

SHENANDOAH TELECOMMUNICATIONS CO/VA/  
Form 10-Q  
May 04, 2015

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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 March 31, 2015

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

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

Commission File No.: 000-09881

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

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

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

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

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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 April 23, 2015 was 24,178,774.

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## SHENANDOAH TELECOMMUNICATIONS COMPANY AND SUBSIDIARIES

## UNAUDITED CONSOLIDATED BALANCE SHEETS

(in thousands)

|  | March<br>31,<br>2015 | December<br>31,<br>2014 |
|--|----------------------|-------------------------|
| <b>ASSETS</b>  |                      |                         |
| Current Assets   |                      |                         |
| Cash and cash equivalents  | \$77,152             | \$68,917                |
| Accounts receivable, net   | 28,277               | 30,371                  |
| Income taxes receivable  | 5,433                | 14,752                  |
| Materials and supplies   | 10,261               | 8,794                   |
| Prepaid expenses and other                                       | 5,998                | 4,279                   |
| Deferred income taxes  | 1,087                | 1,211                   |
| Total current assets   | 128,208              | 128,324                 |
| Investments, including \$2,727 and \$2,661 carried at fair value | 10,329               | 10,089                  |
| Property, plant and equipment, net                               | 402,174              | 405,907                 |
| Other Assets   |                      |                         |
| Intangible assets, net   | 67,939               | 68,260                  |
| Deferred charges and other assets, net                           | 6,856                | 6,662                   |
| Other assets, net  | 74,795               | 74,922                  |
| Total assets   | \$615,506            | \$619,242               |

See accompanying notes to unaudited consolidated financial statements.

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## SHENANDOAH TELECOMMUNICATIONS COMPANY AND SUBSIDIARIES

## UNAUDITED CONSOLIDATED BALANCE SHEETS

(in thousands)

|   | March<br>31,<br>2015 | December<br>31,<br>2014 |
|---|----------------------|-------------------------|
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b> |                      |                         |
| <b>Current Liabilities</b>                  |                      |                         |
| Current maturities of long-term debt        | \$23,000             | \$23,000                |
| Accounts payable                            | 7,524                | 11,151                  |
| Advanced billings and customer deposits     | 11,510               | 12,375                  |
| Accrued compensation                        | 3,017                | 5,466                   |
| Accrued liabilities and other               | 8,181                | 7,162                   |
| Total current liabilities                   | 53,232               | 59,154                  |
| <br>  |                      |                         |
| Long-term debt, less current maturities     | 195,500              | 201,250                 |
| <br>  |                      |                         |
| <b>Other Long-Term Liabilities</b>          |                      |                         |
| Deferred income taxes                       | 74,075               | 76,777                  |
| Deferred lease payable                      | 7,429                | 7,180                   |
| Asset retirement obligations                | 7,256                | 6,928                   |
| Other liabilities                           | 9,694                | 9,607                   |
| Total other long-term liabilities           | 98,454               | 100,492                 |
| <br>  |                      |                         |
| <b>Commitments and Contingencies</b>        |                      |                         |
| <br>  |                      |                         |
| <b>Shareholders' Equity</b>                 |                      |                         |
| Common stock                                | 30,307               | 29,712                  |
| Accumulated other comprehensive income      | 215                  | 1,122                   |
| Retained earnings                           | 237,798              | 227,512                 |
| Total shareholders' equity                  | 268,320              | 258,346                 |
| <br>  |                      |                         |
| Total liabilities and shareholders' equity  | \$615,506            | \$619,242               |

See accompanying notes to unaudited consolidated financial statements.

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UNAUDITED CONSOLIDATED STATEMENTS OF INCOME AND  
COMPREHENSIVE INCOME (LOSS)

(in thousands, except per share amounts)

|  | Three Months<br>Ended<br>March 31, |          |
|--|------------------------------------|----------|
|  | 2015                               | 2014     |
| Operating revenues   | \$84,287                           | \$80,452 |
| Operating expenses:  |                                    |          |
| Cost of goods and services, exclusive of depreciation and amortization shown separately below          | 30,691                             | 32,236   |
| Selling, general and administrative, exclusive of depreciation and amortization shown separately below | 18,733                             | 17,149   |
| Depreciation and amortization  | 16,337                             | 15,387   |
| Total operating expenses   | 65,761                             | 64,772   |
| Operating income   | 18,526                             | 15,680   |
| Other income (expense):  |                                    |          |
| Interest expense   | (1,915 )                           | (2,048 ) |
| Gain (loss) on investments, net  | 102                                | (18 )    |
| Non-operating income, net  | 432                                | 628      |
| Income before income taxes   | 17,145                             | 14,242   |
| Income tax expense   | 6,859                              | 5,626    |
| Net income   | \$10,286                           | \$8,616  |
| Other comprehensive income:  |                                    |          |
| Unrealized loss on interest rate hedge, net of tax   | (907 )                             | (347 )   |
| Comprehensive income   | \$9,379                            | \$8,269  |
| Earnings per share:  |                                    |          |
| Basic  | \$0.43                             | \$0.36   |
| Diluted  | \$0.42                             | \$0.36   |
| Weighted average shares outstanding, basic   | 24,153                             | 24,059   |
| Weighted average shares outstanding, diluted   | 24,451                             | 24,221   |

See accompanying notes to unaudited consolidated financial statements.

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UNAUDITED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(in thousands, except per share amounts)

|  | Shares | Common<br>Stock | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Total      |
|--|--------|-----------------|----------------------|--|------------|
| Balance, December 31, 2013   | 24,040 | \$ 26,759       | \$ 204,962           | \$ 2,594   | \$ 234,315 |
| Net income   | -      | -               | 33,883               | -  | 33,883     |
| Other comprehensive loss, net of tax                               | -      | -               | -                    | (1,472 )   | (1,472 )   |
| Dividends declared (\$0.47 per share)                              | -      | -               | (11,333 )            | -  | (11,333 )  |
| Dividends reinvested in common stock                               | 19     | 572             | -                    | -  | 572        |
| Stock based compensation   | -      | 2,624           | -                    | -  | 2,624      |
| Common stock issued through exercise of incentive<br>stock options | 51     | 1,141           | -                    | -  | 1,141      |
| Common stock issued for share awards                               | 81     | -               | -                    | -  | -          |
| Common stock issued  | 1      | 6               | -                    | -  | 6          |
| Common stock repurchased   | (60 )  | (1,785 )        | -                    | -  | (1,785 )   |
| Net excess tax benefit from stock options exercised                | -      | 395             | -                    | -  | 395        |
| Balance, December 31, 2014   | 24,132 | \$ 29,712       | \$ 227,512           | \$ 1,122   | \$ 258,346 |
| Net income   | -      | -               | 10,286               | -  | 10,286     |
| Other comprehensive loss, net of tax                               | -      | -               | -                    | (907 )   | (907 )     |
| Stock based compensation   | -      | 955             | -                    | -  | 955        |
| Stock options exercised  | 2      | 43              | -                    | -  | 43         |
| Common stock issued for share awards                               | 70     | -               | -                    | -  | -          |
| Common stock issued  | 1      | 3               | -                    | -  | 3          |
| Common stock repurchased   | (26 )  | (763 )          | -                    | -  | (763 )     |
| Net excess tax benefit from stock options exercised                | -      | 357             | -                    | -  | 357        |
| Balance, March 31, 2015  | 24,179 | \$ 30,307       | \$ 237,798           | \$ 215   | \$ 268,320 |

See accompanying notes to unaudited consolidated financial statements.

