

SHENANDOAH TELECOMMUNICATIONS CO/VA/  
Form 10-Q  
November 03, 2010

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2010

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

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

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

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

Yes     No

The number of shares of the registrant's common stock outstanding on October 29, 2010 was 23,737,973.

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

ASSETS	September 30, 2010	December 31, 2009
Current Assets		
Cash and cash equivalents	\$ 43,144	\$ 12,054
Accounts receivable, net	22,149	15,058
Income taxes receivable	-	5,531
Materials and supplies	5,355	6,062
Prepaid expenses and other	3,488	2,504
Assets held for sale	10,850	10,810
Deferred income taxes	-	616
Total current assets	84,986	52,635
Investments, including \$2,163 and \$1,990 carried at fair value	9,021	8,705
Property, Plant and Equipment		
Plant in service	448,581	373,111
Plant under construction	19,232	9,116
	467,813	382,227
Less accumulated amortization and depreciation	202,584	179,925
Net property, plant and equipment	265,229	202,302
Other Assets		
Intangible assets, net	91,868	2,417
Cost in excess of net assets of businesses acquired	10,885	4,418
Deferred charges and other assets, net	5,084	1,248
Net other assets	107,837	8,083
Total assets	\$ 467,073	\$ 271,725

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	September 30, 2010	December 31, 2009
Current Liabilities		
Current maturities of long-term debt	\$ 12,508	\$ 4,561
Accounts payable	7,821	8,804
Advanced billings and customer deposits	9,505	6,349
Accrued compensation	2,938	1,003
Income taxes payable	512	-
Liabilities held for sale	1,328	858
Deferred income taxes	674	-
Accrued liabilities and other	6,876	3,053
Total current liabilities	42,162	24,628
Long-term debt, less current maturities	185,629	28,399
Other Long-Term Liabilities		
Deferred income taxes	30,048	29,649
Deferred lease payable	3,592	3,351
Asset retirement obligations	6,166	5,966
Other liabilities	4,829	4,060
Total other liabilities	44,635	43,026
Commitments and Contingencies		
Shareholders' Equity		
Common stock	19,056	17,890
Retained earnings	175,591	160,230
Accumulated other comprehensive loss, net of tax	-	(2,448 )
Total shareholders' equity	194,647	175,672
Total liabilities and shareholders' equity	\$ 467,073	\$ 271,725

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 September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Operating revenues	\$53,155	\$40,115	\$136,954	\$120,356
Operating expenses:				
Cost of goods and services, exclusive of depreciation and amortization shown separately below	21,220	13,703	50,450	39,452
Selling, general and administrative, exclusive of depreciation and amortization shown separately below	14,170	7,692	32,746	22,569
Depreciation and amortization	12,202	8,151	28,927	24,116
Total operating expenses	47,592	29,546	112,123	86,137
Gain on sale of directory	4,000	-	4,000	-
Operating income	9,563	10,569	28,831	34,219
Other income (expense):				
Interest expense	(2,416 )	(193 )	(2,992 )	(1,128 )
Gain (loss) on investments, net	(11 )	201	(153 )	(203 )
Non-operating income, net	274	95	543	449
Income from continuing operations before income taxes	7,410	10,672	26,229	33,337
Income tax expense	3,220	4,326	10,969	14,019
Net income from continuing operations	4,190	6,346	15,260	19,318
Earnings (loss) from discontinued operations, net of tax (expense) benefit of \$100, \$24, \$(66) and \$6,415, respectively	(156 )	(39 )	101	(10,484 )
Net income	\$4,034	\$6,307	\$15,361	\$8,834
Basic and diluted income (loss) per share:				
Net income from continuing operations	\$0.18	\$0.27	\$0.64	\$0.81
Net earnings (loss) from discontinued operations	(0.01 )	-	0.01	(0.44 )
Net income	\$0.17	\$0.27	\$0.65	\$0.37
Weighted average shares outstanding, basic	23,738	23,640	23,724	23,633
Weighted average shares, diluted	23,883	23,706	23,799	23,696

See accompanying notes to unaudited condensed consolidated financial statements.



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UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY  
AND COMPREHENSIVE INCOME

(in thousands, except per share amounts)

	Shares	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2008	23,605	\$16,139	\$152,706	\$ (2,533 )	\$166,312
Comprehensive income:					
Net income	-	-	15,092	-	15,092
Reclassification adjustment for unrealized loss from pension plans included in net income, net of tax	-	-	-	55	55
Net unrealized loss from pension plans, net of tax	-	-	-	30	30
Total comprehensive income					15,177
Dividends declared (\$0.32 per share)	-	-	(7,568 )	-	(7,568 )
Dividends reinvested in common stock	32	560	-	-	560
Stock-based compensation	-	676	-	-	676
Conversion of liability classified awards to equity classified awards	-	85	-	-	85
Common stock issued through exercise of incentive stock options	44	367	-	-	367
Net excess tax benefit from stock options exercised	-	63	-	-	63
Balance, December 31, 2009	23,681	\$17,890	\$160,230	\$ (2,448 )	\$175,672
Comprehensive income:					
Net income	-	-	15,361	-	15,361
Reclassification adjustment for unrealized loss from pension plans included in net income, net of tax	-	-	-	2,596	2,596
Net unrealized loss from pension plan, net of tax	-	-	-	(148 )	(148 )
Total comprehensive income					17,809
Stock-based compensation	-	539	-	-	539
Common stock issued through exercise of incentive stock options	57	557	-	-	557
Net excess tax benefit from stock options exercised	-	70	-	-	70
Balance, September 30, 2010	23,738	\$19,056	\$175,591	\$ -	\$194,647

See accompanying notes to unaudited condensed consolidated financial statements.





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

	Nine Months Ended September 30,	
	2010	2009
<b>Cash Flows From Operating Activities</b>		
Net income	\$15,361	\$8,834
Adjustments to reconcile net income to net cash provided by operating activities:		
Impairment on assets held for sale	-	17,545
Depreciation	26,040	23,666
Amortization	2,887	450
Provision for bad debt	844	845
Stock based compensation expense	539	475
Pension settlement and curtailment expenses	3,964	-
Excess tax benefits on stock option exercises	(70 )	(63 )
Deferred income taxes	152	(7,463 )
Net loss on disposal of equipment	316	734
Realized (gain) on sale of directory	(4,000 )	-
Realized (gain) on disposal of investments	147	188
Unrealized (gains) losses on investments	(229 )	(515 )
Net (gain) loss from patronage and equity investments	67	395
Other	575	2,300
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(4,031 )	(160 )
Materials and supplies	707	1,694
Income taxes receivable	5,531	7,366
Increase (decrease) in:		
Accounts payable	(841 )	(915 )
Income taxes payable	512	6,209
Deferred lease payable	237	114
Other prepaids, deferrals and accruals	4,989	(2,191 )
Net cash provided by operating activities	\$53,697	\$59,508
<b>Cash Flows From Investing Activities</b>		
Purchase and construction of property, plant and equipment	\$(33,940 )	\$(37,648 )
Cash paid for acquisition of business	(147,613 )	-
Cash received on sale of directory	4,000	-
Cash paid to acquire prepaid subscriber rights	(6,884 )	-
Proceeds from sale of equipment	503	75
Purchase of investment securities	(114 )	(360 )
Proceeds from sale of investment securities	54	14
Net cash used in investing activities	\$(183,994 )	\$(37,919 )

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

	Nine Months Ended September 30,	
	2010	2009
<b>Cash Flows From Financing Activities</b>		
Principal payments on long-term debt	\$(25,595 )	\$(14,284 )
Amounts borrowed under debt agreements	189,800	2,000
Cash paid for debt issuance costs	(3,445 )	-
Excess tax benefits on stock option exercises	70	63
Proceeds from exercise of incentive stock options	557	310
Net cash provided by (used in) financing activities	\$161,387	\$(11,911 )
Net increase in cash and cash equivalents	\$31,090	\$9,678
Cash and cash equivalents:		
Beginning	12,054	5,240
Ending	\$43,144	\$14,918
<b>Supplemental Disclosures of Cash Flow Information</b>		
<b>Cash payments for:</b>		
Interest	\$2,392	\$1,437
Income taxes	\$5,225	\$1,596

During the nine months ended September 30, 2010, the Company assumed other debt of \$972 in connection with the JetBroadBand acquisition.

During the nine months ended September 30, 2010 and 2009, the Company utilized \$75 and \$5,054, respectively, of vendor credits receivable to reduce cash paid for acquisitions of property, plant and equipment.

See accompanying notes to unaudited condensed consolidated financial statements.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. 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, 2009. The balance sheet information at December 31, 2009 was derived from the audited December 31, 2009 consolidated balance sheet.
2. Operating revenues and income from operations for any interim period are not necessarily indicative of results that may be expected for the entire year.
3. 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.

In connection with the preparation of the Company's first quarter 2009 financial statements, the Company determined that the fair value of Converged Services had declined from earlier estimates. Accordingly, the Company recorded an impairment loss of \$17.5 million (\$10.7 million, net of taxes) to reduce the carrying value of these assets to their estimated fair value less cost to sell as of March 31, 2009. At September 30, 2010, negotiations to complete the sale continue, and there has been no change in the estimated fair value of the assets.

Assets and liabilities held for sale consisted of the following:

	September 30, 2010	December 31, 2009
Assets held for sale:		
Property, plant and equipment, net	\$ 7,764	\$ 7,484
Intangible assets, net	868	868
Deferred charges	1,610	1,628
Other assets	608	830
	\$ 10,850	\$ 10,810
Liabilities:		
Other liabilities	\$ 1,328	\$ 858

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

	Three Months Ended September 30,	
	2010	2009
Operating revenues	\$ 2,895	\$ 3,123
Earnings (loss) before income taxes	\$ (256 )	\$ (63 )

Nine Months Ended  
September 30,

	2010	2009
Operating revenues	\$ 9,597	\$ 10,033
Earnings (loss) before income taxes	\$ 167	\$ (16,899)

4. 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 383 thousand and 351 thousand outstanding options and shares at September 30, 2010 and 2009, respectively, 213 thousand and 222 thousand were anti-dilutive, respectively. There were no adjustments to net income for any period.

