SHENANDOAH TELECOMMUNICATIONS CO/VA/
Form 10-Q
May 03, 2018

UNITED STATES OF AMERICA
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549
FORM 10-Q
(Mark One)
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2018
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from__________ to __________

Commission File No.: 000-09881
SHENANDOAH TELECOMMUNICATIONS COMPANY
(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

The number of shares of the registrant’s common stock outstanding on April 27, 2018 was 49,539,170.

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

	March 31, 2018	December 31, 2017
ASSETS		
Current Assets:		
Cash and cash equivalents	$49,448	$78,585
Accounts receivable, net	51,095	54,184
Income taxes receivable	8,360	17,311
Inventory, net	8,161	5,704
Prepaid expenses and other	64,200	17,111
Total current assets	181,264	172,895
Investments, including $3,268 and $3,279 carried at fair value	11,717	11,472
Property, plant and equipment, net	672,017	686,327
Other Assets:		
Intangible assets, net	413,537	380,979
Goodwill	146,497	146,497
Deferred charges and other assets, net	33,934	13,690
Total assets	$1,458,966	$1,411,860
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Current maturities of long-term debt, net of unamortized loan fees	$74,486	$64,397
Accounts payable	27,194	28,953
Advanced billings and customer deposits	6,919	21,153
Accrued compensation	4,534	9,167
Accrued liabilities and other	17,471	13,914
Total current liabilities	130,604	137,584
Long-term debt, less current maturities, net of unamortized loan fees	736,387	757,561
Other Long-Term Liabilities:		
Deferred income taxes	115,809	100,879
Deferred lease	19,543	15,782
Asset retirement obligations	21,164	21,211
Retirement plan obligations	13,236	13,328
Other liabilities	13,787	15,293
Total other long-term liabilities	183,539	166,493
Shareholders' Equity:		
Common stock, no par value, authorized 96,000 shares; issued and outstanding 49,539 shares in 2018 and 49,328 shares in 2017.	45,075	44,787
Retained earnings	352,069	297,205
Accumulated other comprehensive income (loss), net of taxes	11,292	8,230
Total shareholders' equity	408,436	350,222
Total liabilities and shareholders' equity	$1,458,966	$1,411,860

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended March 31, 2018	2017
Service revenues and other	$134,153	$150,521
Equipment revenues	17,579	3,359
Total operating revenues	151,732	153,880
Operating expenses:		
Cost of services	49,342	48,776
Cost of goods sold	15,805	4,985
Selling, general and administrative	28,750	40,153
Acquisition, integration and migration expenses	—	4,489
Depreciation and amortization	43,487	44,804
Total operating expenses	137,384	143,207
Operating income (loss)	14,348	10,673
Other income (expense):		
Interest expense	(9,332)	(9,100)
Gain (loss) on investments, net	(32)	120
Non-operating income (loss), net	1,021	1,255
Income (loss) before income taxes	6,005	2,948
Income tax expense (benefit)	1,176	607
Net income (loss)	4,829	2,341
Other comprehensive income (loss):		
Unrealized gain (loss) on interest rate hedge, net of tax	3,062	599
Comprehensive income (loss)	$7,891	$2,940
Earnings (loss) per share:		
Basic	$0.10	$0.05
Diluted	$0.10	$0.05
Weighted average shares outstanding, basic	49,474	49,050
Weighted average shares outstanding, diluted	50,024	49,834

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Shares of Common Stock (no par value)	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2017	49,328	$44,787	$297,205	$ 8,230	$350,222
Change in accounting principle - adoption of accounting standard (Note 2)	—	—	50,035	—	50,035
Net income (loss)	—	—	4,829	—	4,829
Other comprehensive gain (loss), net of tax of $1.1 million	—	—	—	3,062	3,062
Stock based compensation	177	2,037	—	—	2,037
Stock options exercised	15	104	—	—	104
Common stock issued	—	5	—	—	5
Shares retired for settlement of employee taxes upon issuance of vested equity awards	(57)	(1,858)	—	—	(1,858)
Common stock issued to acquire non-controlling interests of nTelos	76	—	—	—	—
Balance, March 31, 2018	49,539	$45,075	$352,069	$ 11,292	$408,436

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)

