. Under the equipment financing plans, Sprint purchases the equipment from the Company and resells the equipment to their subscribers. Historically, under ASC 605, the Company concluded that it was the agent in these equipment financing transactions and recorded revenues net of related handset costs which were approximately \$63.8 million in 2017. Under Topic 606 the Company concluded that it is the principal in these equipment financing transactions, as the Company controls and bears the risk of ownership of the inventory prior to sale, and accordingly, revenues and handset costs are recorded on a gross basis, the corresponding cost of the equipment is recorded separately to cost of goods sold.

### Business, residential and enterprise

The Company earns revenue in the Cable and Wireline segments from business, residential, and enterprise customers where the performance obligations are to provide cable and telephone network services, sell and lease equipment and wiring services, and lease fiber-optic cable capacity. The Company's arrangements are generally composed of contracts that are cancellable at the customer's discretion without penalty at any time. As there are multiple performance obligations in these arrangements, the Company recognizes revenue based on the standalone selling price of each distinct good or service. The Company generally recognizes these revenues over time as customers simultaneously receive and consume the benefits of the service, with the exception of equipment sales and home wiring which are recognized as revenue at a point in time when control transfers and when installation is complete, respectively.

Under the new revenue recognition standard, the Company concluded that installation services do not represent a separate performance obligation. Accordingly, installation fees are allocated to services and are recognized ratably over the longer of the contract term or the period the unrecognized portion of the fee remains material to the contract, typically 10 and 11 months for cable and wireline customers, respectively. Historically, the Company deferred these fees over the estimated customer life of 42 months. Additionally, the Company incurs commission and installation costs related to in-house and third-party vendors that were previously expensed as incurred. Under Topic 606, the Company capitalizes and amortizes these commission and installation costs over the expected benefit period which is approximately 44 months, 72 months, and 46 months, for cable, wireline, and enterprise business, respectively.

### Tower / Other

Tower revenues consist primarily of tower space leases accounted for under Topic 840, Leases, and Other revenues include network access-related charges for service provided to customers across the segments.

The cumulative effect of the changes made to the consolidated January 1, 2018 balance sheet for the adoption of the new revenue recognition standard were as follows:



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(in thousands)	Balance at December 31, 2017	Adjustments due to Topic 606	Balance at January 1, 2018
Assets			
Prepaid expenses and other	\$ 17,111	\$ 29,876	\$ 46,987
Deferred charges and other assets, net	13,690	31,071	44,761
Liabilities			
Advanced billing and customer deposits	21,153	(14,302 )	6,851
Deferred income taxes	100,879	20,352	121,231
Other long-term liabilities	15,293	(1,200 )	14,093
Retained earnings	297,205	56,097	353,302

The impact of the adoption of the new revenue recognition standard on the condensed consolidated statements of operations and comprehensive income (loss) and condensed consolidated balance sheets was as follows:

Three Months Ended September 30,  
2018

(in thousands)	As Reported	Balances without Adoption of Topic 606	Effect of Change Higher/(Lower)
Operating revenue:			
Service revenue and other	\$ 142,768	\$ 161,076	\$ (18,308 )
Equipment revenue	15,963	2,178	13,785
Operating expenses:			
Cost of services	47,886	48,001	(115 )
Cost of goods sold	15,036	7,870	7,166
Selling, general and administrative	27,452	44,164	(16,712 )

Nine Months Ended September 30,  
2018

(in thousands)	As Reported	Balances without Adoption of Topic 606	Effect of Change Higher/(Lower)
Operating revenue:			
Service revenue and other	\$ 419,819	\$ 471,155	\$ (51,336 )
Equipment revenue	49,551	6,036	43,515
Operating expenses:			
Cost of services	146,362	146,199	163
Cost of goods sold	46,007	20,316	25,691
Selling, general and administrative	86,117	132,711	(46,594 )

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(in thousands)	As of September 30, 2018		
	As Reported	Balances without Adoption of Topic 606	Effect of Change Higher/(Lower)
<b>Assets</b>			
Prepaid expenses and other	\$63,383	\$ 27,765	\$ 35,618
Deferred charges and other assets, net	53,723	17,496	36,227
<b>Liabilities</b>			
Advanced billing and customer deposits	7,415	23,744	(16,329 )
Deferred income taxes	120,846	97,029	23,817
Other long-term liabilities	14,567	15,759	(1,192 )
Retained earnings	385,045	319,496	65,549

## Future performance obligations

On September 30, 2018, the Company had approximately \$3.1 million of transaction price allocated to unsatisfied performance obligations, which is exclusive of contracts with original expected duration of one year or less. The Company expects to recognize approximately \$0.2 million of this amount as revenue during the remainder of 2018, \$0.6 million in 2019, an additional \$0.6 million by 2020, and the balance thereafter.

## Contract acquisition costs and costs to fulfill contracts

Capitalized contract costs represent contract fulfillment costs and contract acquisition costs which include commissions and installation costs in our Cable and Wireline segments. Capitalized contract costs are amortized on a straight line basis over the contract term plus expected renewals. The Company elected to apply the practical expedient to expense contract acquisition costs when incurred, if the amortization period would be twelve months or less. The amortization of these costs is included in cost of services, and selling, general and administrative expenses. Amounts capitalized were approximately \$10.0 million as of September 30, 2018 of which \$4.6 million is presented as prepaid expenses and other and \$5.4 million is presented as deferred charges and other assets, net. Amortization recognized during the nine months ended September 30, 2018 was approximately \$4.1 million.

## Note 3. Acquisition

**Sprint Territory Expansion:** Effective February 1, 2018, the Company signed an expansion agreement with Sprint to expand its wireless service coverage area to include certain areas in Kentucky, Pennsylvania, Virginia and West Virginia, (the "Expansion Area"). The agreement includes certain network build out requirements in the Expansion Area, and the ability to utilize Sprint's spectrum in the Expansion Area. Pursuant to the expansion agreement, Sprint agreed to, among other things, transition the provision of network coverage in the Expansion Area from Sprint to the Company. The expansion agreement required a payment of \$52.0 million for the right to service the Expansion Area pursuant to the Affiliate Agreements plus an additional payment of up to \$5.0 million after acceptance of certain equipment at the Sprint cell sites in the Expansion Area. The transaction was accounted for as an asset acquisition.

The Company recorded the following in the wireless segment:

(\$ in thousands)	Estimated Useful Life (in years)	February 1, 2018
Affiliate contract expansion	12	\$ 45,148
Prepayment of tangible assets	0	6,497
Off-market leases - favorable	16.5	3,665
Off-market leases - unfavorable	4.2	(3,310 )
Total		\$ 52,000

Estimated useful lives are approximate and represent the average of the remaining useful lives as of the acquisition date.

The Company allocated the purchase price to the components identified in the table above based on the relative fair value of each component. The fair value of the components was determined using an income and cost approach.

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The affiliate contract expansion asset is classified as "Intangible assets, net". The prepayment of tangible assets are classified as "Prepaid expenses and other" within current assets on the Company's balance sheet. The off-market leases - favorable and off-market leases - unfavorable, are classified as "Intangible assets, net" and "Deferred lease", respectively, on the Company's balance sheet.

## Note 4. Customer Concentration

## Significant Contractual Relationship:

In 1999, the Company executed a Management Agreement (the "Agreement") with Sprint whereby the Company committed to construct and operate a personal communications service (PCS) network using CDMA air interface technology. The Agreement has been amended numerous times. Under the amended Agreement, the Company is the exclusive PCS Affiliate of Sprint providing wireless mobility communications network products and services on the 800 MHz, 1900 MHz and 2.5 GHz spectrum ranges in its territory across a multi-state area covering large portions of central and western Virginia, south-central Pennsylvania, West Virginia, and portions of Maryland, North Carolina, Kentucky, and Ohio. The Company is authorized to use the Sprint brand in its territory, and operate its network under Sprint's radio spectrum licenses. As an exclusive PCS Affiliate of Sprint, the Company has the exclusive right to build, own and maintain its portion of Sprint's nationwide PCS network, in the aforementioned areas, to Sprint's specifications. The initial term of the Agreement extends through November 2029, with two successive 10-year renewal periods, unless terminated by either party under provisions outlined in the Agreement. Upon non-renewal, the Company may cause Sprint to buy or Sprint may cause the Company to sell, the business at 90% of "Entire Business Value" (EBV) as defined in the Agreement. EBV is defined as i) the fair market value of a going concern paid by a willing buyer to a willing seller; ii) valued as if the business will continue to utilize existing brands and operate under existing agreements; and, iii) valued as if Manager (Shentel) owns the spectrum. Determination of EBV is made by an independent appraisal process.

## Amendment to the Affiliate agreement related to the acquisition of the Expansion Area:

Effective with the acquisition of the Expansion Area on February 1, 2018, the Company amended its Agreement with Sprint to expand its wireless service area to include certain areas in Kentucky, Pennsylvania, Virginia and West Virginia. The agreement includes certain network build out requirements in the Expansion Area, and the ability to utilize Sprint's spectrum in the Expansion Area along with certain other amendments to the Affiliate Agreements. Pursuant to the Expansion Agreement, Sprint agreed to, among other things, transition the provision of network coverage in the Expansion Area from Sprint to the Company.

## Note 5. Earnings (Loss) Per Share (EPS)

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

The following table indicates the computation of basic and diluted earnings per share:

	Three Months	Nine Months		
	Ended	Ended		
	September 30,	September 30,		
(in thousands, except per share amounts)	2018	2017	2018	2017

Calculation of net income (loss) per share:

Net income (loss)	\$15,534	\$3,534	\$31,743	\$5,795
Weighted average shares outstanding	49,559	49,133	49,527	49,100
Basic income (loss) per share	\$0.31	\$0.07	\$0.64	\$0.12

Effect of stock options outstanding:

Basic weighted average shares outstanding	49,559	49,133	49,527	49,100
Effect from dilutive shares and options outstanding	558	826	517	769
Diluted weighted average shares outstanding	50,117	49,959	50,044	49,869
Diluted income (loss) per share	\$0.31	\$0.07	\$0.63	\$0.12

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

	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2017	2018	2017
(in thousands)				
Awards excluded from the computation of diluted net income per share because their inclusion would have been anti-dilutive	13	—	60	94

## Note 6. Investments

Other investments, comprised of equity securities which do not have readily determinable fair values, consist of the following:

(in thousands)	9/30/2018	12/31/2017
Cost method:		
CoBank	\$ 7,441	\$ 6,818
Other – equity in other telecommunications partners	784	811
	8,225	7,629
Equity method:		
Other	575	564
	575	564
Total other investments	\$ 8,800	\$ 8,193

The CoBank investment is primarily related to patronage distributions of restricted equity and is a required investment related to the Credit Facility. Refer to Note 12, Long-Term Debt, for additional information.

The Company's investments carried at fair value consisted of:

(in thousands)	9/30/2018	12/31/2017
Cash and Equivalents	\$ 1,408	\$ —
Domestic equity funds	1,675	2,856
International equity funds	413	423
Total investments carried at fair value	\$ 3,496	\$ 3,279

Investments carried at fair value were acquired under a rabbi trust arrangement related to the Company's Supplemental Executive Retirement Plan (SERP). The Company purchases investments in the trust to mirror the investment elections of participants in the SERP. The Company recorded net gains of \$0.1 million in both the three months ended September 30, 2018 and 2017. The Company recorded net gains of \$0.1 million and \$0.3 million in the nine months ended September 30, 2018 and September 30, 2017, respectively. Fair values for these investments are determined using net asset value per share and are not classified in the fair value hierarchy. Gains and losses on the investments in the trust are reflected as increases or decreases in the liability owed to the participants. The increases or decreases to the liability are recorded as pension expense included within "Non-operating income (loss), net" in the Company's consolidated statements of operations.