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5. Investments include \$2.2 million and \$2.0 million of investments carried at fair value as of September 30, 2010 and December 31, 2009, respectively, consisting of equity, bond and money market mutual funds. These investments are held under a rabbi trust arrangement related to a non-qualified supplemental retirement plan maintained by the Company. During the three months ended September 30, 2010, the Company made no contributions to the trust, recognized \$15 thousand in dividend and interest income from investments, and recognized net unrealized gains of \$135 thousand on these investments. During the nine months ended September 30, 2010, the Company contributed \$63 thousand to the trust, recognized \$8 thousand in net losses on dispositions of investments, recognized \$23 thousand in dividend and interest income from investments, and recognized net unrealized gains of \$91 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.

6. During the second quarter of 2010, the Company completed the settlement of its defined benefit pension plan following the receipt of a favorable tax determination letter from the Internal Revenue Service in February, 2010. The Company purchased non-participating annuities to provide benefits to retirees, and distributed vested balances (in the form of lump sum cash outs and rollovers to qualified retirement accounts, including Individual Retirement Accounts and the Company's 401(k) plan) to active employees and other participants. In order to complete the settlement, the Company contributed \$977 thousand during June 2010 to fully fund the pension obligations, and recognized \$3.6 million of pension expense. There are no remaining assets or liabilities of the Company's qualified pension plan.

During the second quarter of 2010, the Company curtailed future participation in the Company's Supplemental Executive Retirement Plan ("SERP"). Current participants may remain in the SERP and will continue to vest and earn returns on invested balances, but the Company will make no further contributions to the SERP and no new participants will be eligible to join the SERP. The Company recognized a curtailment loss of \$666 thousand consisting of actuarial losses previously recorded in other comprehensive income.

7. 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, and long-term debt. Due to the relatively short time frame to maturity of the Company's fixed rate debt, fair value approximates its carrying value.

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.

The July 2010 credit agreement (see note 12) provided that the Company enter into a hedge agreement for a minimum notional value of approximately \$63 million, and for a minimum term of 3 years, to manage a portion of its exposure to interest rate movements by converting a portion of its long-term debt from variable to fixed rates.

8. 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 TV. 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 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 County, 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.

The Cable TV segment provides video, internet and voice services in Virginia and West Virginia. It includes the operations acquired from JetBroadBand, LLC, since July 30, 2010.



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During the third quarter of 2010, the Company revised the financial reporting provided to senior management and the Board of Directors to exclude non-operating income and expenses. The following disclosures present our reportable segments based on segment operating income, consistent with the information provided to the chief operating decision maker to assess segment performance. Prior period reports have been revised to conform to the current presentation. Selected financial data for each segment is as follows:

Three months ended September 30, 2010

(In thousands)

	Wireless	Wireline	Cable TV	Other	Eliminations	Consolidated Totals
<b>External revenues</b>						
Service revenues	\$28,624	\$3,596	\$10,585	\$-	\$-	\$ 42,805
Other	4,342	4,715	1,293	-	-	10,350
<b>Total external revenues</b>	<b>32,966</b>	<b>8,311</b>	<b>11,878</b>	<b>-</b>	<b>-</b>	<b>53,155</b>
Internal revenues	762	3,375	14	-	(4,151 )	-
<b>Total operating revenues</b>	<b>33,728</b>	<b>11,686</b>	<b>11,892</b>	<b>-</b>	<b>(4,151 )</b>	<b>53,155</b>
<b>Operating expenses</b>						
Costs of goods and services, exclusive of depreciation and amortization shown separately below	12,237	4,318	8,272	56	(3,663 )	21,220
Selling, general and administrative, exclusive of depreciation and amortization shown separately below	5,885	1,828	6,195	750	(488 )	14,170
Depreciation and amortization	6,401	2,000	3,746	55	-	12,202
<b>Total operating expenses</b>	<b>24,523</b>	<b>8,146</b>	<b>18,213</b>	<b>861</b>	<b>(4,151 )</b>	<b>47,592</b>
Gain on sale of directory	-	4,000	-	-	-	4,000
<b>Operating income (loss)</b>	<b>\$9,205</b>	<b>\$7,540</b>	<b>\$(6,321 )</b>	<b>\$(861 )</b>	<b>\$-</b>	<b>\$ 9,563</b>

Three months ended September 30, 2009

(In thousands)

	Wireless	Wireline	Cable TV	Other	Eliminations	Consolidated Totals
<b>External revenues</b>						
Service revenues	\$25,287	\$3,340	\$3,526	\$-	\$-	\$ 32,153
Other	2,724	4,907	331	-	-	7,962
<b>Total external revenues</b>	<b>28,011</b>	<b>8,247</b>	<b>3,857</b>	<b>-</b>	<b>-</b>	<b>40,115</b>
Internal revenues	679	3,440	8	-	(4,127 )	-
<b>Total operating revenues</b>	<b>28,690</b>	<b>11,687</b>	<b>3,865</b>	<b>-</b>	<b>(4,127 )</b>	<b>40,115</b>
<b>Operating expenses</b>						
Costs of goods and services, exclusive of depreciation and	9,594	4,346	3,285	84	(3,606 )	13,703

amortization shown  
separately below

Selling, general and administrative, exclusive of depreciation and amortization shown separately below	4,123	1,934	1,309	847	(521 )	7,692
Depreciation and amortization	5,178	1,999	895	79	-	8,151
Total operating expenses	18,895	8,279	5,489	1,010	(4,127 )	29,546
Operating income (loss)	\$9,795	\$3,408	\$(1,624 )	\$(1,010 )	\$ -	\$ 10,569

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Nine months ended September 30, 2010

(In thousands)

	Wireless	Wireline	Cable TV	Other	Eliminations	Consolidated Totals
<b>External revenues</b>						
Service revenues	\$81,415	\$10,595	\$17,722	\$-	\$-	\$ 109,732
Other	10,309	14,852	2,061	-	-	27,222
Total external revenues	91,724	25,447	19,783	-	-	136,954
Internal revenues	2,268	10,076	37	-	(12,381 )	-
Total operating revenues	93,992	35,523	19,820	-	(12,381 )	136,954
<b>Operating expenses</b>						
Costs of goods and services, exclusive of depreciation and amortization shown separately below						
	32,108	13,075	16,001	188	(10,922 )	50,450
Selling, general and administrative, exclusive of depreciation and amortization shown separately below						
	14,808	6,993	9,939	2,465	(1,459 )	32,746
Depreciation and amortization	16,927	5,860	5,944	196	-	28,927
Total operating expenses (1)	63,843	25,928	31,884	2,849	(12,381 )	112,123
Gain on sale of directory	-	4,000	-	-	-	4,000
Operating income (loss)	\$30,149	\$13,595	\$(12,064 )	\$(2,849 )	\$-	\$ 28,831

Nine months ended September 30, 2009

(In thousands)

	Wireless	Wireline	Cable TV	Other	Eliminations	Consolidated Totals
<b>External revenues</b>						
Service revenues	\$76,348	\$9,928	\$10,682	\$-	\$-	\$ 96,958
Other	8,258	14,316	824	-	-	23,398
Total external revenues	84,606	24,244	11,506	-	-	120,356
Internal revenues	1,948	9,568	24	-	(11,540 )	-
Total operating revenues	86,554	33,812	11,530	-	(11,540 )	120,356
<b>Operating expenses</b>						
Costs of goods and services, exclusive of depreciation and amortization shown separately below						
	27,534	12,563	9,211	235	(10,091 )	39,452
Selling, general and administrative, exclusive of depreciation and						
	12,237	5,374	3,766	2,641	(1,449 )	22,569

amortization shown  
separately below

Depreciation and amortization	15,021	6,334	2,513	248	-	24,116
Total operating expenses	54,792	24,271	15,490	3,124	(11,540 )	86,137
Operating income (loss)	\$ 31,762	\$ 9,541	\$(3,960 )	\$(3,124 )	\$ -	\$ 34,219

(1) Total operating expenses for the nine months ended September 30, 2010 includes \$3.8 million of expense, pre-tax, resulting from the settlement of the qualified pension plan and curtailment of the SERP during the second quarter of 2010.

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 September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Total consolidated operating income	\$ 9,563	\$ 10,569	\$ 28,831	\$ 34,219
Interest expense	(2,416 )	(193 )	(2,992 )	(1,128 )
Non-operating income (expense), net	263	296	390	246
Income from continuing operations before income taxes	\$ 7,410	\$ 10,672	\$ 26,229	\$ 33,337

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The Company's assets by segment are as follows:

(In thousands)

	September 30, 2010	December 31, 2009
Wireless	\$ 122,800	\$ 146,228
Wireline	77,216	80,668
Cable TV	198,720	20,240
Other (includes assets held for sale)	399,790	172,069
Combined totals	798,526	419,205
Inter-segment eliminations	(331,453 )	(147,480 )
Consolidated totals	\$ 467,073	\$ 271,725

9. The Company files U.S. federal income tax returns and various state and local income tax returns. With few exceptions, years prior to 2006 are no longer subject to examination. No state or federal income tax audits were in process as of September 30, 2010.

10. On July 8, 2010, the Company announced that it had amended its Management Agreement with Sprint Nextel Corporation to allow the Company to begin selling Sprint Nextel's Boost and Virgin Mobile prepaid wireless plans in its territory. The Company also purchased from Sprint Nextel the right to receive a share of revenues from approximately 50,000 Virgin Mobile prepaid wireless subscribers currently receiving service in its territory for \$138 per subscriber. The purchase price of approximately \$6.9 million has been recorded in intangible assets and is being amortized using an accelerated basis over four years, determined based upon the historical and expected churn rate of the underlying customer base.