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## SHENANDOAH TELECOMMUNICATIONS COMPANY AND SUBSIDIARIES

## UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

|   | Three Months<br>Ended<br>March 31,<br>2015      2014 |            |
|---|--|------------|
| Cash Flows From Operating Activities  |  |            |
| Net income  | \$10,286   | \$8,616    |
| Adjustments to reconcile net income to net cash provided by operating activities: |  |            |
| Depreciation  | 15,931   | 14,556     |
| Amortization  | 406  | 831        |
| Provision for bad debt  | 321  | 234        |
| Stock based compensation expense  | 825  | 1,147      |
| Excess tax benefits on stock awards   | (357 )   | (305 )     |
| Deferred income taxes   | (1,610 )   | (2,013 )   |
| Net (gain) loss on disposal of equipment  | 11   | (425 )     |
| Unrealized (gain) loss on investments   | (38 )  | 29         |
| Net gains from patronage and equity investments                                   | (202 )   | (163 )     |
| Amortization of long term debt issuance costs                                     | 146  | 149        |
| Other   | 226  | (161 )     |
| Changes in assets and liabilities:  |  |            |
| (Increase) decrease in:   |  |            |
| Accounts receivable   | 1,773  | 52         |
| Materials and supplies  | (1,467 )   | 2,138      |
| Income taxes receivable   | 9,319  | 8,831      |
| Other assets  | (3,896 )   | 173        |
| Increase (decrease) in:   |  |            |
| Accounts payable  | (5,827 )   | (384 )     |
| Deferred lease payable  | 249  | 237        |
| Other deferrals and accruals  | (2,275 )   | (945 )     |
| Net cash provided by operating activities   | \$23,821   | \$32,597   |
| Cash Flows From Investing Activities  |  |            |
| Acquisition of property, plant and equipment                                      | \$(9,500 )   | \$(17,196) |
| Proceeds from sale of equipment   | 24   | 84         |
| Cash distributions from investments   | -  | 3          |
| Net cash used in investing activities   | \$(9,476 )   | \$(17,109) |

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UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(in thousands)

|   | Three Months<br>Ended<br>March 31,<br>2015      2014 |            |
|---|--|------------|
| Cash Flows From Financing Activities              |  |            |
| Principal payments on long-term debt              | \$(5,750 )   | \$-        |
| Excess tax benefits on stock awards               | 357  | 305        |
| Repurchases of stock                              | (763 )   | (1,540 )   |
| Proceeds from issuances of stock                  | 46   | 1,112      |
| Net cash used in financing activities             | \$(6,110 )   | \$(123 )   |
| Net increase in cash and cash equivalents         | \$8,235  | \$15,365   |
| Cash and cash equivalents:                        |  |            |
| Beginning   | 68,917   | 38,316     |
| Ending  | \$77,152   | \$53,681   |
| Supplemental Disclosures of Cash Flow Information |  |            |
| Cash payments for:                                |  |            |
| Interest  | \$1,905  | \$1,954    |
| Income taxes paid (refunded)                      | \$(850 )   | \$(1,192 ) |

At March 31, 2015, accounts payable included approximately \$2.2 million associated with capital expenditures. Cash flows for accounts payable and acquisition of property, plant and equipment exclude this activity. During the three months ended March 31, 2014, cash flows included approximately \$7.6 million of capital expenditures that were included in accounts payable at December 31, 2013.

See accompanying notes to unaudited consolidated financial statements.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

## 1. Basis of Presentation

The interim consolidated financial statements of Shenandoah Telecommunications Company and Subsidiaries (collectively, the “Company”) are unaudited. In the opinion of management, all adjustments necessary for a fair presentation of the interim results have been reflected therein. All such adjustments were of a normal and recurring nature. These statements should be read in conjunction with the audited consolidated financial statements and related notes in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014. The balance sheet information at December 31, 2014 was derived from the audited December 31, 2014 consolidated balance sheet. Operating revenues and income from operations for any interim period are not necessarily indicative of results that may be expected for the entire year.

## 2. Property, Plant and Equipment

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

|  | March<br>31,<br>2015 | December<br>31,<br>2014 |
|--|----------------------|-------------------------|
| Plant in service                               | \$685,598            | \$675,321               |
| Plant under construction                       | 17,880               | 18,078                  |
|  | 703,478              | 693,399                 |
| Less accumulated amortization and depreciation | 301,304              | 287,492                 |
| Net property, plant and equipment              | \$402,174            | \$405,907               |

## 3. Earnings per share

Basic net income per share was computed on the weighted average number of shares outstanding. Diluted net income per share was computed under the treasury stock method, assuming the conversion as of the beginning of the period, for all dilutive stock options. Of 721 thousand and 676 thousand shares and options outstanding at March 31, 2015 and 2014, respectively, 84 thousand and 96 thousand were anti-dilutive, respectively. These shares and options have been excluded from the computations of diluted earnings per share for their respective period. There were no adjustments to net income for either period.

## 4. Investments Carried at Fair Value

Investments include \$2.7 million of investments carried at fair value as of both March 31, 2015 and December 31, 2014, consisting of equity, bond and money market mutual funds. Investments carried at fair value were acquired under a rabbi trust arrangement related to the Company’s nonqualified Supplemental Executive Retirement Plan (the “SERP”). The Company purchases investments in the trust to mirror the investment elections of participants in the SERP; gains and losses on the investments in the trust are reflected as increases or decreases in the liability owed to the participants. During the three months ended March 31, 2015, the Company recognized \$39 thousand in dividend and interest income from investments, and recorded net unrealized gains of \$38 thousand on these investments. Fair values for these investments held under the rabbi trust were determined by Level 1 quoted market prices for the underlying mutual funds.

