

SHENANDOAH TELECOMMUNICATIONS CO/VA/  
Form 10-Q  
August 08, 2012

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2012

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No.: 000-09881

SHENANDOAH TELECOMMUNICATIONS COMPANY  
(Exact name of registrant as specified in its charter)

VIRGINIA  
(State or other jurisdiction of incorporation or organization)

54-1162807  
(I.R.S. Employer Identification No.)

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting

company” in Rule 12b-2 of the Exchange Act.

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

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

The number of shares of the registrant’s common stock outstanding on July 27, 2012 was 23,870,003.

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

| ASSETS   | June 30,<br>2012 | December 31,<br>2011 |
|--|------------------|----------------------|
| Current Assets   |                  |                      |
| Cash and cash equivalents  | \$21,312         | \$ 15,874            |
| Accounts receivable, net   | 22,794           | 21,483               |
| Income taxes receivable  | -                | 12,495               |
| Materials and supplies   | 7,520            | 7,469                |
| Prepaid expenses and other                                       | 4,576            | 3,844                |
| Assets held for sale   | 430              | 2,797                |
| Deferred income taxes  | 155              | 502                  |
| Total current assets   | 56,787           | 64,464               |
| Investments, including \$1,915 and \$2,160 carried at fair value | 8,215            | 8,305                |
| Property, plant and equipment, net                               | 313,710          | 310,754              |
| Other Assets   |                  |                      |
| Intangible assets, net   | 77,638           | 81,346               |
| Cost in excess of net assets of businesses acquired              | 10,962           | 10,962               |
| Deferred charges and other assets, net                           | 4,677            | 4,148                |
| Net other assets   | 93,277           | 96,456               |
| Total assets   | \$471,989        | \$ 479,979           |

See accompanying notes to unaudited condensed consolidated financial statements.

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

| LIABILITIES AND SHAREHOLDERS' EQUITY       | June 30,<br>2012 | December 31,<br>2011 |
|--|------------------|----------------------|
| Current Liabilities                        |                  |                      |
| Current maturities of long-term debt       | \$21,920         | \$ 21,913            |
| Accounts payable                           | 10,314           | 11,708               |
| Advanced billings and customer deposits    | 10,457           | 10,647               |
| Accrued compensation                       | 1,983            | 2,094                |
| Liabilities held for sale                  | 18               | 267                  |
| Income taxes payable                       | 2,329            | -                    |
| Accrued liabilities and other              | 7,562            | 8,950                |
| Total current liabilities                  | 54,583           | 55,579               |
| Long-term debt, less current maturities    | 147,773          | 158,662              |
| Other Long-Term Liabilities                |                  |                      |
| Deferred income taxes                      | 45,289           | 51,675               |
| Deferred lease payable                     | 4,395            | 4,174                |
| Asset retirement obligations               | 5,804            | 7,610                |
| Other liabilities                          | 5,670            | 4,620                |
| Total other liabilities                    | 61,158           | 68,079               |
| Commitments and Contingencies              |                  |                      |
| Shareholders' Equity                       |                  |                      |
| Common stock                               | 22,833           | 22,043               |
| Retained earnings                          | 185,642          | 175,616              |
| Total shareholders' equity                 | 208,475          | 197,659              |
| Total liabilities and shareholders' equity | \$471,989        | \$ 479,979           |

See accompanying notes to unaudited condensed consolidated financial statements.

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

|  | Three Months Ended<br>June 30, |           | Six Months Ended<br>June 30, |            |
|--|--------------------------------|-----------|------------------------------|------------|
|  | 2012                           | 2011      | 2012                         | 2011       |
| Operating revenues   | \$ 71,378                      | \$ 61,555 | \$ 140,201                   | \$ 121,983 |
| Operating expenses:  |                                |           |                              |            |
| Cost of goods and services, exclusive of depreciation and amortization shown separately below          | 29,969                         | 25,216    | 58,998                       | 51,277     |
| Selling, general and administrative, exclusive of depreciation and amortization shown separately below | 15,013                         | 13,901    | 30,182                       | 27,239     |
| Depreciation and amortization  | 15,259                         | 14,444    | 31,066                       | 28,382     |
| Total operating expenses   | 60,241                         | 53,561    | 120,246                      | 106,898    |
| Operating income   | 11,137                         | 7,994     | 19,955                       | 15,085     |
| Other income (expense):  |                                |           |                              |            |
| Interest expense   | (1,522 )                       | (2,846 )  | (3,317 )                     | (4,665 )   |
| Gain (loss) on investments, net  | 132                            | (124 )    | 602                          | (249 )     |
| Non-operating income, net  | 259                            | 290       | 447                          | 508        |
| Income from continuing operations before income taxes  | 10,006                         | 5,314     | 17,687                       | 10,679     |
| Income tax expense   | 4,284                          | 2,276     | 7,558                        | 4,581      |
| Net income from continuing operations  | 5,722                          | 3,038     | 10,129                       | 6,098      |
| Losses from discontinued operations, net of tax benefits of \$106, \$16, \$68 and \$54, respectively   | (162 )                         | (46 )     | (103 )                       | (79 )      |
| Net income   | \$ 5,560                       | \$ 2,992  | \$ 10,026                    | \$ 6,019   |
| Basic and diluted income (loss) per share:   |                                |           |                              |            |
| Net income from continuing operations  | \$ 0.24                        | \$ 0.13   | \$ 0.42                      | \$ 0.25    |
| Losses from discontinued operations  | (0.01 )                        | -         | -                            | -          |
| Net income   | \$ 0.23                        | \$ 0.13   | \$ 0.42                      | \$ 0.25    |
| Weighted average shares outstanding, basic   | 23,855                         | 23,772    | 23,849                       | 23,769     |
| Weighted average shares, diluted   | 23,892                         | 23,797    | 23,880                       | 23,823     |

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SHENANDOAH TELECOMMUNICATIONS COMPANY AND SUBSIDIARIES  
 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY  
 AND COMPREHENSIVE INCOME

(in thousands, except per share amounts)

|   | Shares | Common<br>Stock | Retained<br>Earnings | Total      |
|---|--------|-----------------|----------------------|------------|
| Balance, December 31, 2010  | 23,767 | \$ 19,833       | \$ 170,472           | \$ 190,305 |
| Net income  | -      | -               | 12,993               | 12,993     |
| Dividends declared (\$0.33 per share)                                   | -      | -               | (7,849 )             | (7,849 )   |
| Dividends reinvested in common stock                                    | 51     | 529             | -                    | 529        |
| Stock-based compensation  | -      | 1,718           | -                    | 1,718      |
| Common stock issued through exercise of incentive<br>stock options      | 5      | 37              | -                    | 37         |
| Common stock issued for share awards                                    | 19     | -               | -                    | -          |
| Common stock issued   | 1      | 13              | -                    | 13         |
| Common stock repurchased  | (5 )   | (92 )           | -                    | (92 )      |
| Net excess tax benefit from stock options exercised and<br>stock awards | -      | 5               | -                    | 5          |
| Balance, December 31, 2011  | 23,838 | \$ 22,043       | \$ 175,616           | \$ 197,659 |
| Net income  | -      | -               | 10,026               | 10,026     |
| Stock-based compensation  | -      | 996             | -                    | 996        |
| Common stock issued for share awards                                    | 45     | -               | -                    | -          |
| Common stock repurchased  | (13 )  | (143 )          | -                    | (143 )     |
| Common stock issued   | -      | 4               | -                    | 4          |
| Net tax deficiency from stock awards                                    | -      | (67 )           | -                    | (67 )      |
| Balance, June 30, 2012  | 23,870 | \$ 22,833       | \$ 185,642           | \$ 208,475 |

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

|   | Six Months Ended   |                    |
|---|--------------------|--------------------|
|   | June 30,           |                    |
|   | 2012               | 2011               |
| <b>Cash Flows From Operating Activities</b>                                       |                    |                    |
| Net income  | \$10,026           | \$6,019            |
| Adjustments to reconcile net income to net cash provided by operating activities: |                    |                    |
| Depreciation  | 27,347             | 22,333             |
| Amortization  | 3,719              | 6,049              |
| Provision for bad debt  | 1,233              | 1,929              |
| Stock based compensation expense  | 996                | 902                |
| Deferred income taxes   | (6,106 )           | 579                |
| Net loss on disposal of equipment   | 12                 | 111                |
| Realized (gain) loss on disposal of investments                                   | (36 )              | 27                 |
| Unrealized gains on investments   | (96 )              | (104 )             |
| Net (gain) loss from patronage and equity investments                             | (638 )             | 173                |
| Other   | 676                | 113                |
| <b>Changes in assets and liabilities:</b>   |                    |                    |
| (Increase) decrease in:   |                    |                    |
| Accounts receivable   | (3,641 )           | (1,919 )           |
| Materials and supplies  | (51 )              | (216 )             |
| Income taxes receivable   | -                  | (843 )             |
| Increase (decrease) in:   |                    |                    |
| Accounts payable  | (1,429 )           | (1,224 )           |
| Deferred lease payable  | 221                | 214                |
| Income taxes payable  | 14,824             | -                  |
| Other prepaids, deferrals and accruals  | (2,581 )           | 198                |
| <b>Net cash provided by operating activities</b>                                  | <b>\$44,476</b>    | <b>\$34,341</b>    |
| <b>Cash Flows From Investing Activities</b>                                       |                    |                    |
| Purchase and construction of property, plant and equipment                        | \$(32,299 )        | \$(31,631 )        |
| Proceeds from sale of assets  | 3,265              | 920                |
| Proceeds from sale of equipment   | 156                | 184                |
| Purchase of investment securities   | -                  | (84 )              |
| Proceeds from sale of investment securities                                       | 861                | 386                |
| <b>Net cash used in investing activities</b>                                      | <b>\$(28,017 )</b> | <b>\$(30,225 )</b> |

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

|   | Six Months Ended<br>June 30, |                   |
|---|------------------------------|-------------------|
|   | 2012                         | 2011              |
| <b>Cash Flows From Financing Activities</b>                 |                              |                   |
| Principal payments on long-term debt                        | \$(10,882 )                  | \$(6,054 )        |
| Repurchases of stock  | (143 )                       | (92 )             |
| Proceeds from exercise of incentive stock options           | 4                            | 8                 |
| <b>Net cash used in financing activities</b>                | <b>\$(11,021 )</b>           | <b>\$(6,138 )</b> |
| <b>Net increase (decrease) in cash and cash equivalents</b> | <b>\$5,438</b>               | <b>\$(2,022 )</b> |
| <b>Cash and cash equivalents:</b>                           |                              |                   |
| Beginning   | 15,874                       | 27,453            |
| Ending  | \$21,312                     | \$25,431          |
| <b>Supplemental Disclosures of Cash Flow Information</b>    |                              |                   |
| <b>Cash payments for:</b>                                   |                              |                   |
| Interest  | \$3,173                      | \$3,872           |
| Income taxes (received) paid                                | \$(1,228 )                   | \$4,793           |

See accompanying notes to unaudited condensed consolidated financial statements.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 1. Basis of Presentation

The interim condensed consolidated financial statements of Shenandoah Telecommunications Company and Subsidiaries (collectively, the “Company”) are unaudited. In the opinion of management, all adjustments necessary for a fair presentation of the interim results have been reflected therein. All such adjustments were of a normal and recurring nature. These statements should be read in conjunction with the consolidated financial statements and related notes in the Company’s Annual Report on Form 10-K for the year ended December 31, 2011. The balance sheet information at December 31, 2011 was derived from the audited December 31, 2011 consolidated balance sheet. Operating revenues and income from operations for any interim period are not necessarily indicative of results that may be expected for the entire year.