11. On July 30, 2010, the Company completed its previously announced acquisition of the cable operations of JetBroadBand Holdings, LLC ("JetBroadBand") for \$148 million in cash less working capital adjustments. The purchase price was financed by a credit facility arranged by CoBank, ACB (see Note 12). The Company has included these operations for financial reporting purposes for periods subsequent to the acquisition.

The total purchase price of \$147.2 million has been preliminarily allocated to the assets of JetBroadBand as follows (in thousands):

Accounts receivable	\$3,417
Other current assets	930
Cable plant	44,924
Converter boxes	2,875
Headend equipment	4,708
Land and buildings	1,700
All other plant and equipment	1,828
Acquired subscriber base	22,112
Franchise operating rights (indefinite lived)	62,930
Cost in excess of net assets of business acquired	6,467

Total assets	\$ 151,891
Current liabilities	\$ 4,683
Net assets acquired	\$ 147,208

Finalization of the allocations is dependent on verification of proposed adjustments to the initial working capital adjustment and final review and acceptance of the independent appraiser's valuation report, which we expect to complete by the end of 2010.

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Following are the unaudited pro forma results of the Company for the three and nine months ended September 30, 2010 and 2009 as if the acquisition of JetBroadBand had occurred at the beginning of each of the periods presented, in millions:

	Three Months Ended September 30,	
	2010	2009
Operating revenues	\$ 57.0	\$ 51.3
Earnings before income taxes	\$ 12.3	\$ 14.4
	Nine Months Ended September 30,	
	2010	2009
Operating revenues	\$ 163.9	\$ 153.5
Earnings before income taxes	\$ 26.0	\$ 41.8

The pro forma disclosures shown above are based upon estimated preliminary valuations of the assets acquired and liabilities assumed as well as preliminary estimates of depreciation and amortization charges thereon, that may differ from the final fair values of the acquired assets and assumed liabilities and the resulting depreciation and amortization charges thereon. They should not be construed as representative of actual results that might have been reported had the acquisition actually occurred at the beginning of each of the periods presented.

Operating revenues reported in the condensed consolidated statements of income for the three and nine months ended September 30, 2010 included revenues of \$7.4 million related to the former JetBroadBand entity. The amount of earnings before income taxes related to the former JetBroadBand entity is not readily determinable due to intercompany transactions and allocations that have occurred in connection with the operations of the combined company.

12. Total debt consists of the following:

(In thousands)

	September 30, 2010	December 31, 2009
Fixed term loans	\$ 7,572	\$ 13,060
Term loan A	189,800	-
Delayed draw term loan	-	19,700
Other	765	200
	198,137	32,960
Current maturities	12,508	4,561
Total long-term debt	\$ 185,629	\$ 28,399

On July 30, 2010, the Company executed a syndicated Credit Agreement for the purpose of refinancing the Company's existing outstanding debt, funding the purchase price of the JetBroadBand acquisition described above, funding planned capital expenditures to upgrade the acquired cable networks, and other corporate needs.

As of September 30, 2010, the Company's indebtedness totaled \$198.1 million, with an annualized overall weighted average interest rate of approximately 4.13%. The balance included \$7.6 million fixed at 7.37% (the Fixed Term Loan Facility, described further below), and \$189.8 million of the Term Loan A Facility at a variable rate (of 3.77% as of September 30, 2010) that resets monthly based on one month LIBOR plus a base rate of 3.50% currently. These loans are more fully described below.

The Credit Agreement provides for three facilities, a Term Loan Facility, a Revolver Facility, and an Incremental Term Loan Facility. The Term Loan Facility totals \$198 million and was fully drawn for the purposes described above. The Term Loan Facility has two parts, the Fixed Term Loan Facility of initially approximately \$8 million in aggregate principal amount, and the Term Loan A Facility of \$189.8 million in aggregate principal amount. The Fixed Term Loan Facility is required to be repaid in monthly installments of approximately \$200 thousand of principal, plus interest at 7.37%, from August 2010 through August 2013. The Term Loan A Facility requires quarterly principal repayments of \$2.4 million beginning on December 31, 2010 through September 30, 2011, increasing to \$4.7 million quarterly thereafter through September 30, 2015, with the remaining expected balance of approximately \$104 million due December 31, 2015. The Term Loan A Facility is expected to bear interest at a base rate based upon one month LIBOR plus a spread determined by the Company's Total Leverage Ratio, initially 3.50%; the Company may elect to use other rates as the base, but does not currently expect to do so.



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The Revolver Facility provides for \$30 million in immediate availability for future capital expenditures and general corporate needs, and an additional \$20 million of availability once certain conditions have been met, for total availability of \$50 million. In addition, the Credit Agreement permits the Company to enter into one or more Incremental Term Loan Facilities in the aggregate principal amount not to exceed \$100 million subject to compliance with certain covenants. No draw has been made or is currently contemplated under either of these facilities. When and if a draw is made, the maturity date and interest rate options would be substantially identical to the Term Loan A Facility. Repayment provisions would be agreed to at the time of each draw under the Incremental Term Loan Facility.

The Credit Agreement also required the Company to enter into a hedge agreement to manage its exposure to interest rate movements. The Company elected to hedge the minimum required under the Credit Agreement, and entered into a pay fixed, receive variable swap on \$63 million notional principal for three years. The Company will receive one month LIBOR and pay a fixed rate of 1.00% in addition to the 3.50% initial spread on the Term Loan A Facility.

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

Indebtedness outstanding under any of the facilities may be accelerated by an Event of Default, as defined in the Credit Agreement.

The Facilities are secured by a pledge by the Company of its stock in its subsidiaries, a guarantee by the Company's subsidiaries other than Shenandoah Telephone Company or Shentel Converged Services, Inc., and a security interest in all of the assets of the guarantors.

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

- a limitation on the Company's total leverage ratio, defined as indebtedness divided by earnings before interest, taxes, depreciation and amortization, or EBITDA, of less than or equal to 3.00 to 1.00 from the closing date through March 31, 2011, then 2.50 to 1.00 December 31, 2012, and 2.00 to 1.00 thereafter;
  - a minimum debt service coverage ratio, defined as EBITDA divided by the sum of all scheduled principal payments on the Term Loans and regularly scheduled principal payments on other indebtedness plus cash interest expense, greater than 2.25 to 1.00 from the closing date through December 31, 2012, then 2.50 to 1.00 thereafter;
- a minimum equity to assets ratio, defined as consolidated total assets minus consolidated total liabilities, divided by consolidated total assets, of at least 0.35 to 1.00 at all times, measured at each fiscal quarter end;
- a minimum fixed charge coverage ratio, defined as EBITDA divided by fixed charges (defined as cash interest expense plus scheduled principal payments to be made on indebtedness plus capital expenditures other than capital expenditures acquired pursuant to a capital lease through the reinvestment of net proceeds of permitted asset dispositions or the sale of Shentel Converged Services, Inc. plus cash income taxes plus cash dividends and distributions), greater than 0.80 to 1.00 from the closing date through December 31, 2012, then 0.90 to 1.00 through December 31, 2013, and 1.00 to 1.00 thereafter; and,
- the Company must maintain a minimum liquidity balance, defined as availability under the Revolver Facility plus unrestricted cash and cash equivalents other than cash and cash equivalents held in the name of an Excluded Subsidiary, of greater than \$15 million at all times.

These ratios are generally more restrictive than the covenant ratios the Company had been required to comply with under its previously existing debt arrangements. As of September 30, 2010, the Company was in compliance with the covenants in its credit agreements.

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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, 2009. 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, 2009, 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) and local exchange telephone services, as well as 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 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 County, 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.

- \* The Cable Television segment provides video, internet and voice services in Virginia and West Virginia.

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.

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 discontinued.

In connection with the preparation of the Company's first quarter 2009 financial statements, the Company determined that the fair value of Converged Services had declined from earlier estimates. Accordingly, the Company recorded an

impairment loss of \$17.5 million (\$10.7 million, net of taxes) to reduce the carrying value of these assets to their estimated fair value less cost to sell as of March 31, 2009. At September 30, 2010, efforts to complete the sale continue, and there has been no change in the estimated fair value of the assets.

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During the second quarter of 2010, the Company completed the settlement of its defined benefit pension plan following the receipt of a favorable tax determination letter in February, 2010. In order to complete the settlement, the Company contributed \$977 thousand during June 2010 to fully fund the pension obligations, and recognized \$3.6 million of pension expense from other comprehensive income. During the second quarter of 2010, the Company also curtailed future participation in the Company's SERP. Current participants may remain in the SERP and will continue to earn returns on invested balances, but the Company will make no further contributions to the SERP and no new participants will be eligible to join the SERP. As a result of the curtailment, the Company recognized a curtailment loss of \$666 thousand, consisting of actuarial losses previously recorded in other comprehensive income.

### Acquisition of Virgin Mobile Customers and Initiation of Prepaid Wireless Sales

On July 8, 2010, the Company acquired the right to receive a share of revenues from approximately 50,000 Virgin Mobile customers in our service area, and effective July 11, 2010, the Company began selling Virgin Mobile and Boost prepaid products and services. Based upon the initial subscriber base acquired, the Company expects to recognize approximately \$0.9 million in monthly revenue and approximately \$0.3 million in monthly expenses related to prepaid customers. The Company will also recognize amortization on the \$6.9 million capitalized purchase price of the acquired contract for the 50,000 acquired Virgin Mobile subscribers. The amortization of the contract costs will approximate the life of the customers acquired, gradually decreasing over the expected four year life of this asset. In future periods, the Company expects to incur significant costs of acquisition (including handset subsidies, commissions, and other sales and marketing costs) in the month of a new customer activation. New customers are expected to generate net income over the course of their service. Due to expensing all costs of acquisition in the month of acquisition, the Company expects that the sale of prepaid products and services will have a net negative impact on operating results until the base of customers is sufficient such that the aggregate monthly revenue less recurring expenses exceeds the up-front costs for new activations.