## 5. Financial Instruments

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

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## 6. Derivative Instruments, Hedging Activities and Accumulated Other Comprehensive Income

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

The Company entered into a pay-fixed, receive-variable interest rate swap of \$174.6 million of notional principal in September 2012. This interest rate swap was designated as a cash flow hedge. The total outstanding notional amount of the cash flow hedge was \$165.9 million as of March 31, 2015. The outstanding notional amount decreases as the Company makes scheduled principal payments on the debt.

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

Amounts reported in accumulated other comprehensive income related to the interest rate swap designated and that qualifies as a cash flow hedge are reclassified to interest expense as interest payments are made on the Company's variable-rate debt. As of March 31, 2015, the Company estimates that \$1.3 million will be reclassified as an increase to interest expense during the next twelve months due to the interest rate swap since the hedge interest rate exceeds the variable interest rate on the debt.

The table below presents the fair value of the Company's derivative financial instrument as well as its classification on the consolidated balance sheet as of March 31, 2015 and December 31, 2014 (in thousands):

| Derivatives   | Fair Value as of |                   |
|---|------------------|-------------------|
|   | March 31, 2015   | December 31, 2014 |
| Balance Sheet Location                              | 31, 2015         | 31, 2014          |
| Derivatives designated as hedging instruments:      |                  |                   |
| Interest rate swap                                  |                  |                   |
| Accrued liabilities and other                       | \$(1,257)        | \$(1,309)         |
| Deferred charges and other assets, net              | 1,610            | 3,180             |
| Total derivatives designated as hedging instruments | \$353            | \$ 1,871          |

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

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The table below presents change in accumulated other comprehensive income by component for the three months ended March 31, 2015 (in thousands):

|  | Gains<br>and<br>(Losses) | Income<br>Tax<br>(Expense)<br>Benefit | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) |
|--|--------------------------|---------------------------------------|--|
| Balance as of December 31, 2014  | \$ 1,871                 | \$ (749 )                             | \$ 1,122   |
| Other comprehensive loss before reclassifications                                      | (1,922 )                 | 773                                   | (1,149 )   |
| Amounts reclassified from accumulated other comprehensive income (to interest expense) | 404                      | (162 )                                | 242  |
| Net current period other comprehensive loss  | (1,518 )                 | 611                                   | (907 )   |
| Balance as of March 31, 2015   | \$ 353                   | \$ (138 )                             | \$ 215   |

## 7. Segment Information

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

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

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

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

Three months ended March 31, 2015

(in thousands)

|                         | Wireless | Cable    | Wireline | Other | Eliminations | Consolidated<br>Totals |
|-------------------------|----------|----------|----------|-------|--------------|------------------------|
| External revenues       |          |          |          |       |              |                        |
| Service revenues        | \$48,375 | \$21,401 | \$4,750  | \$-   | \$ -         | \$ 74,526              |
| Other                   | 3,030    | 1,762    | 4,969    | -     | -            | 9,761                  |
| Total external revenues | 51,405   | 23,163   | 9,719    | -     | -            | 84,287                 |
| Internal revenues       | 1,104    | 148      | 5,866    | -     | (7,118 )     | -                      |

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|  |           |          |          |           |          |           |
|--|-----------|----------|----------|-----------|----------|-----------|
| Total operating revenues   | 52,509    | 23,311   | 15,585   | -         | (7,118 ) | 84,287    |
| Operating expenses   |           |          |          |           |          |           |
| Costs of goods and services, exclusive of depreciation and amortization shown separately below         | 16,187    | 13,618   | 7,334    | 17        | (6,465 ) | 30,691    |
| Selling, general and administrative, exclusive of depreciation and amortization shown separately below | 9,052     | 4,892    | 1,498    | 3,944     | (653 )   | 18,733    |
| Depreciation and amortization  | 7,831     | 5,480    | 2,924    | 102       | -        | 16,337    |
| Total operating expenses   | 33,070    | 23,990   | 11,756   | 4,063     | (7,118 ) | 65,761    |
| Operating income (loss)  | \$ 19,439 | \$(679 ) | \$ 3,829 | \$(4,063) | \$ -     | \$ 18,526 |

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Three months ended March 31, 2014

(in thousands)

|  | Wireless | Cable<br>(1) | Wireline<br>(1) | Other     | Eliminations | Consolidated<br>Totals |
|--|----------|--------------|-----------------|-----------|--------------|------------------------|
| External revenues  |          |              |                 |           |              |                        |
| Service revenues   | \$47,232 | \$18,874     | \$4,596         | \$-       | \$-          | \$70,702               |
| Other  | 2,756    | 1,580        | 5,414           | -         | -            | 9,750                  |
| Total external revenues  | 49,988   | 20,454       | 10,010          | -         | -            | 80,452                 |
| Internal revenues  | 1,091    | 26           | 5,765           | -         | (6,882)      | -                      |
| Total operating revenues   | 51,079   | 20,480       | 15,775          | -         | (6,882)      | 80,452                 |
| Operating expenses   |          |              |                 |           |              |                        |
| Costs of goods and services, exclusive of depreciation and amortization shown separately below         | 18,657   | 12,390       | 7,482           | -         | (6,293)      | 32,236                 |
| Selling, general and administrative, exclusive of depreciation and amortization shown separately below | 8,432    | 4,646        | 1,244           | 3,416     | (589)        | 17,149                 |
| Depreciation and amortization  | 7,196    | 5,404        | 2,697           | 90        | -            | 15,387                 |
| Total operating expenses   | 34,285   | 22,440       | 11,423          | 3,506     | (6,882)      | 64,772                 |
| Operating income (loss)  | \$16,794 | \$(1,960)    | \$4,352         | \$(3,506) | \$-          | \$15,680               |

(1) Prior year figures have been recast to conform to current year presentation.

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

|                                     | Three Months<br>Ended<br>March 31, |          |
|-------------------------------------|------------------------------------|----------|
| (in thousands)                      | 2015                               | 2014     |
| Total consolidated operating income | \$18,526                           | \$15,680 |
| Interest expense                    | (1,915)                            | (2,048)  |
| Non-operating income, net           | 534                                | 610      |
| Income before taxes                 | \$17,145                           | \$14,242 |

The Company's assets by segment are as follows:

|                            | March 31,<br>2015 | December<br>31,<br>2014 |
|----------------------------|-------------------|-------------------------|
| (in thousands)             |                   |                         |
| Wireless                   | \$206,109         | \$218,887               |
| Cable                      | 208,736           | 201,232                 |
| Wireline                   | 95,614            | 98,081                  |
| Other                      | 461,505           | 446,028                 |
| Combined totals            | 971,964           | 964,228                 |
| Inter-segment eliminations | (356,458)         | (344,986)               |
| Consolidated totals        | \$615,506         | \$619,242               |

8. Income Taxes

The Company files U.S. federal income tax returns and various state and local income tax returns. Years prior to 2011 are no longer subject to examination. The Company is not subject to any state or federal income tax audits as of March 31, 2015.