## 2. Discontinued Operations

In September 2008, the Company announced its intention to sell its Converged Services operation, and the related assets and liabilities were reclassified as held for sale in the consolidated balance sheet and the historical operating results were reclassified as discontinued operations. Depreciation and amortization on long-lived assets was also discontinued. As previously reported in prior years, the Company recorded impairment charges.

In several transactions during 2011, the Company sold service contracts and related equipment for Converged Services’ properties to third-party purchasers, receiving cash proceeds of \$3.0 million (with an additional \$2.3 million in proceeds placed in escrow). The total proceeds approximated the carrying value of the assets sold in each transaction.

During the first quarter of 2012, the Company sold service contracts and related equipment for Converged Services’ properties to third party purchasers, receiving cash proceeds of \$1.1 million, with an additional \$0.4 million placed in escrow. The total proceeds approximated the carrying value of the assets sold.

During the second quarter of 2012, the Company sold service contracts and related equipment for Converged Services’ properties to third party purchasers, receiving cash proceeds of \$0.3 million, with an additional \$0.1 million placed in escrow. The total proceeds approximated the carrying value of the assets sold. During this same quarter, the Company collected \$1.8 million in cash from previously established escrow receivables.

At June 30, 2012, the Company had seven remaining properties. The Company is working with the purchasers and owners of five properties to complete negotiated sale transactions in the next 90 days and is in the process of ending its relationship with the remaining two. No additional impairments are anticipated.

Assets and liabilities held for sale consisted of the following (in thousands):

|                                    | June 30,<br>2012 | December 31, 2011 |
|------------------------------------|------------------|-------------------|
| Assets held for sale:              |                  |                   |
| Property, plant and equipment, net | \$ 244           | \$ 2,424          |
| Other assets                       | 186              | 373               |
|                                    | \$ 430           | \$ 2,797          |
| Liabilities:                       |                  |                   |
| Other liabilities                  | \$ 18            | \$ 267            |



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Discontinued operations included the following amounts of operating revenue and income (loss) before income taxes:

| (in thousands)                      | Three Months Ended<br>June 30, |          |
|-------------------------------------|--------------------------------|----------|
|                                     | 2012                           | 2011     |
| Operating revenues                  | \$ 200                         | \$ 3,031 |
| Earnings (loss) before income taxes | \$ (268 )                      | \$ 62    |

  

|                                     | Six Months Ended<br>June 30, |           |
|-------------------------------------|------------------------------|-----------|
|                                     | 2012                         | 2011      |
| Operating revenues                  | \$ 965                       | \$ 6,337  |
| Earnings (loss) before income taxes | \$ (171 )                    | \$ (133 ) |

## 3. Property, Plant and Equipment

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

|  | June 30,<br>2012 | December 31,<br>2011 |
|--|------------------|----------------------|
| Plant in service                               | \$ 554,713       | \$ 536,267           |
| Plant under construction                       | 23,479           | 12,389               |
|  | 578,192          | 548,656              |
| Less accumulated amortization and depreciation | 264,482          | 237,902              |
| Net property, plant and equipment              | \$ 313,710       | \$ 310,754           |

## 4. Earnings per share

Basic net income (loss) per share was computed on the weighted average number of shares outstanding. 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. Of 713 thousand and 521 thousand shares and options outstanding at June 30, 2012 and 2011, respectively, 500 thousand and 210 thousand were anti-dilutive, respectively. These options have been excluded from the computations of diluted earnings per share for their respective period. There were no adjustments to net income for either period.

## 5. Investments Carried at Fair Value

Investments include \$1.9 million and \$2.2 million of investments carried at fair value as of June 30, 2012 and December 31, 2011, respectively, consisting of equity, bond and money market mutual funds. These investments were acquired under a rabbi trust arrangement related to a non-qualified supplemental retirement plan maintained by the Company. During the six months ended June 30, 2012, the Company recognized \$36 thousand in net gains on dispositions of investments, recognized \$25 thousand in dividend and interest income from investments, and recognized net unrealized gains of \$96 thousand on these investments. The Company also received \$402 thousand distributed from the rabbi trust in connection with a payout from the non-qualified supplemental retirement plan to a participant. Fair values for these investments held under the rabbi trust were determined by Level 1 quoted market prices for the underlying mutual funds.

## 6. Financial Instruments

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

The Company measures its interest rate swap at fair value based on information provided by the counterparty and recognizes it as a liability on the Company's condensed consolidated balance sheet. Changes in the fair value of the swap are recognized in interest expense, as the Company did not designate the swap agreement as a cash flow hedge for accounting purposes.

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## 7. Segment Information

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision makers. The Company has three reportable segments, which the Company operates and manages as strategic business units organized by lines of business: (1) Wireless, (2) Wireline, and (3) Cable. A fourth segment, Other, primarily includes Shenandoah Telecommunications Company, the parent holding company as well as certain general and administrative costs historically charged to Converged Services that cannot be allocated to discontinued operations.

The Wireless segment provides digital wireless service to a portion of a four-state area covering the region from Harrisburg, York and Altoona, Pennsylvania, to Harrisonburg, Virginia, as a Sprint PCS Affiliate of Sprint Nextel. This segment also owns cell site towers built on leased land, and leases space on these towers to both affiliates and non-affiliated service providers.

The Cable segment provides video, internet and voice services in Virginia, West Virginia and Maryland.

The Wireline segment provides regulated and unregulated voice services, dial-up and DSL internet access, and long distance access services throughout Shenandoah County and portions of northwestern Augusta and Rockingham Counties, Virginia, and leases fiber optic facilities throughout the northern Shenandoah Valley of Virginia, northern Virginia and adjacent areas along the Interstate 81 corridor, including portions of West Virginia and Maryland.

Selected financial data for each segment is as follows:

Three months ended June 30, 2012

(in thousands)

|  | Wireless | Wireline | Cable    | Other  | Eliminations | Consolidated Totals |
|--|----------|----------|----------|--------|--------------|---------------------|
| <b>External revenues</b>   |          |          |          |        |              |                     |
| Service revenues   | \$40,187 | \$3,664  | \$16,356 | \$-    | \$ -         | \$ 60,207           |
| Other  | 3,233    | 5,361    | 2,577    | -      | -            | 11,171              |
| Total external revenues  | 43,420   | 9,025    | 18,933   | -      | -            | 71,378              |
| Internal revenues  | 843      | 4,757    | 79       | -      | (5,679 )     | -                   |
| Total operating revenues   | 44,263   | 13,782   | 19,012   | -      | (5,679 )     | 71,378              |
| <b>Operating expenses</b>  |          |          |          |        |              |                     |
| Costs of goods and services, exclusive of depreciation and amortization shown separately below         | 16,917   | 6,518    | 11,560   | 7      | (5,033 )     | 29,969              |
| Selling, general and administrative, exclusive of depreciation and amortization shown separately below | 8,102    | 1,638    | 5,254    | 665    | (646 )       | 15,013              |
| Depreciation and amortization  | 6,753    | 2,285    | 6,203    | 18     | -            | 15,259              |
| Total operating expenses   | 31,772   | 10,441   | 23,017   | 690    | (5,679 )     | 60,241              |
| Operating income (loss)  | 12,491   | 3,341    | (4,005 ) | (690 ) | -            | 11,137              |



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Three months ended June 30, 2011

(in thousands)

|  | Wireless      | Wireline      | Cable           | Other         | Eliminations    | Consolidated Totals |
|--|---------------|---------------|-----------------|---------------|-----------------|---------------------|
| <b>External revenues</b>   |               |               |                 |               |                 |                     |
| Service revenues   | \$33,806      | \$3,660       | \$14,602        | \$-           | \$ -            | \$ 52,068           |
| Other  | 2,927         | 4,407         | 2,153           | -             | -               | 9,487               |
| <b>Total external revenues</b>   | <b>36,733</b> | <b>8,067</b>  | <b>16,755</b>   | <b>-</b>      | <b>-</b>        | <b>61,555</b>       |
| Internal revenues  | 801           | 4,199         | 79              | -             | (5,079 )        | -                   |
| <b>Total operating revenues</b>  | <b>37,534</b> | <b>12,266</b> | <b>16,834</b>   | <b>-</b>      | <b>(5,079 )</b> | <b>61,555</b>       |
| <b>Operating expenses</b>  |               |               |                 |               |                 |                     |
| Costs of goods and services, exclusive of depreciation and amortization shown separately below         | 13,391        | 4,817         | 11,435          | 30            | (4,457 )        | 25,216              |
| Selling, general and administrative, exclusive of depreciation and amortization shown separately below | 7,651         | 1,866         | 4,234           | 772           | (622 )          | 13,901              |
| Depreciation and amortization  | 6,140         | 2,155         | 6,088           | 61            | -               | 14,444              |
| <b>Total operating expenses</b>  | <b>27,182</b> | <b>8,838</b>  | <b>21,757</b>   | <b>863</b>    | <b>(5,079 )</b> | <b>53,561</b>       |
| <b>Operating income (loss)</b>   | <b>10,352</b> | <b>3,428</b>  | <b>(4,923 )</b> | <b>(863 )</b> | <b>-</b>        | <b>7,994</b>        |