## Note 7. Fair Value Measurements



The following tables present the hierarchy for financial assets and liabilities measured at fair value on a recurring basis:

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(in thousands)	September 30, 2018			
Balance sheet location:	Level 1	Level 2	Level 3	Total
Prepaid expenses and other:				
Interest rate swaps	\$-5,447	\$		-\$5,447
Deferred charges and other assets, net:				
Interest rate swaps	-13,541	—		13,541
Total	\$-18,988	\$		-\$18,988

(in thousands)	December 31, 2017			
Balance sheet location:	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market funds	\$150	\$—	\$	-\$150
Prepaid expenses and other:				
Interest rate swaps	—	2,411	—	2,411
Deferred charges and other assets, net:				
Interest rate swaps	—	10,776	—	10,776
Total	\$150	\$13,187	\$	-\$13,337

Level 1 - Financial assets and liabilities whose values are based on unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.

Level 2 - Financial assets and liabilities whose values are based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 - Financial assets and liabilities whose values are based on unobservable inputs for the asset or liability.

Financial instruments are defined as cash, or other financial instruments to a third party. The carrying amounts of cash and cash equivalents, accounts receivable, other current assets, investments carried at fair value, accounts payable and accrued liabilities approximate fair value due to their short-term nature. The Company's long-term debt and interest rate swaps approximate fair value because of their floating rate structure.

Derivative financial instruments are recognized as assets or liabilities in the financial statements and measured at fair value on a recurring basis. See Note 10, Derivatives and Hedging, for additional information. The Company measures its interest rate swaps at fair value and recognizes such derivative instruments as either assets or liabilities on the Company's consolidated balance sheet. Changes in the fair value of swaps are recognized in other comprehensive income, as the Company has designated these swaps as cash flow hedges for accounting purposes. The Company entered into these swaps to manage a portion of its exposure to interest rate movements by converting a portion of its variable rate long-term debt to fixed rate debt.

The Company determines the fair value of its security holdings based on pricing from its vendors. The valuation techniques used to measure the fair value of financial instruments having Level 2 inputs were derived from non-binding consensus prices that are corroborated by observable market data or quoted market prices for similar instruments. Such market prices may be quoted prices in active markets for identical assets (Level 1 inputs) or pricing determined using inputs other than quoted prices that are observable either directly or indirectly (Level 2 inputs).

The Company has certain non-marketable long-term investments for which it is not practicable to estimate fair value, refer to Note 6, Investments, for additional information.

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## Note 8. Property, Plant and Equipment

Property, plant and equipment consisted of the following:

(in thousands)	Estimated Useful Lives	September 30, December 31,	
		2018	2017
Land		\$ 6,568	\$ 6,418
Buildings and structures	10 - 40 years	207,647	195,540
Cable and wire	4 - 40 years	302,592	286,999
Equipment and software	2 - 17 years	763,089	730,228
Plant in service		1,279,896	1,219,185
Plant under construction		74,422	62,202
Total property, plant and equipment		1,354,318	1,281,387
Less accumulated amortization and depreciation		684,609	595,060
Property, plant and equipment, net		\$ 669,709	\$ 686,327

## Note 9. Goodwill and Other Intangible Assets

Goodwill consisted of the following:

(in thousands)	September 30, December 31,	
	2018	2017
Goodwill - wireless	\$ 146,383	\$ 146,383
Goodwill - cable	104	104
Goodwill - wireline	10	10
Goodwill	\$ 146,497	\$ 146,497

Intangible assets consisted of the following:

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(in thousands)	September 30, 2018			December 31, 2017		
	Gross Carrying Amount	Accumulated Amortization and Other	Net	Gross Carrying Amount	Accumulated Amortization and Other	Net
Non-amortizing intangibles:						
Cable franchise rights	\$64,334	\$ —	\$64,334	\$64,334	\$ —	\$64,334
Railroad crossing rights	141	—	141	141	—	141
Total non-amortizing intangibles	64,475	—	64,475	64,475	—	64,475
Finite-lived intangibles:						
Affiliate contract expansion - wireless	455,305	(152,603 )	302,702	410,157	(105,964 )	304,193
Favorable leases - wireless	15,816	(1,754 )	14,062	13,103	(1,222 )	11,881
Acquired subscribers - cable	25,265	(25,213 )	52	25,265	(25,100 )	165
Other intangibles	464	(218 )	246	463	(198 )	265
Total finite-lived intangibles	496,850	(179,788 )	317,062	448,988	(132,484 )	316,504
Total intangible assets	\$561,325	\$(179,788 )	\$381,537	\$513,463	\$(132,484 )	\$380,979

Affiliate contract expansion is amortized over the expected benefit period and is further reduced by the amount of waived management fees received from Sprint which were \$9.6 million and \$28.2 million for the three and nine months ended September 30, 2018, respectively. Since May 6, 2016, the date of the non-monetary exchange, waived management fees received from Sprint totaled \$88.8 million.

The gross carrying amount of certain intangibles was affected by the expansion of the Company's wireless service coverage area with Sprint. See Note 3, Acquisition for additional information.

## Note 10. Derivatives and Hedging

The table below presents the fair value of the Company's derivative financial instruments as well as its classification on the consolidated balance sheet:

(in thousands)	September 30, 2018	December 31, 2017
Balance sheet location of derivative financial instruments:		
Prepaid expenses and other	\$ 5,447	\$ 2,411
Deferred charges and other assets, net	13,541	10,776
Total derivatives designated as hedging instruments	\$ 18,988	\$ 13,187

The table below summarizes changes in accumulated other comprehensive income (loss) by component:

(in thousands)	Nine Months Ended September 30, 2018		
	Gains (Losses) on Cash Flow Hedges	Income Tax (Expense) Benefit	Accumulated Other Comprehensive Income (Loss), net of taxes
Balance as of December 31, 2017	\$13,187	\$(4,957 )	\$ 8,230
Net change in unrealized gain (loss)	5,801	(1,441 )	4,360
Net current period other comprehensive income (loss)	5,801	(1,441 )	4,360
Balance as of September 30, 2018	\$18,988	\$(6,398 )	\$ 12,590

The outstanding notional amounts of the cash flow hedge were \$395.1 million and \$418.3 million as of September 30, 2018 and December 31, 2017, respectively. See Note 7, Fair Value Measurements, for additional information.

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## Note 11. Other Assets and Accrued Liabilities

Prepaid expenses and other, classified as current assets, included the following:

(in thousands)	September 30, December 31,	
	2018	2017
Prepaid rent	\$ 10,058	\$ 10,519
Prepaid maintenance expenses	3,546	3,062
Interest rate swaps	5,447	2,411
Deferred contract asset	35,617	—
Other	8,715	1,119
Prepaid expenses and other	\$ 63,383	\$ 17,111

Deferred contract and other costs include amounts reimbursed to Sprint for commissions and device costs, and commissions and installation costs in the Company's Cable and Wireline segments. The deferred contract and other costs increased due to the adoption of Topic 606. Refer to Note 2, Revenue from Contracts with Customers, for additional information.

Deferred charges and other assets, classified as long-term assets, included the following:

(in thousands)	September 30, December 31,	
	2018	2017
Interest rate swaps	\$ 13,541	\$ 10,776
Deferred contract asset	36,260	—
Other	3,922	2,914
Deferred charges and other assets, net	\$ 53,723	\$ 13,690

Deferred contract and other costs include amounts reimbursed to Sprint for commissions and device costs, and commissions and installation costs in the Company's Cable and Wireline segments. The deferred contract and other costs increased due to the adoption of Topic 606. Refer to Note 2, Revenue from Contracts with Customers, for additional information.

Accrued liabilities and other, classified as current liabilities, included the following:

(in thousands)	September 30, December 31,	
	2018	2017
Sales and property taxes payable	\$ 3,513	\$ 3,872
Severance accrual	—	1,028
Asset retirement obligations	582	492
Accrued programming costs	2,927	2,805
Other current liabilities	7,734	5,717
Accrued liabilities and other	\$ 14,756	\$ 13,914

Other liabilities, classified as long-term liabilities, included the following:

(in thousands)	September 30, December 31,	
	2018	2017
Non-current portion of deferred revenues	\$ 12,659	\$ 14,030
Other	1,908	1,263
Other liabilities	\$ 14,567	\$ 15,293

The Company's asset retirement obligations are included in the balance sheet captions "Asset retirement obligations" and "Accrued liabilities and other". The Company records the fair value of an asset retirement obligation as a liability

in the period in which it incurs a legal obligation associated with the retirement and removal of leasehold improvements or equipment. The Company also records a corresponding asset, which is depreciated over the life of the leasehold improvement or equipment. Subsequent to the initial measurement of the asset retirement obligation, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The terms associated with its operating leases, and applicable zoning ordinances of certain jurisdictions, define the Company's obligations which are estimated and vary based on the size and types of the towers.

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## Note 12. Long-Term Debt

Total debt as of September 30, 2018 and December 31, 2017 consisted of the following:

(in thousands)	September 30, 2018	December 31, 2017
Term loan A-1	\$ 400,125	\$ 436,500
Term loan A-2	390,000	400,000
	790,125	836,500
Less: unamortized loan fees	11,337	14,542
Total debt, net of unamortized loan fees	\$ 778,788	\$ 821,958
Current maturities of long-term debt, net of current unamortized loan fees	\$ 84,743	\$ 64,397
Long-term debt, less current maturities, net of unamortized loan fees	\$ 694,045	\$ 757,561

As of September 30, 2018, the Company's indebtedness totaled approximately \$778.8 million, net of unamortized loan fees of \$11.3 million, with an annualized overall weighted average interest rate of approximately 4.11%. As of September 30, 2018, the Term Loan A-1 bears interest at one-month LIBOR plus a margin of 2.25%, while the Term Loan A-2 bears interest at one-month LIBOR plus a margin of 2.50%. For September 2018, one-month LIBOR was 2.08%. LIBOR resets monthly.

The Term Loan A-1 required quarterly principal repayments of \$6.1 million, which began on September 30, 2016 and continued through June 30, 2017, increased to \$12.1 million quarterly from September 30, 2017 through June 30, 2020; then increases to \$18.2 million quarterly from September 30, 2020 through March 31, 2021, with the remaining balance due June 30, 2021. The Term Loan A-2 requires quarterly principal repayments of \$10.0 million which began on September 30, 2018 and continue through March 31, 2023, with the remaining balance due June 30, 2023.

The 2016 credit agreement also requires the Company to enter into one or more hedge agreements to manage its exposure to interest rate movements. The Company elected to hedge the minimum required under the 2016 credit agreement, and entered into a pay-fixed, receive-variable swap on 50% of the aggregate expected principal balance of the term loans outstanding. The Company will receive one month LIBOR and pay a fixed rate of 1.16%, in addition to the 2.25% initial spread on Term Loan A-1 and the 2.50% initial spread on Term Loan A-2.

The 2016 credit agreement contains affirmative and negative covenants customary to secured credit facilities, including covenants restricting the ability of the Company and its subsidiaries, subject to negotiated exceptions, to incur additional indebtedness and additional liens on their assets, engage in mergers or acquisitions or dispose of assets, pay dividends or make other distributions, voluntarily prepay other indebtedness, enter into transactions with affiliated persons, make investments, and change the nature of the Company's and its subsidiaries' businesses.