	Three Months Ended March 31,	
	2018	2017
Cash Flows From Operating Activities		
Net income (loss)	$4,829	$2,341
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	36,634	37,878
Amortization reflected as operating expense	6,853	6,926
Amortization reflected as rent expense	81	258
Bad debt expense	369	420
Stock based compensation expense, net of amount capitalized	2,037	1,566
Waived Management Fee	9,048	9,184
Deferred income taxes	(4,336)	(2,910)
Net (gain) loss on disposal of equipment	(4)	(28)
(Gain) loss on investments	33	(120)
Net (gain) loss from patronage and equity investments	(830)	(200)
Amortization of long-term debt issuance costs	1,129	1,202
Accrued interest on long-term debt	296	93
Changes in assets and liabilities:		
Accounts receivable	3,271	1,629
Inventory, net	(2,457)	14,188
Income taxes receivable	8,950	—
Other assets	(4,076)	(190)
Accounts payable	216	(39,399)
Income taxes payable	—	3,523
Deferred lease	736	1,331
Other deferrals and accruals	(1,919)	(13,194)
Net cash provided by (used in) operating activities	$60,860	$24,498
Cash Flows From Investing Activities		
Acquisition of property, plant and equipment	(24,382)	(38,587)
Proceeds from sale of assets	263	117
Cash distributions (contributions) from investments	1	(11)
Sprint expansion	(52,000)	—
Net cash provided by (used in) investing activities	$(76,118)	$(38,481)
Cash Flows From Financing Activities		
Principal payments on long-term debt	$(12,125)	$(6,062)
Proceeds from credit facility borrowings	—	25,000
Proceeds from revolving credit facility borrowings	15,000	—
Principal payments on revolving credit facility	(15,000)	—
Taxes paid for equity award issuances	(1,754)	(1,226)
Proceeds from issuance of common stock	—	5
Net cash provided by (used in) financing activities	$(13,879)	$17,717
Net increase (decrease) in cash and cash equivalents	$(29,137)	$3,734
Cash and cash equivalents, beginning of period	78,585	36,193
Cash and cash equivalents, end of period	$49,448	$39,927
Supplemental Disclosures of Cash Flow Information		

Cash payments for:		
Interest, net of capitalized interest of $309 and $577, respectively	$8,513	$8,380
Income tax refunds received, net of taxes paid	$(3,439)	$—
Capital expenditures payable	$5,279	$6,366

See accompanying notes to unaudited condensed consolidated financial statements.

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SHENANDOAH TELECOMMUNICATIONS COMPANY AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Basis of Presentation

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

Adoption of New Accounting Principles

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

The Company adopted ASU 2014-09, Revenue from Contracts with Customers (“Topic 606”), and all related amendments, effective January 1, 2018, using the modified retrospective method as discussed in Note 2, Revenue from Contracts with Customers. The Company recognized the cumulative effect of applying the new revenue standard as an adjustment to the opening balance of retained earnings. The comparative information has not been retrospectively modified and continues to be reported under the accounting standards in effect for those periods.

In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-02, Leases (Topic 842), which requires lessees to recognize a right-of-use asset and a lease liability for all leases with terms greater than 12 months. The standard also requires disclosures by lessees and lessors about the amount, timing and uncertainty of cash flows arising from leases, as well as changes in the categorization of rental costs, from rent expense to interest and depreciation expense. Other effects may occur depending on the types of leases and the specific terms of them utilized by particular lessees. The ASU is effective for the Company on January 1, 2019, and early application is permitted. Modified retrospective application is required. In September 2017 and January 2018, the FASB issued ASU No. 2017-13, Revenue Recognition (Topic 605), Revenue from Contracts with Customers (Topic 606), Leases (Topic 840), and Leases (Topic 842), and ASU No. 2018-01, Leases (Topic 842), Land Easement Practical Expedient for Transition to Topic 842, which provided additional implementation guidance on the previously issued ASU. Management has not yet completed its assessment of the impact of the new standard on the Company’s Consolidated Financial Statements. The Company is in the early stages of implementation and currently believes that the most notable impact to its financial statements upon the adoption of this ASU will be the recognition of a material right-of-use asset and a lease liability for its real estate and equipment leases.

In February 2018, the FASB issued ASU No. 2018-02, "Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income" (ASU 2018-02). Under existing U.S. GAAP, the effects of changes in tax rates and laws on deferred tax balances are recorded as a component of income tax expense in the period in which the law was enacted. When deferred tax balances related to items originally recorded in accumulated other comprehensive income are adjusted, certain tax effects become stranded in accumulated other comprehensive income. The amendments in ASU 2018-02 allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the 2017 Tax

Cuts and Jobs Act. The amendments in this ASU also require certain disclosures about stranded tax effects. The guidance is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption in any period is permitted. The Company is currently evaluating the timing and impact of adopting ASU 2018-02.