Six months ended June 30, 2012

(in thousands)

|  | Wireless      | Wireline      | Cable           | Other           | Eliminations     | Consolidated Totals |
|--|---------------|---------------|-----------------|-----------------|------------------|---------------------|
| <b>External revenues</b>   |               |               |                 |                 |                  |                     |
| Service revenues   | \$78,589      | \$7,531       | \$32,410        | \$-             | \$ -             | \$ 118,530          |
| Other  | 6,684         | 9,950         | 5,037           | -               | -                | 21,671              |
| <b>Total external revenues</b>   | <b>85,273</b> | <b>17,481</b> | <b>37,447</b>   | <b>-</b>        | <b>-</b>         | <b>140,201</b>      |
| Internal revenues  | 1,658         | 9,210         | 150             | -               | (11,018 )        | -                   |
| <b>Total operating revenues</b>  | <b>86,931</b> | <b>26,691</b> | <b>37,597</b>   | <b>-</b>        | <b>(11,018 )</b> | <b>140,201</b>      |
| <b>Operating expenses</b>  |               |               |                 |                 |                  |                     |
| Costs of goods and services, exclusive of depreciation and amortization shown separately below         | 33,310        | 11,747        | 23,786          | 24              | (9,869 )         | 58,998              |
| Selling, general and administrative, exclusive of depreciation and amortization shown separately below | 16,096        | 3,354         | 10,301          | 1,580           | (1,149 )         | 30,182              |
| Depreciation and amortization  | 14,510        | 4,458         | 12,055          | 43              | -                | 31,066              |
| <b>Total operating expenses</b>  | <b>63,916</b> | <b>19,559</b> | <b>46,142</b>   | <b>1,647</b>    | <b>(11,018 )</b> | <b>120,246</b>      |
| <b>Operating income (loss)</b>   | <b>23,015</b> | <b>7,132</b>  | <b>(8,545 )</b> | <b>(1,647 )</b> | <b>-</b>         | <b>19,955</b>       |



Six months ended June 30, 2011

(in thousands)

|   | Wireless      | Wireline      | Cable         | Other        | Eliminations    | Consolidated<br>Totals |
|---|---------------|---------------|---------------|--------------|-----------------|------------------------|
| <b>External revenues</b>  |               |               |               |              |                 |                        |
| Service revenues  | \$66,010      | \$7,245       | \$29,062      | \$-          | \$ -            | \$ 102,317             |
| Other   | 6,402         | 9,077         | 4,187         | -            | -               | 19,666                 |
| <b>Total external revenues</b>  | <b>72,412</b> | <b>16,322</b> | <b>33,249</b> | <b>-</b>     | <b>-</b>        | <b>121,983</b>         |
| Internal revenues   | 1,590         | 8,028         | 116           | -            | (9,734 )        | -                      |
| <b>Total operating revenues</b>   | <b>74,002</b> | <b>24,350</b> | <b>33,365</b> | <b>-</b>     | <b>(9,734 )</b> | <b>121,983</b>         |
| <b>Operating expenses</b>   |               |               |               |              |                 |                        |
| Costs of goods and services,<br>exclusive of depreciation and<br>amortization shown separately<br>below         | 27,004        | 9,350         | 23,359        | 64           | (8,500 )        | 51,277                 |
| Selling, general and<br>administrative, exclusive of<br>depreciation and amortization<br>shown separately below | 14,197        | 3,667         | 8,863         | 1,746        | (1,234 )        | 27,239                 |
| Depreciation and amortization   | 12,374        | 4,105         | 11,786        | 117          | -               | 28,382                 |
| <b>Total operating expenses</b>   | <b>53,575</b> | <b>17,122</b> | <b>44,008</b> | <b>1,927</b> | <b>(9,734 )</b> | <b>106,898</b>         |
| Operating income (loss)   | 20,427        | 7,228         | (10,643 )     | (1,927 )     | -               | 15,085                 |

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

|   | Three Months Ended<br>June 30, |          |
|---|--------------------------------|----------|
|   | 2012                           | 2011     |
| Total consolidated operating income                   | \$ 11,137                      | \$ 7,994 |
| Interest expense                                      | (1,522 )                       | (2,846 ) |
| Non-operating income (expense), net                   | 391                            | 166      |
| Income from continuing operations before income taxes | \$ 10,006                      | \$ 5,314 |

|   | Six Months Ended<br>June 30, |           |
|---|------------------------------|-----------|
|   | 2012                         | 2011      |
| Total consolidated operating income                   | \$ 19,955                    | \$ 15,085 |
| Interest expense                                      | (3,317 )                     | (4,665 )  |
| Non-operating income (expense), net                   | 1,049                        | 259       |
| Income from continuing operations before income taxes | \$ 17,687                    | \$ 10,679 |

The Company's assets by segment are as follows:

(in thousands)

|                                       | June 30,<br>2012 | December 31,<br>2011 |
|---------------------------------------|------------------|----------------------|
| Wireless                              | \$ 132,272       | \$ 147,093           |
| Cable                                 | 213,850          | 212,683              |
| Wireline                              | 82,833           | 84,456               |
| Other (includes assets held for sale) | 402,175          | 381,230              |
| Combined totals                       | 831,130          | 825,462              |
| Inter-segment eliminations            | (359,141 )       | (345,483 )           |
| Consolidated totals                   | \$ 471,989       | \$ 479,979           |

#### 8. Income Taxes

The Company files U.S. federal income tax returns and various state and local income tax returns. With few exceptions, years prior to 2008 are no longer subject to examination. The Company is under audit in the state of Maryland for the 2007, 2008 and 2009 tax years, and in the state of Pennsylvania for the 2009 tax year. No other state or federal income tax audits were in process as of June 30, 2012.

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## 9. Long-Term Debt

As of June 30, 2012 and December 31, 2011, the Company's outstanding long-term debt consisted of the following:

(in thousands)

|                          | June<br>2012 | December<br>2011 |
|--------------------------|--------------|------------------|
| CoBank (fixed term loan) | \$ 3,445     | \$ 4,524         |
| CoBank Term Loan A       | 165,855      | 175,565          |
| Other debt               | 393          | 486              |
|                          | 169,693      | 180,575          |
| Current maturities       | 21,920       | 21,913           |
| Total long-term debt     | \$ 147,773   | \$ 158,662       |

As of June 30, 2012, the Company was in compliance with the covenants in its Credit Agreement.

## 10. Asset Retirement Obligations

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 of tangible long-lived assets that results from acquisition, construction, development and/or normal use of the assets. The Company also records a corresponding asset, which is depreciated over the life of the tangible long-lived asset. 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.

During the second quarter of 2012, new information became available regarding the cost to remove cell site improvements. The Company recorded a one-time adjustment to wireless segment asset retirement obligation liabilities to reflect changes in the estimated future cash flows underlying the obligation to remove cell site improvements. As a result of the adjustment, the company recorded a decrease of \$2.0 million to asset retirement liabilities and a decrease of \$1.1 million to asset retirement obligation asset. Additionally, the Company recognized a \$0.9 million decrease in depreciation expense for the quarter. The Company expects to charge asset removal costs associated with network upgrades against the liability established for removal of cell site improvements.

Changes in the liability for asset removal obligations for the six months and twelve months ended June 30, 2012 and December 31, 2011 are summarized below (in thousands):

|                                 | June<br>2012 | December<br>2011 |
|---------------------------------|--------------|------------------|
| Balance at beginning of year    | \$ 7,610     | \$ 6,542         |
| Revisions to previous estimates | (1,973 )     | -                |
| Additional liabilities accrued  | -            | 556              |
| Accretion expense               | 167          | 512              |
| Balance at end of period        | \$ 5,804     | 7,610            |

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ITEM 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, 2011. 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, 2011, including the financial statements and related notes included therein.

General

Overview. Shenandoah Telecommunications Company is a diversified telecommunications company providing both regulated and unregulated telecommunications services through its wholly owned subsidiaries. These subsidiaries provide wireless personal communications services (as a Sprint PCS Affiliate of Sprint Nextel), local exchange telephone services, video, internet and data services, long distance, fiber optics facilities, and leased tower facilities. The Company has the following three reporting segments, which it operates and manages as strategic business units organized by lines of business:

- \* The Wireless segment provides digital wireless service to a portion of a four-state area covering the region from Harrisburg, York and Altoona, Pennsylvania, to Harrisonburg, Virginia, as a Sprint PCS Affiliate of Sprint Nextel. This segment also owns cell site towers built on leased land, and leases space on these towers to both affiliates and non-affiliated service providers.
- \*The Cable segment provides video, internet and voice services in franchise areas in Virginia, West Virginia and Maryland.
- \*The Wireline segment provides regulated and unregulated voice services, dial-up and DSL internet access, and long-distance access services throughout Shenandoah County and portions of Rockingham and Augusta Counties, Virginia, and leases fiber optic facilities, throughout the northern Shenandoah Valley of Virginia, northern Virginia and adjacent areas along the Interstate 81 corridor, including portions of West Virginia and Maryland.
- \* A fourth segment, Other, primarily includes Shenandoah Telecommunications Company, the parent holding company, as well as certain general and administrative costs historically charged to Converged Services that cannot be allocated to discontinued operations.

During the first quarter of 2012, the Company entered into agreements with Sprint Nextel and Alcatel-Lucent to begin updating the Company's Wireless network. The update will use base station equipment to be acquired from Alcatel-Lucent in conjunction with Sprint Nextel's wireless network upgrade plan known as Network Vision.