### Acquisition of JetBroadBand

On April 16, 2010, the Company announced that it had signed an asset purchase agreement to purchase the cable operations of JetBroadBand for \$148 million in cash, subject to certain adjustments. On July 30, 2010, the Company completed this acquisition. The acquired cable operations offer video, high speed Internet and voice services representing approximately 66,000 revenue generating units in southern Virginia and southern West Virginia. The acquired networks pass approximately 115,000 homes. The acquired cable operations' operating results are now included in the Company's Cable Television segment significantly impacting that segment's operating revenues and expenses in subsequent periods. Various fees and other expenses associated with the acquisition impacted the Company's operating expenses.

The acquisition of JetBroadBand is consistent with the Company's business strategy which focuses on meeting the growing demand for broadband services, and the advantages of cable systems in providing broadband services. The fiber/coax network of a cable system is technically superior and more cost effective at delivering voice, video and data, than is the fiber/twisted pair network of a telephone company. Our primary competitors in the areas JetBroadBand serves will be the incumbent telephone companies. With our focus on providing quality service, we are confident that we will be able to effectively compete for market share.

JetBroadBand operates in southern Virginia and southern West Virginia, a close geographic fit with our existing markets and only a few hours away from our executive offices in Edinburg, Virginia. The integration of the Rapid Communications acquisition has gone very well and we are now meeting and exceeding our growth expectations. By combining our management team's experience in upgrading the Rapid Communications markets with the financial resources we've obtained on attractive terms, we believe we can accelerate growth in the JetBroadBand markets.

This acquisition provides further diversification of our revenues and provides scale to our cable operations. We are optimistic about the growth opportunities in cable, but our existing cable operations were not of an adequate size, and did not enjoy the margins benefitting larger operators. The acquisition will help improve the economies of scale of our cable business, and will allow us to leverage our management team, back office systems and assets, helping to maximize the investment return. The current JetBroadBand penetration levels of services per homes passed are lower than industry norms. Reaching industry average penetration levels alone presents a significant opportunity for growth. The acquisition of JetBroadBand is expected to cause a downward trend in net income in the next few years, with the biggest negative impact most likely occurring in 2011, the first full year of operation. We expect to begin to realize the long term positive impact of the JetBroadBand acquisition on our results of operations in 2012 and beyond.

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## Results of Operations

## Consolidated Results for the Three Months Ended September 30, 2010

The Company's consolidated results from continuing operations for the third quarter of 2010 and 2009 are summarized as follows:

(in thousands)	Three Months Ended		Change	
	September 30, 2010	2009	\$	%
Operating revenues	\$ 53,155	\$ 40,115	\$ 13,040	32.5
Operating expenses	47,592	29,546	18,046	61.1
Gain on sale of directory	4,000	-	4,000	n/m
Operating income	9,563	10,569	(1,006 )	(9.5 )
Other income (expense)	(2,153 )	103	(2,256 )	n/m
Income tax expense	3,220	4,326	(1,106 )	(25.6 )
Net income from continuing operations	\$ 4,190	\$ 6,346	\$ (2,156 )	(34.0 )

## Operating revenues

For the three months ended September 30, 2010, operating revenues increased \$13.0 million, or 32.5%, primarily due to \$7.4 million of revenue associated with the JetBroadBand acquisition, \$2.4 million of pre-paid wireless revenue, \$2.6 million of additional on-going Wireless revenue and an incremental \$0.6 million of revenue in the Cable segment. The increase in Wireless revenues included a one-time adjustment of \$0.8 million related to re-calculated straight-line rent amounts adjusted during the third quarter of 2010. The remaining increases in Wireless and Cable revenues resulted primarily from increases in customers and services provided.

## Operating expenses

For the three months ended September 30, 2010, operating expenses increased \$18.0 million, or 61.1%, compared to the 2009 period. The Cable Segment accounted for \$12.7 million of this increase; the acquired JetBroadBand operations added approximately \$10.3 million of incremental costs, while the existing Shentel Cable operations accounted for \$3.6 million of the quarter over quarter increase. Included in the \$10.3 million of incremental JetBroadBand-related operating expenses were approximately \$3.0 million of one-time costs related to the acquisition. In the Wireless Segment, the new prepaid activities generated \$4.1 million of incremental expenses, including approximately \$1.5 million in handset subsidies, \$1.1 million in amortization of the purchase price of the existing subscribers, and \$1.4 million in pass-through costs from Sprint Nextel.

## Gain on sale of directory

The Company sold its telephone directory for \$4 million in cash during the third quarter of 2010.

Other income (expense)

Other income (expense) decreased \$2.3 million in the third quarter of 2010 from the comparable 2009 period as interest expense increased \$2.2 million as a result of the increase in borrowings in support of the JetBroadBand acquisition.



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## Income tax expense

The Company's effective tax rate on income from continuing operations increased from 40.5% in the third quarter of 2009 to 43.5% in the third quarter of 2010 principally due to expanded operations in higher tax states.

## Net income from continuing operations

For the three months ended September 30, 2010, net income from continuing operations decreased \$2.2 million due to the various factors discussed above.

## Consolidated Results for the Nine Months Ended September 30, 2010

The Company's consolidated results from continuing operations for the first nine months of 2010 and 2009 are summarized as follows:

(in thousands)	Nine Months Ended		Change	
	September 30, 2010	2009	\$	%
Operating revenues	\$ 136,954	\$ 120,356	\$ 16,598	13.8
Operating expenses	112,123	86,137	25,986	30.2
Gain on sale of directory	4,000	-	4,000	n/m
Operating income	28,831	34,219	(5,388 )	(15.7 )
Other income (expense)	(2,602 )	(882 )	(1,720 )	n/m
Income tax expense	10,969	14,019	(3,050 )	(21.8 )
Net income from continuing operations	\$ 15,260	\$ 19,318	\$ (4,058 )	(21.0 )

## Operating revenues

For the nine months ended September 30, 2010, operating revenues increased \$16.6 million, or 13.8%, primarily due Cable Segment revenues associated with the acquired JetBroadBand operations, totaling \$7.4 million in 2010, and to \$2.4 million in Wireless Segment revenues associated with prepaid subscribers beginning July 1, 2010. Other Cable Segment revenues increased \$0.9 million in 2010 over 2009, while other Wireless segment revenues increased \$5.0 million. This increase in Wireless Segment revenues included a one-time adjustment of \$0.8 million to straight-line rent computations for a small number of co-location leases. Wireline revenues included an adjustment of \$1.0 million related to re-calculated settlements due from NECA recorded in the second quarter of 2010, including \$0.7 million related to 2008 and 2009.

## Operating expenses

For the nine months ended September 30, 2010, operating expenses increased \$26.0 million, or 30.2%, compared to the 2009 period. Expenses recognized in connection with the final settlement of the Company's defined benefit pension plan, and the curtailment loss associated with the Company's SERP plan, totaled \$3.8 million during the second quarter of 2010. The incremental costs of the acquired JetBroadBand operations included within the Company's Cable segment totaled \$10.9 million, including approximately \$3.1 million of expenses associated with closing the transaction. Existing Shentel Cable operations accounted for \$5.5 million of the year over year increase. Operating costs associated with prepaid wireless subscribers totaled \$4.1 million as noted previously. All other operating expenses increased \$1.7 million, net, in the first nine months of 2010, compared to the comparable 2009 period.

#### Gain on sale of directory

The Company sold its telephone directory for \$4 million in cash during the third quarter of 2010.

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## Other income (expense)

The change in other income (expense) resulted primarily from an increase in interest expense of \$1.9 million due to the increase in indebtedness during the third quarter of 2010 due to the JetBroadBand acquisition.

## Income tax expense

The Company's effective tax rate on income from continuing operations decreased from 42.1% in the first nine months of 2009 to 41.8% in the first nine months of 2010 due primarily to non-recurring adjustments recognized during the early months of the 2009 period.

## Net income from continuing operations

For the nine months ended September 30, 2010, net income from continuing operations decreased \$4.1 million, due to the various factors described above.

## 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 PCS Company ("PCS"), a Sprint PCS Affiliate of Sprint Nextel. 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 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 fees, as defined, retained by Sprint Nextel. Through May 31, 2010, such fees totaled 16.8% of net billed revenue; effective June 1, 2010, the net service fee component increased from 8.8% to 12.0%, bringing the total fee retained by Sprint Nextel to 20%. The fee increase will result in Sprint Nextel retaining an additional \$0.3 million of revenue per month at current levels of revenue.

Beginning in July 2010, the Company began offering prepaid wireless products and services in its PCS network coverage area. Prepaid revenues received from Sprint Nextel are reported gross of expenses passed through from Sprint Nextel. The Company pays handset subsidies to Sprint Nextel for the difference between the selling price of handsets and their cost, in the aggregate and as a net cost. Many of the revenue and expense components reported to us by Sprint Nextel are based on Sprint Nextel's national averages for prepaid services, rather than being specifically determined by customers homed in our geographic service areas.

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

	As of		As of	
	Sept. 30, 2010	Dec. 31, 2009	Sept. 30, 2009	Dec. 31, 2008
Retail PCS Subscribers - Postpaid	230,612	222,818	219,353	211,462
Retail PCS Subscribers - Prepaid	56,203	-	-	-
PCS Market POPS (000) (1)	2,339	2,327	2,324	2,310
PCS Covered POPS (000) (1)	2,052	2,033	1,988	1,931

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CDMA Base Stations (sites)	484	476	448	411
EVDO-enabled sites	346	334	306	211
EVDO Covered POPS (000) (1)	1,960	1,940	1,874	1,663
Towers	142	140	132	118
Non-affiliate cell site leases	211	196	191	183

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	Three Months Ended		Nine Months Ended	
	Sept. 30, 2010	Sept. 30, 2009	June 30, 2010	Sept. 30, 2009
Net PCS Subscriber Additions - Postpaid	3,175	3,286	7,794	7,891
Net PCS Subscriber Additions – Prepaid (2)	6,296	-	6,296	-
PCS Average Monthly Retail Churn % - Postpaid (3)	1.88	% 2.17	% 1.82	% 2.13
PCS Average Monthly Retail Churn % - Prepaid (3)	5.02	% n/a	n/a	n/a

- 1) 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 its Sprint PCS affiliate agreements, and Covered POPS are those covered by the network's service area.
- 2) Excludes prepaid subscribers purchased.
- 3) PCS Average Monthly Retail Churn is the average of the monthly subscriber turnover, or churn, calculations for the period.