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Note 2. Revenue from Contracts with Customers

The Company earns revenue primarily through the sale of our wireless telecommunications services, wireless equipment, and business, residential, and enterprise cable and wireline services that include video, internet, voice, and data services as follows:

(in thousands)	Wireless	Cable	Wireline	Consolidated
Wireless service	$89,760	$—	$—	$ 89,760
Wireless equipment	17,374	—	—	17,374
Business, residential and enterprise	—	29,131	10,691	39,822
Tower	2,896	1,046	5,665	9,607
Other	368	1,534	3,351	5,253
Total revenue	110,398	31,711	19,707	161,816
Internal revenues	(1,239)	(1,031)	(7,814)	(10,084)
Total operating revenue	$109,159	$30,680	$11,893	$ 151,732

Wireless service

The majority of the Company's revenue is earned through providing network access to Sprint under the affiliate agreement, which represents approximately 59% of consolidated revenues. Wireless service revenue is variable based on billed revenues to Sprint’s subscribers in the Company's affiliate area, less applicable fees retained by Sprint. The Company's fee related to Sprint’s postpaid customers is the amount Sprint bills its subscribers that is reduced by customer credits, write-offs of subscriber receivables, and an 8% management and 8.6% service fee retained by Sprint. The Company is also charged for the costs of subsidized handsets sold through Sprint’s national channels as well as commissions paid by Sprint to third-party resellers in the Company's service territory.

The Company's fee related to Sprint’s prepaid customers is the amount Sprint bills its customer less certain charges to acquire and support the customer, based on national averages for Sprint’s prepaid programs. Sprint retains a 6% management fee on prepaid wireless revenues, and costs to provide support to Sprint’s prepaid customers.

The Company considers Sprint, rather than Sprint's subscribers, to be the customer under the new revenue standard and the Company's performance obligation is to provide Sprint a series of continuous network access services. Under Topic 606, the Company's revenues are variable based on the amount Sprint bills its customer each month reduced by the retained management and service fees. The reimbursement to Sprint for the costs of subsidized handsets sold through Sprint’s national channels, as well as commissions paid by Sprint to third-party resellers in our service territory represent consideration payable to a customer that is not in exchange for a distinct service under Topic 606. Therefore, these reimbursements result in increases to our contract asset position that are subsequently recognized as a reduction of revenue over the average subscriber life of approximately two years which is the period the Company expects those payments to result in increased revenues. Historically, under ASC 605 the customer was considered the Sprint subscriber rather than Sprint and as a result, reimbursement payments to Sprint for costs of subsidized handsets and commissions were recorded as operating expenses in the period incurred. During 2017, these costs totaled $63.5 million recorded in cost of goods and services, and $16.9 million recorded in selling, general and administrative costs. On January 1, 2018, upon adoption, the Company recorded a wireless contract asset of approximately $42.8 million. During the three month period ended March 31, 2018, payments that increased the wireless contract asset balance totaled $13.8 and amortization reflected as a reduction of revenue totaled approximately $13.4 million. The wireless contract asset balance as of March 31, 2018 was approximately$43.2 million.

Wireless equipment

The Company owns and operates Sprint-branded retail stores within their geographic territory from which the Company sells equipment, primarily wireless handsets, and service to Sprint subscribers. Equipment is generally purchased from Sprint and resold to subscribers under subsidized plans or under equipment financing plans. The

equipment financing plans are operated by Sprint who purchases equipment from the Company and resells the equipment to subscribers under financing plans. Historically, under ASC 605, the Company concluded that the Company was the agent in these equipment financing transactions and recorded revenues net of related handset costs which were approximately $63.8 million in 2017. Under Topic 606 the Company concluded that the Company is the principal in the transaction as the Company controls the inventory prior to sale and accordingly revenues and handset costs are recorded on a gross basis.