Indebtedness outstanding under any of the facilities may be accelerated by an Event of Default, as defined in the 2016 credit agreement.

The Facilities are secured by a pledge by the Company of its stock and membership interests in its subsidiaries, a guarantee by the Company's subsidiaries other than Shenandoah Telephone Company, and a security interest in substantially all of the assets of the Company and the guarantors.

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

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a limitation on the Company's total leverage ratio, defined as indebtedness divided by earnings before interest, taxes, depreciation and amortization, or EBITDA, of less than or equal to 3.75 to 1.00 from the closing date through December 30, 2018, then 3.25 to 1.00 through December 30, 2019, and 3.00 to 1.00 thereafter;

a minimum debt service coverage ratio, defined as EBITDA minus certain cash taxes divided by the sum of all scheduled principal payments on the Term Loans and scheduled principal payments on other indebtedness plus cash interest expense, greater than 2.00 to 1.00; and

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maintain a minimum liquidity balance of greater than \$25 million. The balance includes amounts available under the revolver facility plus unrestricted cash and cash equivalents on deposit in a deposit account for which a control agreement has been delivered to the administrative agent under the 2016 credit agreement.

As shown below, as of September 30, 2018, the Company was in compliance with the covenants in its credit agreements.

	Actual	Covenant Requirement
Total leverage ratio	2.61	3.75 or Lower
Debt service coverage ratio	3.25	2.00 or Higher
Minimum liquidity balance (in millions)	\$149.1	\$25.0 or Higher

Credit Facility Modification: On February 16, 2018, the Company, entered into a Second Amendment to Credit Agreement (the “Second Amendment”) with CoBank, ACB, as administrative agent of its Credit Agreement and the various financial institutions party thereto (the “Lenders”), which modifies the Credit Agreement by (i) reducing the interest rate paid by the Company by 50 basis points with respect to certain loans made by the Lenders to the Company under the Credit Agreement, and (ii) allowing the Company to make charitable contributions to the Shentel Foundation, a Virginia nonstock corporation, of up to \$1.5 million in any fiscal year.

Note 13. Income Taxes

The Company files U.S. federal income tax returns and various state and local income tax returns.

The net operating losses acquired in the nTelos acquisition are open to examination from 2002 forward. Income tax filings prior to 2014, excluding the acquired net operating losses, are no longer subject to examination. The Company is not subject to any state or federal income tax audits as of September 30, 2018.

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

On December 22, 2017, the Tax Cuts and Jobs Act (the “2017 Tax Act”) was enacted, substantially changing the U.S. tax system. The 2017 Tax Act includes a number of changes to existing U.S. tax laws that impact the Company, most notably a reduction of the U.S. corporate income tax rate from 35 percent to 21 percent for tax years beginning after December 31, 2017. The 2017 Tax Act also provides immediate expensing for certain qualified assets acquired and placed into service after September 27, 2017 as well as prospective changes beginning in 2018, including acceleration of tax revenue recognition, additional limitations on deductibility of executive compensation and limitations on the deductibility of interest.

On December 22, 2017, the SEC staff issued Staff Accounting Bulletin No. 118 (SAB 118) to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed in reasonable detail to complete the accounting for certain income tax effects of the 2017 Tax Act. The Company recognized the income tax effects of the 2017 Tax Act in its 2017 consolidated financial statements in accordance with SAB No. 118.

As of September 30, 2018, the Company is continuing to evaluate the provisional amounts recorded related to the 2017 Tax Act at December 31, 2017, for related state and local municipality tax matters.



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## Note 14. Segment Reporting

## Three Months Ended September 30, 2018

(in thousands)	Wireless	Cable	Wireline	Other	Eliminations	Consolidated
External revenue						
Service revenue	\$96,299	\$28,578	\$ 5,443	\$—	\$ —	\$ 130,320
Equipment revenue	15,666	234	63	—	—	15,963
Other	2,871	2,104	7,473	—	—	12,448
Total external revenue	114,836	30,916	12,979	—	—	158,731
Internal revenue	1,263	1,266	6,643	—	(9,172 )	—
Total operating revenue	116,099	32,182	19,622	—	(9,172 )	158,731
Operating expenses						
Cost of services	32,253	14,837	9,266	(12 )	(8,458 )	47,886
Cost of goods sold	14,940	78	19	(1 )	—	15,036
Selling, general and administrative	11,191	5,331	1,780	9,864	(714 )	27,452
Depreciation and amortization	30,363	6,102	3,435	128	—	40,028
Total operating expenses	88,747	26,348	14,500	9,979	(9,172 )	130,402
Operating income (loss)	\$27,352	\$5,834	\$ 5,122	\$(9,979)	\$ —	\$ 28,329

## Three Months Ended September 30, 2017

(in thousands)	Wireless	Cable	Wireline	Other	Eliminations	Consolidated
External revenue						
Service revenue	\$107,395	\$26,934	\$ 5,126	\$—	\$ —	\$ 139,455
Equipment revenue	1,742	219	33	—	—	1,994
Other	2,129	1,937	6,267	—	—	10,333
Total external revenue	111,266	29,090	11,426	—	—	151,782
Internal revenue	1,239	999	8,425	—	(10,663)	—
Total operating revenue	112,505	30,089	19,851	—	(10,663)	151,782
Operating expenses						
Cost of services	33,825	14,858	9,796	—	(9,927 )	48,552
Cost of goods sold	7,216	55	11	—	—	7,282
Selling, general and administrative	30,099	5,358	1,706	5,772	(736 )	42,199
Acquisition, integration and migration expenses	1,691	—	—	15	—	1,706
Depreciation and amortization	32,929	6,192	3,249	198	—	42,568
Total operating expenses	105,760	26,463	14,762	5,985	(10,663)	142,307
Operating income (loss)	\$6,745	\$3,626	\$ 5,089	\$(5,985)	\$ —	\$ 9,475

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## Nine Months Ended September 30, 2018

(in thousands)	Wireless	Cable	Wireline	Other	Eliminations	Consolidated
External revenue						
Service revenue	\$284,154	\$85,797	\$16,052	\$—	\$ —	\$ 386,003
Equipment revenue	48,859	537	155	—	—	49,551
Other	6,897	6,276	20,643	—	—	33,816
Total external revenue	339,910	92,610	36,850	—	—	469,370
Internal revenue	3,746	3,394	21,591	—	(28,731)	—
Total operating revenue	343,656	96,004	58,441	—	(28,731)	469,370
Operating expenses						
Cost of services	99,491	45,118	28,441	—	(26,688)	146,362
Cost of goods sold	45,749	197	61	—	—	46,007
Selling, general and administrative	35,693	14,940	5,183	32,344	(2,043 )	86,117
Depreciation and amortization	95,853	18,305	10,069	405	—	124,632
Total operating expenses	276,786	78,560	43,754	32,749	(28,731)	403,118
Operating income (loss)	\$66,870	\$17,444	\$14,687	\$(32,749)	\$ —	\$ 66,252

## Nine Months Ended September 30, 2017

(in thousands)	Wireless	Cable	Wireline	Other	Eliminations	Consolidated
External revenue						
Service revenue	\$323,262	\$80,229	\$15,301	\$—	\$ —	\$ 418,792
Equipment revenue	7,666	547	90	—	—	8,303
Other	7,467	5,736	18,622	—	—	31,825
Total external revenue	338,395	86,512	34,013	—	—	458,920
Internal revenue	3,707	2,153	24,568	—	(30,428)	—
Total operating revenue	342,102	88,665	58,581	—	(30,428)	458,920
Operating expenses						
Cost of services	100,745	44,956	28,357	—	(28,314)	145,744
Cost of goods sold	17,084	96	52	—	—	17,232
Selling, general and administrative	88,201	15,083	5,065	19,139	(2,114 )	125,374
Acquisition, integration and migration expenses	9,607	—	—	266	—	9,873
Depreciation and amortization	104,231	18,070	9,536	460	—	132,297
Total operating expenses	319,868	78,205	43,010	19,865	(30,428)	430,520
Operating income (loss)	\$22,234	\$10,460	\$15,571	\$(19,865)	\$ —	\$ 28,400

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

	Three Months		Nine Months	
	Ended		Ended	
(in thousands)	September 30,		September 30,	
	2018	2017	2018	2017
Total consolidated operating income (loss)	\$28,329	\$9,475	\$66,252	\$28,400
Interest expense	(9,001 )	(9,823 )	(27,184 )	(28,312 )
Gain (loss) on investments, net	88	202	112	395
Non-operating income (loss), net	966	1,003	2,770	3,482
Income (loss) before income taxes	\$20,382	\$857	\$41,950	\$3,965

As of January 1, 2018, the Company records stock compensation expense to the Other segment. Previously, stock compensation expense was allocated among all of the segments.

## Note 15. Subsequent Events

On October 30, 2018, the Company's Board of Directors approved a dividend of \$0.27 per common share to be paid on November 30, 2018 to shareholders of record as of the close of business on November 12, 2018. Before dividend reinvestments, the total payout is expected to be approximately \$13.4 million.

IndexITEM MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF  
2. 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, 2017. 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, 2017, including the consolidated financial statements and related notes included therein.

## General

Overview. Shenandoah Telecommunications Company, (the "Company", "we", "our", or "us"), is a diversified telecommunications company providing integrated voice, video and data communication services including both regulated and unregulated telecommunications services through its wholly owned subsidiaries. These subsidiaries provide wireless personal communications services as a Sprint PCS affiliate, and local exchange telephone services, video, internet and data services, long distance services, fiber optics facilities and leased tower facilities. We organize and strategically manage our operations under the Company's reportable segments that include: Wireless, Cable, Wireline, and Other. See Note 14, Segment Reporting, included with the notes to our consolidated financial statements provided within our 2017 Annual Report on Form 10-K for further information regarding our segments.