## Operating Results for the Three Months Ended September 30, 2010

(in thousands)	Three Months Ended		Change	
	2010	2009	\$	%
Segment operating revenues				
Wireless service revenue	\$ 28,624	\$ 25,287	\$ 3,337	13.2
Tower lease revenue	2,078	1,813	265	14.6
Equipment revenue	1,712	1,046	666	63.7
Other revenue	1,314	544	770	141.5
Total segment operating revenues	33,728	28,690	5,038	17.6
Segment operating expenses				
Cost of goods and services, exclusive of depreciation and amortization shown separately below	12,237	9,594	2,643	27.5
Selling, general and administrative, exclusive of depreciation and amortization shown separately below	5,885	4,123	1,762	42.7
Depreciation and amortization	6,401	5,178	1,223	23.6
Total segment operating expenses	24,523	18,895	5,628	29.8
Segment operating income	\$ 9,205	\$ 9,795	\$ (590 )	(6.0 )

Operating revenues

Wireless service revenue increased \$3.3 million, or 13.2%, for the three months ended September 30, 2010, compared to the comparable 2009 period. Net service revenue from prepaid subscribers accounted for \$2.5 million of the increase in revenue. The Company purchased approximately 50,000 prepaid subscribers in July 2010, and began offering prepaid plans under the Boost and Virgin Mobile brands. Postpaid wireless service revenue increased \$1.7 million, or 4.8%, in the third quarter of 2010 over 2009. Average postpaid subscribers increased 5.2% in the current quarter compared to the 2009 third quarter. Billed revenue per user has declined 0.8% due to an increase in all-inclusive plans, which reduce revenue from higher usage customers, and to increased additions of second phones, such as to a family plan, at lower revenue than the primary phone. Total credits against gross billed revenue, including fees retained by Sprint Nextel and bad debt write-offs, increased \$0.8 million from the third quarter of 2009. Fees retained by Sprint Nextel increased by \$1.4 million, or 27.1%, while bad debt write-offs declined by \$0.5 million, or 26.1%. The increase in fees retained by Sprint Nextel was primarily due to the increase in the net service fee to 12% from 8.8% effective June 1, 2010, as described more fully below.

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In March 2007, the Company and Sprint Nextel amended the Management Agreement to simplify the method that the companies used to settle certain revenues and expenses between them. The revenues and expenses for 2006 were used as the basis for the calculation. For 2006, the ratio of net expense due Sprint Nextel for each net revenue dollar (net of credits and bad debt) generated by the Company's wireless customers was 8.8%, known as the Net Service Fee. The Net Service Fee percentage was applied to future net revenues to compensate Sprint Nextel for the net expenses due. The amendment allowed either party to annually request a review of the Net Service Fee, with the percentage needing to change by 100 basis points or more in either direction before there would be a change in the Net Service Fee, with the maximum Net Service Fee not exceeding 12%.

In the second quarter of 2010, Sprint Nextel for the first time exercised their option to review the Net Service Fee percentage, and effective June 2010, the Net Service Fee increased to 12%, the maximum allowed by contract. The Net Service Fee will remain at 12% until either party requests a review and the review determines that the underlying costs have changed, causing the Fee percentage to drop 100 basis points or more. This increase is expected to reduce revenues by approximately \$0.3 million per month, or nearly \$4 million annually, at current levels of revenue.

The increase in tower lease revenue resulted primarily from additional cell site leases.

The increase in equipment revenue resulted from a 4.5% decrease in wireless handsets sold, but at 33% higher net revenue per phone.

The increase in other revenue primarily resulted from a one-time adjustment to straight-line rent accruals recorded in the third quarter of 2010 on a small number of leases due to a determination that the leases were longer-term than initially thought.

In March, 2010, PCS signed Addendum X to the Sprint PCS Management Agreement that allows PCS to sell 3G/4G datacards in our territory, with the expectation that PCS would be able to sell 3G/4G handsets when they became available later in 2010. In May 2010, 4G services became available in portions of the Harrisburg and York, Pennsylvania, areas of the Company's PCS territory. During the third quarter of 2010, 4G capable handsets were our top sellers.

### Cost of goods and services

Cost of goods and services increased \$2.6 million, or 27.5%, in the 2010 third quarter from the third quarter of 2009. Costs associated with the prepaid wireless plans included handset subsidies of \$1.5 million. Postpaid handset costs increased \$0.7 million, principally due to higher cost smartphones and 4G phones. Costs of the expanded network and EVDO coverage resulted in a \$0.4 million increase in network costs including rent for additional tower and co-location sites, power and backhaul line costs.

### Selling, general and administrative

Selling, general and administrative expenses increased \$1.8 million, or 42.7%, in the third quarter of 2010 versus the 2009 third quarter, principally due to \$1.4 million in pass-through charges related to prepaid wireless revenues. Operating taxes also increased \$0.2 million due to increases in tower and base station assets added during 2009.

### Depreciation and amortization

Depreciation and amortization increased \$1.2 million in 2010 over the 2009 third quarter, principally due to \$1.1 million of amortization on the \$6.9 million of acquired prepaid customer contract.





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## Operating Results for the Nine Months Ended September 30, 2010

(in thousands)	Nine Months Ended		Change	
	September 30, 2010	2009	\$	%
Segment operating revenues				
Wireless service revenue	\$ 81,415	\$ 76,348	\$ 5,067	6.6
Tower lease revenue	6,032	5,268	764	14.5
Equipment revenue	4,218	3,485	733	21.0
Other revenue	2,327	1,453	874	60.2
Total segment operating revenues	93,992	86,554	7,438	8.6
Segment operating expenses				
Cost of goods and services, exclusive of depreciation and amortization shown separately below	32,108	27,534	4,574	16.6
Selling, general and administrative, exclusive of depreciation and amortization shown separately below	14,808	12,237	2,571	21.0
Depreciation and amortization	16,927	15,021	1,906	12.7
Total segment operating expenses	63,843	54,792	9,051	16.5
Segment operating income	\$ 30,149	\$ 31,762	\$ (1,613 )	(5.1 )

## Operating revenues

Wireless service revenue increased \$5.1 million, or 6.6%, for the nine months ended September 30, 2010, compared to the comparable 2009 period. Net service revenue from prepaid subscribers accounted for \$2.5 million of the increase in revenue. The Company purchased approximately 50,000 prepaid subscribers in July 2010, and began offering prepaid plans under the Boost and Virgin Mobile brands. Postpaid wireless service revenue increased \$4.1 million, or 3.8%, in the first nine months of 2010 over the comparable 2009 period. Average postpaid subscribers increased 5.4% in the first nine months of 2010 compared to 2009. Billed revenue per user has declined 1.5% due to an increase in all-inclusive plans, which reduce revenue from higher usage customers, and to increased additions of second phones, such as to a family plan, at lower revenue than the primary phone. Total credits against gross billed revenue, including fees retained by Sprint Nextel and bad debt write-offs, increased \$1.5 million, or 4.7%, from 2009. Fees retained by Sprint Nextel increased by \$2.2 million, or 13.7%, while bad debt write-offs declined by \$1.0 million, or 18.7%. The increase in fees retained by Sprint Nextel resulted primarily from Sprint Nextel's decision to exercise its right to adjust the net service fee from 8.8% to 12.0% effective June 1, 2010; this increase will reduce wireless service revenue by approximately \$1.0 million per quarter at current revenue levels.

The increase in tower lease revenue resulted primarily from additional cell site leases.

The increase in equipment revenue resulted primarily from a 4.5% decrease in wireless handsets sold, but at 33% higher net revenue per phone, during the third quarter of 2010 compared to 2009.

The increase in other revenue primarily resulted from a one-time adjustment to straight-line rent accruals recorded in the third quarter of 2010 on a small number of leases due to a determination that the leases were longer-term than initially thought.

#### Cost of goods and services

Cost of goods and services increased \$4.6 million, or 16.6%, in 2010 from the first nine months of 2009. Costs associated with the prepaid wireless plans included handset subsidies of \$1.5 million. Postpaid handset costs increased \$0.8 million, principally due to higher cost smartphones and 4G phones. Costs of the expanded network and EVDO coverage resulted in a \$2.2 million increase in network costs including rent for additional tower and co-location sites, power and backhaul line costs. Allocated pension costs totaled \$0.2 million in the 2010 period.

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Network costs are expected to continue to increase for the remainder of 2010 as a result of the full-year impact of additional EVDO sites brought on-line during 2009.

## Selling, general and administrative

The \$2.6 million increase in selling, general and administrative expense in 2010 over 2009 resulted primarily from \$1.4 million in pass-through charges related to prepaid wireless revenues and \$0.8 million in allocated pension charges.

## Depreciation and amortization

Depreciation and amortization increased \$1.9 million in 2010 over the 2009 nine months, due to \$1.1 million of amortization on the \$6.9 million of acquired prepaid customer contract and \$0.8 million due to capital projects for EVDO capability and new towers and cell sites placed in service during 2009. Depreciation is expected to continue to increase for the remainder of 2010 as a result of the full-year impact of additional towers, cell sites, and EVDO capability brought on-line during 2009, and as a result of amortization of the acquired prepaid customer contract.

## 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, since November 1, 2009, in portions of northwestern Augusta County, Virginia. The Wireline segment 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.