Business, residential and enterprise

The Company earns revenue in the cable and wireline segments from business, residential, and enterprise customers where the performance obligations are to provide cable and telephone network services, sell and lease equipment and wiring services, and

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

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

Tower / Other

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

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

(in thousands)	Balance at December 31, 2017	Adjustments due to Topic 606	Balance at January 1, 2018
Assets			
Prepaid expenses and other	$ 17,111	$ 36,577	$ 53,688
Deferred charges and other	13,690	16,107	29,797
Liabilities			
Advanced billing and customer deposits	$ 21,153	$ (14,302)	$ 6,851
Deferred income taxes	100,879	18,151	119,030
Other long-term liabilities	15,293	(1,200)	14,093
Retained earnings	297,205	50,035	347,240

In accordance with the new revenue standard requirements, the disclosure of the impact of adoption on our consolidated income statement and balance sheet was as follows:

	Three Months Ended March 31, 2018		
(in thousands)	As Reported	Balances without Adoption of Topic 606	Effect of Change Higher/(Lower)
Operating revenues	$ 151,732	$ 155,871	$ (4,139)
Operating expenses:			
Cost of services	49,342	49,199	143
Cost of goods sold	15,805	6,118	9,687
Selling, general and administrative	28,750	42,968	(14,218)

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(in thousands)	Three Months Ended March 31, 2018		
	As Reported	Balances without Adoption of Topic 606	Effect of Change Higher/(Lower)
Assets			
Prepaid expenses and other	64,200	27,086	37,114
Deferred charges and other	33,934	18,115	15,819
Liabilities			
Deferred income taxes	115,809	97,591	18,218
Advanced billing and customer deposits	6,919	21,221	(14,302)
Other long-term liabilities	13,787	14,987	(1,200)
Retained earnings	352,069	301,852	50,217

Remaining performance obligations and transaction price allocated

On March 31, 2018, the Company had approximately $2.5 million of transaction price allocated to unsatisfied performance obligations, which is exclusive of contracts with original expected duration of one year or less. The Company expects to recognize approximately $0.5 million of this amount as revenue during the remaining three quarters of 2018, $0.5 million in 2019, an additional $0.4 million by 2020, and the balance thereafter.

Contract acquisition costs and costs to fulfill contracts

Capitalized contract costs represent contract fulfillment costs and contract acquisition costs which include commissions and installation costs in our cable and wireline segments. Capitalized contract costs are amortized on a straight line basis over the contract term plus expected renewals. The Company applies the practical expedient to expense contract acquisition costs when incurred if the amortization period would be twelve months or less. The amortization of these costs is included in cost of services, and selling, general and administrative expenses. Amounts capitalized were approximately $9.7 million as of March 31, 2018 of which $4.6 million is presented as prepaid expenses and other and $5.1 million is presented as deferred charges and other assets, net. Amortization recognized during the three-month period ended at March 31, 2018 was approximately $1.3 million. There was no impairment loss in relation to the costs capitalized.

Note 3. Acquisition

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

The Company recorded the following in the wireless segment:

($ in thousands)	Estimated Useful Life	February 1, 2018
Affiliate Contract Expansion	12	$45,148
Option to acquire tangible assets	—	6,497
Off-market leases - favorable	16.5*	3,665

Off-market leases - unfavorable	4.2*	(3,310)
Total		$52,000

*Estimated useful lives are approximate and represent the average of the remaining useful lives of the underlying leases.

The options to acquire tangible assets are classified as "Prepaid expenses and other" within current assets on the Company's balance sheet. The option is exercisable at any time and expires in two years. The option was measured for fair value using a cost approach on a recurring basis and using Level 3 inputs. The off-market leases - favorable and off-market leases - unfavorable, are classified as "Intangible assets, net" and "Deferred lease", respectively, on the Company's balance sheet. Refer to Note 6, Fair Value Measurements, and Note 8, Goodwill and Other Intangible Assets, for additional information.

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Note 4. Customer Concentration