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During the second quarter of 2012, the Company upgraded its wireless switch and began replacing cell site equipment, completing replacements at ten cell sites. The Company expects to replace all of its existing cell site equipment by the end of 2013. The Company has accelerated depreciation on these assets so that net book value at time of trade-in will equal the expected value to be realized upon trade-in. Depreciation expense for the three months and six months ended June 30, 2012, included approximately \$1.8 million and \$4.0 million, respectively, of accelerated depreciation on Wireless segment equipment. The Company expects accelerated depreciation expense in the Wireless segment to remain at similar elevated levels through the remainder of 2012, and at lower but still elevated levels in 2013. In the three and six months ended June 30, 2012, the Company recognized a favorable one-time adjustment to Wireless segment depreciation expense related to asset retirement obligations it had previously overestimated. The Company also expects Wireless segment operating expenses to begin to increase in the near future as changes to backhaul arrangements and cell site lease agreements related to the Network Vision upgrade take effect.

In September 2008, the Company announced its intention to sell its Converged Services operation, and the related assets and liabilities were reclassified as held for sale in the consolidated balance sheet and the historical operating results were reclassified as discontinued operations. Depreciation and amortization on long-lived assets was also discontinued. During 2009, 2010 and 2011, the Company recorded impairment charges totaling \$20.0 million (\$12.2 million, net of tax). Most of the impairment charge was recorded in 2009.

In several transactions during 2011, the Company sold service contracts and related equipment for Converged Services' properties to third-party purchasers, receiving cash proceeds of \$3.0 million (with an additional \$2.3 million in proceeds placed in escrow). The total proceeds approximated the carrying value of the assets sold in each transaction.

During the first quarter of 2012, the Company sold service contracts and related equipment for Converged Services' properties to third party purchasers, receiving cash proceeds of \$1.1 million, with an additional \$0.4 million placed in escrow. The total proceeds approximated the carrying value of the assets sold.

During the second quarter of 2012, the Company sold service contracts and related equipment for Converged Services' properties to third party purchasers, receiving cash proceeds of \$0.3 million, with an additional \$0.1 million placed in escrow. The total proceeds approximated the carrying value of the assets sold. The Company collected \$1.8 million in cash from previously established escrow receivables.

At June 30, 2012, the Company had seven remaining properties. The Company is working with the purchasers and owners of five properties to complete negotiated sale transactions in the next 90 days and is in the process of ending its relationship with the remaining two. No additional impairments are anticipated.

## Results of Operations

Three Months Ended June 30, 2012 Compared with the Three Months Ended June 30, 2011

## Consolidated Results

The Company's consolidated results from continuing operations for the second quarters of 2012 and 2011 are summarized as follows:

| (in thousands) | Three Months Ended |                  | \$ | Change |   |
|----------------|--------------------|------------------|----|--------|---|
|                | 2012               | June 30,<br>2011 |    |        | % |

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|                                       |           |           |          |         |
|---------------------------------------|-----------|-----------|----------|---------|
| Operating revenues                    | \$ 71,378 | \$ 61,555 | \$ 9,823 | 16.0    |
| Operating expenses                    | 60,241    | 53,561    | 6,680    | 12.5    |
| Operating income                      | 11,137    | 7,994     | 3,143    | 39.3    |
| Interest expense                      | (1,522 )  | (2,846 )  | 1,324    | 46.5    |
| Other income (expense)                | 391       | 166       | 225      | 135.5   |
| Income before taxes                   | 10,006    | 5,314     | 4,692    | 88.3    |
| Income tax expense                    | 4,284     | 2,276     | (2,008 ) | (88.2 ) |
| Net income from continuing operations | \$ 5,722  | \$ 3,038  | \$ 2,684 | 88.3    |

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### Operating revenues

For the three months ended June 30, 2012, operating revenues increased \$9.8 million, or 16.0%. Wireless segment revenues increased \$6.7 million, cable segment revenues increased \$2.2 million, and wireline segment revenues increased \$0.9 million after eliminations. Postpaid PCS service revenues increased \$3.9 million over the second quarter of 2011, while prepaid PCS service revenues increased \$2.5 million. PCS and cable segment service revenue increases reflect subscriber count increases and increases in revenue per subscriber. Wireline revenue increases resulted primarily from increases in circuits in service.

### Operating expenses

For the three months ended June 30, 2012, operating expenses increased \$6.7 million, or 12.5%, compared to the 2011 period. This increase included \$0.7 million of additional depreciation and amortization expense, primarily due to \$1.8 million of accelerated depreciation related to the Company's plans to replace its wireless cell site equipment as part of its involvement in Sprint Nextel's Network Vision upgrade plan, offset by a favorable one-time adjustment of \$0.9 million related to adjustments of asset retirement costs, reflected as a reduction in depreciation expense. Costs of goods and services increased \$4.8 million, due to \$1.8 million in additional network and backhaul costs associated with providing wireless data capacity and expanded services in our cable segment, and to increased handset costs in the wireless segment. Postpaid handset costs increased \$1.5 million while prepaid handset subsidies increased \$1.0 million in the second quarter of 2012 relative to the second quarter of 2011. The increase in postpaid handset costs is largely due to the \$1.1 million incremental cost of the iPhone, which the Company began selling in the fourth quarter of 2011. The increase in prepaid handset subsidies is due to an increase in the rate per handset charged by Sprint Nextel. Increases of \$1.1 million in selling, general and administrative expenses largely resulted from increased sales and marketing costs in the Cable segment.

### Interest expense

The decrease in interest expense resulted from four factors. During the second quarter of 2011 the Company recorded \$0.6 million in interest expense, representing the change from March 31, 2011, in the fair value of the Company's interest rate swap contract. The Company also reversed \$0.4 million of interest previously capitalized to plant under construction, increasing interest expense for the second quarter of 2011. During the second quarter of 2012, the Company's spread over LIBOR on its debt was reduced by 25 basis points, while the outstanding balance of long-term debt has declined by \$19.4 million, contributing to lower interest expense in second quarter 2012 compared to second quarter 2011.

### Net income from continuing operations

For the three months ended June 30, 2012, net income from continuing operations increased \$2.7 million, reflecting growth in subscriber counts and revenue per subscriber in both the Wireless and Cable segments, increased revenues for fiber and other facilities in the Wireline segment, partially offset by increases in operating expenses incurred in support of this growth and the accelerated depreciation charges associated with the Company's participation in Sprint Nextel's wireless network upgrade program known as Network Vision, combined with lower interest expenses.



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Six Months Ended June 30, 2012 Compared with the Six Months Ended June 30, 2011

## Consolidated Results

The Company's consolidated results from continuing operations for the first six months of 2012 and 2011 are summarized as follows:

| (in thousands)                        | Six Months Ended |                  |           | Change |       |
|---------------------------------------|------------------|------------------|-----------|--------|-------|
|                                       | 2012             | June 30,<br>2011 | \$        |        | %     |
| Operating revenues                    | \$ 140,201       | \$ 121,983       | \$ 18,218 |        | 14.9  |
| Operating expenses                    | 120,246          | 106,898          | 13,348    |        | 12.5  |
| Operating income                      | 19,955           | 15,085           | 4,870     |        | 32.3  |
| Interest expense                      | (3,317 )         | (4,665 )         | 1,348     |        | 28.9  |
| Other income (expense)                | 1,049            | 259              | 790       |        | 305.4 |
| Income before taxes                   | 17,687           | 10,679           | 7,008     |        | 65.6  |
| Income tax expense                    | 7,558            | 4,581            | 2,977     |        | 65.0  |
| Net income from continuing operations | \$ 10,129        | \$ 6,098         | \$ 4,031  |        | 66.1  |

## Operating revenues

For the six months ended June 30, 2012, operating revenues increased \$18.2 million, or 14.9%. The increase was due to \$12.9 million in incremental wireless segment revenues, \$4.2 million of additional cable segment revenues, and \$1.5 million of additional wireline segment revenues. Postpaid wireless service revenues increased \$7.5 million in 2012, while prepaid wireless service revenues increased \$5.1 million. Subscriber count increases and increases in revenue per subscriber each contributed to the increases in cable segment revenues and both categories of wireless segment service revenues. The increase in wireline revenues resulted primarily from increases in circuits in service.

## Operating expenses

For the six months ended June 30, 2012, operating expenses increased \$13.3 million, or 12.5%, compared to the 2011 period. This included an increase of \$2.7 million of depreciation and amortization expense, including \$3.1 million in accelerated depreciation associated with the planned upgrade of the Company's wireless cell site network to take advantage of fourth generation technology, net of the \$0.9 million adjustment related to asset retirement obligations. Cost of goods and services increased \$7.7 million, principally due to a \$4.4 million increase in costs of postpaid handsets and prepaid handset subsidies in our wireless segment, as well as \$2.0 million in incremental network and backhaul costs in support of wireless data capacity and expanded services in our cable segment. Selling, general and administrative expenses increased \$2.9 million from the 2011 first six months, including \$1.9 million in the wireless segment for sales and marketing costs, and \$1.4 million in allocated head count costs in the cable segment.

## Interest expense

The decrease in interest expense resulted from four factors. During the second quarter of 2011 the Company recorded \$0.6 million in interest expense, representing the change from March 31, 2011, in the fair value of the Company's interest rate swap contract. The Company also reversed \$0.4 million of interest previously capitalized to plant under

construction, increasing interest expense for the second quarter of 2011. The terms of the Company's credit agreement include a reduction in the interest rate margin when the company's debt to earnings ratio decreases below certain thresholds. As a result of a decrease in this ratio, during the second quarter of 2012, the Company's spread over LIBOR on its debt was reduced by 25 basis points. In addition, the outstanding balance of long-term debt has declined by \$19.4 million, contributing to lower interest expense in 2012 compared to 2011.

#### Net income from continuing operations

For the six months ended June 30, 2012, net income from continuing operations increased \$4.0 million, reflecting growth in subscriber counts and revenue per subscriber in both the Wireless and Cable segments, increased revenues for fiber and other facilities in the Wireline segment, partially offset by increases in operating expenses incurred in support of this growth and the accelerated depreciation charges associated with the Company's participation in Sprint Nextel's wireless network upgrade program known as Network Vision, and lower interest expenses.

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## Wireless

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

PCS receives revenues from Sprint Nextel for subscribers that obtain service in PCS's network coverage area. PCS relies on Sprint Nextel to provide timely, accurate and complete information to record the appropriate revenue for each financial period. Postpaid revenues received from Sprint Nextel are recorded net of certain fees totaling 20% of net postpaid billed revenue retained by Sprint Nextel. These fees include an 8% management fee and 12% net service fee. Sprint Nextel also retains a 6% management fee on prepaid revenues.