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

	Sept. 30, 2010	Dec. 31, 2009	Sept. 30, 2009	Dec. 31, 2008
Telephone Access Lines	23,848	24,358	23,547	24,042
Long Distance Subscribers	12,847	10,851	10,821	10,842
Total Fiber Miles	74,429	53,511	49,175	46,733
Fiber Route Miles	1,314	837	784	756
DSL Subscribers	11,774	10,985	10,549	9,918
Dial-up Internet Subscribers	2,403	3,359	3,787	4,866

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## Operating Results for the Three Months Ended September 30, 2010

(in thousands)	Three Months Ended		Change	
	September 30, 2010	2009	\$	%
<b>Segment operating revenues</b>				
Service revenue	\$ 3,846	\$ 3,594	\$ 252	7.0
Access revenue	3,104	2,766	338	12.2
Facilities lease revenue	3,542	3,991	(449 )	(11.3 )
Equipment revenue	16	24	(8 )	(33.3 )
Other revenue	1,178	1,312	(134 )	(10.2 )
Total segment operating revenues	11,686	11,687	(1 )	-
<b>Segment operating expenses</b>				
Cost of goods and services, exclusive of depreciation and amortization shown separately below	4,318	4,346	(28 )	(0.6 )
Selling, general and administrative, exclusive of depreciation and amortization shown separately below	1,828	1,934	(106 )	(5.5 )
Depreciation and amortization	2,000	1,999	1	0.1
Total segment operating expenses	8,146	8,279	(133 )	(1.6 )
Gain on sale of directory	4,000	-	4,000	n/m
Segment operating income	\$ 7,540	\$ 3,408	\$ 4,132	121.2

## Operating revenues

Operating revenues overall were unchanged, net, in the third quarter of 2010 from the third quarter of 2009. The increase in service revenue primarily resulted from a rate increase implemented in March 2010. The increase in access revenues primarily resulted from carrier access billing adjustments related to calls to 800 numbers. The decrease in facilities lease revenue resulted primarily from replacements of higher cost circuits, such as T-1s, with lower cost circuits, while the decrease in other revenue resulted from lower directory advertising revenues. The Virginia State Corporation Commission has requested information about access fees that will be used to determine the period over which access fees will be substantially reduced in future periods, and to what extent such reductions may be offset by increases to local service rates.

## Operating expenses

Operating expenses decreased slightly in the third quarter of 2010 from the corresponding 2009 period, primarily due to a decrease in bad debt expenses related to the Company's telephone directory publishing operations.

## Gain on sale of directory

The Company sold the telephone directory for \$4 million during the third quarter of 2010.

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## Operating Results for the Nine Months Ended September 30, 2010

(in thousands)	Nine Months Ended		Change	
	September 30, 2010	2009	\$	%
<b>Segment operating revenues</b>				
Service revenue	\$ 11,324	\$ 10,566	\$ 758	7.2
Access revenue	9,965	8,576	1,389	16.2
Facilities lease revenue	10,647	10,583	64	0.6
Equipment revenue	45	111	(66 )	(59.5 )
Other revenue	3,542	3,976	(434 )	(10.9 )
Total segment operating revenues	35,523	33,812	1,711	5.1
<b>Segment operating expenses</b>				
Cost of goods and services, exclusive of depreciation and amortization shown separately below	13,075	12,563	512	4.1
Selling, general and administrative, exclusive of depreciation and amortization shown separately below	6,993	5,374	1,619	30.1
Depreciation and amortization	5,860	6,334	(474 )	(7.5 )
Total segment operating expenses	25,928	24,271	1,657	6.8
Gain on sale of directory	4,000	-	4,000	n/m
Segment operating income	\$ 13,595	\$ 9,541	\$ 4,054	42.5

## Operating revenues

Operating revenues increased \$1.7 million overall in the first nine months of 2010 from the first nine months of 2009, principally due to a \$1.0 million adjustment of access revenue, including \$0.7 million for prior years, related to NECA traffic sensitive revenues; \$0.4 million in overall revenue from the North River subscribers acquired in late 2009; and \$0.3 million in additional service revenue due to the rate increase implemented in Shenandoah County in April 2010. These increases were partially offset by a decrease in directory advertising revenue included in other revenue, and lost revenue due to the decline in average access lines in Shenandoah County during the same time period.

## Operating expenses

Operating expenses overall increased \$1.7 million, or 6.8%, due to \$2.0 million in pension related charges recognized in the second quarter of 2010 in both cost of goods and services and selling, general and administrative, partially offset by a reduction in depreciation expense. The decrease in depreciation expense primarily resulted from circuit equipment that reached the end of its depreciable life in 2009, while the Company also extended the service lives of certain equipment in late 2009. Incremental expenses directly attributable to North River operations totaled \$0.1 million, primarily in cost of goods and services.

Gain on sale of directory

The Company sold its telephone directory for \$4 million during the third quarter of 2010.

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## Cable Television

The Cable Television segment provides analog, digital and high-definition television service under franchise agreements in Virginia and West Virginia. The Company has been upgrading its cable systems since early 2009, and currently expects to complete the first round of system upgrades by December 31, 2010. The Company has introduced expanded video and internet service offerings as market upgrades were completed beginning in the second half of 2009, and began introducing voice service in several upgraded markets as the first quarter of 2010 ended. The Company has continued rolling out expanded video and internet service offerings, as well as voice service, to additional markets as upgrades have been completed. In July 2010, the Company acquired additional cable operations in Virginia and West Virginia, and has begun a program of upgrades in many of these markets that will continue into 2012.

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

	Sept. 30, 2010(1)	Dec. 31, 2009(1)	Sept. 30, 2009(1)	Dec. 31, 2008(1)
<b>Video</b>				
Homes Passed (2)	171,662	56,268	64,365	64,365
Customers (3)	64,524	22,773	24,117	25,055
Penetration (4)	37.6 %	40.5 %	37.5 %	38.9 %
<b>High-speed Internet</b>				
Available Homes (5)	136,998	25,748	21,962	19,405
Customers (3)	27,621	2,083	1,558	1,128
Penetration (4)	20.2 %	8.1 %	7.1 %	5.8 %
<b>Voice</b>				
Available Homes (5)	118,627	-	-	-
Customers	5,206	-	-	-
Penetration (4)	4.4 %	n/a	n/a	n/a
Revenue Generating Units (6)	97,351	24,856	25,675	26,183
Total Fiber Miles	29,388	4,558	4,348	3,860
Fiber Route Miles	1,294	403	393	353

- 1) In July 2010, the Company acquired cable operations covering approximately 115 thousand video homes passed, 101 thousand high-speed internet available homes, and 85 thousand voice available homes. These systems served approximately 41 thousand video subscribers, 21 thousand high-speed internet subscribers, and 3 thousand voice subscribers. In December 2009, the Company sold several small systems covering approximately 8,100 video homes passed, 840 high-speed internet available homes, approximately 1,700 video customers and less than 100 high-speed internet customers.
- 2) 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.
- 3) Generally, a dwelling or commercial unit with one or more television sets connected to our distribution system counts as one video customer. Where video or internet 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 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.
- 5)



Homes and businesses are considered available (“available homes”) if we can connect them to our co-axial distribution system without further upgrading 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.

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

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The Company closed on the acquisition of cable operations from JetBroadBand effective July 30, 2010. The acquired cable operations offer video, high speed Internet and voice services representing approximately 66,000 revenue generating units in southern Virginia and southern West Virginia. The acquired networks pass approximately 115,000 homes. The Cable segment results include the operating results of the acquired operations from July 30, 2010 forward.

## Operating Results for the Three Months Ended September 30, 2010

(in thousands)	Three Months Ended		Change	
	September 30, 2010	2009	\$	%
<b>Segment operating revenues</b>				
Service revenue	\$ 10,585	\$ 3,526	\$ 7,059	200.2
Equipment and other revenue	1,307	339	968	285.5
<b>Total segment operating revenues</b>	<b>11,892</b>	<b>3,865</b>	<b>8,027</b>	<b>207.7</b>
<b>Segment operating expenses</b>				
Cost of goods and services, exclusive of depreciation and amortization shown separately below	8,272	3,285	4,987	151.8
Selling, general and administrative, exclusive of depreciation and amortization shown separately below	6,195	1,309	4,886	373.3
Depreciation and amortization	3,746	895	2,851	318.5
<b>Total segment operating expenses</b>	<b>18,213</b>	<b>5,489</b>	<b>12,724</b>	<b>231.8</b>
Segment operating loss	\$ (6,321 )	\$ (1,624 )	\$ (4,697 )	(289.2 )

## Operating revenues and expenses

The Company has acquired two sets of cable operations since late in 2008. The most recent acquisition, of cable operations from JetBroadBand in July 2010, accounts for the major portion of the quarter over quarter changes shown above. Operating revenues of these acquired cable operations included \$6.7 million of service revenue and \$0.7 million of other revenue for a total of \$7.4 million of the just over \$8 million total change. The remainder of the increase, about \$0.6 million, resulted primarily from expanded offerings in the cable markets acquired in 2008 following system upgrades in late 2009 and into early 2010, net of the impact of the sale of several smaller markets in late 2009.

Operating expenses also increased principally due to the new markets acquired, accounting for approximately \$9.6 million of direct operating expenses plus an incremental \$0.7 million in personnel and related expenses. Approximately \$3.0 million included in selling, general and administrative expenses above represents one-time costs of the acquisition, principally investment advisory fees. The markets acquired in 2008 generated most

of the remainder of the increase, reflecting costs of adding services and subscribers. Operating expenses are expected to continue at elevated levels until all networks are upgraded by 2012 and for a period of time thereafter while marketing efforts continue in recently upgraded markets.