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

This management's discussion and analysis includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. When used in this report, the words "anticipate," "believe," "estimate," "expect," "intend," "plan" and similar expressions as they relate to Shenandoah Telecommunications Company or its management are intended to identify these forward-looking statements. All statements regarding Shenandoah Telecommunications Company's expected future financial position and operating results, business strategy, financing plans, forecasted trends relating to the markets in which Shenandoah Telecommunications Company operates and similar matters are forward-looking statements. We cannot assure you that the Company's expectations expressed or implied in these forward-looking statements will turn out to be correct. The Company's actual results could be materially different from its expectations because of various factors, including those discussed below and under the caption "Risk Factors" in the Company's Annual Report on Form 10-K for its fiscal year ended December 31, 2014. 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, 2014, including the financial statements and related notes included therein.

General

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

The Wireless segment provides digital wireless service as a Sprint PCS Affiliate to a portion of a four-state area covering the region from Harrisburg, York and Altoona, Pennsylvania, to Harrisonburg, Virginia. In this area, the \*Company is the exclusive provider of wireless mobility communications network products and services on the 800 and 1900 MHz bands under the Sprint brand. This segment also owns cell site towers built on leased land, and leases space on these towers to both affiliates and non-affiliated service providers.

The Cable segment provides video, internet and voice services in franchise areas in portions of Virginia, West \*Virginia and western Maryland, and leases fiber optic facilities throughout its service area. It does not include video, internet and voice services provided to customers in Shenandoah County, Virginia.

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

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

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## Results of Operations

Three Months Ended March 31, 2015 Compared with the Three Months Ended March 31, 2014

The Company's consolidated results for the first quarter of 2015 and 2014 are summarized as follows:

| (in thousands)      | Three Months Ended |          | Change  |        |
|---------------------|--------------------|----------|---------|--------|
|                     | 2015               | 2014     | \$      | %      |
| Operating revenues  | \$84,287           | \$80,452 | \$3,835 | 4.8    |
| Operating expenses  | 65,761             | 64,772   | 989     | 1.5    |
| Operating income    | 18,526             | 15,680   | 2,846   | 18.2   |
| Interest expense    | (1,915 )           | (2,048 ) | 133     | (6.5 ) |
| Other income, net   | 534                | 610      | (76 )   | (12.5) |
| Income before taxes | 17,145             | 14,242   | 2,903   | 20.4   |
| Income tax expense  | 6,859              | 5,626    | 1,233   | 21.9   |
| Net income          | \$10,286           | \$8,616  | \$1,670 | 19.4   |

## Operating revenues

For the three months ended March 31, 2015, operating revenues increased \$3.8 million, or 4.8%. Cable segment revenue grew \$2.8 million as a result of a 6.7% growth in average subscriber counts and an increase in revenue per subscriber. Wireless segment revenues increased \$1.4 million compared to the first quarter of 2014. Net prepaid service revenue increased \$0.9 million, primarily due to 6.4% growth in prepaid subscribers. Wireless equipment revenue increased due primarily to lower discounts on subsidized handset sales.

## Operating expenses

Total operating expenses were \$65.8 million in the first quarter of 2015 compared to \$64.8 million in the prior year period. Cost of goods and services sold decreased \$1.5 million, primarily due to a \$2.7 million decrease in PCS postpaid handset costs, partially offset by a \$1.3 million increase in cable programming costs. Selling, general and administrative expenses increased \$1.6 million. Depreciation and amortization expense increased \$0.9 million, primarily due to ongoing projects to expand and upgrade the wireless, cable and fiber networks.

## Income tax expense

The Company's effective tax rate increased from 39.5% for the three months ended March 31, 2014 to 40.0% for the three months ended March 31, 2015. For the remainder of 2015, the Company expects that its effective tax rate, without unanticipated adjustments, will be approximately 40.0%.

## Net income

For the three months ended March 31, 2015, net income increased \$1.7 million, or 19.4%, primarily reflecting growth in subscriber counts in the Wireless and Cable segments, along with a decrease in cost of goods and services sold in the Wireless segment.

## Wireless

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

PCS receives revenues from Sprint for subscribers that obtain service in PCS's network coverage area. PCS relies on Sprint to provide timely, accurate and complete information to record the appropriate revenue for each financial period. Postpaid revenues received from Sprint are recorded net of certain fees retained by Sprint. These fees total 22% of net postpaid billed revenue, as defined.

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The Company offers prepaid wireless products and services in its PCS network coverage area. Sprint retains a 6% Management Fee on prepaid revenues. Prepaid revenues received from Sprint are reported net of the cost of this fee. Other fees charged on a per unit basis are separately recorded as expenses according to the nature of the expense. The Company pays handset subsidies to Sprint for the difference between the selling price of prepaid handsets and their cost, in aggregate and as a net cost included in cost of goods sold. The revenue and expense components reported to us by Sprint are based on Sprint's national averages for prepaid services, rather than being specifically determined by customers assigned to our geographic service areas.

In April 2014, the Company's PCS stores began participating in Sprint's postpaid handset financing programs, whereby Sprint enters into a financing agreement with the subscriber and the subscriber receives a handset from Sprint. The equipment revenue from the subscriber and the handset expense are Sprint's responsibility and are not recorded by the Company. In the first quarter of 2015, approximately 60% of postpaid handset transactions through Company channels involved a financing plan. All else being equal, the service plans for these subscribers generate less monthly service revenue compared to plans with a subsidized handset.