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

|                                   | June 30,<br>2012 | Dec. 31,<br>2011 | June 30,<br>2011 | Dec. 31,<br>2010 |
|-----------------------------------|------------------|------------------|------------------|------------------|
| Retail PCS Subscribers – Postpaid | 255,025          | 248,620          | 240,862          | 234,809          |
| Retail PCS Subscribers – Prepaid  | 117,070          | 107,100          | 91,332           | 66,956           |
| PCS Market POPS (000) (1)         | 2,408            | 2,388            | 2,397            | 2,337            |
| PCS Covered POPS (000) (1)        | 2,064            | 2,055            | 2,114            | 2,049            |
| CDMA Base Stations (sites)        | 510              | 509              | 507              | 496              |
| EVDO-enabled sites                | 434              | 433              | 393              | 381              |
| EVDO Covered POPS (000) (1)       | 2,036            | 2,027            | 2,045            | 1,981            |
| Towers                            | 149              | 149              | 149              | 146              |
| Non-affiliate cell site leases    | 216              | 219              | 219              | 216              |

  

|   | Three Months Ended<br>June 30, |        | Six Months Ended<br>June 30, |        |
|---|--------------------------------|--------|------------------------------|--------|
|   | 2012                           | 2011   | 2012                         | 2011   |
| Gross PCS Subscriber Additions – Postpaid     | 16,107                         | 14,673 | 32,073                       | 30,159 |
| Net PCS Subscriber Additions – Postpaid       | 4,341                          | 3,037  | 6,405                        | 6,053  |
| Gross PCS Subscriber Additions – Prepaid      | 15,043                         | 22,864 | 34,407                       | 46,034 |
| Net PCS Subscriber Additions – Prepaid        | 2,686                          | 11,089 | 9,971                        | 24,376 |
| PCS Average Monthly Retail Churn % - Postpaid | 1.55                           | % 1.62 | % 1.71                       | % 1.69 |
| PCS Average Monthly Retail Churn % - Prepaid  | 3.56                           | % 4.58 | % 3.61                       | % 4.53 |

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

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Three Months Ended June 30, 2012 Compared with the Three Months Ended June 30, 2011

| (in thousands)   | Three Months Ended |                  | \$       | Change |        |
|--|--------------------|------------------|----------|--------|--------|
|  | 2012               | June 30,<br>2011 |          |        | %      |
| Segment operating revenues   |                    |                  |          |        |        |
| Wireless service revenue   | \$ 40,187          | \$ 33,806        | \$ 6,381 |        | 18.9   |
| Tower lease revenue  | 2,280              | 2,199            | 81       |        | 3.7    |
| Equipment revenue  | 1,341              | 1,059            | 282      |        | 26.6   |
| Other revenue  | 455                | 470              | (15 )    |        | (3.2 ) |
| Total segment operating revenues   | 44,263             | 37,534           | 6,729    |        | 17.9   |
| Segment operating expenses   |                    |                  |          |        |        |
| Cost of goods and services, exclusive of depreciation and amortization shown separately below          | 16,917             | 13,391           | 3,526    |        | 26.3   |
| Selling, general and administrative, exclusive of depreciation and amortization shown separately below | 8,102              | 7,651            | 451      |        | 5.9    |
| Depreciation and amortization  | 6,753              | 6,140            | 613      |        | 10.0   |
| Total segment operating expenses   | 31,772             | 27,182           | 4,590    |        | 16.9   |
| Segment operating income   | \$ 12,491          | \$ 10,352        | \$ 2,139 |        | 20.7   |

## Operating revenues

Wireless service revenue increased \$6.4 million, or 18.9%, for the three months ended June 30, 2012, compared to the comparable 2011 period. Net postpaid service revenues increased \$3.9 million, as data fees on smartphones increased \$2.2 million in the 2012 period from 2011's second quarter, while 5.7% growth in quarter-over-quarter average postpaid subscribers added an additional \$1.7 million to net postpaid service revenue. Net prepaid service revenues grew \$2.5 million, or nearly 47%, compared to the 2011 second quarter. Average prepaid subscribers increased 34% in 2012 over 2011, with changes in the mix of subscribers (to those with comparatively higher revenue plans) accounting for the remainder of the increase in prepaid service revenues.

The increase in equipment revenue resulted primarily from \$0.2 million in incremental revenue from sales of higher priced iPhones.

## Cost of goods and services

Cost of goods and services increased \$3.5 million, or 26.3%, in 2012 from the second quarter of 2011. Postpaid handset costs increased \$1.5 million due to the higher subsidy on iPhones, which were not available in early 2011. Costs of iPhones sold increased \$1.1 million over the cost of a comparable quantity of smartphones sold in the second quarter of 2011. Handset costs associated with prepaid customer acquisitions increased \$1.1 million due to higher unit costs charged by Sprint Nextel. Network costs increased \$0.8 million for backhaul and rent expenses. Costs for 4G usage paid through Sprint to Clearwire increased \$0.1 million. Network costs are expected to continue to increase due to the temporary need for redundant backhaul circuits during the implementation of the Network Vision plan, as well as to accommodate the expected increase in data volumes.

## Selling, general and administrative

Selling, general and administrative costs increased \$0.5 million, or 5.9%, in the second quarter of 2012 over the comparable 2011 period. Costs charged by Sprint Nextel for support of the existing prepaid subscriber base increased \$0.3 million primarily as a result of the growth in prepaid subscribers. The remainder of the increase related to advertising and commission expenses associated with postpaid activities, which increased \$0.2 million.

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## Depreciation and amortization

Depreciation and amortization increased \$0.6 million in 2012 over the 2011 second quarter, due to recording \$1.8 million of accelerated depreciation on existing assets that will be replaced during Network Vision upgrades. The accelerated depreciation was partially offset by a one-time favorable adjustment of \$0.9 million to depreciation related to asset retirement obligations associated with the upgrades. There was a \$0.3 million decrease in amortization of the initial purchase cost of prepaid customers acquired in July 2010, which decreases each month in relation to churn in the initial customer base. Network Vision-related accelerated depreciation expenses will remain at similarly elevated levels through 2012, and will remain elevated, though at a lower level, in 2013, when the Company expects to have completely replaced the existing equipment.

## Six Months Ended June 30, 2012 Compared with the Six Months Ended June 30, 2011

| (in thousands)   | Six Months Ended |                  | \$        | Change |   |
|--|------------------|------------------|-----------|--------|---|
|  | 2012             | June 30,<br>2011 |           |        | % |
| Segment operating revenues   |                  |                  |           |        |   |
| Wireless service revenue   | \$ 78,589        | \$ 66,010        | \$ 12,579 | 19.1   |   |
| Tower lease revenue  | 4,530            | 4,375            | 155       | 3.5    |   |
| Equipment revenue  | 2,871            | 2,628            | 243       | 9.2    |   |
| Other revenue  | 941              | 989              | (48 )     | (4.9 ) |   |
| Total segment operating revenues   | 86,931           | 74,002           | 12,929    | 17.5   |   |
| Segment operating expenses   |                  |                  |           |        |   |
| Cost of goods and services, exclusive of depreciation and amortization shown separately below          | 33,310           | 27,004           | 6,306     | 23.4   |   |
| Selling, general and administrative, exclusive of depreciation and amortization shown separately below | 16,096           | 14,197           | 1,899     | 13.4   |   |
| Depreciation and amortization  | 14,510           | 12,374           | 2,136     | 17.3   |   |
| Total segment operating expenses   | 63,916           | 53,575           | 10,341    | 19.3   |   |
| Segment operating income   | \$ 23,015        | \$ 20,427        | \$ 2,588  | 12.7   |   |

## Operating revenues

Wireless service revenue increased \$12.6 million, or 19.1%, for the six months ended June 30, 2012, compared to the comparable 2011 period. Net postpaid service revenues increased \$7.5 million, as data fees on smartphones increased \$4.5 million in 2012 from the first half 2011, while 5.7% growth in period-over-period average postpaid subscribers added an additional \$3.0 million to net postpaid service revenue. Net prepaid service revenues grew \$5.1 million, or nearly 52%, compared to the six months ended June 30, 2011. Average prepaid subscribers increased 42% in 2012 over 2011, with changes in the mix of subscribers accounting for the remainder of the increase in prepaid service revenues.

The increase in tower lease revenue resulted primarily from scheduled escalations in revenue streams.

The increase in equipment revenue resulted primarily from the incremental revenue from iPhones sold, which generated an additional approximately \$55 per handset relative to other smartphones.

Cost of goods and services

Cost of goods and services increased \$6.3 million, or 23.4%, in 2012 from the first half of 2011. Postpaid handset costs increased \$2.5 million due to the higher cost of iPhones, which were not available in early 2011. Handset costs associated with prepaid customer acquisitions increased \$2.0 million due to higher unit costs charged by Sprint Nextel. Network costs increased \$1.5 million due to additional costs of backhaul and rent expense. Costs for 4G Wimax usage paid through Sprint to Clearwire increased \$0.3 million. Network costs are expected to continue to increase due to the temporary need for redundant backhaul circuits during the implementation of the Network Vision plan, as well as to accommodate the expected increase in data volumes.

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Selling, general and administrative

Selling, general and administrative costs increased \$1.9 million, or 13.4%, in the first six months of 2012 over the comparable 2011 period. Costs charged by Sprint Nextel for support of the existing prepaid subscriber base increased \$1.0 million primarily as a result of the growth in prepaid subscribers. The remaining \$0.8 million increase related to advertising and commissions expense associated with postpaid activities.

Depreciation and amortization

Depreciation and amortization increased \$2.1 million in 2012 over the 2011 first half, due to \$4.0 million of accelerated depreciation on existing assets that will be replaced during Network Vision upgrades, partially offset by a \$0.9 million one-time adjustment of depreciation expense related to asset retirement costs and by a \$0.7 million decrease in amortization of the initial purchase cost of acquired prepaid customers, which decreases each month in relation to churn in the initial customer base. Network Vision-related accelerated depreciation expenses will remain at similarly elevated levels through 2012, and will remain elevated, though at a lower level, in 2013.

Cable

The Cable segment provides analog, digital and high-definition television service under franchise agreements in Virginia, West Virginia and Maryland, as well as internet and voice services in these markets.