## Basis of Presentation

The Company adopted ASU No. 2014-09, Revenue from Contracts with Customers ("Topic 606"), effective January 1, 2018, using the modified retrospective method as discussed in Note 2, Revenue from Contracts with Customers. The following tables identify the impact of applying Topic 606 to the Company for the three and nine months ended September 30, 2018:

(\$ in thousands, except per share amounts)	Three Months Ended September 30, 2018				
	Prior to Adoption of Topic 606	Changes in Presentation (1)	Equipment Revenue (2)	Deferred Costs (3)	As Reported 09/30/2018
Service revenue and other	\$ 161,076	\$(23,174)	\$ —	—	\$ 142,768
Equipment revenue	2,178	—	13,785	—	15,963
Total operating revenue	163,254	(23,174)	13,785	4,866	158,731
Cost of services	48,001	—	—	(115)	47,886
Cost of goods sold	7,870	(6,619)	13,785	—	15,036
Selling, general & administrative	44,164	(16,555)	—	(157)	27,452
Depreciation and amortization	40,028	—	—	—	40,028
Total operating expenses	140,063	(23,174)	13,785	(272)	130,402
Operating income (loss)	23,191	—	—	5,138	28,329
Other income (expense)	(7,947)	—	—	—	(7,947)

Income tax expense (benefit)	3,486	—	—	1,362	4,848
Net income (loss)	\$11,758	\$—	\$	-\$3,776	\$15,534
Earnings (loss) per share					
Basic	\$0.24			\$0.07	\$0.31
Diluted	\$0.23			\$0.08	\$0.31
Weighted average shares outstanding, basic	49,559				49,559
Weighted average shares outstanding, diluted	50,117				50,117



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	Nine Months Ended September 30, 2018				
	Topic 606 Impact - CONSOLIDATED				
(\$ in thousands, except per share amounts)	Prior to Adoption of Topic 606	Changes in Presentation (1)	Equipment Revenue (2)	Deferred Costs (3)	As Reported 09/30/2018
Service revenue and other	\$471,155	\$(64,069)	\$	-\$12,733	\$ 419,819
Equipment revenue	6,036	—	43,515	—	49,551
Total operating revenue	477,191	(64,069 )	43,515	12,733	469,370
Cost of services	146,199	—	—	163	146,362
Cost of goods sold	20,316	(17,824 )	43,515	—	46,007
Selling, general & administrative	132,711	(46,245 )	—	(349 )	86,117
Depreciation and amortization	124,632	—	—	—	124,632
Total operating expenses	423,858	(64,069 )	43,515	(186 )	403,118
Operating income (loss)	53,333	—	—	12,919	66,252
Other income (expense)	(24,302 )	—	—	—	(24,302 )
Income tax expense (benefit)	6,740	—	—	3,467	10,207
Net income (loss)	\$22,291	\$—	\$	-\$9,452	\$ 31,743
Earnings (loss) per share					
Basic	\$0.45			\$0.19	\$ 0.64
Diluted	\$0.45			\$0.18	\$ 0.63
Weighted average shares outstanding, basic	49,527				49,527
Weighted average shares outstanding, diluted	50,044				50,044

(1) Amounts payable to Sprint for the reimbursement of costs incurred by Sprint in their national sales channel for commissions and device costs for both postpaid and prepaid, and to provide on-going support to their prepaid customers in our territory were historically recorded as expense when incurred. Under Topic 606, these amounts represent consideration payable to our customer, Sprint, and are recorded as a reduction of revenue. In 2017, these amounts were approximately \$44.8 million for the postpaid national commissions, previously recorded in selling, general and administrative, \$18.7 million for national device costs previously recorded in cost of goods and services, and \$16.9 million for the on-going service to Sprint's prepaid customers, previously recorded in selling, general and administrative.

(2) Costs incurred by the Company for the sale of devices under Sprint's device financing and lease programs were previously recorded net against revenue. Under Topic 606, the revenue and related costs from device sales are recorded gross. These amounts were approximately \$63.8 million in 2017.

(3) Amounts payable to Sprint for the reimbursement of costs incurred by Sprint in their national sales channel for commissions and device costs, which historically have been expensed when incurred, are deferred and amortized against revenue over the expected period of benefit of approximately 21 to 53 months. In Cable and Wireline, installation revenues are recognized over a period of approximately 10-11 months. The deferred balance as of September 30, 2018 is approximately \$71.9 million and is classified on the balance sheet as current and non-current assets, as applicable.

2018 Developments

Credit Facility Modification: On February 16, 2018, the Company, entered into a Second Amendment to Credit Agreement (the “Second Amendment”) with CoBank, ACB, as administrative agent of its Credit Agreement, described more fully in Note 12, Long-Term Debt, and the various financial institutions party thereto (the “Lenders”), which modifies the Credit Agreement by (i) reducing the interest rate paid by the Company by 50 basis points with respect to certain loans made by the Lenders to the Company under the Credit Agreement, and (ii) allowing the Company to make charitable contributions to Shentel Foundation, a Virginia nonstock corporation, of up to \$1.5 million in any fiscal year.

Sprint Territory Expansion: Effective February 1, 2018, we signed the Expansion Agreement with Sprint to expand our wireless network coverage area to include certain portions of Kentucky, Pennsylvania, Virginia and West Virginia, (the “Expansion Area”), effectively adding a population (POPs) of approximately 1.1 million. The agreement includes certain network build out requirements in the Expansion Area, and the ability to utilize Sprint’s spectrum in the Expansion Area along with certain other amendments to the Affiliate Agreements. Pursuant to the Expansion Agreement, Sprint agreed to, among other things, transition the provision of network coverage in the Expansion Area from Sprint to us. The Expansion Agreement required a payment of \$52.0 million to Sprint for the right to service the Expansion Area pursuant to the Affiliate Agreements plus an additional payment of up to \$5.0 million after acceptance of certain equipment at the Sprint cell sites in the Expansion Area. A map of our territory, reflecting the new expansion area, is provided below:

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## Results of Operations

## Three Months Ended September 30, 2018 Compared with the Three Months Ended September 30, 2017

Our consolidated results for the third quarter of 2018 and 2017 are summarized as follows:

(\$ in thousands)	Three Months Ended September 30,				Change	
	2018	% of Revenue	2017	% of Revenue	\$	%
Operating revenue	\$158,731	100.0	\$151,782	100.0	\$6,949	4.6
Operating expenses	130,402	82.2	142,307	93.8	(11,905)	(8.4)
Operating income (loss)	28,329	17.8	9,475	6.2	18,854	199.0
Interest expense	(9,001)	(5.7)	(9,823)	(6.5)	822	8.4
Other income (expense), net	1,054	0.7	1,205	0.8	(151)	(12.5)
Income (loss) before taxes	20,382	12.8	857	0.6	19,525	2,278.3
Income tax expense (benefit)	4,848	3.1	(2,677)	(1.8)	7,525	(281.1)
Net income (loss)	\$15,534	9.8	\$3,534	2.3	\$12,000	339.6

## Operating revenue

During the three months ended September 30, 2018, operating revenue increased \$6.9 million, or 4.6%, compared with the three months ended September 30, 2017. Excluding the impact of adopting Topic 606, operating revenue increased approximately \$11.5 million, or 7.6%, driven by the Wireless and Cable operations.

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## Operating expenses

During the three months ended September 30, 2018, operating expenses decreased approximately \$11.9 million, or 8.4%, compared with the three months ended September 30, 2017. Excluding the impact of adopting Topic 606, operating expenses decreased approximately \$2.2 million, or 1.6%, primarily due to the absence of acquisition, integration and migration costs related to the completion of the transformation of the nTelos network in 2017.

In 2018, the Company's stock compensation expense was recorded in the Other operations. In prior years this expense was allocated among Wireless, Cable, Wireline and Other. Stock compensation expense for the three months ended September 30, 2018 was approximately \$1.2 million compared with approximately \$0.6 million for the three months ended September 30, 2017.

## Interest expense

During the three months ended September 30, 2018, interest expense decreased approximately \$0.8 million, or 8.4%, compared with the three months ended September 30, 2017. The decrease in interest expense was primarily attributable to an amendment to the Credit Facility Agreement, that occurred during 2018, that reduced the base rate of the Credit Facility by 50 basis points, and a reduction in the outstanding principal of our credit facility, partially offset by the effect of increases in the London Interbank Offered Rate ("LIBOR").

## Other income (expense), net

During the three months ended September 30, 2018, other income, net decreased approximately \$0.2 million, or 12.5%, compared with the three months ended September 30, 2017. The decrease in other income, net was primarily attributable to lower interest income derived from our investments.

## Income tax expense (benefit)

During the three months ended September 30, 2018, income tax expense increased approximately \$7.5 million, compared with the three months ended September 30, 2017. The increase was primarily attributable to growth in our income before taxes and was partially offset by reduction in the federal tax rate related to the 2017 Tax Act that was enacted during December 2017. The Company's effective tax rate increased to 23.8% for the three months ended September 30, 2018, from a 312.4% tax benefit for the three months ended September 30, 2017. This was primarily due to the recognition of \$2.8 million of excess tax benefits during 2017 that were derived from exercises of stock options and vesting of restricted stock. During the same period of 2018, the Company did not recognize any benefits.

## Nine Months Ended September 30, 2018 Compared with the Nine Months Ended September 30, 2017

Our consolidated results for the first nine months of 2018 and 2017 are summarized as follows:

(\$ in thousands)	Nine Months Ended				Change	
	September 30,				\$	%
	2018	% of Revenue	2017	% of Revenue		
Operating revenue	\$469,370	100.0	\$458,920	100.0	\$10,450	2.3
Operating expenses	403,118	85.9	430,520	93.8	(27,402)	(6.4)
Operating income (loss)	66,252	14.1	28,400	6.2	37,852	133.3
Interest expense	(27,184)	(5.8)	(28,312)	(6.2)	1,128	4.0
Other income (expense), net	2,882	0.6	3,877	0.8	(995)	(25.7)
Income (loss) before taxes	41,950	8.9	3,965	0.9	37,985	958.0
Income tax expense (benefit)	10,207	2.2	(1,830)	(0.4)	12,037	(657.8)
Net income (loss)	\$31,743	6.8	\$5,795	1.3	\$25,948	447.8

Operating revenue

During the nine months ended September 30, 2018, operating revenue increased approximately \$10.5 million, or 2.3%, compared with the nine months ended September 30, 2017. Excluding the impact of adopting Topic 606, operating revenue increased approximately \$18.3 million, or 4.0%, driven by the Wireless and Cable operations.

Operating expenses

During the nine months ended September 30, 2018, operating expenses decreased approximately \$27.4 million, or 6.4%, compared with the nine months ended September 30, 2017. Excluding the impact of adopting Topic 606, operating expenses decreased

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approximately \$6.7 million, or 1.5%, primarily due to the absence of acquisition, integration and migration costs related to the completion of the transformation of the nTelos network in 2017, partially offset by our investment in infrastructure in the Other operations necessary to support our growth.

In 2018, the Company's stock compensation expense was recorded in the Other operations. In prior years this expense was allocated among Wireless, Cable, Wireline and Other. Stock compensation expense for the nine months ended September 30, 2018 was approximately \$4.6 million compared with approximately \$3.1 million for the nine months ended September 30, 2017.

Interest expense

During the nine months ended September 30, 2018, interest expense decreased approximately \$1.1 million, or 4.0%, compared with the nine months ended September 30, 2017. The decrease in interest expense was primarily attributable to an amendment to the Credit Facility Agreement that reduced the base rate of the Credit Facility by 50 basis points and a reduction in the outstanding principal of our credit facility, partially offset by the effect of increases in LIBOR.

Other income (expense), net

During the nine months ended September 30, 2018, other income, net decreased approximately \$1.0 million, or 25.7%, compared with the nine months ended September 30, 2017. The decrease in other income, net was primarily attributable to lower interest income derived from our investments.

Income tax expense (benefit)

During the nine months ended September 30, 2018, income tax expense increased approximately \$12.0 million compared with the nine months ended September 30, 2017. The increase is primarily attributable to growth in our income before taxes and was partially offset by a reduction in the federal tax rate related to the 2017 Tax Act that was enacted during December 2017. The Company's effective tax rate increased to 24.3% for the nine months ended September 30, 2018 from a 46.2% tax benefit for the nine months ended September 30, 2017, primarily due to a reduction in share based compensation tax benefits recognized during the 2018 period.

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## Wireless

Wireless earns revenue from Sprint for their postpaid and prepaid subscribers usage of our Wireless network in our Wireless network coverage area, net of customer credits, account write-offs and other billing adjustments.