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

|                                    | March<br>31,<br>2015 | December<br>31,<br>2014 | March<br>31,<br>2014 | December<br>31,<br>2013 |
|------------------------------------|----------------------|-------------------------|----------------------|-------------------------|
| Retail PCS Subscribers – Postpaid  | 291,078              | 287,867                 | 275,025              | 273,721                 |
| Retail PCS Subscribers – Prepaid   | 147,783              | 145,162                 | 138,537              | 137,047                 |
| PCS Market POPS (000) (1)          | 2,418                | 2,415                   | 2,402                | 2,397                   |
| PCS Covered POPS (000) (1)         | 2,210                | 2,207                   | 2,072                | 2,067                   |
| CDMA Base Stations (sites)         | 542                  | 537                     | 526                  | 526                     |
| Towers Owned                       | 154                  | 154                     | 153                  | 153                     |
| Non-affiliate Cell Site Leases (2) | 199                  | 198                     | 206                  | 217                     |

Three Months  
Ended  
March 31,  
2015      2014

|   |        |        |
|---|--------|--------|
| Gross PCS Subscriber Additions - Postpaid         | 17,105 | 15,585 |
| Net PCS Subscriber Additions - Postpaid           | 3,211  | 1,304  |
| Gross PCS Subscriber Additions - Prepaid          | 23,620 | 19,172 |
| Net PCS Subscriber Additions - Prepaid            | 2,621  | 1,490  |
| PCS Average Monthly Retail Churn % - Postpaid (3) | 1.60 % | 1.73 % |
| PCS Average Monthly Retail Churn % - Prepaid (3)  | 4.76 % | 4.27 % |

POPS refers to the estimated population of a given geographic area and is based on information purchased from third party sources. Market POPS are those within a market area which the Company is authorized to serve under 1) its Sprint PCS affiliate agreements, and Covered POPS are those covered by the Company's network. Covered POPS increased in 2014 primarily as a result of the Company's deployment of the 800 megahertz spectrum at existing cell sites.

2) The decreases during 2014 are primarily a result of termination of Sprint iDEN leases associated with the former Nextel network.

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



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Three Months Ended March 31, 2015 Compared with the Three Months Ended March 31, 2014

| (in thousands)   | Three Months Ended |                | Change  |        |
|--|--------------------|----------------|---------|--------|
|  | March 31, 2015     | March 31, 2014 | \$      | %      |
| Segment operating revenues   |                    |                |         |        |
| Wireless service revenue   | \$48,375           | \$47,232       | \$1,143 | 2.4    |
| Tower lease revenue  | 2,570              | 2,565          | 5       | 0.2    |
| Equipment revenue  | 1,481              | 1,197          | 284     | 23.7   |
| Other revenue  | 83                 | 85             | (2)     | (2.4)  |
| Total segment operating revenues   | 52,509             | 51,079         | 1,430   | 2.8    |
| Segment operating expenses   |                    |                |         |        |
| Cost of goods and services, exclusive of depreciation and amortization shown separately below          | 16,187             | 18,657         | (2,470) | (13.2) |
| Selling, general and administrative, exclusive of depreciation and amortization shown separately below | 9,052              | 8,432          | 620     | 7.4    |
| Depreciation and amortization  | 7,831              | 7,196          | 635     | 8.8    |
| Total segment operating expenses   | 33,070             | 34,285         | (1,215) | (3.5)  |
| Segment operating income   | \$19,439           | \$16,794       | \$2,645 | 15.7   |

## Operating revenues

Wireless service revenue increased \$1.1 million, or 2.4%, for the three months ended March 31, 2015, compared to the comparable 2014 period. Net prepaid service revenues grew \$0.9 million, or 8.6%, due primarily to 6.4% growth in average prepaid subscribers over 2014. Net postpaid service revenues increased \$0.2 million. Average postpaid subscribers increased 5.4% in 2015 over the 2014 period, but was largely offset by a switch to lower revenue service plans associated with handset financing and leasing plans. Under these programs, the Company receives less service revenue from the subscriber, while the equipment revenue from the subscriber and the handset expense become Sprint's responsibility and are not recorded by the Company. The decreases in service revenues are currently more than offset by a decrease in handset expense within cost of goods and services.

Equipment revenue increased due primarily to lower discounts on subsidized handset sales.

## Cost of goods and services

Cost of goods and services decreased \$2.5 million, or 13.2%, in 2015 from the first quarter of 2014. Postpaid handset costs decreased \$2.7 million, as handset expenses associated with financing and leasing plans are Sprint's responsibility and are not recorded by the Company. Network costs decreased \$0.2 million, as a \$0.4 million decrease in backhaul costs was partially offset by a \$0.2 million increase in rent expense on cell sites and towers. Finally, the prior year period included a one-time \$0.4 million gain on disposal of 3G equipment.

## Selling, general and administrative

Selling, general and administrative costs increased \$0.6 million, or 7.4%, in the first quarter of 2015 from the comparable 2014 period. Costs to support the prepaid subscriber base grew \$1.1 million, driven by subscriber growth, product mix, and higher overhead costs. Advertising expenses increased \$0.2 million. The increases were partially offset by a \$0.8 million decline in third party commissions expense due to lower volume of commissionable handsets activated through dealer channels.

Depreciation and amortization

Depreciation and amortization increased \$0.6 million, or 8.8%, in the first quarter of 2015 over the comparable 2014 period. Depreciation expense grew \$0.8 million due to ongoing investments in wireless network coverage and capacity. The increase was partially offset by a \$0.2 million decline in amortization expense.

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## Cable

The Cable segment provides video, internet and voice services in franchise areas in portions of Virginia, West Virginia and western Maryland, and leases fiber optic facilities throughout its service area. It does not include video, internet and voice services provided to customers in Shenandoah County, Virginia.

|                                    | March<br>31,<br>2015 | December<br>31,<br>2014 | March<br>31,<br>2014 | December<br>31,<br>2013 |
|------------------------------------|----------------------|-------------------------|----------------------|-------------------------|
| Homes Passed (1)                   | 172,022              | 171,589                 | 170,711              | 170,470                 |
| Customer Relationships (2)         |                      |                         |                      |                         |
| Video customers                    | 49,662               | 49,247                  | 51,153               | 51,197                  |
| Non-video customers                | 22,530               | 22,051                  | 19,517               | 18,341                  |
| Total customer relationships       | 72,192               | 71,298                  | 70,670               | 69,538                  |
| Video                              |                      |                         |                      |                         |
| Customers (3)                      | 51,708               | 52,095                  | 52,725               | 53,076                  |
| Penetration (4)                    | 30.1 %               | 30.4 %                  | 30.9 %               | 31.1 %                  |
| Digital video penetration (5)      | 69.9 %               | 65.9 %                  | 57.5 %               | 49.2 %                  |
| High-speed Internet                |                      |                         |                      |                         |
| Available Homes (6)                | 172,022              | 171,589                 | 168,573              | 168,255                 |
| Customers (3)                      | 53,195               | 51,359                  | 48,068               | 45,776                  |
| Penetration (4)                    | 30.9 %               | 29.9 %                  | 28.5 %               | 27.2 %                  |
| Voice                              |                      |                         |                      |                         |
| Available Homes (6)                | 169,285              | 168,852                 | 163,582              | 163,282                 |
| Customers (3)                      | 19,112               | 18,262                  | 15,799               | 14,988                  |
| Penetration (4)                    | 11.3 %               | 10.8 %                  | 9.7 %                | 9.2 %                   |
| Total Revenue Generating Units (7) | 124,015              | 121,716                 | 116,592              | 113,840                 |
| Fiber Route Miles                  | 2,836                | 2,834                   | 2,651                | 2,636                   |
| Total Fiber Miles (8)              | 73,294               | 72,694                  | 69,913               | 69,296                  |

Homes and businesses are considered passed (“homes passed”) if we can connect them to our distribution system 1) without further extending the transmission lines. Homes passed is an estimate based upon the best available information.