The Company has been upgrading its cable systems since early 2009, and by December 2010 had completed upgrades to the systems acquired in late 2008, and as of June 30, 2012, has completed all but one of the upgrades to markets acquired in 2010. Upgrades in this remaining market, passing approximately 10 thousand homes, are underway and expected to be completed in the second half of 2012. The Company has rolled out expanded video, internet and voice services to markets as upgrades have been completed.



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The following table shows selected operating statistics of the Cable segment as of the dates shown:

|  | June 30,<br>2012 | Dec. 31,<br>2011 | June 30,<br>2011 | Dec. 31,<br>2010 |
|--|------------------|------------------|------------------|------------------|
| Homes Passed (1)                           | 183,190          | 182,156          | 180,050          | 178,763          |
| Customer Relationships (2)                 |                  |                  |                  |                  |
| Video customers                            | 60,635           | 62,835           | 63,445           | 65,138           |
| Non-video customers                        | 14,091           | 12,513           | 10,476           | 9,074            |
| Total customer relationships               | 74,726           | 75,348           | 73,921           | 74,212           |
| Video                                      |                  |                  |                  |                  |
| Revenue generating units (3)               | 62,737           | 64,979           | 65,870           | 67,235           |
| Penetration (4)                            | 34.2 %           | 35.7 %           | 36.6 %           | 37.6 %           |
| Digital video revenue generating units (5) | 24,532           | 25,357           | 23,666           | 22,855           |
| Digital video penetration (5)              | 39.1 %           | 39.0 %           | 35.9 %           | 34.0 %           |
| High-speed Internet                        |                  |                  |                  |                  |
| Available Homes (6)                        | 157,153          | 156,119          | 150,623          | 144,099          |
| Revenue generating units (3)               | 38,623           | 37,021           | 33,680           | 31,832           |
| Penetration (4)                            | 24.6 %           | 23.7 %           | 22.4 %           | 22.1 %           |
| Voice                                      |                  |                  |                  |                  |
| Available Homes (6)                        | 150,759          | 143,235          | 129,027          | 118,652          |
| Revenue generating units (3)               | 11,133           | 9,881            | 7,794            | 6,340            |
| Penetration (4)                            | 7.4 %            | 6.9 %            | 6.0 %            | 5.3 %            |
| Total Revenue Generating Units (7)         | 137,025          | 137,238          | 131,010          | 128,262          |
| Fiber Route Miles (8)                      | 2,007            | 1,990            | 1,854            | 1,389            |
| Total Fiber Miles                          | 35,518           | 34,772           | 33,548           | 31,577           |

- 1)Homes and businesses are considered passed (“homes passed”) if we can connect them to our distribution system without further extending the transmission lines. Homes passed is an estimate based upon the best available information.
- 2) Customer relationships represent the number of customers who receive at least one of our services.
- 3)Generally, a dwelling or commercial unit with one or more television sets connected to our distribution system counts as one video customer. Where services are provided on a bulk basis, such as to hotels and some multi-dwelling units, the revenue charged to the customer is divided by the rate for comparable service in the local market to determine the number of customer equivalents included in the revenue generating unit counts shown above.
- 4)Penetration is calculated by dividing the number of revenue generating units by the number of homes passed or available homes, as appropriate.
- 5)Digital video revenue generating units are those customers who receive any level of video service via digital transmission. A dwelling with one or more digital set-top boxes counts as one digital video revenue generating unit. Digital video penetration is calculated by dividing the number of digital video revenue generating units by total video revenue generating units.
- 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. Homes passed in Shenandoah County are excluded from available homes as we do not offer high-speed internet or voice services over our co-axial distribution network in this market.
- 7)Total revenue generating units are the sum of video, digital video, voice and high-speed internet revenue generating units. Consistent with industry practices, each digital video customer counts as two revenue generating units.

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

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Three Months Ended June 30, 2012 Compared with the Three Months Ended June 30, 2011

| (in thousands)   | Three Months Ended |                  | \$           | Change |             |
|--|--------------------|------------------|--------------|--------|-------------|
|  | 2012               | June 30,<br>2011 |              |        | %           |
| <b>Segment operating revenues</b>  |                    |                  |              |        |             |
| Service revenue  | \$ 16,356          | \$ 14,602        | \$ 1,754     |        | 12.0        |
| Equipment and other revenue  | 2,656              | 2,232            | 424          |        | 19.0        |
| <b>Total segment operating revenues</b>  | <b>19,012</b>      | <b>16,834</b>    | <b>2,178</b> |        | <b>12.9</b> |
| <b>Segment operating expenses</b>  |                    |                  |              |        |             |
| Cost of goods and services, exclusive of depreciation and amortization shown separately below          |                    |                  |              |        |             |
|  | 11,560             | 11,435           | 125          |        | 1.1         |
| Selling, general and administrative, exclusive of depreciation and amortization shown separately below |                    |                  |              |        |             |
|  | 5,254              | 4,234            | 1,020        |        | 24.1        |
| Depreciation and amortization  | 6,203              | 6,088            | 115          |        | 1.9         |
| <b>Total segment operating expenses</b>  | <b>23,017</b>      | <b>21,757</b>    | <b>1,260</b> |        | <b>5.8</b>  |
| Segment operating loss   | \$ (4,005 )        | \$ (4,923 )      | \$ 918       |        | 18.6        |

## Operating revenues

Cable segment service revenue increased \$1.8 million, or 12.0%, due to a 5.6% increase in average revenue generating units, increases in higher priced digital TV services and higher speed data access packages, and price increases driven by rising programming costs.

Equipment and other revenues increased \$0.4 million, or 19.0%, due to increases in revenue from sales of fiber optic services and in a variety of ancillary revenues such as set-top box rental fees, advertising revenues, and other fees billed to customers, each of which generated approximately \$0.1 million in incremental revenues.

## Operating expenses

Cable segment cost of goods and services increased slightly. Cable content cost increases and costs to support the expansion of voice services to upgraded markets have been largely offset by savings in backhaul costs, power and maintenance and repair costs as a result of the network upgrade efforts over the last two years. These savings were created by shifting to a more efficient network design including reducing the number of head ends and migrating off more expensive third party voice and backhaul services.

Selling, general and administrative expenses have increased principally due to increased costs for customer service and general administrative functions as a result of serving more customers.

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Six Months Ended June 30, 2012 Compared with the Six Months Ended June 30, 2011

| (in thousands)   | Six Months Ended |                  | \$       | Change |      |
|--|------------------|------------------|----------|--------|------|
|  | 2012             | June 30,<br>2011 |          |        | %    |
| <b>Segment operating revenues</b>  |                  |                  |          |        |      |
| Service revenue  | \$ 32,410        | \$ 29,062        | \$ 3,348 |        | 11.5 |
| Equipment and other revenue  | 5,187            | 4,303            | 884      |        | 20.5 |
| Total segment operating revenues   | 37,597           | 33,365           | 4,232    |        | 12.7 |
| <b>Segment operating expenses</b>  |                  |                  |          |        |      |
| Cost of goods and services, exclusive of depreciation and amortization shown separately below          |                  |                  |          |        |      |
|  | 23,786           | 23,359           | 427      |        | 1.8  |
| Selling, general and administrative, exclusive of depreciation and amortization shown separately below |                  |                  |          |        |      |
|  | 10,301           | 8,863            | 1,438    |        | 16.2 |
| Depreciation and amortization  | 12,055           | 11,786           | 269      |        | 2.3  |
| Total segment operating expenses   | 46,142           | 44,008           | 2,134    |        | 4.8  |
| Segment operating loss   | \$ (8,545 )      | \$ (10,643 )     | \$ 2,098 |        | 19.7 |

## Operating revenues

Cable segment service revenue increased \$3.3 million, or 11.5%, due to a 6.3% increase in average revenue generating units, customers shifting to higher priced digital TV services and higher speed data access packages, and video price increases driven by rising programming costs.

Equipment and other revenues increased \$0.9 million, or 20.5%, due to increases in revenue from sales of fiber optic services and in a variety of ancillary revenues such as set-top box rental fees, advertising revenues, and other fees billed to customers, each of approximately \$0.2 million in incremental revenues.

## Operating expenses

Cable segment cost of goods and services increased slightly. Cable content cost increases and costs to support the expansion particularly of voice services to upgraded markets have been largely offset by savings in backhaul costs, power and maintenance and repair costs as a result of the network re-build efforts over the last two years.

Selling, general and administrative expenses have increased principally due to allocated costs for customer service and general administrative functions.

## Wireline

The Wireline segment is comprised of several subsidiaries providing telecommunications services. Through these subsidiaries, this segment provides regulated and unregulated voice services, dial-up and DSL internet access, and long distance access services throughout Shenandoah County and portions of northwestern Augusta and Rockingham Counties, Virginia, and leases fiber optic facilities throughout the northern Shenandoah Valley of Virginia, northern Virginia and adjacent areas along the Interstate 81 corridor, including portions of West Virginia and Maryland.