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## Operating Results for the Nine Months Ended September 30, 2010

(in thousands)	Nine Months Ended		Change	
	2010	September 30, 2009	\$	%
<b>Segment operating revenues</b>				
Service revenue	\$ 17,722	\$ 10,682	\$ 7,040	65.9
Equipment and other revenue	2,098	848	1,250	147.4
<b>Total segment operating revenues</b>	<b>19,820</b>	<b>11,530</b>	<b>8,290</b>	<b>71.9</b>
<b>Segment operating expenses</b>				
Cost of goods and services, exclusive of depreciation and amortization shown separately below	16,001	9,211	6,790	73.7
Selling, general and administrative, exclusive of depreciation and amortization shown separately below	9,939	3,766	6,173	163.9
Depreciation and amortization	5,944	2,513	3,431	136.5
<b>Total segment operating expenses</b>	<b>31,884</b>	<b>15,490</b>	<b>16,394</b>	<b>105.8</b>
Segment operating loss	\$ (12,064 )	\$ (3,960 )	\$ (8,104 )	(204.6 )

## Operating revenues and expenses

The Company has acquired two sets of cable operations since late in 2008. The most recent acquisition, of cable operations from JetBroadBand in July 2010, accounts for the major portion of the changes shown above. Operating revenues of these acquired cable operations included \$6.7 million of service revenue and \$0.7 million of other revenue for a total of \$7.4 million of the \$8.3 million total change. The remainder of the increase, about \$0.9 million, resulted primarily from expanded offerings in the cable markets acquired in 2008 following system upgrades in late 2009 and into early 2010, net of the impact of the sale of several smaller markets in late 2009.

Operating expenses also increased principally due to the new markets acquired, accounting for approximately \$9.6 million of direct operating expenses plus an incremental \$0.7 million in headcount and related expenses. Approximately \$3.1 million included in selling, general and administrative expenses above represents one-time costs of the acquisition, principally investment advisory fees. The markets acquired in 2008 generated most of the remainder of the increase, reflecting costs of adding services and subscribers.

Operating expenses are expected to continue at elevated levels until all networks are upgraded by 2012 and for a period of time thereafter while marketing efforts continue in recently upgraded markets.

## Performance Measure

In managing our business and assessing our financial performance, management supplements the information provided by financial statement measures with one measure, adjusted OIBDA, variations of which are used by many companies as a measure of operating performance. Adjusted OIBDA is a non-GAAP financial measure. A non-GAAP financial measure, within the meaning of Item 10(e) of Regulation S-K promulgated by the SEC, is a numerical measure of a company's financial performance, financial position or cash flows that (a) excludes amounts, or is subject to adjustments that have the effect of excluding amounts, that are included in the most directly comparable measure calculated and presented in accordance with generally accepted accounting principles in the consolidated balance sheets, consolidated statements of income or consolidated statements of cash flows; or (b) includes amounts, or is subject to adjustments that have the effect of including amounts, that are excluded from the most directly comparable measure so calculated and presented. A reconciliation of adjusted OIBDA to the most directly comparable GAAP financial measure follows at the end of this section.

Adjusted OIBDA is a non-GAAP financial measure defined by us as operating income (loss) before depreciation and amortization, adjusted to exclude the effects of: certain non-recurring transactions; impairment of assets; share based compensation expense; business acquisition costs; and pension settlement and curtailment expenses. Adjusted OIBDA should not be construed as an alternative to operating income or net income as determined in accordance with GAAP, nor as a measure of liquidity.

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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;
- the assets being depreciated and amortized will often 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.

Management understands these limitations and considers adjusted OIBDA as a financial performance measure that supplements but does not replace the information provided to management by our GAAP results.

The following table shows adjusted OIBDA for the three and nine months ended September 30, 2010 and 2009:

(in thousands)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Adjusted OIBDA	\$ 21,075	\$ 18,899	\$ 61,238	\$ 58,910

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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 to adjusted OIBDA:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Operating income	\$ 9,563	\$ 10,569	\$ 28,831	\$ 34,219
Plus depreciation and amortization	12,202	8,151	28,927	24,116
OIBDA	21,765	18,720	57,758	58,335
Less gain on directory sale	(4,000 )	-	(4,000 )	-
Plus share based compensation expense	260	179	539	475
Plus pension settlement and curtailment expense	-	-	3,781	-
Plus business acquisition expenses	3,050	-	3,160	100
Adjusted OIBDA	\$ 21,075	\$ 18,899	\$ 61,238	\$ 58,910

## 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 \$53.7 million of net cash from operations in the first nine months of 2010, compared to \$59.5 million in the first nine months of 2009. Net income (adjusted for the non-cash impairment charge on assets held for sale, net of tax effects) and a difference in timing of income tax payments between 2010 and 2009, accounted for the decrease.

**Capital Commitments.** Capital expenditures originally budgeted for 2010 for existing operations total approximately \$41 million, a decrease of approximately \$12 million from total capital expenditures for the full year of 2009. Capital spending for 2010 will be more evenly spread amongst our three major segments at approximately \$12 million to \$13 million in each segment. Capital spending may shift amongst these priorities as opportunities arise, and the Company is prepared to adjust spending in areas based on capacity demands and market conditions. Having closed on the acquisition of cable operations from JetBroadBand, the Company anticipates increased capital spending to upgrade portions of the JetBroadBand network, particularly related to headends and electronics associated with the cable plant. The Company's initial plans reflect an incremental \$11 million in JetBroadBand-related capital spending in 2010. This estimate is subject to change.

For the 2010 nine month period, the Company spent \$33.9 million on capital projects, compared to \$37.6 million in the comparable 2009 period. Spending related to Cable TV projects accounted for \$14.8 million in the first nine months of 2010 for plant and headend upgrades and additional set top boxes, while Wireline projects accounted for \$8.9 million across a variety of projects, Wireless projects for \$6.6 million for new and existing sites, and other projects totaling \$3.7 million, largely related to information technology projects.

The Company spent \$146.6 million during the third quarter of 2010 for the acquisition of cable systems and operations from JetBroadBand; the Company continues to review invoices presented for the period covering the date of the acquisition in order to make any adjustments to the preliminary working capital adjustment. The Company does not expect any final adjustments to be material. The Company also disbursed \$6.9 million to acquire prepaid subscriber rights from Sprint Nextel, and received \$4.0 million from the sale of its telephone directory.

Indebtedness. As of September 30, 2010, the Company's indebtedness totaled \$198.1 million, with an annualized overall weighted average interest rate of approximately 4.13%. The balance included \$7.6 million fixed at 7.37% (the Fixed Term Loan Facility, described further below), \$63.3 million fixed at 4.5% (representing the approximately one third of the Term Loan A Facility where the Company has entered into a three year interest rate swap to fix the interest rate) , and the remainder, consisting of the balance of the Term Loan A Facility at a variable rate of 3.77% as of September 30, 2010, that resets monthly based on one month LIBOR plus a base rate of 3.50% currently. These loans are more fully described below.



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On July 30, 2010, the Company executed a Credit Agreement with CoBank, ACB as Co-Lead Arranger, Bookrunner and Administrative Agent; BB&T as Co-Lead Arranger and Syndication Agent; and Wells Fargo as Co-Lead Arranger and Documentation Agent, and with the participation of 15 additional banks, for the purpose of refinancing the Company's existing outstanding debt, funding the purchase price of the JetBroadBand acquisition described above, funding planned capital expenditures to upgrade the acquired cable networks, and other corporate needs.

The Credit Agreement provides for three facilities, a Term Loan Facility, a Revolver Facility, and an Incremental Term Loan Facility. The Term Loan Facility totals \$198 million and was fully drawn for the purposes described above. The Term Loan Facility has two parts, the Fixed Term Loan Facility of approximately \$8 million in aggregate principal amount, and the Term Loan A Facility of approximately \$190 million in aggregate principal amount. The Fixed Term Loan Facility is required to be repaid in monthly installments of approximately \$200 thousand of principal, plus interest at 7.37%, from August 2010 through August 2013. The Term Loan A Facility requires quarterly principal repayments of \$2.4 million beginning on December 31, 2010 through September 30, 2011, increasing to \$4.7 million quarterly thereafter through September 30, 2015, with the remaining expected balance of approximately \$104 million due December 31, 2015. The Term Loan A Facility is expected to bear interest at a base rate based upon three month LIBOR plus a spread determined by the Company's Total Leverage Ratio, initially 3.50%; the Company may elect to use other rates as the base, but does not currently expect to do so.

The Revolver Facility provides for \$30 million in immediate availability for future capital expenditures and general corporate needs, and an additional \$20 million of availability once certain conditions have been met, for total availability of \$50 million. In addition, the Credit Agreement permits the Company to enter into one or more Incremental Term Loan Facilities in the aggregate principal amount not to exceed \$100 million subject to compliance with certain covenants. No draw has been made or is currently contemplated under either of these facilities. When and if a draw is made, the maturity date and interest rate options would be substantially identical to the Term Loan A Facility. Repayment provisions would be agreed to at the time of each draw under the Incremental Term Loan Facility.

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

Indebtedness outstanding under any of the facilities may be accelerated by an Event of Default, as defined in the Credit Agreement.

The Facilities are secured by a pledge by the Company of its stock in its subsidiaries, a guarantee by the Company's subsidiaries other than Shenandoah Telephone Company or Shentel Converged Services, Inc., and a security interest in all of the assets of the guarantors.

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

- a limitation on the Company's total leverage ratio, defined as indebtedness divided by earnings before interest, taxes, depreciation and amortization, or EBITDA, of less than or equal to 3.00 to 1.00 from the closing date through March 31, 2011, then 2.50 to 1.00 December 31, 2012, and 2.00 to 1.00 thereafter;
- a minimum debt service coverage ratio, defined as EBITDA divided by the sum of all scheduled principal payments on the Term Loans and regularly scheduled principal payments on other indebtedness plus cash interest expense, greater than 2.25 to 1.00 from the closing date through December 31, 2012, then 2.50 to

1.00 thereafter;

- a minimum equity to assets ratio, defined as consolidated total assets minus consolidated total liabilities, divided by consolidated total assets, of at least 0.35 to 1.00 at all times, measured at each fiscal quarter end;
- a minimum fixed charge coverage ratio, defined as EBITDA divided by fixed charges (defined as cash interest expense plus scheduled principal payments to be made on indebtedness plus capital expenditures other than capital expenditures acquired pursuant to a capital lease through the reinvestment of net proceeds of permitted asset dispositions or the sale of Shentel Converged Services, Inc. plus cash income taxes plus cash dividends and distributions), greater than 0.80 to 1.00 from the closing date through December 31, 2012, then 0.90 to 1.00 through December 31, 2013, and 1.00 to 1.00 thereafter; and,
- the Company must maintain a minimum liquidity balance, defined as availability under the Revolver Facility plus unrestricted cash and cash equivalents other than cash and cash equivalents held in the name of an Excluded Subsidiary, of greater than \$15 million at all times.