2) Customer relationships represent the number of customers who receive at least one of our services.

Generally, a dwelling or commercial unit with one or more television sets connected to our distribution system

counts as one video customer. Where services are provided on a bulk basis, such as to hotels and some

3) multi-dwelling units, the revenue charged to the customer is divided by the rate for comparable service in the local market to determine the number of customer equivalents included in the customer counts shown above.

4) Penetration is calculated by dividing the number of customers by the number of homes passed or available homes, as appropriate.

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

5) Digital video customers are video customers who receive any level of video service via digital transmission. A dwelling with one or more digital set-top boxes or digital adapters counts as one digital video customer.

6) Homes and businesses are considered available (“available homes”) if we can connect them to our distribution system without further extending the transmission lines and if we offer the service in that area.

7) Revenue generating units are the sum of video, voice and high-speed internet customers.

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





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Three Months Ended March 31, 2015 Compared with the Three Months Ended March 31, 2014

|   | Three Months Ended |                | Change  |      |
|---|--------------------|----------------|---------|------|
|   | March 31, 2015     | March 31, 2014 | \$      | %    |
| Segment operating revenues  |                    |                |         |      |
| Service revenue (1)   | \$21,401           | \$18,874       | \$2,527 | 13.4 |
| Other revenue (1)   | 1,910              | 1,606          | 304     | 18.9 |
| Total segment operating revenues  | 23,311             | 20,480         | 2,831   | 13.8 |
| Segment operating expenses  |                    |                |         |      |
| Cost of goods and services, exclusive of depreciation and amortization shown separately below           | 13,618             | 12,390         | 1,228   | 9.9  |
| Selling, general, and administrative, exclusive of depreciation and amortization shown separately below | 4,892              | 4,646          | 246     | 5.3  |
| Depreciation and amortization   | 5,480              | 5,404          | 76      | 1.4  |
| Total segment operating expenses  | 23,990             | 22,440         | 1,550   | 6.9  |
| Segment operating loss  | \$(679 )           | \$(1,960 )     | \$1,281 | 65.4 |

(1) Prior year figures have been recast to be comparable with line item changes made in the first quarter of 2015.

## Operating revenues

Cable segment service revenue increased \$2.5 million, or 13.4%, due to a 6.7% increase in average revenue generating units, video rate increases in January 2015, new customers selecting higher-priced digital TV services and existing customers selecting higher-speed data access packages.

Other revenue grew \$0.3 million, primarily due to new fiber to the tower contracts.

## Operating expenses

Cable segment cost of goods and services increased \$1.2 million, or 9.9%, in the first quarter of 2015 over the comparable 2014 period. Video programming costs, including retransmission fees, increased \$1.3 million as the impact of rising rates per subscriber outpaced declining video subscriber counts.

Selling, general and administrative expenses grew \$0.2 million against the prior year quarter as growth in operating taxes and administrative expenses was partially offset by a decline in customer service costs.

## Wireline

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

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|                           | March<br>31,<br>2015 | Dec.<br>31,<br>2014 | March<br>31,<br>2014 | Dec.<br>31,<br>2013 |
|---------------------------|----------------------|---------------------|----------------------|---------------------|
| Telephone Access Lines    | 21,669               | 21,612              | 21,955               | 22,106              |
| Long Distance Subscribers | 9,533                | 9,571               | 9,773                | 9,851               |
| Video Customers(1)        | 5,599                | 5,692               | 6,222                | 6,342               |
| DSL Subscribers           | 12,825               | 12,742              | 12,714               | 12,632              |
| Fiber Route Miles         | 1,559                | 1,556               | 1,454                | 1,452               |
| Total Fiber Miles (2)     | 99,523               | 99,387              | 84,792               | 84,600              |

1)The Wireline segment passes approximately 16,000 homes with video services.

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. Fiber counts were revised following a review of fiber records in the first quarter of 2015.

## Three Months Ended March 31, 2015 Compared with the Three Months Ended March 31, 2014

| (in thousands)   | Three Months<br>Ended<br>March 31, |         | Change  |        |
|--|------------------------------------|---------|---------|--------|
|  | 2015                               | 2014    | \$      | %      |
| Segment operating revenues   |                                    |         |         |        |
| Service revenue (1)  | \$5,294                            | \$5,081 | \$213   | 4.2    |
| Carrier access and fiber revenues (1)  | 9,527                              | 9,875   | (348)   | (3.5 ) |
| Other revenue (1)  | 764                                | 819     | (55 )   | (6.7 ) |
| Total segment operating revenues   | 15,585                             | 15,775  | (190)   | (1.2 ) |
| Segment operating expenses   |                                    |         |         |        |
| Cost of goods and services, exclusive of depreciation and amortization shown separately below          | 7,334                              | 7,482   | (148)   | (2.0 ) |
| Selling, general and administrative, exclusive of depreciation and amortization shown separately below | 1,498                              | 1,244   | 254     | 20.4   |
| Depreciation and amortization  | 2,924                              | 2,697   | 227     | 8.4    |
| Total segment operating expenses   | 11,756                             | 11,423  | 333     | 2.9    |
| Segment operating income   | \$3,829                            | \$4,352 | \$(523) | (12.0) |

(1)Prior year figures have been recast to be comparable with line item changes made in the first quarter of 2015.

## Operating revenues

Total operating revenues in the quarter ended March 31, 2015 decreased \$0.2 million, or 1.2%, against the comparable 2014 period. Carrier access and fiber revenues declined \$0.4 million due to favorable NECA pool adjustments that were recorded in the first quarter of 2014.

## Operating expenses

Operating expenses overall increased \$0.3 million, or 2.9%, in the quarter ended March 31, 2015, compared to the 2014 quarter. The decline in cost of goods and services primarily resulted from the benefit of additional labor costs being capitalized to fixed asset project costs. Sales, general and administrative expenses increased as a result of growth in sales and customer service support teams. Depreciation expense grew as a result of continued investment in

the construction of fiber facilities.