The following tables identify the impact of Topic 606 on the Company's Wireless operations for the three and nine months ended September 30, 2018:

(\$ in thousands)	Three Months Ended September 30, 2018				
	Topic 606 Impact - WIRELESS				
	Prior to Adoption of Topic 606	Changes in Presentation (1)	Equipment Revenue (2)	Deferred Costs (3)	As Reported 09/30/2018
Service revenue	\$114,615	\$(23,174)	\$—	-\$4,858	\$96,299
Equipment revenue	1,881	—	13,785	—	15,666
Tower and other revenue	4,134	—	—	—	4,134
Total operating revenue	120,630	(23,174)	13,785	4,858	116,099
Cost of services	32,253	—	—	—	32,253
Cost of goods sold	7,774	(6,619)	13,785	—	14,940
Selling, general & administrative	27,746	(16,555)	—	—	11,191
Depreciation and amortization	30,363	—	—	—	30,363
Total operating expenses	98,136	(23,174)	13,785	—	88,747
Operating income (loss)	\$22,494	\$—	\$—	-\$4,858	\$27,352

(\$ in thousands)	Nine Months Ended September 30, 2018				
	Topic 606 Impact - WIRELESS				
	Prior to Adoption of Topic 606	Changes in Presentation (1)	Equipment Revenue (2)	Deferred Costs (3)	As Reported 09/30/2018
Service revenue	\$335,548	\$(64,069)	\$—	-\$12,675	\$284,154
Equipment revenue	5,344	—	43,515	—	48,859
Tower and other revenue	10,643	—	—	—	10,643
Total operating revenue	351,535	(64,069)	43,515	12,675	343,656
Cost of services	99,491	—	—	—	99,491
Cost of goods sold	20,058	(17,824)	43,515	—	45,749
Selling, general & administrative	81,938	(46,245)	—	—	35,693
Depreciation and amortization	95,853	—	—	—	95,853
Total operating expenses	297,340	(64,069)	43,515	—	276,786
Operating income (loss)	\$54,195	\$—	\$—	-\$12,675	\$66,870

(1) Amounts payable to Sprint for the reimbursement of costs incurred by Sprint in their national sales channel for commissions and device costs for both postpaid and prepaid, and to provide on-going support to their prepaid customers in our territory were historically recorded as expense when incurred. Under Topic 606, these amounts represent consideration payable to our customer, Sprint, and are recorded as a reduction of revenue. In 2017, these amounts were approximately \$44.8 million for the postpaid national commissions, previously recorded in selling, general and administrative, \$18.7 million for national device costs previously recorded in cost of goods and services,

and \$16.9 million for the on-going service to Sprint's prepaid customers, previously recorded in selling, general and administrative.

(2) Costs incurred by the Company for the sale of devices under Sprint's device financing and lease programs were previously recorded net against revenue. Under Topic 606, the revenue and related costs from device sales are recorded gross. These amounts were approximately \$63.8 million in 2017.

(3) Amounts payable to Sprint for the reimbursement of costs incurred by Sprint in their national sales channel for commissions and device costs, which historically have been expensed when incurred, are deferred and amortized against revenue over the expected period of benefit of approximately 21 to 53 months. The deferred balance as of September 30, 2018 is approximately \$71.9 million and is classified on the balance sheet as current and non-current assets, as applicable.



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Under our amended affiliate agreement, Sprint agreed to waive the Management Fees charged on both postpaid and prepaid revenue, up to approximately \$4.2 million per month, until the total amount waived reaches approximately \$255.6 million, which is expected to occur in 2022. The cash flow savings of the waived management fee waiver has been incorporated into the fair value of the affiliate contract expansion intangible, which is reduced, in part, as credits are received from Sprint.

The following tables indicate selected operating statistics of Wireless, including Sprint subscribers:

	September 30, 2018 (3)	December 31, 2017 (4)	September 30, 2017 (4)
Retail PCS subscribers - postpaid	785,537	736,597	727,954
Retail PCS subscribers - prepaid (1)	255,462	225,822	224,609
PCS market POPS (000) (2)	7,024	5,942	6,047
PCS covered POP (000) (2)	5,921	5,272	5,157
CDMA base stations (sites)	1,788	1,623	1,544
Towers owned	193	192	201
Non-affiliate cell site leases	192	192	192

(1) As of September 2017, the Company is no longer including Lifeline subscribers to be consistent with Sprint's policy. Historical customer counts have been adjusted accordingly.

"POPS" refers to the estimated population of a given geographic area. Market POPS are those within a market area which we are authorized to serve under our Sprint PCS affiliate agreements, and Covered POPS are those covered by our network. As of December 31, 2017, the data source for POPS is U.S. census data. Historical periods previously referred to other third party population data and have been recast to refer to U.S. census data.

(3) Beginning February 1, 2018 includes Richmond Expansion Area.

(4) Beginning April 6, 2017 includes Parkersburg Expansion Area.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Gross PCS subscriber additions - postpaid	48,111	43,320	135,817	122,429
Net PCS subscriber additions (losses) - postpaid	4,879	(4,710)	48,940	5,392
Gross PCS subscriber additions - prepaid (1)	38,486	37,653	112,437	112,201
Net PCS subscriber additions (losses) - prepaid (1)	3,408	2,571	29,640	17,937
PCS average monthly retail churn % - postpaid	1.84 %	2.19 %	1.80 %	2.08 %
PCS average monthly retail churn % - prepaid (1)	4.62 %	5.25 %	4.42 %	5.06 %

(1) As of September 2017, the Company is no longer including Lifeline subscribers to be consistent with Sprint's policy. Historical customer counts and churn % have been adjusted accordingly.

The subscriber statistics shown above, excluding gross additions, include the following:

	February 1, 2018	April 6, 2017	May 6, 2016
	Richmond Expansion Area	Parkersburg Expansion Area	nTelos Area
PCS subscribers - postpaid	38,343	19,067	404,965
PCS subscribers - prepaid (1)	15,691	4,517	154,944
Acquired PCS market POPS (000)	1,082	511	3,099
Acquired PCS covered POPS (000)	602	244	2,298

Acquired CDMA base stations (sites) (2)	105	—	868
Towers	—	—	20
Non-affiliate cell site leases	—	—	10

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(1) Excludes Lifeline subscribers.

(2) As of September 30, 2018 we have shut down 107 overlap sites associated with the nTelos Area.

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Three Months Ended September 30, 2018 Compared with the Three Months Ended September 30, 2017

(\$ in thousands)	Three Months Ended				Change	
	September 30,		September 30,		\$	%
	2018	% of Revenue	2017	% of Revenue		
Wireless operating revenue						
Wireless service revenue	\$96,299	82.9	\$107,395	95.5	\$(11,096)	(10.3 )
Tower lease revenue	2,902	2.5	2,933	2.6	(31)	(1.1 )
Equipment revenue	15,666	13.5	1,742	1.5	13,924	799.3
Other revenue	1,232	1.1	435	0.4	797	183.2
Total wireless operating revenue	116,099	100.0	112,505	100.0	3,594	3.2
Wireless operating expenses						
Cost of services	32,253	27.8	33,825	30.1	(1,572)	(4.6 )
Cost of goods sold	14,940	12.9	7,216	6.4	7,724	107.0
Selling, general and administrative	11,191	9.6	30,099	26.8	(18,908)	(62.8 )
Acquisition, integration and migration expenses	—	—	1,691	1.5	(1,691)	(100.0)
Depreciation and amortization	30,363	26.2	32,929	29.3	(2,566)	(7.8 )
Total wireless operating expenses	88,747	76.4	105,760	94.0	(17,013)	(16.1 )
Wireless operating income (loss)	\$27,352	23.6	\$6,745	6.0	\$20,607	305.5

Operating Revenue

During the three months ended September 30, 2018, wireless operating revenue increased approximately \$3.6 million, or 3.2%, compared with the three months ended September 30, 2017. Excluding the impact of adopting Topic 606, wireless operating revenue increased approximately \$8.1 million, or 7.2%. This increase was driven by growth in postpaid and prepaid PCS subscribers, improvements in PCS average monthly churn, an increase in prepaid average revenue per subscriber, and was partially offset by a decline in postpaid average revenue per subscriber primarily related to promotions and discounts.

As a result of the adoption of Topic 606 and in the three months ended September 30, 2018, wireless service revenue was reduced by approximately \$23.2 million of expenses payable to our customer, Sprint, for the reimbursement of costs incurred for national sales channel commissions and device costs, and to provide ongoing support to Sprint's prepaid customers in our territory. Commissions, device costs and costs for ongoing support of Sprint's prepaid customers were previously recorded as operating expenses. Additionally, we recorded approximately \$13.8 million of equipment revenue and cost of goods sold for the sale of devices under Sprint's device financing and lease programs. Prior to the adoption of Topic 606, equipment costs were netted and presented within equipment revenue.

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The table below provides additional detail for Wireless service revenue.

(\$ in thousands)	Three Months Ended		Change	
	September 30, 2018	2017	\$	%
Wireless service revenue:				
Postpaid billings (1)	\$96,813	\$94,013	\$2,800	3.0
Amortization of deferred contract and other costs (3)	(4,708 )	—	(4,708 )	—
Management fee	(7,763 )	(7,460 )	(303 )	(4.1 )
Net service fee	(8,345 )	(7,872 )	(473 )	(6.0 )
Total postpaid service revenue	75,997	78,681	(2,684 )	(3.4 )
Prepaid billings (2)	28,460	24,155	4,305	17.8
Amortization of deferred contract and other costs (3)	(13,594 )	—	(13,594 )	100.0
Sprint management fee	(1,795 )	(1,502 )	(293 )	(19.5 )
Total prepaid service revenue	13,071	22,653	(9,582 )	(42.3 )
Travel and other revenue (2)	7,231	6,061	1,170	19.3
Total service revenue	\$96,299	\$107,395	\$(11,096)	(10.3 )

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

The Company includes Lifeline subscribers revenue within travel and other revenue to be consistent with Sprint. (2) The above table reflects the reclassification of the related Assurance Wireless prepaid revenue from prepaid gross billings to travel and other revenue.

Due to the adoption of Topic 606, costs reimbursed to Sprint for commission and acquisition cost incurred in their national sales channel are recorded as a reduction of revenue and amortized over the period of benefit.

(3) Additionally, costs reimbursed to Sprint for the support of their prepaid customer base are recorded as a reduction of revenue. These costs were previously recorded in cost of goods sold, and selling, general and administrative.

The decline in postpaid service revenue during the three months ended September 30, 2018, was primarily the result of the adoption of Topic 606. Excluding the impact of adopting Topic 606, postpaid service revenue increased approximately \$2.0 million, or 2.6%, due to growth of approximately 57.6 thousand postpaid PCS retail subscribers, and improvements in postpaid PCS average monthly retail churn, partially offset by a decline in average revenue per subscriber. The growth in our postpaid PCS retail subscribers includes approximately 38.3 thousand subscribers acquired with the Richmond Expansion Area. Postpaid service revenue was further reduced by approximately \$0.5 million due to an increase in net service fee as nTelos subscribers were migrated to Sprint's billing and back-office systems. The migration of these subscribers resulted in the elimination of costs to run the nTelos back-office systems which were recorded in selling, general and administrative.

The decline in prepaid service revenue during the three months ended September 30, 2018, was primarily the result of the adoption of Topic 606. Excluding the impact of adopting Topic 606, prepaid service revenue increased approximately \$4.0 million or 17.7% due to growth of approximately 30.9 thousand prepaid PCS retail subscribers, and improvements in prepaid PCS average monthly retail churn and average revenue per subscriber. The growth in our prepaid PCS retail subscribers includes approximately 15.7 thousand subscribers acquired with the Richmond Expansion Area.

#### Cost of services

During the three months ended September 30, 2018, cost of services decreased approximately \$1.6 million or 4.6%, compared with the three months ended September 30, 2017. The decline in cost of services was primarily attributable to repricing Wireless backhaul circuits to market rates and migrating Wireless voice traffic from traditional

circuit-switched facilities to more cost effective VoIP facilities.