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These ratios are generally more restrictive than the covenant ratios the Company had been required to comply with under its previously existing debt arrangements. As of September 30, 2010, the Company was in compliance with the covenants in its credit agreements.

Contractual Commitments. The Company is obligated to make future payments under various contracts it has entered into, including amounts pursuant to its various long-term debt facilities, and non-cancelable operating lease agreements for retail space, tower space and cell sites. Expected future minimum contractual cash obligations for the next five years and in the aggregate at September 30, 2010, are as follows:

## Payments due by periods

(in thousands)	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Long-term debt principal	\$ 198,137	\$ 12,508	\$ 43,079	\$ 37,960	\$ 104,590
Interest on long-term debt (1)	31,948	7,953	13,530	9,481	984
Operating leases (2)	76,374	9,397	16,150	14,402	36,425
Capital calls on investments	300	300	-	-	-
Purchase obligations (3)	14,449	14,449	-	-	-
Total obligations	\$ 321,208	\$ 44,607	\$ 72,759	\$ 61,843	\$ 141,999

1) Includes estimated interest payments on variable rate debt based upon outstanding balances and rates in effect at September 30, 2010.

2) Amounts include payments over reasonably assured renewals.

3) Represents open purchase orders at September 30, 2010.

The Company believes that cash on hand, cash flow from operations and borrowings expected to be available under the Revolving Facility 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 12 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 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 currently expects that it will fund its future capital expenditures and other cash needs primarily with cash on hand, from operations and borrowing capacity under the Company's existing debt facilities, although there are events outside the control of the Company that could have an adverse impact on cash flows from operations.

Events that could have an adverse impact on cash flows from operations include, but are not limited to: changes in overall economic conditions, regulatory requirements, changes in technologies, 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 newly 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 September 30, 2010, 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 September 30, 2010, the Company had \$189.8 million of variable rate debt outstanding, bearing interest at a rate of 3.77% as determined on a monthly basis. An increase in market interest rates of 1.00% would add approximately \$1.9 million to annual interest expense. The remaining approximately \$7.6 million of the Company's outstanding debt has a fixed rate of 7.37% through maturity in approximately three years. 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 \$63 million notional principal to pay a fixed rate of 1.00% and receive a variable rate based on one month LIBOR for a three year term 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 an institutional cash management fund that has limited interest rate risk. Management continues to evaluate the most beneficial use of these funds.

The third component of interest rate risk is marked increases in interest rates that may adversely affect the rate at which the Company may borrow funds for growth in the future. Management does not believe that this risk is currently significant because the Company's existing sources, and its commitments for future sources, of liquidity are adequate to provide cash for operations, payment of debt, and subsequent to the acquisition of JetBroadBand, funding of near-term capital projects.

Management does not view market risk as having a significant impact on the Company's results of operations, although future results could be adversely affected if interest rates were to increase significantly for an extended period and the Company were to require additional external financing. The Company's investments in publicly traded stock and bond mutual funds under the rabbi trust, which are subject to market risks and could experience significant swings in market values, are offset by corresponding changes in the liabilities owed to participants in the Executive Supplemental Retirement Plan. General economic conditions affected by regulatory changes, competition or other external influences may pose a higher risk to the Company's overall results.

As of September 30, 2010, the Company has \$6.8 million of cost and equity method investments. Approximately \$3.6 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 September 30, 2010.

Changes in Internal Control Over Financial Reporting

During the third quarter of 2010, 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 60% 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, prior to June 1, 2010, the 16.8% of revenue retained by Sprint Nextel. Effective June 1, 2010, Sprint Nextel retains 20% of revenue. 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. 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 for Affiliates" under guidance provided in Statement of Auditing Standards No. 70 ("SAS 70 reports"). The report is provided to the Company on an annual basis and covers a nine-month period. The most recent report covers the period from January 1, 2009 to September 30, 2009. 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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PART II.

OTHER INFORMATION

ITEM 1A.

Risk Factors

As previously discussed, our actual results could differ materially from our forward looking statements. Except for the risk factors shown below, 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, 2009.

Our ability to comply with the financial covenants in our credit agreements depends primarily on our ability to generate sufficient operating cash flow.

Our ability to comply with the financial covenants under the agreements governing our secured credit facilities will depend primarily on our success in generating sufficient operating cash flow. Under our credit agreements, we are subject to a total leverage ratio covenant, a minimum debt service coverage ratio covenant, a minimum equity to assets ratio covenant, a minimum fixed charge coverage ratio covenant, and a minimum liquidity balance covenant. Industry conditions and financial, business and other factors, including those we identify as risk factors in this and our other reports, will affect our ability to generate the cash flows we need to meet those financial tests and ratios. Our failure to meet the tests or ratios could result in a default and acceleration of repayment of the indebtedness under our credit facilities. If the maturity of our indebtedness were accelerated, we would not have sufficient funds to pay such indebtedness. In such event, our lenders would be entitled to proceed against the collateral securing the indebtedness, which includes substantially our entire assets, to the extent permitted by our credit agreements and applicable law.

Our substantial level of indebtedness could adversely affect our financial health and ability to compete.

As of September 30, 2010, we have approximately \$198 million of total long-term indebtedness, including the current portion of such indebtedness. Our substantial level of indebtedness could have important consequences. For example, it may:

- increase our vulnerability to general adverse economic and industry conditions, including interest rate fluctuations, because a significant portion of our borrowings will continue to be at variable rates of interest;
- require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and other general corporate purposes;
- limit our ability to borrow additional funds to alleviate liquidity constraints, as a result of financial and other restrictive covenants in our credit agreements;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate; and
  - place us at a competitive disadvantage relative to companies that have less indebtedness.

In addition, our secured credit facilities impose operating and financial restrictions that limit our discretion on some business matters, which could make it more difficult for us to expand, finance our operations and engage in other business activities that may be in our interest. These restrictions limit our ability and that of our subsidiaries to:

- incur additional indebtedness and additional liens on our assets;
- engage in mergers or acquisitions or dispose of assets;
- pay dividends or make other distributions;
- voluntarily prepay other indebtedness;
- enter into transactions with affiliated persons;
- make investments; and
- change the nature of our business.

We may incur indebtedness in addition to the term loan secured indebtedness we have incurred, and the \$50 million of revolving credit indebtedness we may incur from time to time, under our credit facilities. Any additional indebtedness we may incur in the future may subject us to similar or even more restrictive conditions.

Our ability to refinance our indebtedness will depend on our ability in the future to generate cash flows from operations and to raise additional funds, including through the offering of equity or debt securities. We may not be able to generate sufficient cash flows from operations or to raise additional funds in amounts necessary for us to repay our indebtedness when such indebtedness becomes due and to meet our other cash needs.



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We may not benefit from our acquisition strategy.

As part of our business strategy, we regularly evaluate opportunities to enhance the value of our company by pursuing acquisitions of other businesses, and we intend to pursue such strategic acquisition opportunities as they arise though we remain subject to financial and other covenants in our credit agreements that contain restrictions as to the opportunities we may be able to pursue. We cannot provide any assurance, however, with respect to the timing, likelihood, size or financial effect of any potential transaction involving our company, as we may not be successful in identifying and consummating any acquisition or in integrating any newly acquired business into our operations.

The evaluation of business acquisition opportunities and the integration of any acquired businesses pose a number of significant risks, including the following:

- acquisitions may place significant strain on our management, financial and other resources by requiring us to expend a substantial amount of time and resources in the pursuit of acquisitions that we may not complete, or to devote significant attention to the various integration efforts of any newly acquired businesses, all of which will require the allocation of limited management resources;

- acquisitions may not have a positive impact on our cash flows or financial performance, even if acquired companies eventually contribute to an increase in our profitability, because the acquisitions may adversely affect our operating results in the short term as a result of transaction-related expenses we will have to pay or the higher operating and administrative expenses we may incur in the periods immediately following an acquisition as we seek to integrate the acquired business into our operations;

- we may not be able to eliminate as many redundant costs as we anticipate;

- our operating and financial systems and controls and information services may not be compatible with those of the companies we may acquire and may not be adequate to support our integration efforts, and any steps we take to improve these systems and controls may not be sufficient;

- growth through acquisitions will increase our need for qualified personnel, who may not be available to us or, if they were employed by a business we acquire, remain with us after the acquisition; and

- acquired businesses may have unexpected liabilities and contingencies, which could be significant.

## 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, the Company periodically repurchases shares from recipients to cover some of the exercise price of the options being exercised. The following table provides information about the Company’s repurchases of shares during the three months ended September 30, 2010:

	Number of Shares Purchased	Average Price Paid per Share
July 1 to July 31	1	\$ 17.75
August 1 to August 31	3	\$ 17.82
September 1 to September 30	4	\$ 17.75
<b>Total</b>	<b>8</b>	<b>\$ 17.78</b>



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ITEM 6.

Exhibits

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

- 10.45 Addendum XI dated July 7, 2010 to Sprint PCS Management Agreement by and among Sprint Spectrum L.P., WirelessCo, L.P., APC PCS, LLC, PhillieCo, L.P., Sprint Communications Company L.P. and Shenandoah Personal Communications Company, filed as Exhibit 10.45 to the Company's Current Report on Form 8-K dated July 8, 2010.
- 10.46 Credit Agreement dated as of July 30, 2010, among Shenandoah Telecommunications Company, CoBank, ACB, Branch Banking and Trust Company, Wells Fargo Bank, N.A., and other Lenders, filed as Exhibit 10.46 to the Company's Current Report on Form 8-K dated July 30, 2010.
- 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.

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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: November 3, 2010

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EXHIBIT INDEX

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