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|                              | June 30,<br>2012 | Dec. 31,<br>2011 | June 30,<br>2011 | Dec. 31,<br>2010 |
|------------------------------|------------------|------------------|------------------|------------------|
| Wireline Segment             |                  |                  |                  |                  |
| Telephone Access Lines       | 22,670           | 23,083           | 23,461           | 23,706           |
| Long Distance Subscribers    | 10,380           | 10,483           | 10,647           | 10,667           |
| DSL Subscribers              | 12,505           | 12,351           | 12,200           | 11,946           |
| Dial-up Internet Subscribers | 1,179            | 1,410            | 1,733            | 2,190            |
| Fiber Route Miles            | 1,378            | 1,349            | 1,301            | 1,289            |
| Total Fiber Miles (1)        | 81,844           | 78,523           | 73,064           | 71,118           |

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

## Three Months Ended June 30, 2012 Compared with the Three Months Ended June 30, 2011

| (in thousands)   | Three Months Ended |                  | Change   |         |
|--|--------------------|------------------|----------|---------|
|  | 2012               | June 30,<br>2011 | \$       | %       |
| Segment operating revenues   |                    |                  |          |         |
| Service revenue  | \$ 4,118           | \$ 4,021         | \$ 97    | 2.4     |
| Access revenue   | 3,042              | 3,647            | (605 )   | (16.6 ) |
| Facilities lease revenue   | 5,252              | 3,934            | 1,318    | 33.5    |
| Equipment revenue  | 14                 | 7                | 7        | 100.0   |
| Other revenue  | 1,356              | 657              | 699      | 106.4   |
| Total segment operating revenues   | 13,782             | 12,266           | 1,516    | 12.4    |
| Segment operating expenses   |                    |                  |          |         |
| Cost of goods and services, exclusive of depreciation and amortization shown separately below          | 6,518              | 4,817            | 1,701    | 35.3    |
| Selling, general and administrative, exclusive of depreciation and amortization shown separately below | 1,638              | 1,866            | (228 )   | (12.2 ) |
| Depreciation and amortization  | 2,285              | 2,155            | 130      | 6.0     |
| Total segment operating expenses   | 10,441             | 8,838            | 1,603    | 18.1    |
| Segment operating income   | \$ 3,341           | \$ 3,428         | \$ (87 ) | (2.5 )  |

## Operating revenues

Operating revenues increased \$1.5 million overall in the three months ended June 30, 2012, from the comparable 2011 period. The increase in service revenue resulted primarily from contracts to provide internet access to third parties. Access revenue decreased due to changes in affiliate billings and to the Company's mid-2011 decision to de-tariff DSL rates. Facility lease revenue increased due to charges for additional circuits to our Wireless affiliate and third parties for fiber to the tower and similar projects, to support voice services in the acquired cable markets, as well as service contracts to other customers. Other revenue increased as the Company provided service to sold Converged Services properties at cost during transition of the properties. This increase is offset by an increase in cost of goods and services.

## Operating expenses

Operating expenses overall increased \$1.6 million, or 18.1%, in the three months ended June 30, 2012, compared to the 2011 three month period. The increase in cost of goods and services resulted from the costs of providing service to transitioning Converged Services properties. Also driving the increase were the costs of obtaining service from third parties to support the provision of additional voice services and facilities leases as mentioned above. The increase in depreciation resulted from additions to switch and circuit equipment required to support of the growth in fiber and other service contract revenue mentioned above. The decrease in selling, general and administrative expenses resulted from lower commissions, advertising and bad debt charges, each of which was less than \$0.1 million.

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Six Months Ended June 30, 2012 Compared with the Six Months Ended June 30, 2011

| (in thousands)   | Six Months Ended |                  | \$      | Change |        |
|--|------------------|------------------|---------|--------|--------|
|  | 2012             | June 30,<br>2011 |         |        | %      |
| <b>Segment operating revenues</b>  |                  |                  |         |        |        |
| Service revenue  | \$ 8,247         | \$ 7,976         | \$ 271  |        | 3.4    |
| Access revenue   | 6,035            | 6,865            | (830)   | ( )    | (12.1) |
| Facilities lease revenue   | 10,304           | 7,718            | 2,586   |        | 33.5   |
| Equipment revenue  | 20               | 18               | 2       |        | (11.1) |
| Other revenue  | 2,085            | 1,773            | 312     |        | 17.6   |
| Total segment operating revenues   | 26,691           | 24,350           | 2,341   |        | 9.6    |
| <b>Segment operating expenses</b>  |                  |                  |         |        |        |
| Cost of goods and services, exclusive of depreciation and amortization shown separately below          |                  |                  |         |        |        |
|  | 11,747           | 9,350            | 2,397   |        | 25.6   |
| Selling, general and administrative, exclusive of depreciation and amortization shown separately below |                  |                  |         |        |        |
|  | 3,354            | 3,667            | (313)   | ( )    | (8.5)  |
| Depreciation and amortization  | 4,458            | 4,105            | 353     |        | 8.6    |
| Total segment operating expenses   | 19,559           | 17,122           | 2,437   |        | 14.2   |
| Segment operating income   | \$ 7,132         | \$ 7,228         | \$ (96) | ( )    | (1.3)  |

**Operating revenues**

Operating revenues increased \$2.3 million, or 9.6%, in the six months ended June 30, 2012, from the comparable 2011 period. The increase in service revenue resulted primarily from contracts to provide internet access to third parties. Access revenue decreased due to changes in affiliate billings and to the Company's mid-2011 decision to de-tariff DSL rates. Facility lease revenue increased due to charges for additional circuits to our Wireless affiliate and third parties for fiber to the tower and similar projects, to support voice services in the acquired cable markets, as well as service contracts to other customers. Other revenue increased as the Company provided service to sold Converged Services properties during transition of the properties. This increase is offset by an increase in cost of goods and services.

**Operating expenses**

Operating expenses overall increased \$2.4 million, or 14.2%, in the six months ended June 30, 2012, compared to the 2011 six month period. The increase in cost of goods and services resulted from the costs of providing service to transitioning Converged Services properties. Also driving the increase were the costs of obtaining service from third parties to provide voice services to Shentel Cable and other customers, related to the increases in service revenue and facilities lease revenue shown above. The increase in depreciation resulted from additions to switch and circuit equipment in support of fiber and other service contract revenue increases as shown above. The decrease in selling, general and administrative expenses resulted from lower commissions, advertising and bad debt charges, each of which was less than \$0.2 million.



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Non-GAAP Financial Measure

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

Adjusted OIBDA is defined by us as operating income (loss) before depreciation and amortization, adjusted to exclude the effects of: certain non-recurring transactions; impairment of assets; gains and losses on asset sales; and share based compensation expense. Adjusted OIBDA should not be construed as an alternative to operating income as determined in accordance with GAAP as a measure of operating performance.

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

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

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

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

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

The following table shows adjusted OIBDA for the three and six months ended June 30, 2012 and 2011:

| (in thousands) | Three Months Ended |           | Six Months Ended |           |
|----------------|--------------------|-----------|------------------|-----------|
|                | June 30,<br>2012   | 2011      | June 30,<br>2012 | 2011      |
| Adjusted OIBDA | \$ 26,910          | \$ 22,991 | \$ 51,923        | \$ 44,362 |

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The following table reconciles adjusted OIBDA to operating income, which we consider to be the most directly comparable GAAP financial measure, for the three and six months ended June 30, 2012 and 2011:

| Consolidated:<br>(in thousands)       | Three Months Ended<br>June 30, |           | Six Months Ended<br>June 30, |           |
|---------------------------------------|--------------------------------|-----------|------------------------------|-----------|
|                                       | 2012                           | 2011      | 2012                         | 2011      |
| Operating income                      | \$ 11,137                      | \$ 7,994  | \$ 19,955                    | \$ 15,085 |
| Plus depreciation and amortization    | 15,259                         | 14,444    | 31,066                       | 28,382    |
| OIBDA                                 | 26,396                         | 22,438    | 51,021                       | 43,467    |
| Plus (gain) loss on asset sales       | (9 )                           | 38        | 24                           | 112       |
| Plus share based compensation expense | 523                            | 515       | 878                          | 783       |
| Adjusted OIBDA                        | \$ 26,910                      | \$ 22,991 | \$ 51,923                    | \$ 44,362 |

The following tables reconcile adjusted OIBDA to operating income by major segment for the three months and six months ended June 30, 2012 and 2011:

| Wireless Segment:<br>(in thousands)   | Three Months Ended<br>June 30, |           | Six Months Ended<br>June 30, |           |
|---------------------------------------|--------------------------------|-----------|------------------------------|-----------|
|                                       | 2012                           | 2011      | 2012                         | 2011      |
| Operating income                      | \$ 12,491                      | \$ 10,352 | \$ 23,015                    | \$ 20,427 |
| Plus depreciation and amortization    | 6,753                          | 6,140     | 14,510                       | 12,374    |
| OIBDA                                 | 19,244                         | 16,492    | 37,525                       | 32,801    |
| Plus loss on asset sales              | -                              | -         | 4                            | 16        |
| Plus share based compensation expense | 152                            | 146       | 256                          | 246       |
| Adjusted OIBDA                        | \$ 19,396                      | \$ 16,638 | \$ 37,785                    | \$ 33,063 |

| Cable Segment:<br>(in thousands)      | Three Months Ended<br>June 30, |             | Six Months Ended<br>June 30, |              |
|---------------------------------------|--------------------------------|-------------|------------------------------|--------------|
|                                       | 2012                           | 2011        | 2012                         | 2011         |
| Operating income (loss)               | \$ (4,005 )                    | \$ (4,923 ) | \$ (8,545 )                  | \$ (10,643 ) |
| Plus depreciation and amortization    | 6,203                          | 6,088       | 12,055                       | 11,786       |
| OIBDA                                 | 2,198                          | 1,165       | 3,510                        | 1,143        |
| Plus (gain) loss on asset sales       | (30 )                          | 28          | (21 )                        | 75           |
| Plus share based compensation expense | 218                            | 194         | 366                          | 325          |
| Adjusted OIBDA                        | \$ 2,386                       | \$ 1,387    | \$ 3,855                     | \$ 1,543     |

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| Wireline Segment:<br>(in thousands)   | Three Months Ended |                  | Six Months Ended |                  |
|---------------------------------------|--------------------|------------------|------------------|------------------|
|                                       | June 30,<br>2012   | June 30,<br>2011 | June 30,<br>2012 | June 30,<br>2011 |
| Operating income                      | \$3,341            | \$3,428          | \$7,132          | \$7,228          |
| Plus depreciation and amortization    | 2,285              | 2,155            | 4,458            | 4,105            |
| OIBDA                                 | 5,626              | 5,583            | 11,590           | 11,333           |
| Plus loss on asset sales              | 21                 | 10               | 41               | 20               |
| Plus share based compensation expense | 120                | 115              | 202              | 193              |
| Adjusted OIBDA                        | \$5,767            | \$5,708          | \$11,833         | \$11,546         |

## Liquidity and Capital Resources

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

**Sources and Uses of Cash.** The Company generated \$44.5 million of net cash from operations in the first six months of 2012, compared to \$34.3 million in the first six months of 2011. Net income increased from the 2011 period to 2012, including the effects of non-cash items such as depreciation, amortization, deferred income taxes and provisions for bad debt. A decrease in income taxes receivable in the first six months of 2012 also contributed to the increase in net cash from operations.