#### Cost of goods sold

During the three months ended September 30, 2018, cost of goods sold increased approximately \$7.7 million, or 107.0%, compared with the three months ended September 30, 2017. The increase in cost of goods sold was primarily the result of the reclassification of approximately \$13.8 million of expenses for equipment costs, which were previously classified as reductions of revenue, partially offset by approximately \$6.6 million of costs incurred for subsidy loss reimbursements that are now presented within revenue, driven by the adoption of Topic 606. Excluding the impact of the adoption of Topic 606, cost of goods sold increased approximately \$0.6 million, or 7.7%.

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## Selling, general and administrative

During the three months ended September 30, 2018, selling, general and administrative costs decreased approximately \$18.9 million, or 62.8%, compared with the three months ended September 30, 2017. The decrease in selling, general and administrative costs was primarily attributable to the reclassification of approximately \$16.6 million of commissions and subscriber acquisition costs to reductions of revenue as required by the adoption of Topic 606. Excluding the impact of adopting Topic 606, selling, general and administrative costs would have decreased approximately \$2.4 million, or 7.8% primarily due to a reduction of back-office expenses required to support former nTelos subscribers that migrated to the Sprint back-office during 2017.

## Acquisition, integration and migration expenses

Acquisition and integration costs were not incurred during the three months ended September 30, 2018, as the completion of integration and migration activities related to the acquisition of nTelos was completed during 2017.

## Depreciation and amortization

During the three months ended September 30, 2018, depreciation and amortization decreased approximately \$2.6 million, or 7.8%, compared with the three months ended September 30, 2017. The decrease in depreciation and amortization was primarily attributable to the retirement of assets acquired in the nTelos acquisition.

## Nine Months Ended September 30, 2018 Compared with the Nine Months Ended September 30, 2017

(\$ in thousands)	Nine Months Ended September 30,		Change			
	2018	% of Revenue	2017	% of Revenue	\$	%
Wireless operating revenue						
Wireless service revenue	\$284,154	82.7	\$323,262	94.5	\$(39,108)	(12.1 )
Tower lease revenue	8,676	2.5	8,676	2.5	—	—
Equipment revenue	48,859	14.2	7,666	2.2	41,193	537.3
Other revenue	1,967	0.6	2,498	0.8	(531)	(21.3 )
Total wireless operating revenue	343,656	100.0	342,102	100.0	1,554	0.5
Wireless operating expenses						
Cost of services	99,491	29.0	100,745	29.4	(1,254)	(1.2 )
Cost of goods sold	45,749	13.3	17,084	5.0	28,665	167.8
Selling, general and administrative	35,693	10.4	88,201	25.8	(52,508)	(59.5 )
Acquisition, integration and migration expenses	—	—	9,607	2.8	(9,607)	(100.0)
Depreciation and amortization	95,853	27.9	104,231	30.5	(8,378)	(8.0 )
Total wireless operating expenses	276,786	80.5	319,868	93.5	(43,082)	(13.5 )
Wireless operating income (loss)	\$66,870	19.5	\$22,234	6.5	\$44,636	200.8

## Operating revenue

During the nine months ended September 30, 2018, wireless operating revenue increased approximately \$1.6 million, or 0.5%, compared with the nine months ended September 30, 2017, due primarily to the adoption of Topic 606. Excluding the impacts of Topic 606, wireless operating revenue increased approximately \$9.4 million, or 2.8%. This increase was driven by growth in postpaid and prepaid PCS subscribers, improvements in average monthly churn, and was partially offset by a decline in postpaid average revenue per subscriber primarily related to promotional discounts.

As a result of the adoption of Topic 606 in the nine months ended September 30, 2018, wireless service revenue was reduced by approximately \$64.1 million of expenses payable to Sprint, our customer, related to the reimbursement to Sprint for costs incurred in their national sales channel for commissions and device costs for both postpaid and prepaid, and to provide ongoing support to their prepaid customers in our territory. Commissions, device costs and

costs for ongoing support of Sprint's prepaid customers were previously recorded as operating expenses. Additionally, we recorded \$43.5 million of equipment revenue and cost of goods sold for the sale of devices under Sprint's device financing and lease programs. Prior to the adoption of Topic 606, equipment costs were netted and presented within equipment revenue.

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The table below provides additional detail for Wireless service revenue.

(\$ in thousands)	Nine Months Ended		Change	
	September 30, 2018	2017	\$	%
Wireless service revenue:				
Postpaid billings (1)	\$286,230	\$280,724	\$5,506	2.0
Amortization of deferred contract and other costs (3)	(13,788 )	—	(13,788 )	100.0
Management fee	(22,966 )	(22,465 )	(501 )	(2.2 )
Net service fee	(24,603 )	(22,852 )	(1,751 )	(7.7 )
Total postpaid service revenue	224,873	235,407	(10,534 )	(4.5 )
Prepaid billings (2)	82,716	74,609	8,107	10.9
Amortization of deferred contract and other costs (3)	(39,258 )	—	(39,258 )	100.0
Sprint management fee	(5,198 )	(4,622 )	(576 )	(12.5 )
Total prepaid service revenue	38,260	69,987	(31,727 )	(45.3 )
Travel and other revenue (2)	21,021	17,868	3,153	17.6
Total service revenue	\$284,154	\$323,262	\$(39,108)	(12.1 )

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

The Company includes Lifeline subscribers revenue within travel and other revenue to be consistent with Sprint. (2) The above table reflects the reclassification of the related Assurance Wireless prepaid revenue from prepaid gross billings to travel and other revenue.

Due to the adoption of Topic 606, costs reimbursed to Sprint for commission and acquisition cost incurred in their national sales channel are recorded as a reduction of revenue and amortized over the period of benefit. (3)

Additionally, costs reimbursed to Sprint for the support of their prepaid customer base are recorded as a reduction of revenue. These costs were previously recorded in cost of goods sold, and selling, general and administrative.

During the nine months ended September 30, 2018, the decline in postpaid service revenue was primarily the result of the adoption of Topic 606. Excluding the impact of adopting Topic 606, postpaid service revenue increased approximately \$1.6 million or 0.7%, primarily due to growth of approximately 57.6 thousand postpaid PCS retail subscribers and an improvement in postpaid PCS average monthly retail churn, partially offset by a decline in average revenue per subscriber. The growth in our postpaid PCS retail subscribers includes approximately 38.3 thousand acquired with the Richmond Expansion Area. Postpaid service revenue was further reduced by approximately \$1.8 million due to an increase in net service fee as nTelos subscribers were migrated to Sprint's billing and back-office systems. The migration of these subscribers resulted in the elimination of costs to run the nTelos back-office systems which were recorded in selling, general and administrative.

The decline in prepaid service revenue during the nine months ended September 30, 2018, was primarily the result of the adoption of Topic 606. Excluding the impact of adopting Topic 606, prepaid service revenue increased approximately \$7.5 million or 10.8% due to growth of approximately 30.9 thousand prepaid PCS retail subscribers, improvements in prepaid PCS average monthly retail churn and average revenue per subscriber. The growth in our prepaid PCS retail subscribers includes approximately 15.7 thousand subscribers acquired with the Richmond Expansion Area.

Cost of services



During the nine months ended September 30, 2018, cost of services decreased approximately \$1.3 million, or 1.2%, compared with the nine months ended September 30, 2017. The decline in cost of services was primarily attributable to repricing Wireless backhaul circuits to market rates and migrating Wireless voice traffic from traditional circuit-switched facilities to more cost effective VoIP facilities.

Cost of goods sold

During the nine months ended September 30, 2018, cost of goods sold increased approximately \$28.7 million, or 167.8%, compared with the nine months ended September 30, 2017. The increase in costs of goods sold was primarily the result of the reclassification of approximately \$43.5 million of expenses for equipment costs, which were previously classified as reductions of revenue, and was partially offset by \$17.8 million of costs incurred for subsidy loss reimbursements that are now presented within revenue, driven by the adoption of Topic 606. Excluding the impact of the adoption of Topic 606, cost of goods sold would have increased approximately \$3.0 million, or 17.4%.

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Selling, general and administrative

During the nine months ended September 30, 2018, selling, general and administrative costs decreased approximately \$52.5 million, or 59.5%, compared with the nine months ended September 30, 2017. The decrease in selling, general and administrative was primarily attributable to the reclassification of approximately \$46.2 million of commissions and subscriber acquisition costs to reductions of revenue as required by the adoption of Topic 606. Excluding the impact of Topic 606, selling, general and administrative costs decreased approximately \$6.3 million, or 7.1% primarily due to a reduction of back-office expenses required to support former nTelos subscribers that migrated to the Sprint back-office during 2017.

Acquisition, integration and migration expenses

Acquisition and integration costs were not incurred during the nine months ended September 30, 2018, as the completion of integration and migration activities related to the acquisition of nTelos was completed during 2017.

Depreciation and amortization

During the nine months ended September 30, 2018, depreciation and amortization decreased approximately \$8.4 million, or 8.0%, compared with the nine months ended September 30, 2017. The decrease in depreciation and amortization was primarily attributable to the retirement of assets acquired in the nTelos acquisition.

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## Cable

Cable provides video, internet and voice services in franchise areas in portions of Virginia, West Virginia and western Maryland, and leases fiber optic facilities throughout its service area. It does not include video, internet and voice services provided to customers in Shenandoah County, Virginia, which are included in Wireline. The following table indicates selected operating statistics of Cable:

	September 30, 2018		December 31, 2017		September 30, 2017	
Homes passed (1)	185,119		184,910		184,881	
Customer relationships (2)						
Video users	41,807		44,269		45,290	
Non-video customers	37,619		33,559		32,663	
Total customer relationships	79,426		77,828		77,953	
Video						
Customers (3)	44,093		46,613		47,379	
Penetration (4)	23.8	%	25.2	%	25.6	%
Digital video penetration (5)	77.8	%	76.2	%	76.0	%
Broadband						
Available homes (6)	185,119		184,910		184,881	
Users (3)	67,089		63,918		63,442	
Penetration (4)	36.2	%	34.6	%	34.3	%
Voice						
Available homes (6)	185,119		182,379		182,350	
Users (3)	23,268		22,555		22,419	
Penetration (4)	12.6	%	12.4	%	12.3	%
Total revenue generating units (7)	134,450		133,086		133,240	
Fiber route miles	3,436		3,356		3,340	
Total fiber miles (8)	134,411		122,011		121,331	
Average revenue generating units	133,617		132,759		132,704	

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 billed 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 users by the number of homes passed or available homes, as appropriate.

Digital video penetration is calculated by dividing the number of digital video users by total video users. Digital (5) video users are video customers who receive any level of video service via digital transmission. A dwelling with one or more digital set-top boxes or digital adapters counts as one digital video user.

(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 users.

(8) 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.



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Three Months Ended September 30, 2018 Compared with the Three Months Ended September 30, 2017

(\$ in thousands)	Three Months Ended				Change	
	September 30,		September 30,		\$	%
	2018	% of Revenue	2017	% of Revenue		
Cable operating revenue						
Service revenue	\$28,578	88.8	\$26,934	89.5	\$1,644	6.1
Equipment revenue	234	0.7	219	0.7	15	6.8
Other revenue	3,370	10.5	2,936	9.8	434	14.8
Total cable operating revenue	32,182	100.0	30,089	100.0	2,093	7.0
Cable operating expenses						
Cost of services	14,837	46.1	14,858	49.4	(21)	(0.1)
Cost of goods sold	78	0.2	55	0.2	23	(41.8)
Selling, general, and administrative	5,331	16.6	5,358	17.8	(27)	(0.5)
Depreciation and amortization	6,102	19.0	6,192	20.6	(90)	(1.5)
Total cable operating expenses	26,348	81.9	26,463	87.9	(115)	(0.4)
Cable operating income (loss)	\$5,834	18.1	\$3,626	12.1	\$2,208	60.9

#### Service revenue

During the three months ended September 30, 2018, service revenue increased approximately \$1.6 million, or 6.1%, compared with the three months ended September 30, 2017. The increase in service revenue was primarily attributable to increases in broadband and voice subscribers, video rate increases, and customers selecting or upgrading to higher-speed data access packages.