Significant Contractual Relationship

In 1999, the Company executed a Management Agreement (the "Agreement") with Sprint whereby the Company committed to construct and operate a PCS network using CDMA air interface technology. Under the Agreement, the Company was the exclusive PCS Affiliate of Sprint providing wireless mobility communications network products and services on the 1900 MHz band in its territory across a multi-state area covering large portions of central and western Virginia, south-central Pennsylvania, West Virginia, and portions of Maryland, North Carolina, Kentucky, and Ohio. Since then, the Company's wireless service area has expanded to include new portions of south-central and western Virginia, West Virginia, and small portions of Kentucky and Ohio. The Company is authorized to use the Sprint brand in its territory, and operate its network under Sprint's radio spectrum licenses. As an exclusive PCS Affiliate of Sprint, the Company has the exclusive right to build, own and maintain its portion of Sprint's nationwide PCS network, in the aforementioned areas, to Sprint's specifications. The term of the Agreement was initially set for 20 years and was automatically renewable for three 10-year options, unless terminated by either party under provisions outlined in the Agreement. Upon non-renewal by either party, the Company has the obligation to sell the business at 90% of "Entire Business Value" ("EBV") as defined in the Agreement. EBV is defined as i) the fair market value of a going concern paid by a willing buyer to a willing seller; ii) valued as if the business will continue to utilize existing brands and operate under existing agreements; and, iii) valued as if Manager (Shentel) owns the spectrum. Determination of EBV is made by an independent appraisal process. The Agreement has been amended numerous times.

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

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

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

The following table indicates the computation of basic and diluted earnings per share for the three months ended March 31, 2018 and 2017:

	Three Months Ended March 31,	
(in thousands, except per share amounts)	2018	2017
Calculation of net income (loss) per share:		
Net income (loss)	$4,829	$2,341
Weighted average shares outstanding	49,474	49,050
Basic income (loss) per share	$0.10	$0.05

Effect of stock options outstanding:		
Basic weighted average shares outstanding	49,474	49,050
Effect from dilutive shares and options outstanding	550	784
Diluted weighted average shares outstanding	50,024	49,834
Diluted income (loss) per share	$0.10	$0.05

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

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(in thousands)	Three Months Ended March 31, 2018	2017
Awards excluded from the computation of diluted net income per share because their inclusion would have been anti-dilutive	141	125

Note 6. Fair Value Measurements

The following tables present the hierarchy for financial assets and liabilities measured at fair value on a recurring basis as of March 31, 2018 and December 31, 2017:

(in thousands)	March 31, 2018			
Balance sheet location:	Level 1	Level 2	Level 3	Total
Cash Equivalents:				
Money market funds	$151	$—	$—	$151
Prepaid expenses & other:				
Interest rate swaps	—	3,673	—	3,673
Option to acquire tangible assets			6,497	6,497
Deferred charges & other assets, net:				
Interest rate swaps	—	13,692	—	13,692
Total	$151	$17,365	$6,497	$24,013

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

The following table presents our financial instruments measured at fair value using unobservable inputs (Level 3):

	Fair Value Measurements Using Unobservable Inputs (Level 3)	
	March 31, 2018	December 31, 2017
Balance, beginning of period	$ —	$ —
Sprint Territory Expansion (Note 3):		
Option to acquire tangible assets	6,497	—
Balance, end of period	$ 6,497	$ —

The option is exercisable at any time and expires in two years. The option was measured for fair value using a cost approach on a recurring basis and using Level 3 inputs including the cost of the underlying assets to be acquired and the contractual selling price of those assets.

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Note 7. Property, Plant and Equipment

Property, plant and equipment consisted of the following:

(in thousands)	March 31, 2018	December 31, 2017
Plant in service	$1,245,079	$1,219,185
Plant under construction	57,005	62,202
	1,302,084	1,281,387
Less accumulated amortization and depreciation	630,067	595,060
Net property, plant and equipment	$672,017	$686,327

Note 8. Goodwill and Other Intangible Assets

Goodwill consisted of the following:

(in thousands)	March 31, 2018	December 31, 2017
Goodwill - Wireless	$146,383	$146,383
Goodwill - Cable	104	104
Goodwill - Wireline	10	10
Goodwill	$146,497	$146,497

Intangible assets consist of the following at March 31, 2018 and December 31, 2017:

	March 31, 2018			December 31, 2017		
(in thousands)	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Non-amortizing intangibles:						
Cable franchise rights	$64,334	$—	$64,334	$64,334	$—	$64,334
Railroad crossing rights	141	—	141	141	—	141
	64,475	—	64,475	64,475	—	64,475
Finite-lived intangibles:						
Affiliate contract expansion - wireless	455,306	(121,808)	333,498	410,157	(105,964)	304,193
Favorable leases - wireless	16,768	(1,589)	15,179	13,103	(1,222)	11,881
Acquired subscribers - cable	25,265	(25,138)	127	25,265	(25,100)	165
Other intangibles	463	(205)	258	463	(198)	265
Total finite-lived intangibles	497,802	(148,740)	349,062	448,988	(132,484)	316,504
Total intangible assets	$562,277	$(148,740)	$413,537	$513,463	$(132,484)	$380,979

Affiliate contract expansion is amortized over the expected benefit period and is further reduced by the amount of waived management fees received from Sprint which totaled $69.7 million since May 6, 2016, the date of the non-monetary exchange.