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Non-GAAP Financial Measure

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

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

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

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

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

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

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

The following table shows adjusted OIBDA for the three months ended March 31, 2015 and 2014.

|                | Three Months<br>Ended<br>March 31, |          |
|----------------|------------------------------------|----------|
| (in thousands) | 2015                               | 2014     |
| Adjusted OIBDA | \$35,699                           | \$31,729 |

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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 months ended March 31, 2015 and 2014:

| Consolidated:                         | Three Months |          |
|---------------------------------------|--------------|----------|
|                                       | Ended        |          |
| (in thousands)                        | March 31,    |          |
|                                       | 2015         | 2014     |
| Operating income                      | \$18,526     | \$15,680 |
| Plus depreciation and amortization    | 16,337       | 15,387   |
| Plus (gain) loss on asset sales       | 11           | (366 )   |
| Plus share based compensation expense | 825          | 1,028    |
| Adjusted OIBDA                        | \$35,699     | \$31,729 |

The following tables reconcile adjusted OIBDA to operating income by major segment for the three months ended March 31, 2015 and 2014:

| Wireless Segment:                     | Three Months |          |
|---------------------------------------|--------------|----------|
|                                       | Ended        |          |
| (in thousands)                        | March 31,    |          |
|                                       | 2015         | 2014     |
| Operating income                      | \$19,439     | \$16,794 |
| Plus depreciation and amortization    | 7,831        | 7,196    |
| Plus (gain) loss on asset sales       | 25           | (352 )   |
| Plus share based compensation expense | 186          | 216      |
| Adjusted OIBDA                        | \$27,481     | \$23,854 |

| Cable Segment:                        | Three Months |           |
|---------------------------------------|--------------|-----------|
|                                       | Ended        |           |
| (in thousands)                        | March 31,    |           |
|                                       | 2015         | 2014      |
| Operating income (loss)               | \$(679 )     | \$(1,960) |
| Plus depreciation and amortization    | 5,480        | 5,404     |
| Plus (gain) loss on asset sales       | (13 )        | (23 )     |
| Plus share based compensation expense | 290          | 396       |
| Adjusted OIBDA                        | \$5,078      | \$3,817   |

| Wireline Segment:                     | Three Months |         |
|---------------------------------------|--------------|---------|
|                                       | Ended        |         |
| (in thousands)                        | March 31,    |         |
|                                       | 2015         | 2014    |
| Operating income                      | \$3,829      | \$4,352 |
| Plus depreciation and amortization    | 2,924        | 2,697   |
| Plus loss on asset sales              | 9            | 9       |
| Plus share based compensation expense | 144          | 175     |
| Adjusted OIBDA                        | \$6,906      | \$7,233 |

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## Liquidity and Capital Resources

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

**Sources and Uses of Cash.** The Company generated \$23.8 million of net cash from operations in the first three months of 2015, compared to \$32.6 million in the first three months of 2014. The decrease was driven primarily by timing of cash payments for prepaid assets, accounts payable and accrued expenses.

**Indebtedness.** As of March 31, 2015, the Company's indebtedness totaled \$218.5 million, with an annualized effective interest rate of approximately 3.40% after considering the impact of the interest rate swap contract. The balance consists of the Term Loan Facility at a variable rate (2.68% as of March 31, 2015) that resets monthly based on one month LIBOR plus a base rate of 2.50% currently. The Term Loan Facility requires quarterly principal repayments of \$5.75 million, which began on December 31, 2014 and will continue until the remaining expected balance of approximately \$120.75 million is due at maturity on September 30, 2019.

The Company is bound by certain financial covenants under its Credit Agreement. Noncompliance with any one or more of the debt covenants may have an adverse effect on our financial condition or liquidity in the event such noncompliance cannot be cured or should we be unable to obtain a waiver from the lenders. As of March 31, 2015, the Company was in compliance with all debt covenants, and ratios at March 31, 2015 were as follows:

|                             | Actual | Covenant Requirement at<br>March 31, 2015 |
|-----------------------------|--------|---|
| Total Leverage Ratio        | 1.58   | 2.50 or Lower                             |
| Debt Service Coverage Ratio | 6.22   | 2.50 or Higher                            |
| Equity to Assets Ratio      | 43.6%  | 35.0% 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 March 31, 2015. 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 March 31, 2015.

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 2015 total \$74.8 million. The 2015 budget includes \$24.3 million on the Wireless segment for network capacity and coverage enhancements and new retail stores; \$21.8 million for Cable segment extensions and investment in customer premise equipment; \$20.9 million on the Wireline segment budget, primarily for on-going spending to expand and upgrade our fiber networks; and \$7.8 million for IT and other back office projects in the Other segment.

For the first three months of 2015, the Company spent \$9.5 million on capital projects, compared to \$17.2 million in the comparable 2014 period. Spending related to Wireless projects accounted for \$2.4 million in the first three months of 2015, primarily for new cell sites and upgrades to the network switch. Cable capital spending of \$4.3 million related to network expansion and upgrades to support new customers and services. Wireline capital projects cost \$2.7 million, driven primarily by fiber builds. Other projects totaled \$0.1 million, largely related to information technology projects.



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

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

Recently Issued Accounting Standards

On May 28, 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard is effective for the Company on January 1, 2017. Early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

In February 2015, the FASB issued ASU No. 2015-2, Consolidation (Topic 820): Amendments to the Consolidation Analysis. The ASU provides a revised consolidation model for all reporting entities to use in evaluating whether they should consolidate certain legal entities. All legal entities will be subject to reevaluation under this revised consolidation model. The revised consolidation model, among other things, (i) modifies the evaluation of whether limited partnerships and similar legal entities are VIEs or voting interest entities, (ii) eliminates the presumption that a general partner should consolidate a limited partnership, and (iii) modifies the consolidation analysis of reporting entities that are involved with VIEs through fee arrangements and related party relationships. ASU 2015-2 is effective for fiscal years, and interim reporting periods within those fiscal years, beginning after September 1, 2016 (fiscal 2017). The Company is still evaluating what impact, if any, this ASU will have on the Company's consolidated financial position, results of operations or cash flows.