#### Other revenue

During the three months ended September 30, 2018, other revenue increased approximately \$0.4 million, or 14.8%, compared with the three months ended September 30, 2017. The increase in other revenue was primarily attributable to installation services that were driven by growth in our customer base.

#### Operating expenses

During the three months ended September 30, 2018, total operating expenses were consistent with the three months ended September 30, 2017.

The impact of the adoption of Topic 606, which deferred incremental commission and installation costs over the life of the customer, did not have a significant impact on operating expenses.

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Nine Months Ended September 30, 2018 Compared with the Nine Months Ended September 30, 2017

(\$ in thousands)	Nine Months Ended September 30,		Change			
	2018	% of Revenue	2017	% of Revenue	\$	%
Cable operating revenue						
Service revenue	\$85,797	89.4	\$80,229	90.5	\$5,568	6.9
Equipment revenue	537	0.6	547	0.6	(10)	(1.8)
Other revenue	9,670	10.0	7,889	8.9	1,781	22.6
Total cable operating revenue	96,004	100.0	88,665	100.0	7,339	8.3
Cable operating expenses						
Cost of services	45,118	47.0	44,956	50.7	162	0.4
Cost of goods sold	197	0.2	96	0.1	101	105.2
Selling, general, and administrative	14,940	15.6	15,083	17.0	(143)	(0.9)
Depreciation and amortization	18,305	19.1	18,070	20.4	235	1.3
Total cable operating expenses	78,560	81.8	78,205	88.2	355	0.5
Cable operating income (loss)	\$17,444	18.2	\$10,460	11.8	\$6,984	66.8

#### Service revenue

During the nine months ended September 30, 2018, service revenue increased approximately \$5.6 million, or 6.9%, compared with the nine months ended September 30, 2017. The increase in service revenue was primarily attributable to growth in our broadband and voice subscribers, video rate increases, and our customers selecting or upgrading to higher-speed data access packages.

#### Other revenue

During the nine months ended September 30, 2018, other revenue increased approximately \$1.8 million, or 22.6%, compared with the nine months ended September 30, 2017. The increase in other revenue was primarily attributable to new fiber contracts and installation services that were driven by growth in our customer base.

#### Operating expenses

During the nine months ended September 30, 2018, total operating expenses increased approximately \$0.4 million compared with the nine months ended September 30, 2017.

The increase in total operating expenses was primarily attributable to our investment in infrastructure necessary to support the growth of the cable and fiber networks.

The impact of the adoption of Topic 606, which deferred incremental commission and installation costs over the life of the customer, did not have a significant impact on operating expenses.

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## Wireline

Wireline 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. Wireline also provides video and cable modem internet access services in portions of Shenandoah County, and leases fiber optic facilities throughout the Shenandoah Valley region of Virginia, northern Virginia and portions of West Virginia, Maryland and Pennsylvania.

	September 30, 2018	December 31, 2017	September 30, 2017
Telephone access lines	17,786	17,933	18,006
Long distance subscribers	9,107	9,078	9,107
Video customers (1)	4,796	5,019	5,110
Broadband customers	14,734	14,665	14,605
Fiber route miles	2,112	2,073	2,040
Total fiber miles (2)	158,526	154,165	149,944

(1) Wireline's video service passes approximately 16,500 homes.

(2) 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, 2018 Compared with the Three Months Ended September 30, 2017

(\$ in thousands)	Three Months Ended				Change	
	September 30, 2018		September 30, 2017		\$	%
Wireline operating revenue						
Service revenue	\$5,824	29.7	\$5,724	28.8	\$100	1.7
Carrier access and fiber revenue	13,019	66.3	13,217	66.6	(198)	(1.5)
Equipment revenue	63	0.3	33	0.2	30	90.9
Other revenue	716	3.7	877	4.4	(161)	(18.4)
Total wireline operating revenue	19,622	100.0	19,851	100.0	(229)	(1.2)
Wireline operating expenses						
Cost of services	9,266	47.2	9,796	49.3	(530)	(5.4)
Costs of goods sold	19	0.1	11	0.1	8	(72.7)
Selling, general, and administrative	1,780	9.1	1,706	8.6	74	4.3
Depreciation and amortization	3,435	17.5	3,249	16.4	186	5.7
Total wireline operating expenses	14,500	73.9	14,762	74.4	(262)	(1.8)
Wireline operating income (loss)	\$5,122	26.1	\$5,089	25.6	\$33	0.6

## Operating revenue

During the three months ended September 30, 2018, total operating revenue decreased approximately \$0.2 million, or 1.2%, compared with the three months ended September 30, 2017. The decline in total operating revenue was primarily attributable to repricing Wireless backhaul circuits to market rates and migrating Wireless voice traffic from traditional circuit-switched facilities to more cost effective Voice Over IP ("VoIP") facilities.

## Operating expenses

During the three months ended September 30, 2018, total operating expenses decreased approximately \$0.3 million, or 1.8%, compared with the three months ended September 30, 2017. The decline in total operating expenses was primarily attributable to a reduction in network costs.

The impact of the adoption of Topic 606, which deferred incremental commission and installation costs over the life of the customer, did not have a significant impact on operating expenses.



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Nine Months Ended September 30, 2018 Compared with the Nine Months Ended September 30, 2017

(\$ in thousands)	Nine Months Ended September 30,		Change			
	2018	% of Revenue	2017	% of Revenue	\$	%
Wireline operating revenue						
Service revenue	\$ 17,439	29.8	\$ 17,002	29.0	\$ 437	2.6
Carrier access and fiber revenue	38,341	65.6	38,920	66.4	(579)	(1.5)
Equipment revenue	155	0.3	90	0.2	65	72.2
Other revenue	2,506	4.3	2,569	4.4	(63)	(2.5)
Total wireline operating revenue	58,441	100.0	58,581	100.0	(140)	(0.2)
Wireline operating expenses						
Cost of services	28,441	48.7	28,357	48.4	84	0.3
Costs of goods sold	61	0.1	52	0.1	9	17.3
Selling, general, and administrative	5,183	8.9	5,065	8.6	118	2.3
Depreciation and amortization	10,069	17.2	9,536	16.3	533	5.6
Total wireline operating expenses	43,754	74.9	43,010	73.4	744	1.7
Wireline operating income (loss)	\$ 14,687	25.1	\$ 15,571	26.6	\$ (884)	(5.7)

**Operating revenue**

During the nine months ended September 30, 2018, total operating revenue decreased approximately \$0.1 million or 0.2%, compared with the nine months ended September 30, 2017. The decrease in total operating revenue was primarily attributable to repricing Wireless backhaul circuits to market rates and migrating Wireless voice traffic from traditional circuit-switched facilities to more cost effective VoIP facilities.

**Operating expenses**

During the nine months ended September 30, 2018, total operating expenses increased approximately \$0.7 million, or 1.7%, compared with the nine months ended September 30, 2017. The increase in total operating expenses was primarily attributable to the expansion of the underlying network assets and investments in infrastructure necessary to support the growth in our fiber network.

The impact of the adoption of Topic 606, which deferred incremental commission and installation costs over the life of the customer, did not have a significant impact on operating expenses.

**Non-GAAP Financial Measures**

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

Adjusted OIBDA is defined 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; actuarial gains and losses on pension and other post-retirement benefit plans; and share-based compensation expense, amortization of deferred costs related to the impacts of the adoption of Topic 606, and adjusted to include the benefit received from the waived management fee by Sprint. Continuing OIBDA is defined as Adjusted OIBDA, less the benefit received from the waived management fee by Sprint. Adjusted OIBDA and Continuing 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 Continuing OIBDA and the associated percentage margin calculations are meaningful measures of our operating

performance. We use Adjusted OIBDA and Continuing OIBDA as supplemental performance measures because management believes these measures facilitate comparisons of our operating performance from period to period and comparisons of our operating performance to that of our peers and 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 and Continuing OIBDA excluding these items

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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 and Continuing OIBDA facilitates internal comparisons of our historical operating performance, which are used by management for business planning purposes, and also facilitates comparisons of our performance relative to that of our competitors. In addition, we believe that Adjusted OIBDA and Continuing OIBDA and similar measures are widely used by investors and financial analysts as measures of our financial performance over time, and to compare our financial performance with that of other companies in our industry.

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

- they do not reflect capital expenditures;
- they do not reflect the impacts of adoption of Topic 606;
- many of the assets being depreciated and amortized will have to be replaced in the future and Adjusted and Continuing OIBDA do not reflect cash requirements for such replacements;
- they do not reflect costs associated with share-based awards exchanged for employee services;
- they do not reflect interest expense necessary to service interest or principal payments on indebtedness;
- they do not reflect gains, losses or dividends on investments;
- they do not reflect expenses incurred for the payment of income taxes; and
- other companies, including companies in our industry, may calculate Adjusted and Continuing OIBDA differently than we do, limiting its usefulness as a comparative measure.

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

The adoption of the new revenue recognition standard did not impact Adjusted OIBDA.

The following tables reconcile Adjusted OIBDA and Continuing OIBDA to operating income, which we consider to be the most directly comparable GAAP financial measure:

Three Months Ended September 30, 2018

(in thousands)	Wireless	Cable	Wireline	Other	Consolidated
Operating income	\$27,352	\$5,834	\$5,122	\$(9,979)	\$ 28,329
Impact of ASC topic 606	(4,868 )	(172 )	(77 )	—	(5,117 )
Depreciation and amortization	30,363	6,102	3,435	128	40,028
Share-based compensation expense	—	—	—	1,171	1,171
Benefit received from the waived management fee (1)	9,558	—	—	—	9,558
Amortization of intangibles netted in rent expense	197	—	—	—	197
Actuarial (gains) losses on pension plans	—	—	—	(82 )	(82 )
Adjusted OIBDA	62,602	11,764	8,480	(8,762 )	74,084
Waived management fee	(9,558 )	—	—	—	(9,558 )
Continuing OIBDA	\$53,044	\$ 11,764	\$ 8,480	\$(8,762)	\$ 64,526



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## Three Months Ended September 30, 2017

(in thousands)	Wireless	Cable	Wireline	Other	Consolidated
Operating income	\$6,745	\$3,626	\$ 5,089	\$(5,985)	\$ 9,475
Depreciation and amortization	32,929	6,192	3,249	198	42,568
(Gain) loss on asset sales	193	(19 )	—	(10 )	164
Share-based compensation expense	277	172	73	118	640
Benefit received from the waived management fee (1)	8,961	—	—	—	8,961
Amortization of intangibles netted in rent expense	1,580	—	—	—	1,580
Temporary back-office costs to support the billing operations through migration (2)	1,209	—	—	—	1,209
Integration and acquisition related expenses, and other	2,292	—	—	15	2,307
Adjusted OIBDA	54,186	9,971	8,411	(5,664 )	66,904
Waived management fee	(8,961 )	—	—	—	(8,961 )
Continuing OIBDA	\$45,225	\$9,971	\$ 8,411	\$(5,664)	\$ 57,943