**Indebtedness.** As of June 30, 2012, the Company's indebtedness totaled \$169.7 million, with an annualized overall weighted average interest rate of approximately 3.40%. The Company has \$50 million available under the Revolving Facility, and the right to borrow up to \$100 million under one or more Incremental Term Loan facilities, subject to certain restrictions. The Revolving Facility and Incremental Term Loan Facility are both subject to the terms of the Credit Agreement entered into in July 2010.

The Company is bound by certain financial covenants under the Credit Agreement dated July 30, 2010. Noncompliance with any one or more of the debt covenants may have an adverse effect on our financial condition or liquidity in the event such noncompliance cannot be cured or should we be unable to obtain a waiver from the lenders. As of June 30, 2012, the Company was in compliance with all debt covenants, and ratios at June 30, 2012 were as follows:

|                             | Actual  | Covenant Requirement at<br>June 30, 2012 |
|-----------------------------|---------|--|
| Total Leverage Ratio        | 1.77    | 2.50 or Lower                            |
| Debt Service Coverage Ratio | 3.68    | 2.25 or Higher                           |
| Equity to Assets Ratio      | 44.2%   | 35.0% or Higher                          |
| Minimum Liquidity Balance   | \$69.6M | \$15.0M or Higher                        |

In accordance with the Credit Agreement, the total leverage and debt service coverage ratios noted above are based on the twelve months ended June 30, 2012. In addition to the covenants above, the Company is required to supply the lender with quarterly financial statements and other reports as defined by the Credit Agreement. The Company was in compliance with all reporting requirements at June 30, 2012.

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

Capital Commitments. Capital expenditures budgeted for 2012 total approximately \$138 million. The major portion of the 2012 planned spending, approximately \$60 million, consists of spending for the Company to mirror the Sprint Nextel network upgrade project, Network Vision, across portions of our network. Spending directly related to Network Vision is expected to be completed across the entire network in 2013. Capital spending in 2012 will also include spending to add capacity and network coverage to our PCS network, new towers to support expanded PCS network coverage, and on-going spending to expand and upgrade our fiber networks and information technology capabilities. Cable segment capital spending for 2012 will total \$34 million, including spending for upgrades of the last of the acquired Cable markets.

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For the first six months of 2012, the Company spent \$32.3 million on capital projects, compared to \$31.6 million in the comparable 2011 period. Spending related to Wireless projects accounted for \$11.8 million in the first six months of 2012, primarily for data capacity upgrades, while Wireline projects accounted for \$6.1 million across a variety of projects. Cable capital spending of \$11.4 million related to plant and headend upgrades, and other projects totaled \$3.0 million, largely related to information technology projects and vehicle acquisitions.

The Company received \$3.3 million in cash from sales of Converged Services properties completed during the first six months of 2012.

The Company believes that cash on hand, cash flow from operations and borrowings expected to be available under the Company's existing credit facilities will provide sufficient cash to enable the Company to fund planned capital expenditures, make scheduled principal and interest payments, meet its other cash requirements and maintain compliance with the terms of its financing agreements for at least the next twelve months. Our participation in the Network Vision plan will require significant capital expenditures and result in increased operating costs through 2013. Thereafter, capital expenditures will likely continue to be required to provide increased capacity to meet the Company's expected growth in demand for its products and services and complete planned upgrades to the cable networks. The actual amount and timing of the Company's future capital requirements may differ materially from the Company's estimate depending on the demand for its products and new market developments and opportunities. The Company is also negotiating to refinance its existing credit facilities in order to increase the size of the term loan and to extend the repayment terms and other potential benefits, primarily to finance the Network Vision capital program.

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

Recently Issued Accounting Standards

There were no recently issued accounting standards, not adopted by the Company as of June 30, 2012, that are expected to have a material impact on the Company's results of operations or financial condition.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's market risks relate primarily to changes in interest rates on instruments held for other than trading purposes. The Company's interest rate risk generally involves three components. The first component is outstanding debt with variable rates. As of June 30, 2012, the Company had \$165.9 million of variable rate debt outstanding, bearing interest at a rate of 2.99%, based upon one month LIBOR. An increase in market interest rates of 1.00% would add approximately \$1.7 million to annual interest expense. The remaining approximately \$3.8 million of the Company's outstanding debt has fixed rates through maturity. Due to the relatively short time frame to maturity of this fixed rate debt, market value approximates carrying value of the fixed rate debt. The Company entered into a swap agreement on notional principal equal to one-third of the outstanding variable rate debt to pay a fixed rate of 1.00% and receive a variable rate based on one month LIBOR through July 2013 to manage a portion of its interest rate risk.

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

The third component of interest rate risk is marked increases in interest rates that may adversely affect the rate at which the Company may borrow funds for growth in the future. The Company is also negotiating to refinance its existing credit facilities in order to increase the size of the term loan and to extend the repayment terms and other potential benefits, primarily to finance the Network Vision capital program. If interest rates under such renegotiated facilities increase, 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. The Company's investments in publicly traded stock and bond mutual funds under the rabbi trust, which are subject to market risks and could experience significant swings in market values, are offset by corresponding changes in the liabilities owed to participants in the Executive Supplemental Retirement Plan. General economic conditions affected by regulatory changes, competition or other external influences may pose a higher risk to the Company's overall results.

As of June 30, 2012, the Company has \$6.3 million of cost and equity method investments. Approximately \$2.7 million was invested in privately held companies directly or through investments with portfolio managers. Most of the companies are in an early stage of development and significant increases in interest rates could have an adverse impact on their results, ability to raise capital and viability. The Company's market risk is limited to the funds previously invested and an additional \$0.3 million committed under contracts the Company has signed with portfolio managers.

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ITEM 4.

CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Management, with the participation of our President and Chief Executive Officer, who is the principal executive officer, and the Vice President - Finance and Chief Financial Officer, who is the principal financial officer, conducted an evaluation of our disclosure controls and procedures, as defined by Rule 13a-15(e) under the Securities Exchange Act of 1934. The Company's principal executive officer and its principal financial officer concluded that the Company's disclosure controls and procedures were effective as of June 30, 2012.

Changes in Internal Control Over Financial Reporting

During the second quarter of 2012, there were no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

Other Matters Relating to Internal Control Over Financial Reporting

Under the Company's agreements with Sprint Nextel, Sprint Nextel provides the Company with billing, collections, customer care, certain network operations and other back office services for the PCS operation. As a result, Sprint Nextel remits to the Company approximately 56% of the Company's total operating revenues. Due to this relationship, the Company necessarily relies on Sprint Nextel to provide accurate, timely and sufficient data and information to properly record the Company's revenues, and accounts receivable, which underlie a substantial portion of the Company's periodic financial statements and other financial disclosures.

Information provided by Sprint Nextel includes reports regarding the subscriber accounts receivable in the Company's markets. Sprint Nextel provides the Company with monthly accounts receivable, billing and cash receipts information on a market level, rather than a subscriber level. The Company reviews these various reports to identify discrepancies or errors. Under the Company's agreements with Sprint Nextel, the Company is entitled to only a portion of the receipts, net of items such as taxes, government surcharges, certain allocable write-offs and the 20.0% of revenue retained by Sprint Nextel. Because of the Company's reliance on Sprint Nextel for financial information, the Company must depend on Sprint Nextel to design adequate internal controls with respect to the processes established to provide this data and information to the Company and Sprint Nextel's other Sprint PCS affiliate network partners. To address this issue, Sprint Nextel engages an independent registered public accounting firm to perform a periodic evaluation of these controls and to provide a "Report on Controls Placed in Operation and Tests of Operating Effectiveness" under guidance provided in Statements on Standards for Attestation Engagements No. 16 ("SSAE 16"). The report is provided to the Company on an annual basis and covers a nine-month period. The most recent report covered the period from January 1, 2011 to September 30, 2011. The most recent report indicated there were no material issues which would adversely affect the information used to support the recording of the revenues provided by Sprint Nextel related to the Company's relationship with them.



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## PARTII.

## OTHER INFORMATION

## ITEM 1A.

## Risk Factors

As previously discussed, our actual results could differ materially from our forward looking statements. There have been no material changes in the risk factors from those described in Part 1, Item 1A of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

## ITEM 2.

## Unregistered Sales of Equity Securities and Use of Proceeds

The Company maintains a dividend reinvestment plan (the "DRIP") for the benefit of its shareholders. When shareholders remove shares from the DRIP, the Company issues a certificate for whole shares, pays out cash for any fractional shares, and cancels the fractional shares purchased. In conjunction with exercises of stock options and distributions of vested share awards, the Company periodically repurchases shares from recipients to cover some of the exercise price of the options being exercised or taxes payable associated with the distribution of shares. The following table provides information about the Company's repurchases of shares during the three months ended June 30, 2012:

|                     | Number of<br>Shares<br>Purchased | Average Price<br>Paid per Share |
|---------------------|----------------------------------|---------------------------------|
| April 1 to April 30 | 1                                | \$ 10.72                        |
| May 1 to May 31     | 6,227                            | \$ 10.62                        |
| June 1 to June 30   | 2,529                            | \$ 11.97                        |
| <b>Total</b>        | <b>8,757</b>                     | <b>\$ 11.01</b>                 |

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## ITEM 6.

## Exhibits

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

|       |   |
|-------|---|
| 31.1  | Certification of President and Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.                |
| 31.2  | Certification of Vice President - Finance and Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934. |
| 32    | Certifications pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. § 1350.                                   |
| (101) | Formatted in XBRL (Extensible Business Reporting Language)  |
|       | 101.INS XBRL Instance Document  |
|       | 101.SCH XBRL Taxonomy Extension Schema Document   |
|       | 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document   |
|       | 101.DEF XBRL Taxonomy Extension Definition Linkbase Document  |
|       | 101.LAB XBRL Taxonomy Extension Label Linkbase Document   |
|       | 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document  |

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SIGNATURES

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

SHENANDOAH TELECOMMUNICATIONS COMPANY  
(Registrant)

/s/Adele M. Skolits  
Adele M. Skolits  
Vice President - Finance and Chief Financial Officer  
Date: August 8, 2012

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EXHIBIT INDEX

Exhibit No. Exhibit

|             |   |
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| 101.LAB     | XBRL Taxonomy Extension Label Linkbase Document   |
| 101.PRE     | XBRL Taxonomy Extension Presentation Linkbase Document  |