Note 9. Other Assets and Accrued Liabilities

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

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(in thousands)	March 31, 2018	December 31, 2017
Prepaid rent	$9,687	$ 10,519
Prepaid maintenance expenses	4,282	3,062
Interest rate swaps	3,673	2,411
Deferred contract and other costs	46,558	1,119
Prepaid expenses and other	$64,200	$ 17,111

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

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

(in thousands)	March 31, 2018	December 31, 2017
Interest rate swaps	$13,692	$ 10,776
Deferred contract and other costs	20,242	2,914
Deferred charges and other assets, net	$33,934	$ 13,690

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

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

(in thousands)	March 31, 2018	December 31, 2017
Sales and property taxes payable	$4,969	$ 3,872
Severance accrual	261	1,028
Asset retirement obligations	923	492
Accrued programming costs	3,029	2,805
Other current liabilities	8,289	5,717
Accrued liabilities and other	$17,471	$ 13,914

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

(in thousands)	March 31, 2018	December 31, 2017
Non-current portion of deferred revenues	$12,523	$ 14,030
Other	1,264	1,263
Other liabilities	$13,787	$ 15,293

The Company's asset retirement obligations are included in the balance sheet caption "Asset retirement obligations" and "Accrued liabilities and other". The Company records the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement and removal of leasehold improvements or equipment. The Company also records a corresponding asset, which is depreciated over the life of the leasehold improvement or equipment. Subsequent to the initial measurement of the asset retirement obligation,

the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The terms associated with its operating leases, and applicable zoning ordinances of certain jurisdictions, define the Company’s obligations which are estimated and vary based on the size of the towers.

Note 10. Long-Term Debt

Total debt at March 31, 2018 and December 31, 2017 consists of the following:

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(in thousands)	March 31, 2018	December 31, 2017
Term loan A-1	$424,375	$436,500
Term loan A-2	400,000	400,000
	824,375	836,500
Less: unamortized loan fees	13,502	14,542
Total debt, net of unamortized loan fees	$810,873	$821,958
Current maturities of long term debt, net of unamortized loan fees	$74,486	$64,397
Long-term debt, less current maturities, net of unamortized loan fees	$736,387	$757,561

As of March 31, 2018, the Company's indebtedness totaled approximately $824.4 million, excluding unamortized loan fees of $13.5 million, with an annualized overall weighted average interest rate of approximately 4.02%. As of March 31, 2018, the Term Loan A-1 bears interest at one-month LIBOR plus a margin of 2.25%, while the Term Loan A-2 bears interest at one-month LIBOR plus a margin of 2.50%. At March 31, 2018, one-month LIBOR was 1.88%. LIBOR resets monthly.

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

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

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

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

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

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

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

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

- the Company must maintain a minimum liquidity balance of greater than $25 million. The balance is defined as availability under the revolver facility plus unrestricted cash and cash equivalents on deposit in a deposit account for which a control agreement has been delivered to the administrative agent under the 2016 credit agreement.

As shown below, as of March 31, 2018, the Company was in compliance with the covenants in its credit agreements.

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	Actual	Covenant Requirement
Total Leverage Ratio	2.95	3.75 or Lower
Debt Service Coverage Ratio	3.58	2.00 or Higher
Minimum Liquidity Balance (in thousands)	$122,834	$25 million or Higher

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

Note 11. Income Taxes

The Company files U.S. federal income tax returns and various state and local income tax returns. With few exceptions, years prior to 2014 are no longer subject to examination; net operating losses acquired in the nTelos acquisition are open to examination from 2002 forward. The Company is not subject to any state or federal income tax audits as of March 31, 2018.

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

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

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

As of March 31, 2018, the Company is continuing to evaluate the provisional amounts recorded related to the 2017 Tax Act at December 31, 2017, and has not recognized any additional adjustments to such provisional amounts.

Note 12. Segment Reporting

Three Months Ended March 31, 2018

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(in thousands)	Wireless	Cable	Wireline	Other	Eliminations	Consolidated Totals
External revenues						
Service revenues	$ 89,759	$ 28,471	$ 5,308	$ —	$ —	$