## Nine Months Ended September 30, 2018

(in thousands)	Wireless	Cable	Wireline	Other	Consolidated
Operating income	\$66,870	\$17,444	\$14,687	\$(32,749)	\$ 66,252
Impact of ASC topic 606	(11,022 )	(57 )	(139 )	—	(11,218 )
Depreciation and amortization	95,853	18,305	10,069	405	124,632
Share-based compensation expense	—	—	—	4,578	4,578
Benefit received from the waived management fee (1)	28,164	—	—	—	28,164
Amortization of intangibles netted in rent expense	372	—	—	—	372
Actuarial (gains) losses on pension plans	—	—	—	(247 )	(247 )
Adjusted OIBDA	180,237	35,692	24,617	(28,013 )	212,533
Waived management fee	(28,164 )	—	—	—	(28,164 )
Continuing OIBDA	\$152,073	\$35,692	\$24,617	\$(28,013)	\$ 184,369

## Nine Months Ended September 30, 2017

(in thousands)	Wireless	Cable	Wireline	Other	Consolidated
Operating income	\$22,234	\$10,460	\$15,571	\$(19,865)	\$ 28,400
Depreciation and amortization	104,231	18,070	9,536	460	132,297
(Gain) loss on asset sales	208	(115 )	27	(40 )	80
Share-based compensation expense	1,354	766	319	614	3,053
Benefit received from the waived management fee (1)	27,068	—	—	—	27,068
Amortization of intangibles netted in rent expense	2,173	—	—	—	2,173
Temporary back-office costs to support the billing operations through migration (2)	5,495	—	—	1	5,496
Integration and acquisition related expenses, and other	11,062	—	—	266	11,328
Adjusted OIBDA	173,825	29,181	25,453	(18,564 )	209,895
Waived management fee	(27,068 )	—	—	—	(27,068 )
Continuing OIBDA	\$146,757	\$29,181	\$25,453	\$(18,564)	\$ 182,827

(1) Under our amended affiliate agreement, Sprint agreed to waive the Management Fees charged on both postpaid and prepaid revenue, up to \$4.2 million per month, until the total amount waived reaches approximately \$255.6 million, which is expected to occur in 2022.

(2) Represents back-office expenses required to support former nTelos subscribers that migrated to the Sprint back-office.

## Liquidity and Capital Resources

Sources and Uses of Cash. The Company generated approximately \$188.8 million of net cash from operations in the first nine months of 2018, representing an increase from approximately \$158.7 million in the first nine months of 2017.

Indebtedness. As of September 30, 2018, the Company's gross indebtedness totaled \$790.1 million, with an estimated annualized effective interest rate of 4.11% after considering the impact of the interest rate swap contracts and unamortized loan costs, and is inclusive of the Credit Facility Modification that (a) was effective February 16, 2018 and (b) reduced the base rate of each term loan and the revolving facility by 50 basis points. The balance consisted of the \$400.1 million Term Loan A-1 at a variable rate

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(4.33% as of September 30, 2018) that resets monthly based on one month LIBOR plus a margin of 2.25%, and the \$390.0 million Term Loan A-2 at a variable rate (4.58% as of September 30, 2018) that resets monthly based on one month LIBOR plus a margin of 2.50%. The Term Loan A-1 requires quarterly principal repayments of approximately \$12.1 million through June 2020, with further increases at that time through maturity in 2021. The Term Loan A-2 requires quarterly principal repayments of approximately \$10.0 million beginning September 30, 2018 through March 31, 2023, with the remaining balance due June 30, 2023.

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

a limitation on the Company's total leverage ratio, defined as indebtedness divided by earnings before interest, taxes, depreciation and amortization, or EBITDA, of less than or equal to 3.75 to 1.00 from the closing date through December 30, 2018, then 3.25 to 1.00 through December 30, 2019, and 3.00 to 1.00 thereafter;

a minimum debt service coverage ratio, defined as EBITDA minus certain cash taxes divided by the sum of all scheduled principal payments on the Term Loans and other indebtedness plus cash interest expense, greater than 2.00 to 1.00; and

maintain a minimum liquidity balance of greater than \$25 million. The balance includes amounts available under the revolver facility plus unrestricted cash and cash equivalents on deposit in a deposit account for which a control agreement has been delivered to the administrative agent under the 2016 credit agreement.

As of September 30, 2018, the Company was in compliance with the financial covenants in its credit agreements and ratios were as follows:

	Actual	Covenant Requirement
Total leverage ratio	2.61	3.75 or Lower
Debt service coverage ratio	3.25	2.00 or Higher
Minimum liquidity balance (in millions)	\$149.1	\$25.0 or Higher

Capital Commitments. Capital expenditures are expected to be between \$145 million and \$155 million for the full year 2018 depending on the timing of deliveries of equipment. Delays in equipment deliveries could shift spending into 2019.

The Company spent \$92.3 million on capital projects in the first nine months of 2018, compared to \$109.4 million in the comparable 2017 period. Spending related to Wireless projects accounted for \$51.0 million in the first nine months of 2018, primarily for upgrades to the recently acquired expansion areas and continued expansion of coverage in the former nTelos territory. Spending related to Cable projects accounted for \$13.2 million in the first nine months of 2018, primarily for network and cable market expansion. Spending related to Wireline projects accounted for \$21.6 million in the first nine months of 2018, primarily for fiber builds and increased capacity projects. The remaining \$6.5 million of capital expenditures is largely related to information technology projects and fleet vehicles.

We believe that cash on hand, cash flow from operations and borrowings expected to be available under our existing credit facilities will provide sufficient cash to enable us to fund planned capital expenditures, make scheduled principal and interest payments, meet our other cash requirements and maintain compliance with the terms of our financing agreements for at least the next twelve months. There can be no assurance that we will continue to generate cash flows at or above current levels or that we will be able to maintain our ability to borrow under our credit facilities. Thereafter, capital expenditures will likely be required to continue planned capital upgrades to the acquired wireless network and provide increased capacity to meet our expected growth in demand for our products and services. The actual amount and timing of our future capital requirements may differ materially from our estimate

depending on the demand for our products, new market developments and expansion opportunities.

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



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Critical Accounting Policies

Critical accounting policies are those policies that affect our more significant judgments and estimates used in the preparation of our unaudited condensed consolidated financial statements. For a more detailed discussion of our critical accounting policies, please refer to our 2017 Form 10-K.

Recently Issued Accounting Standards

Recently issued accounting standards and their expected impact, if any, are discussed in Note 1, Basis of Presentation, of the notes to our unaudited condensed consolidated financial statements.

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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 two components. The first component is outstanding debt with variable rates. As of September 30, 2018, the Company had \$790.1 million of gross variable rate debt outstanding, with unamortized loan fees and costs of \$11.3 million, bearing interest at a weighted average rate of 4.11% as determined on a quarterly basis. An increase in market interest rates of 1.00% would add approximately \$7.6 million to annual interest expense, excluding the effect of the interest rate swap. In May 2016, the Company entered into a pay-fixed, receive-variable interest rate swap with three counterparties totaling \$256.6 million of notional principal (subject to change based upon expected draws under the delayed draw term loan and principal payments due under our debt agreements). These swaps, combined with the swap purchased in 2012, cover notional principal equal to approximately 50% of the outstanding variable rate debt through maturity in 2023. The Company is required to pay a combined fixed rate of approximately 1.16% and receive a variable rate based on one month LIBOR (2.08% for September 2018), to manage a portion of its interest rate risk. Changes in the net interest paid or received under the swaps would offset approximately 50% of the change in interest expense on the variable rate debt outstanding. The swap agreements currently reduce annual interest expense by approximately \$5.4 million, based on the spread between the fixed rate and the variable rate currently in effect on our debt.

The second component of interest rate risk 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 Facility, the applicable interest rate margin on the Term Loan Facility shall be increased to equal the interest rate margin on the Incremental Term Loan Facility. If interest rates increase generally, or if the rate applied under the Company's Incremental Term Loan Facility causes the Company's outstanding debt to be repriced, the Company's future interest costs could increase.

Management views market risk as having a potentially significant impact on the Company's results of operations, as future results could be adversely affected if interest rates were to increase significantly for an extended period, or if the Company's need for additional external financing resulted in increases to the interest rates applied to all of its new and existing debt. As of September 30, 2018, the Company has \$395.1 million of variable rate debt with no interest rate protection. The Company's investments in publicly traded stock and bond mutual funds under the rabbi trust, which are subject to market risks and could experience significant swings in market values, are offset by corresponding changes in the liabilities owed to participants in the Supplemental Executive Retirement Plan. General economic conditions affected by regulatory changes, competition or other external influences may pose a higher risk to the Company's overall results.

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

As disclosed in our Annual Report on Form 10-K for our fiscal year ended December 31, 2017, we identified material weaknesses in internal control over financial reporting. The material weaknesses will not be considered remediated until the applicable enhanced controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively. As remediation has not yet been completed, our President and Chief Executive Officer and our Senior Vice President - Finance and Chief Financial Officer have concluded that our disclosure controls and procedures continued to be ineffective as of September 30, 2018.

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

Changes in Internal Control Over Financial Reporting

There have been no changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) as of September 30, 2018, that have materially affected or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Remediation Efforts

Management is continuing to implement the remediation plans as disclosed in our Annual Report on Form 10-K for our fiscal year ended December 31, 2017. We believe that these actions and the improvements we expect to achieve will effectively remediate the material weaknesses. However, these material weaknesses will not be considered remediated until the enhanced controls operate for a sufficient period of time and management has concluded that these controls are operating effectively.

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PART II. OTHER INFORMATION

ITEM 1A. Risk Factors

We discuss in our Annual Report on Form 10-K various risks that may materially affect our business. We use this section to update this discussion to reflect material developments since our Form 10-K was filed. As of September 30, 2018, the Company has not identified any needed updates to the risk factors included in our most recent Form 10-K.

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

Unregistered Sales of Equity Securities

None.

Use of Proceeds from Registered Securities

None.

Purchases of Equity Securities by the Issuer or Affiliated Purchasers

None.

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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.

99.1\*\* Consultant Agreement

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

101.INS\* XBRL  
Instance  
Document

101.SCH\* XBRL  
Taxonomy  
Extension  
Schema  
Document

101.CAL\* XBRL  
Taxonomy  
Extension  
Calculation  
Linkbase  
Document

101.DEF\* XBRL  
Taxonomy

Extension  
Definition  
Linkbase  
Document

101.LAB\*  
XBRL  
Taxonomy  
Extension  
Label  
Linkbase  
Document

101.PRE\*  
XBRL  
Taxonomy  
Extension  
Presentation  
Linkbase  
Document

\* Filed herewith

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

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EXHIBIT INDEX

Exhibit No. Exhibit

<u>31.1</u> *	Certification of President and Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
<u>31.2</u> *	Certification of Vice President - Finance and Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
<u>32</u> **	Certifications pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. § 1350.
<u>99.1</u> **	Consultant Agreement
(101)	Formatted in XBRL (Extensible Business Reporting Language)
	101.INS XBRL Instance Document
	101.SCHXBRL Taxonomy Extension Schema Document
	101.CALXBRL Taxonomy Extension Calculation Linkbase Document
	101.DEF XBRL Taxonomy Extension Definition Linkbase Document
	101.LABXBRL Taxonomy Extension Label Linkbase Document
	101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

\* Filed herewith

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

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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

/s/JAMES F. WOODWARD

James F. Woodward

Senior Vice President – Finance and Chief Financial Officer

Date: November 6, 2018