In April 2015, the FASB issued Accounting Standards Update ("ASU") 2015-03, Simplifying the Presentation of Debt Issuance Costs, which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. This ASU requires retrospective adoption and will be effective for the Company beginning on January 1, 2016. Early adoption is permitted. The Company does not expect this adoption to have a material impact on its consolidated financial statements.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's market risks relate primarily to changes in interest rates on instruments held for other than trading purposes. The Company's interest rate risk generally involves three components. The first component is outstanding debt with variable rates. As of March 31, 2015, the Company had \$218.5 million of variable rate debt outstanding, bearing interest at a rate of 2.68% as determined on a monthly basis. An increase in market interest rates of 1.00% would add approximately \$2.1 million to annual interest expense, excluding the effect of the interest rate swap. In 2012, the Company entered into a swap agreement that covers notional principal equal to approximately 76% of the outstanding variable rate debt through maturity in 2019, requiring the Company to pay a fixed rate of 1.13% and receive a variable rate based on one month LIBOR (0.18% as of March 31, 2015), to manage a portion of its interest rate risk. Changes in the net interest paid or received under the 2012 swap would offset approximately 76% of the change in interest expense on the variable rate debt outstanding. The 2012 swap currently adds approximately \$1.3 million to annual interest expense, based on the spread between the fixed rate and the variable rate currently in effect on our debt.

The second component of interest rate risk consists of temporary excess cash, which can be invested in various short-term investment vehicles such as overnight repurchase agreements and Treasury bills with a maturity of less than 90 days. As of March 31, 2015, the cash is invested in a combination of a commercial checking account that has limited interest rate risk, and three money market mutual funds that contain a total investment of \$40 million. 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. If the Company should borrow additional funds under any Incremental Term Loan Facility to fund its capital investment needs, repayment provisions would be agreed to at the time of each draw under the Incremental Term Loan Facility. If the interest rate margin on any draw exceeds by more than 0.25% the applicable interest rate margin on the Term Loan Facility, the applicable interest rate margin on the Term Loan Facility shall be increased to equal the interest rate margin on the Incremental Term Loan Facility. If interest rates increase generally, or if the rate applied under the Company's Incremental Term Loan Facility causes the Company's outstanding debt to be repriced, the Company's future interest costs could increase.

Management views market risk as having a potentially significant impact on the Company's results of operations, as future results could be adversely affected if interest rates were to increase significantly for an extended period, or if the Company's need for additional external financing resulted in increases to the interest rates applied to all of its new and existing debt. As of March 31, 2015, the Company has \$52.6 million of variable rate debt with no interest rate protection. The Company's investments in publicly traded stock and bond mutual funds under the rabbi trust, which are subject to market risks and could experience significant swings in market values, are offset by corresponding changes in the liabilities owed to participants in the Supplemental Executive Retirement Plan. General economic conditions affected by regulatory changes, competition or other external influences may pose a higher risk to the Company's overall results.

As of March 31, 2015, the Company had \$7.6 million of cost and equity method investments. Approximately \$2.5 million is invested in privately held companies 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.

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ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Management, with the participation of our President and Chief Executive Officer, who is the principal executive officer, and the Vice President - Finance and Chief Financial Officer, who is the principal financial officer, conducted an evaluation of our disclosure controls and procedures, as defined by Rule 13a-15(e) under the Securities Exchange Act of 1934. Based on this evaluation, the Company's principal executive officer and its principal financial officer concluded that the Company's disclosure controls and procedures were effective as of March 31, 2015.

Changes in Internal Control Over Financial Reporting

During the first quarter of 2015, there were no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

Other Matters Relating to Internal Control Over Financial Reporting

Under the Company's agreements with Sprint, Sprint provides the Company with billing, collections, customer care, certain network operations and other back-office services for the PCS operation. As a result, Sprint remits to the Company approximately 57% of the Company's total operating revenues. Due to this relationship, the Company necessarily relies on Sprint to provide accurate, timely and sufficient data and information to properly record the Company's revenues and accounts receivable, which underlie a substantial portion of the Company's periodic financial statements and other financial disclosures.

Information provided by Sprint includes reports regarding the subscriber accounts receivable in the Company's markets. Sprint provides the Company with monthly accounts receivable, billing and cash receipts information on a market level, rather than a subscriber level. The Company reviews these various reports to identify discrepancies or errors. Under the Company's agreements with Sprint, the Company is entitled to only a portion of the receipts, net of items such as taxes, government surcharges, certain allocable write-offs and the 22.0% of revenue retained by Sprint. Because of the Company's reliance on Sprint for financial information, the Company must depend on Sprint to design adequate internal controls with respect to the processes established to provide this data and information to the Company and Sprint's other Sprint PCS affiliate network partners. To address this issue, Sprint engages an independent registered public accounting firm to perform a periodic evaluation of these controls and to provide a "Report on Controls Placed in Operation and Tests of Operating Effectiveness" under guidance provided in Statements on Standards for Attestation Engagements No. 16 ("SSAE 16"). The report is provided to the Company on an annual basis and covers a nine-month period. The most recent report covered the period from January 1, 2014 to September 30, 2014. The most recent report indicated there were no material issues which would adversely affect the information used to support the recording of the revenues provided by Sprint related to the Company's relationship with them.

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## PART II. OTHER INFORMATION

## ITEM 1A. Risk Factors

As previously discussed, our actual results could differ materially from our forward-looking statements. There have been no material changes in the risk factors from those described in Part 1, Item 1A of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

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

The Company maintains a dividend reinvestment plan (the "DRIP") for the benefit of its shareholders. When shareholders remove shares from the DRIP, the Company issues a certificate for whole shares, pays out cash for any fractional shares, and cancels the fractional shares purchased. In conjunction with exercises of stock options and distributions of vested share awards, the Company periodically repurchases shares from recipients to satisfy some of the exercise price of the options being exercised or taxes payable associated with the distribution of shares. The following table provides information about the Company's repurchases of shares during the three months ended March 31, 2015:

|                           | Number<br>of Shares<br>Purchased | Average<br>Price<br>Paid per<br>Share |
|---------------------------|----------------------------------|---------------------------------------|
| January 1 to January 31   | 781                              | \$ 31.23                              |
| February 1 to February 28 | 24,227                           | \$ 29.90                              |
| March 1 to March 31       | 495                              | \$ 28.90                              |
| Total                     | 25,503                           | \$ 29.92                              |

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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.SCHXBRL Taxonomy Extension Schema Document

101.CALXBRL Taxonomy Extension Calculation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

101.LABXBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

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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: May 4, 2015

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EXHIBIT INDEX

| <u>Exhibit<br/>No.</u> | <u>Exhibit</u>  |
|------------------------|---|
| <u>31.1</u>            | Certification of President and Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.                |
| <u>31.2</u>            | Certification of Vice President - Finance and Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934. |
| <u>32</u>              | Certifications pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. 1350.                                     |
| (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  |